



Basis Points | October 8, 2025

## The turnaround or the runaround?

### 1. Sudden shift

Recent weeks have seen a rapid shift in the narrative surrounding the US labor market, highlighting how swiftly expectations can change. A few months ago, optimism prevailed as the economy routinely added over 100,000 jobs per month. However, since August, the pace of new payroll job growth has been [revised down substantially](#) to a pace much slower than expected and catching investors and policymakers off guard. The Federal Reserve reacted decisively, as Fed Chair Powell quickly committed to a rate-cutting stance. The Fed followed through, cutting the overnight policy rate by 0.25% at its September 17 meeting as a “[risk-management cut](#)” and signaling that more cuts are likely. The effect has been significantly easier financial conditions: interest rates and bond yields are lower, equities are higher, and the dollar is quite a bit weaker. Whether these easier conditions endure is a significant factor for the outlook and – somewhat awkwardly – rides on the expectation that the labor market is weakening to the point that the Federal Reserve needs to continue lowering interest rates. But while many see the recent labor market reports as an abrupt turnaround, we see the latest reports as more mixed, and we want to avoid getting the runaround from murky data.

### 2. Flying blind

With the US government shut down beginning October 1, investors and policymakers have lost access to official labor market data, leaving them to rely on a handful of private-sector reports and anecdotal signals. This is particularly challenging because the weakness in payrolls data – which the Federal Reserve has flagged as the reason for rate cuts – is difficult to detect more broadly in the economy. Hiring does appear [stagnant](#), especially for young people who have seen unemployment rates rise more quickly than average. But at the same time, there is little evidence of increased layoffs<sup>1</sup>, GDP growth is likely running at a pace of around 3%<sup>2</sup>, and there is a capex boom as [capital pours into AI](#). Despite this, investors are positioned for additional rate cuts this year. Given the composite of economic and market conditions, we are less confident than the market consensus about this path for rate cuts unless the labor market weakens substantially further or inflation rates – which are currently running at least 1.5x as fast as the Fed’s 2% target – slow markedly from here.

### 3. Remarkably benign

The US equity market’s gains in Q3 were remarkable for their breadth and calm as the S&P 500 posted one of its [most benign quarters](#) in history in terms of volatility and performance. From a macro perspective, relief from tariff-related uncertainties, resilient economic data,

#### CONTACT

**Blake Taylor | VP, Market and Economic Research Analyst**

blake.taylor@firstcitizens.com  
919-716-7964

**Phillip Neuhart | SVP, Senior Director of Market and Economic Research**

phillip.neuhart@firstcitizens.com  
919-716-2403

**Brent Ciliano, CFA | SVP, Chief Investment Officer**

brent.ciliano@firstcitizens.com  
919-716-2650

<sup>1</sup> The number of people claiming [jobless benefits](#) has remained relatively low. The rate of [layoffs](#) in private-sector surveys is also low. A near-record share of the population in their core working years is [currently employed](#). The [unemployment rate](#) is 4.3%, one tenth higher than the Fed’s latest long-term [projection](#) of 4.2%.

<sup>2</sup> Q2 2025 GDP growth has been revised up to +3.8%. The Atlanta Fed “[GDPNow](#)” estimate for GDP growth in Q3 2025 is also +3.8%. A notable bottom-up private sector [estimate](#) for Q3 is 2.7%.



and expectations for the Fed's accommodative posture all boosted investor confidence and supported higher valuations. From a fundamental perspective, impressive corporate earnings and gross margin expansion have fueled even more optimism. Looking ahead, we see a significant amount of good news priced into today's equity markets, leaving prices potentially exposed to disappointment should economic growth slow or inflation surprise to the upside. In the absence of government data, the upcoming Q3 earnings season will be a key driver of equity markets. Earnings, revenue and margin growth are always important, and we will also be listening closely to management commentary as C-suites begin to look ahead to 2026. Thinking about the longer term, the highly tumultuous Q2 followed by the incredibly benign Q3 serves as an exceptional reminder to us of the importance of staying invested during uncertain periods as well as the danger of attempting to time swings in equity prices.

## 4. Spreads compress, returns impress

With markets expecting about 1% in rate cuts from the Federal Reserve between now and the end of 2026, Treasury yields have moved lower, especially at the short end of the yield curve. Longer duration bond yields have declined by less, serving as a good reminder that the Fed controls short-term, not long-term rates. In fact, last year 10-year Treasury yields [increased by 1.0%](#) in the months after the Fed *cut* the overnight rate by 1.0%. The spread of corporate bond yields over Treasuries – the premium investors demand for holding non-government debt– are near 30-year lows, indicating the corporate bond market is not pricing elevated credit risk. But even though spreads are tight, yields are still attractive to many investors seeking balance in portfolios.



[Sign up](#) to receive regular market & economic updates straight to your inbox.


## FIRSTCITIZENS.COM/WEALTH

The views expressed are those of the author(s) at the time of writing and are subject to change without notice. First Citizens does not assume any liability for losses that may result from the information in this piece.

This material is for informational purposes only and is not intended to be an offer, specific investment strategy, recommendation, or solicitation to purchase or sell any security or insurance product, and should not be construed as legal, tax or accounting advice. Please consult with your legal or tax advisor regarding the particular facts and circumstances of your situation prior to making any financial decision. While we believe that the information presented is from reliable sources, we do not represent, warrant, or guarantee that it is accurate or complete.

**Your investments in securities and insurance products and services are not insured by the FDIC or any other federal government agency and may lose value. They are not deposits or other obligations of, or guaranteed by any bank or bank affiliate and are subject to investment risks, including possible loss of the principal amounts invested.**

### About the Entities, Brands and Services Offered

First Citizens Wealth™ (FCW) is a marketing brand of First Citizens BancShares, Inc., a bank holding company. The following affiliates of First Citizens BancShares are the entities through which FCW products are offered. Brokerage products and services are offered through First Citizens Investor Services, Inc. ("FCIS"), a registered broker-dealer, Member [FINRA](#) and [SIPC](#). Advisory services are offered through FCIS, First Citizens Asset Management, Inc. and SVB Wealth LLC, all SEC registered investment advisers. Certain brokerage and advisory products and services may not be available from all Investment Professionals. Insurance products and insurance are offered through FCIS, a licensed insurance agency. Banking, lending, trust products and services, and certain insurance products and services are offered by First-Citizens Bank & Trust Company, Member [FDIC](#), and an Equal Housing Lender and SVB, a division of First-Citizens Bank & Trust Company. 

For more information about FCIS, FCAM or SVBW and its Investment Professionals click here: <https://www.firstcitizens.com/wealth/disclosures>

©2025 First-Citizens Bank & Trust Company. All rights reserved. Silicon Valley Bank, a division of First-Citizens Bank & Trust Company. Member FDIC., First Citizens Wealth is a trademark of First Citizens BancShares, Inc.