

Macro Pulse for October 5

- As we [wrote last week](#), we're following a simple rule of thumb when it comes to the U.S. government shutdown: the longer a shutdown lasts, the greater its effects on consumer confidence, economic activity, and market outcomes.
- With official data releases on hold during the shutdown, investors and policymakers must rely on private data. This includes ADP payrolls, which, though not generally aligned with official figures, came in weak with 30,000 job losses for September. It's clear hiring is at a halt, supporting consensus expectations for another 25bp cut at the Fed's October 28-29 meeting. If the shutdown lasts until the Fed meets, the committee will lack both September's inflation report and jobs report – and we believe ongoing upside risks to price growth may encourage the Fed to hold, rather than ease rates while flying blind.

After the cut – global allocation for a new rate regime

Our latest monthly Macro Pulse report for October is [now available](#). We summarize the key changes to the market environment and our team's view [here](#).

Global markets continue to look past risks: from U.S. policy change, to technological disruption, to geopolitical shifts. In October, the game-changer is the U.S. Federal Reserve's return to rate cuts. A lower cost of capital may do little for the real economy, but easier financial conditions are likely to extend the rally in risk assets and spur more credit creation. **We see this as an inflection point for allocation.**

What's happened

In September, the Fed resumed rate cuts after a nine-month pause with a 25bp move. Risk assets have been further buoyed by the development, but the real economy faces a more nuanced dynamic. Though we are not overly bearish on the U.S. economy, the risk of divergence between markets and the real economy continues to grow. Our base case: growth slows, labor market cracks widen, and inflation edges higher.

On October 1, U.S. government funding lapsed, triggering a government shutdown that may last days or weeks. Around 750,000 federal workers have been furloughed and key government data releases are on hold. Treasury auctions and programs like Social Security, Medicare, and Medicaid will continue uninterrupted.

Political uncertainty is also plaguing Japan, the UK, and France and is contributing to pressure on government bond yields. Risks have been contained so far, but policy credibility is in focus amid broader debt concerns.

As the dollar has stabilized, ex-U.S. equity performance has converged with that of the U.S. In private markets, global investors remain cautious of new, illiquid deployments to the U.S. From both perspectives, we see management of currency exposure as an effective way to hedge excess risk, while preserving geographic diversification.

What's next: our updated 6-month outlook

In the near term, the U.S. government shutdown adds to concerns over policy stability, with gold likely benefiting at the expense of duration. History shows that the longer a shutdown lasts, the greater the hit to consumer confidence, economic activity, and markets. Looking back at past episodes, extended shutdowns have coincided with sharper volatility in the S&P 500, the U.S. dollar, and 10-year Treasury yields, as measured by peak-to-trough market moves during the period.

The 2018/2019 shutdown featured a V-shaped equity recovery while yields rallied



Sources: New York Life Investments Global Market Strategy, S&P Global, U.S. Department of Treasury, Macrobond, October 2025. The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance. Past performance is not a guarantee of future results. It is not possible to invest in an index.

Going forward, the Fed is set to continue its sporadic easing cycle. While markets are betting on a rapid cutting cycle, we are more cautious. We expect policy risks to impact the data, and therefore the Fed's pace of easing.

We see modest easing as an inflection point in allocation: easier financial conditions should continue to support equity markets and, as cash loses potency, we see opportunities to deploy into corporate credit.

With the bulk of dollar weakness likely played out, we expect ex-U.S. public equity outperformance to slow markedly. In Europe, however, disinflation provides some breathing room for ongoing policy easing, supporting cyclical performance.

In private markets, lower rates set the stage for broader and improved deal flow. We remain optimistic about private markets resilience given strong credit quality, new sources of liquidity, and democratization of access.

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