

RIDING THE WAVE | 10.31.2025

A few choppy days aside, stocks continued to rise gradually through October. Supported by a mix of strong earnings, excitement about artificial intelligence (AI), and the prospect of lower interest rates, negative headlines have amounted to little more than bumps in the road. While there has been no shortage of potential concerns, investors appear increasingly focused on the basic financial health of companies.

The S&P 500 climbed roughly 2.4% in October, continuing its upward trend since the lows in April, and is entering record territory. Earnings have been the primary driver of recent gains, offering reassurance that companies remain financially sound, despite signs of a cooling labor market. With about two-thirds of companies having reported, third-quarter earnings exceeded expectations by an average of 4.8%, and roughly 82% of firms have beaten analyst estimates. Companies have also shared positive outlooks, leading analysts to raise forecasts for the year ahead.

Much of this earnings strength has been fueled by the ongoing wave of AI-driven investment. Spending on data centers, cloud infrastructure, and semiconductors continues to accelerate as companies position themselves for long-term gains in productivity. The ripple effects extend well beyond the technology sector, benefiting industrials, utilities, and equipment manufacturers involved in expanding energy and computing systems. This broadening impact reinforces confidence that AI is evolving from a narrow tech story into a key driver of growth across many parts of the economy.

The wave of AI investment is also reshaping the labor market. As companies pursue efficiency and automation, layoff announcements have increased across a range of industries, contributing to a gradual slowdown in hiring. With inflation continuing its downward trend, the Federal Reserve has shifted its focus from fighting price pressures to supporting employment. Policymakers have begun cutting interest rates and are preparing to ease back on the financial limits they've had in place, marking a notable pivot after two years of tighter policy. Lower rates are also helping support the stock market, boosting both valuations and investor confidence.

Still, October was not without challenges. Concerns over a potential government shutdown, renewed U.S.—China trade tensions, and heightened scrutiny of private lending markets all surfaced during the month. While these issues grabbed headlines, markets largely shrugged them off, reflecting confidence that the fundamental drivers are intact.

Looking ahead, the focus will be on whether corporate strength, AI investment, and a more supportive policy environment can carry into 2026. So far, markets appear to be betting that they will.

Thanks,

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