



Market Commentary
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English Version

Insigneo Weekly Dispatch

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Shut downs have had limited long-term economic effects because most workers eventually return and are retroactively compensated.

Why should we fear an October unemployment surprise? The reason lies in the abnormal equilibrium created by migration policies and labor supply.

With third-quarter earnings around the corner, we may soon see the first signs of this impact, on both earnings and consumers.

So, what is the October Surprise? The origin of this term goes back to the 1980's U.S. presidential election, when Ronald Reagan's team warned about a possible October surprise related to the release of the U.S. hostages held in Iran. While this term has traditionally been associated with U.S. presidential elections, financial markets also have a history of bad performance during this month.

Going back in time, we have seen spooky Octobers, including the Great Crash of 1929, Black Monday in 1987, and the bottom of the S&P during the dot-com bubble in 2002. Not to be left out, on October 1st, 2025, investors received the news of a government shutdown that was largely expected.

So, what if this is not a shutdown but a crackdown?

As of the time of this writing, the federal government remains in a shutdown. While this situation may change at the time of publication, it is essential to examine the potential implications of such an event and understand why it should not be considered as a minor issue.

The longest shutdown in U.S. history lasted from December 22, 2018, to January 25, 2019. This 35-day episode occurred when Congress refused to pass President Trump's USD 5.7bn proposal to fund the border wall with Mexico. During shutdowns, federal agencies suspend non-essential operations, such as opening national parks, processing certain filings, sending hundreds of thousands of federal employees home without pay, etc. **Historically, shutdowns have had limited long-term economic effects because most workers eventually return and are retroactively compensated.** However, this time could be different. Let's imagine a more serious scenario during this October Surprise.

According to estimates, every week of a government shutdown reduces GDP growth by 0.15 to 0.2 percentage points. 0.15 to 0.2 percentage points. Beyond the macroeconomic impact, shutdowns often overlap with key economic surveys, as seen with the October 3rd Jobs Report, which was not published due to the shutdown. This creates

disruptions for policymakers, as they lack reliable data to make informed decisions. An example of this is the Federal Reserve. As we have seen during Powell’s tenure as Fed Chair, especially in recent months, the Fed has been heavily reliant on data. **If the government shutdown lasts too long, data releases should be delayed, affecting the Fed’s decision-making process.** In terms of unemployment, during the 2018 shutdown, 800,000 workers were sent home without pay. **Comparing those numbers to today’s labor market, that would represent an increase of about 10% in the current number of unemployed people in the United States.**

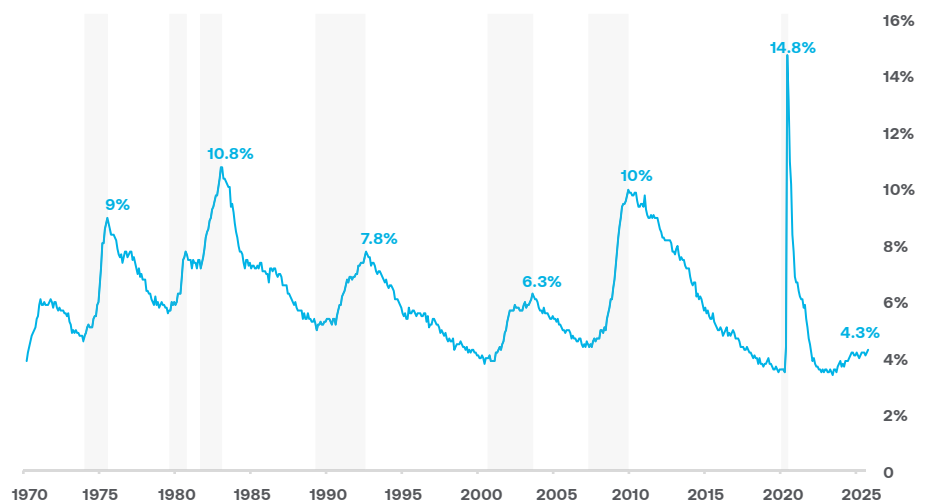
Shutdowns can be as spooky as the President wants them to be, but historically all losses are quickly recovered once the government restarts. However, Trump has threatened with massive layoffs, and House Speaker Mike Johnson said that Republicans have nothing to negotiate. Let’s see where we stand after this Halloween standoff.

Now that we have spoken about unemployment, what if the elephant in the room turns out to be a vampire?

Unemployment has been one of the main focuses of the Fed’s recent discussions. Powell has repeatedly warned that the unemployment rate remains low not because labor demand is strong, but because labor supply has slowed. We are currently in a low-hiring, low-firing environment, where stability may mask underlying weakness. One of the reasons mentioned for the steady unemployment rate is that policies against illegal migration have significantly dented labor supply. So, what if labor data turns out to be worse than expected?

While unemployment has been gradually rising over recent months, the current rate remains well below the 50-year average of 6.1%. So, why should we fear an October unemployment surprise? The reason lies in the abnormal equilibrium created by

Graph 1: Civilian Unemployment Rate, Year-Over-Year Growth



Source: JPM, FRED. Data as of October 6, 2025 | The shaded areas represent NBER-denominated recessions

migration policies and labor supply. As seen in Graph 1, unemployment goes up by an elevator and comes down by an escalator.

The Fed has been closely monitoring employment data to justify its policy moves, and September’s rate cut was a response to a cooling job market. Yet, migration policies may be obscuring the real picture. By chance or by design, we may not be seeing the full extent of labor market weakness. As mentioned before, the job market is walking on thin ice, and perhaps Powell’s warnings may soon come back to bite us.

Are we living in a tariff world?

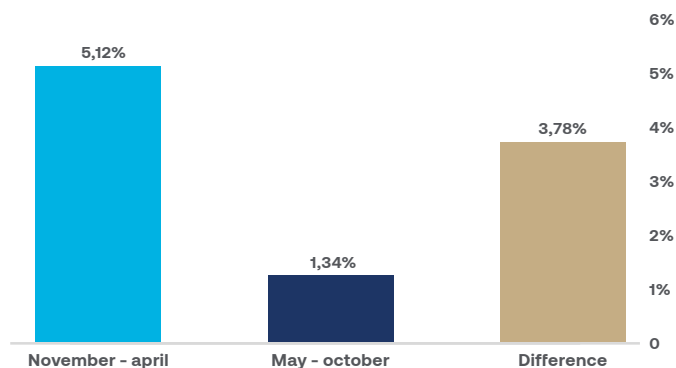
Like in Aesop’s fable *The Boy Who Cried Wolf*, we have been hearing about tariffs since Liberation Day. Yet after so many threats and reversals, the topic appeared to fade from the market’s collective psyche, leaving the impression that life continued as usual. That illusion, however, is far from reality. **While tariffs are no longer dominating the headlines, they are very much alive, quietly spreading across the globe.**

It’s true that the tone of discussion has softened since

April, but the implementation has not. Looking back to April 2, 2025, after President Trump’s Liberation Day speech, the effective tariff rate for U.S. goods imports was projected to reach 30%. Following months of negotiations, revisions, and political back-and-forth, many tariffs officially went into effect in August 2025. According to JP Morgan estimates, **the effective tariff rate for U.S. imports jumped from 2.4% in March to 19.2% at the end of September 2025.**

Tariffs are like villains in horror movies, they move slowly, but they always find their victim. An October surprise could easily come from an unexpected impact of global tariff implementation. Goldman Sachs economists estimate that U.S. companies will pass roughly 70% of the direct tariff costs to consumers through higher prices. With third-quarter earnings around the corner, we may soon see the first signs of this impact, on both earnings and consumers. **While higher prices may boost revenues, we could also see deterioration in U.S. consumer health.** With banks opening their earnings season next week, we must pay close attention to delinquencies, non-performing loans, and provisions numbers. With earnings on the horizon, let the games begin.

Graph 2: S&P 500 Performance Between November–April vs. May–October Since 1970



Source: Insigneo, Bloomberg. Data as of September 30, 2025

Is this scary enough?

While we can speculate about potential October surprises, from an escalation of the Russia–Ukraine war to new tensions with OPEC members following the U.S. involvement in Venezuela, not all surprises need to be negative. Cue the so-called *Halloween Strategy*. Due to October’s bad reputation during the last century, a herd effect has made investors cautious. This defensive behavior has allowed more aggressive investors to time the market by buying stocks in November at lower prices. As shown in Graph 2, since 1970, the S&P 500 has historically outperformed between November and April compared to the May-to-October period.

With the S&P 500 trading at an all-time high during the first few days of the month, any bad news could adversely affect market prices, giving investors a window to increase their exposure to sectors with

strong fundamentals. Recently, Powell remarked that stocks are “fairly highly valued”, suggesting they are overvalued in his estimation. His comments echo those of former Fed Chair Alan Greenspan, who warned of “irrational exuberance” in his December 1996 speech. Four years later, the dot-com bubble burst, yet investors who had taken his warning too early missed out on nearly a 100% increase in stock market value during those years. While October is often viewed as a bad month for markets, September has actually been the only month with negative average returns since 1970. Remaining cautious and maintaining a well-defined investment strategy is essential to navigate market volatility. ■



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