



CAPITAL INVESTMENT COUNSEL

The Columns

October 2025

Christmas came early to the Eddins household. Not because I got a new car or anything flashy: something better: lower interest rates. I admit it probably says something about me, but rates are the oil in the economic engine and when they drop, things tend to run smoother for everyone.

Lower rates don't just make Wall Street happy: their knock-on effect seems to reach everywhere. Check out housing. Mortgage rates finally pulled back from the 7% range we saw in January, and that's unlocking deals for a whole new crop of buyers. The logjam in home sales isn't gone, but you can feel it loosening up.

Builders have their swagger back, buyers are stepping off the sidelines, and you can sense the momentum slowly shifting. No, we're not back to the frenzy of 2021, but those lower rates matter - especially over the life of a 30-year loan.

Small business lending also gets a shot in the arm from lower rates. Credit tightened for most of this year, but with borrowing costs easing, small businesses can expand again. This can morph over to stocks as well.

Since June 30th, the large-cap S&P 500 is up 8%, but the Russell Small Cap is up 14%. That's what tends to happen when liquidity improves, the rotation spreads away from the headline names. It's not just the Magnificent Seven driving the tape anymore; capital starts searching for value again, and it appears to currently be finding it in the small caps.

I've been a believer in small caps for years, but Jerome Powell's rate stance kept them trapped under glass until midsummer. Now the air's shifting. Sure, the big AI names still grab the spotlight, but if you look under the hood, the Russell 2000, the forgotten middle child of this cycle, is starting to stir. Turns out there's a reason for that pulse and it's not just sentiment, it's Fed policy. Which brings me to John Cochrane's piece in the Wall Street Journal that stopped me cold. (*"Trump's Monetary Policy Desires Aren't Crazy"; 10/21/2025*)

Cochrane argues that contrary to popular belief, lower interest rates don't have to mean inflation. The Fed pinned rates near zero for a decade after 2010 and prices stayed stable until Covid came calling. Even now, with rates sliding and the Fed easing again, inflation keeps cooling. That run from 2010 to 2020 shows that lower rates potentially provide oxygen for investment, housing, and credit markets in need of relief.

It's good to see the consumer stepping up after a rough spring. Dig into last week's earnings from Wells Fargo and JP Morgan, and the story gets a little clearer: consumers are not slowing. Credit card spending jumped 9% year over year: the fastest pace since 2023.

Two Thursdays ago, the S&P 500 was at an all-time high. Then came the Friday sucker punch as the China trade news hit the market between the eyes with a 2.5% drop. It didn't feel good at the time but there may be a silver lining.

Quick pullbacks from all-time highs can set the stage for potential strong returns. Subu Trade (seriously, where do they come up with these names?) laid out the history on X and the setup looks promising. This 2025 pullback marks the ninth time we've seen this pattern and in previous eight, stocks were higher six months later 100% of the time with an average pop of 10%. We'll see how this plays out.

If we look out a year from the pullback, stocks were higher 88% of the time with an average gain of 13%. You can read it two ways. 1. Great six-month potential, but only an extra 3% for waiting another six months. 2. Here's how I see it. Yes, history says stocks may

be higher a year from now, but the dip between April and next October might be the one worth buying. History tends to smile at those moments.

2026 brings mid-term elections, and I'll admit it, those are my favorites. They've been positive for the market 82% of the time since 1950, though rarely calm. The average trading range runs 11% from the year's low to election day. Even 2022, which most would call a rough year, managed a 10% rally off its bottom. The takeaway: don't let politics cloud your investment judgement. Mid-term selloffs have a history of turning into potential opportunity and that's a rhythm worth remembering.

One final positive to close out October. Ryan Detrick is always good for a silver lining and this one doesn't disappoint. Markets hit a new high in September - rare territory that potentially points to a strong finish ahead. It's happened 22 times before, and in 20 of those, Q4 finished higher with an average gain of 5%. Again, we'll see how this plays out.

Chris Ciovacco adds his own twist. This September was the best for stocks since 2013. If we follow that script, the fourth quarter could have a little extra punch. Back in '13, stocks piled on another 9.9% to finish the year. It would be nice to wrap up December with a little jingle in your jeans. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

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