

Mixed Private Sector Data Unlikely to Reroute Fed

At 36 days (and counting) the federal government shutdown is now the longest in history. The results of yesterday's elections seemed to indicate that more Americans are blaming the GOP. This is likely to validate and unify Democrats, suggesting the increasingly painful shutdown will continue. Partial SNAP benefits will be paid at some point, although the process for partial funding of the monthly food stamp program is undetermined and may take weeks. The optics of hungry Americans won't be pretty, and recent misinformation on who's receiving these benefits has been wildly inaccurate.

The Bureau of Labor Statistic (BLS) remains closed, which means the October employment report will not be produced, and within weeks the timeframe to compile November data will also pass. As a result, private sector reports take center stage. The jury's out on how credible the financial markets will view these second-tier reports.

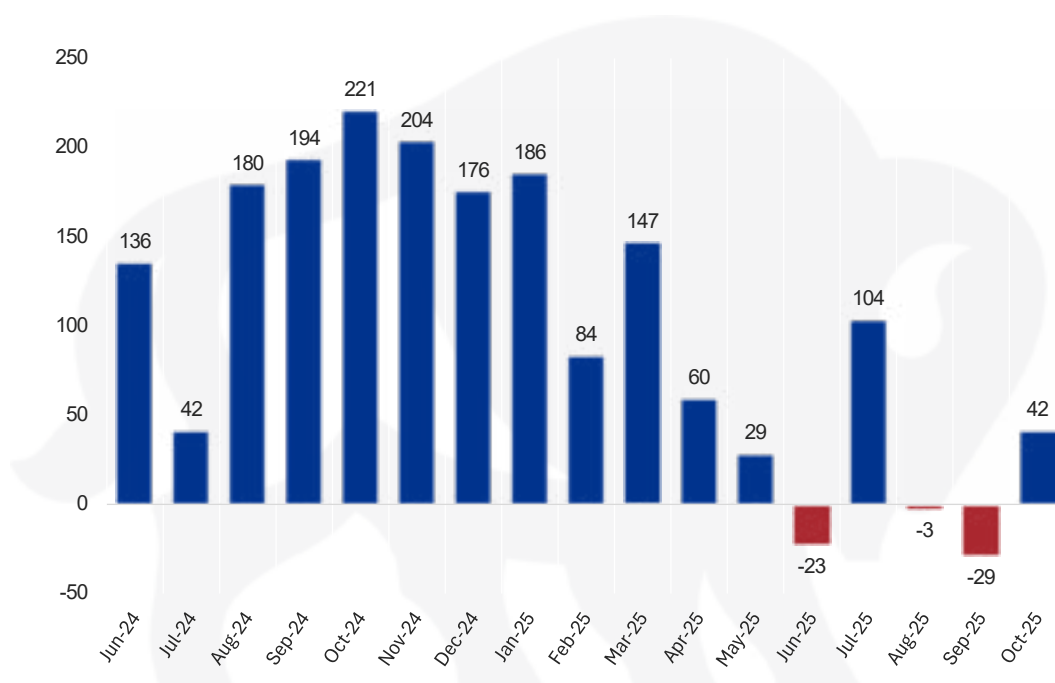
This morning, the monthly ADP private payroll release showed U.S. companies added +42k jobs in October, slightly above forecast. This pushed the ADP six-month average up from +23k to +29k, compared to +150k during the same period in 2024. The October report, though marginally better than expected, amplified the disproportionate negative impact of tariffs on small businesses as small and midsize companies reduced payrolls by a combined -31k last month, while large companies (500 or more employees) added +73k jobs.

Scott McIntyre, CFA
HilltopSecurities Asset Management
Co-Head of Investment Management
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Co-Head of Investment Management
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

Matt Harris, CFA
HilltopSecurities Asset Management
Senior Portfolio Advisor
Senior Vice President
512.340.1845
matt.harris@hilltopsecurities.com

ADP Payrolls Total Change (in thousands)



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Source: Automatic Data Processing, Inc / Bloomberg

Another key private sector measure released this morning was mixed, with increased growth and higher prices reflected in the monthly survey of service sector purchasing managers. The ISM services composite index for October climbed 2.4 points to 52.4, the highest level since February, while the forward-looking new orders index rose from 50.4 to 56.2, the highest in 12 months. These positive growth measures were offset by an uncomfortably hot inflation reading as the prices paid index rose from 69.4 to 70, the highest since October 2022.

Within the ISM report, 11 service industries signaled growth, while six signaled contraction. Notable growth sectors include accommodation and food services, retail trade, real estate, and healthcare and social services. Notable contraction was evident in company management and support services, finance and insurance, public administration and construction.

Comments from service managers – on the whole – were more upbeat than in recent months.

- “Business very strong, no supply chain or logistical issues.” (Retail Trade)
- “General business has been steady, with minimum fluctuation.” (Transportation and Warehousing)
- “Business seems to be picking up. Multifamily is a big driver. The outlook is better with the Fed’s plan to continue with rate cuts. (Wholesale Trade)

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Earlier this week, the results of the ISM factory survey indicated the U.S. factory sector contracted for the eighth consecutive month. The ISM manufacturing composite index declined from 49.1 to 48.7, slipping further into contraction territory (below 50). There was moderate improvement in new orders (+0.5 to 49.4) and employment (+0.7 to 46.0), although both continued to indicate mild contraction. In contrast to the service sector survey, the factory prices paid index cooled from 61.9 to 58.0.

Six manufacturing industries reported growth, while 12 contracted. Comments by the factory managers were considerably more downbeat than their service sector counterparts and tariffs remained a primary concern.

- “Business continues to remain difficult, as customers are cancelling and reducing orders due to uncertainty in the global economic environment and regarding the ever-changing tariff landscape.” (Chemical Products)
- “Wonder has turned to concern regarding how the tariff threats are affecting our business. Orders are down across most divisions, and we’ve lowered our financial expectations for 2025.” (Chemical Products)
- “Tariffs continue to be a large impact to our business. The products we import are not readily manufactured in the U.S., so attempts to reshore have been unsuccessful. Overall, prices on all products have gone up, some significantly.” (Machinery)

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- “U.S. trade policy and reciprocal actions by China in the form of export controls on rare earths and semiconductors, as well as ocean freight carrier restrictions, have once again caused a lot of stress in supply lines.” (Transportation Equipment)
- “The tariff trade war has negatively impacted agricultural export markets, driving down demand and price. This negatively impacts farmer revenue and the likelihood of farmers investing in new equipment.” (Machinery)
- “The unpredictability of the tariff situation continues to cause havoc and uncertainty on future pricing/cost. But even with the tariffs, the cost to import in many cases is still more attractive than sourcing within the U.S.” (Computer and Electronic Products)
- “Tariffs continue to remain difficult to quantify, manage and deal with in general, since they continue to impact us day-to-day and our bottom line.” (Food, Beverage and Tobacco Products)

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Market Indications as of 1:29 P.M. Central Time

DOW	Up 289 to 47,374 (HIGH: 47,706)
NASDAQ	Up 263 to 23,612 (HIGH: 23,958)
S&P 500	Up 52 to 6,823 (HIGH: 6,891)
1-Yr T-bill	current yield 3.70%; opening yield 3.65%
2-Yr T-note	current yield 3.63%; opening yield 3.57%
3-Yr T-note	current yield 3.65%; opening yield 3.58%
5-Yr T-note	current yield 3.77%; opening yield 3.69%
10-Yr T-note	current yield 4.16%; opening yield 4.08%
30-Yr T-bond	current yield 4.74%; opening yield 4.66%

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