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7 October 2025

Markets in a Minute

Key highlights

- **Shutdown? So what?** Global stocks rallied to fresh highs, brushing off the U.S. government closure and subsequent economic data blackout.
- **Jobs jigsaw:** Although fewer U.S. jobs are being created, layoffs remain at low levels.
- **Artificial intelligence (AI) alliance boom:** Chip stocks surged as global mega-deals signalled structural tailwinds for AI infrastructure.



Watch the latest Markets in a Minute video with Guy Foster, Chief Strategist, and Janet Mui, Head of Market Analysis.

Markets look past the U.S. government shutdown

Global stocks continued their steady march to new highs last week despite the U.S. government shutdown and disappointing private jobs data.

Last week's price action tells us something important: markets are looking past the short-term noise of politics and patchy data and instead balancing between structural optimism for AI and cyclical caution – with AI having an upper hand due to strong evidence of financial commitment and collaboration amongst players within the AI infrastructure ecosystem.

The U.S. government officially shut down on 1 October, as Congress failed to pass the necessary spending bills to fund federal operations into the new fiscal year. Around 750,000 federal workers are now furloughed, including many responsible for compiling key economic data. That means that data such as non-farm payrolls, the consumer price index (CPI), retail sales and gross domestic product (GDP) won't be released until the government reopens.

This creates a significant information gap for investors and policymakers, particularly at a time of economic uncertainty over the labour market. The Federal Reserve (the Fed) will be flying blind ahead of its next policy meeting in October, with markets leaning on a rate cut.

From an economic perspective, the impact of a U.S. government shutdown tends to be modest. Historical estimates suggest a temporary drag of -0.1% to -0.3% on GDP, typically reversed when back pay is issued to federal workers. The greater risk would come from a prolonged shutdown, which could begin to affect broader confidence and spending.

For now, markets are sanguine. U.S. stocks have shown mixed performance during past government shutdowns. What's different this time is the potential for deeper, structural implications. President Donald Trump has suggested he may take this opportunity to permanently lay off government workers providing services outside of the administration's core policy goals. That would mean a shift from the usual furlough and back pay approach that tends to have little economic impact. So far, the markets' base case is that the shutdown will again be temporary and its impact manageable.

Continued overleaf

Figure of the week

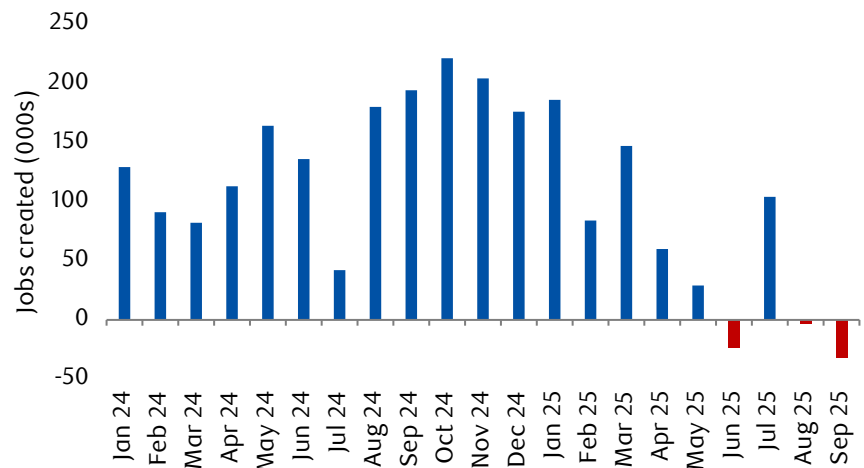
3.8%

U.S. third quarter gross domestic product (GDP) growth predicted by the Federal Reserve Bank of Atlanta.

A low-hire, low-fire U.S. jobs market

With official payroll data suspended, attention turned to private indicators. The ADP (Automatic Data Processing)'s employment report showed private sector job losses for the second consecutive month, adding to evidence of a slowing labour market.

U.S. private employment changes



Source: ADP

Still, the narrative isn't one of collapse. For instance, jobless claims remain stable and low. Companies seem to be reluctant to lay off workers due to lingering skill shortages and a lower labour supply due to immigration policy changes. This low-hire, low-fire dynamic means the labour market is slowing gently rather than falling off a cliff.

The positive news is that consumers are still spending and companies are investing in technology. Supporting this sanguine view, the Atlanta Fed's GDPNow model projects 3.8% GDP growth in the third quarter. This is hardly consistent with a recessionary economy.

That said, the Fed's policy challenge remains. Without timely official data, policy decisions will rely on alternative sources and sentiment surveys. Markets are pricing in interest rate cuts for October and December, driven by a weaker labour market and Fed officials' view that current rates remain high relative to the neutral rate - the level that neither stimulates nor suppresses inflation.

Mega AI deals fuel global chips rally

The standout story remains the surge in AI infrastructure-related stocks, as a fresh wave of deals and capital commitments highlight the scale and potential longevity of this investment cycle.

Following Nvidia's \$100 billion investment in OpenAI, OpenAI is touring the world securing its data centre buildout partners. In Korea, Samsung and SK Hynix signed new deals to supply high-bandwidth memory chips for OpenAI's Stargate project. Japan's Hitachi and Fujitsu expanded collaboration with Nvidia and OpenAI to support energy and infrastructure projects.

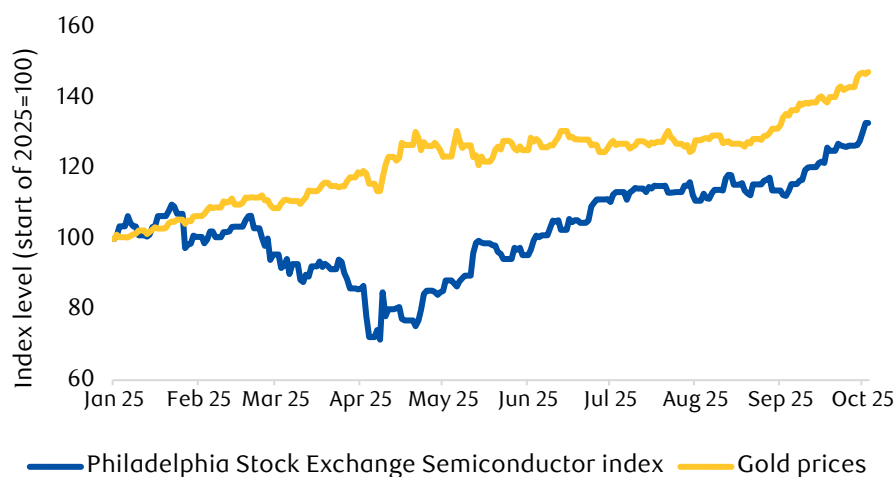
This reinforces a critical theme: that no single company or country can deliver the scale of infrastructure required to support the insatiable demand for computing power in the age of AI. As such, collaboration across the ecosystem is essential. Whether it's data centre construction, memory chips, energy infrastructure, chip design, or cloud storage, the size of the opportunity demands deep partnerships.

“Markets are balancing between structural optimism of AI and cyclical caution, with AI having an upper hand due to strong evidence of financial commitment and collaboration.”

This interdependence enhances visibility into the longevity of capital investment while keeping the benefits within the AI infrastructure ecosystem, making the theme a firm favourite amongst investors.

The asset performing as well as, or even better than chips, is gold, which has gained momentum amid broader concerns about institutional credibility. The current U.S. government dysfunction adds further rationale for continuing this trade.

Chip stocks and gold prices rallied hard this year



Source: Bloomberg

Will Japan see its first female prime minister?

In Japan, Sanae Takaichi has emerged as the winner of the weekend's Liberal Democratic Party (LDP) leadership election. Although the LDP-Komeito coalition currently lacks a majority in the lower house of the National Diet, it will still likely elect her as the country's first female prime minister. Voting is likely to take place later this month.

Takaichi's election has sparked speculation about her potential policies, particularly regarding the economy. The key controversy is whether she may try to influence the Bank of Japan (BoJ)'s monetary policy and whether she can bring about fiscal expansion. She has in the past been responsible for some dramatic quotes about the future direction of interest rates, but more recently, she has seemed to endorse the need for the BoJ to make its own decisions. She has also pledged fiscal expansion through income tax cuts and even cash handouts. A cut in sales tax already seems likely.

The market reaction to Takaichi's victory has been notable, with the yen weakening against major currencies and longer-term bonds falling. However, stocks have risen, with the Nikkei 225 Stock Average reaching a record high.

Exporters and certain manufacturers have also seen significant gains, as investors bet on the potential for increased government spending and stimulus under Takaichi's leadership. Overall, Takaichi's election is being seen as a positive for risk assets, with investors weighing the potential benefits of her policies against the potential risks.

The view for the bond market is more nuanced. Short-term yields have fallen, reflecting a real impression that Takaichi will coerce monetary policy. In contrast, longer-term bond yields have risen, reflecting expectations of higher eventual interest rates and inflation.

“Although markets have become used to French political drama, investors are losing patience and French borrowing costs are rising.”

French political turmoil continues

Sébastien Lecornu resigned as French prime minister on Monday, which came less than 24 hours after President Emmanuel Macron appointed a new cabinet. It highlights a political gridlock that's very difficult to break, involving the near-impossible task to pass a budget that involves unpopular spending cuts and tax increases to reduce the budget deficit.

Although markets have become used to French political drama, investors are losing patience and French borrowing costs are rising. To see French bonds yield more than Italian bonds is the kind of shock that might galvanise the electorate or the French parliament into action. France has an average maturity of eight years on its government bonds, so it'll take some time for higher bond yields to do lasting damage.

The banks are in decent shape. The European Central Bank (ECB) has a transmission protection instrument (TPI) to prevent regional spillovers. The TPI allows it to purchase a country's government bonds if it decides that its borrowing costs are higher than justified by economic fundamentals. For this reason, the ECB is comfortable to see borrowing costs rise until it needs to force some corrective action.

However, the political steps needed to get to that point don't seem imminent, and so it seems likely that French government bonds will remain under pressure.

Coming up

- **U.S. government funding talks continue:** Watch for progress (or a breakdown) in Congress as a resolution is needed to reopen the government.
- **French politics in turmoil:** Markets are contemplating the chance of fresh elections in France breaking the longstanding political gridlock.
- **China goes on holiday:** China's Golden Week holiday provides a good chance to evaluate retail sales demand.



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