ACADEMY ASSET MANAGEMENT

Market Update

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With the government shutdown now headed toward resolution, its most consequential economic impact—far beyond the air-travel chaos—has been the complete multi-week blackout of official data from the BLS, BEA, and Census Bureau. While we wait for the catch-up deluge of releases ahead of the December FOMC, alternative private and high-frequency sources have been the only reliable window into the economy's health, which paint a bifurcated, late-cycle picture.

Growth finished Q3 exceptionally strong at a final 4.0% pace (Atlanta Fed GDPNow), but early Q4 nowcasts have already cooled to 2.0–2.5%. Manufacturing remained in contraction for an eighth straight month (ISM 48.7) while services held modest expansion (ISM 52.4). Small-business optimism dipped slightly but stayed solidly above its 52-year average (NFIB 98.2).

Inflation on private gauges has ticked higher since summer (Truflation ~2.55–2.60% YoY), sitting moderately above the Fed's target. More concerning, consumer inflation expectations jumped to 4.7% (Michigan preliminary November), helping send sentiment to near-record lows (~50.3).

The labor market has clearly become the soft underbelly. ADP's October report showed only +42k jobs, while its latest weekly NER Pulse revealed private employers shed an average of 11,250 jobs per week in the four weeks ending October 25—the weakest high-frequency stretch since 2021. Homebase, Revelio, and Indeed all confirm flat-to-falling hours worked and job postings at 2021 lows, while Challenger reported the highest October layoffs in 22 years (153k).

Against that backdrop, consumer spending remains the standout bright spot and the main reason the economy has not yet rolled over. Johnson Redbook same-store sales continue running a robust +5.9% YoY, in solidly positive territory for more than two years straight.

Bottom line: the alternative data flow reflects classic a late-cycle dynamic with resilient spending and growth masking rapid deterioration in employment and confidence. Recession probabilities are rising if consumer retrenchment finally arrives.

Heading into year-end, December's rate cut is no longer the baked-in as it appeared a few weeks ago. The incoming data catch-up over the next three weeks will be volatile and market-moving. Our conviction has softened, but we still anticipate a 25 bp cut in December, with a notable number of FOMC dissents arguing for no cut.

Indicator	Latest Value (Period)	Release/Update	Trend
ISM Manufacturing PMI	48.7 (Oct. 2025)	Nov. 3, 2025	Continued contraction (8th straight month), slight worsening from 49.1 prior; remains weak
Atlanta Fed GDPNow	4.0% annualized (Q3 2025 final tracking)	Nov. 6, 2025	Very strong for the quarter, unchanged in final updates and well above consensus
NFIB Small Business Optimism Index	98.2 (Oct. 2025)	Nov. 11, 2025	Slight decline but still above 52-year average of 98; uncertainty eased sharply
Truflation US Inflation Rate (YoY)	≈2.55-2.60% (early Nov. 2025)	Daily	Trending higher since summer low of ~1.6%; now above Fed target but still moderate
University of Michigan 1-Year Inflation Expectations	4.7% (Nov. 2025 preliminary)	Mid-Nov. 2025	Ticked higher; consumer sentiment plunged to 50.3 (near record low) on shutdown worries
ADP National Employment Report	+42k jobs (Oct. 2025)	Nov. 5, 2025	Very weak rebound after revised September job loss; signals clear labor-market softening
Challenger Gray & Christmas Layoff Announcements	153k (Oct. 2025)	Nov. 6, 2025	Highest October in 22 years, up 175% MoM; sharp deterioration
Johnson Redbook Same-Store Sales (YoY)	+5.9% (week ending ~Nov 11, 2025)	Weekly	Remains solidly positive (>5% for extended period); consumer spending resilient
High-Frequency Labor Demand (Indeed/Revelio/Homebase composite)	Job postings -1.9% MoM, employment/hours worked flat-to-down	Oct./early Nov. 2025	Continued cooling; postings at lowest since early 2021, hiring very soft

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Product Views

Rates: Treasuries inside six months moved lower after the FOMC's October 29 rate cut, while the rest of the curve was broadly unchanged over the month. We continue to see value in swapped Treasuries, which remain inexpensive relative to T-bills, though the trade has tightened and is less compelling than a month ago. More broadly, we still view the front and intermediate portions of the curve as offering the most attractive relative value, even with the recent tilt toward shorter-term issuance, as the front end should continue to track Fed expectations. With the government shutdown resolved and a heavy data calendar ahead, we expect volatility to create opportunities to add duration selectively.

Credit: Credit spreads, both IG and high yield, were largely rangebound in October but have begun to drift wider in early November. High yield is up 7.12% YTD, while IG credit has returned 6.82% over the same period. Despite the recent widening, we see additional room for spreads to move wider, particularly if economic momentum cools.

Securitized: MBS has returned 7.55% YTD, making it the top-performing sector within the broader Agg. Following substantial spread tightening, our outlook is less constructive than in prior months, particularly as the Fed intends to reinvest all MBS principal payments into Treasuries. Still, certain policy initiatives, such as the administration's push for more affordable mortgage structures, including potential 50-year terms, may provide support for legacy MBS valuations. Within securitized assets, we continue to target idiosyncratic opportunities, including select CMOs that remain attractive and securities backed by non-traditional collateral where structural advantages or dislocations create value.