Ascentis
Asset Management

Weekly Market Commentary

December 15, 2025

GRIP Summary – Week Ending December 12, 2025

Growth

- **Leading & coincident indicators:**
  - The Conference Board's *Leading Economic Index* (LEI) has not been updated since the September report because of the federal government shutdown. In September the index fell 0.3% (its second straight decline) and is down 2.1% over the last six months[1]. The *Coincident Economic Index* (CEI) rose only 0.1% in September and has increased just 0.3% over the last six months[2], highlighting slowing current activity.
  - With official data delayed, analysts are relying on private-sector proxies. Financial Synergies noted that **job growth and hiring are slowing** and wage inflation is easing, though broad-based layoffs have not materialized[3]. RBC Economics observed that employment remains soft and consumers are becoming less responsive to interest-rate adjustments, while the effects of earlier rate hikes are still working through the economy[4].
  - The U.S. economy continues to expand modestly. However, the delayed release of government data (e.g., payrolls and CPI) means growth figures are being pieced together from ADP payrolls, job openings and jobless claims[3]. RBC said the current lack of data hampers visibility on inflation and growth and noted that future tariff policy is a key unknown[4].

- **Economic narrative:**

  Overall, growth appears to be slowing but not collapsing. Freight and manufacturing indicators remain weak, and the LEI's multi-month downtrend points to below-trend growth into early 2026. At the same time, consumer spending and services activity are holding up, preventing a near-term recession. Because the slowdown coincides with a sharp liquidity drain from the Treasury General Account (TGA) rebuild and the prolonged government shutdown, a near-term **growth scare** remains possible; however, most forecasters expect growth to reaccelerate in mid-2026 as rate cuts take hold.

Risk Appetite

- **Credit spreads and rate of change:**
    - High-yield credit spreads remain compressed at roughly **304–305 basis points**, near their lows of the year. Compared with six- and twelve-month levels, spreads have narrowed, implying **two of three** rate-of-change measures point to tightening spreads and a **risk-on** trend. RBC highlighted that investment-grade spreads are still below historical norms despite recent volatility[5].
    - Washington Trust Bank reported that benchmark Treasury yields moved **higher** last week despite the Fed's quarter-point cut; the 30-year yield climbed to 4.86 percent (highest since early September), while the 2-year yield dipped eight basis points[6]. The modest steepening suggests markets priced a pause rather than a sustained cutting cycle, leaving credit valuations elevated.
    - Bonds finished the week with **modest losses** as Treasury yields edged higher, although credit spreads stayed tight[7].
- **Equity prices and market leadership:**
    - U.S. stocks rallied on the Fed's decision. The S&P 500, Dow Jones and equal-weight S&P indices moved close to record highs, while the Russell 2000 surged and set consecutive record highs[7]. Washington Trust noted that the **small-cap/interest-rate-sensitive Russell 2000** led the market for the week, whereas the tech-heavy Nasdaq Composite lagged due to concerns about artificial-intelligence profitability[8]. In other words, leadership broadened from mega-cap tech toward small caps and cyclicals.
    - The bullish percent index (BPI) for the S&P 500 has moved into the mid-50s, indicating that just over half of constituents are on point-and-figure buy signals[9].
    - Sector rotation reflects a **risk-on tilt**: high-beta stocks and cyclical sectors (industrials, financials, health care) outperformed defensive sectors last week[7][8]. Gold continued to hover near record highs and energy prices (crude oil) held near a four-year low, while Bitcoin remained volatile[7].

- **Cross-asset correlations:**
    - Commodity-to-gold ratios remain subdued because of gold's strength; both the lumber-to-gold and copper-to-gold ratios stay near multi-year lows[10]. These **risk-off signals** contrast with the risk-on message from small-cap leadership.
    - Stock–bond correlations have been positive recently: equities and Treasuries rallied together following the rate cut, reflecting expectations of easier policy[10]. Meanwhile, stock–gold correlations remain negative as investors maintain hedges.
    - Factor dispersion is widening high-beta equity factors are outperforming low-volatility factors, and small-cap relative strength versus large-caps has turned positive on three- and six-month horizons[10].

Overall risk stance: The **balance of indicators leans moderately risk-on**. Narrower credit spreads, rising equities (especially small caps) and improving market breadth point to improved risk appetite. However, cross-asset ratios (commodities vs. gold) and persistent hedging activity (e.g., elevated gold prices) warn that investors are still cautious. We therefore classify risk appetite as **mixed but improving**: two of three rate-of-change measures for both credit spreads and equities are positive, while crypto and cross-asset correlations remain cautious.

Inflation

- **PCE and inflation data:**
  - The delayed September Personal Consumption Expenditures (PCE) report showed headline inflation rising **0.3%** month-over-month and **2.8%** year-over-year[11], while core PCE remained in the low-3 percent range[12]. Because of the government shutdown, the October and November PCE reports have not yet been released.
  - Financial Synergies noted that inflation continues to **ease** but remains **above the Fed's 2 percent target**, emphasizing that surveys show persistent price pressures from tariffs and supply-chain shifts[3]. Washington Trust similarly highlighted that inflation progress gives the Fed cover to cut rates in December, but tariff uncertainty and geopolitical tensions mean the disinflation story is fragile[3].
- **Forward-looking inflation signals:**
  - Market-based indicators point to **disinflation** ahead. The AAM trend report observed that the **Brent crude oil price** and the **TIP/TLH ratio** both remain in downtrends on a 3-, 6- and 12-month rate-of-change basis[13]. Brent crude hovered in the mid-$50s per barrel, a four-year low, reinforcing the disinflationary tailwind[7].
  - The trend in the TIP/TLH ratio – a proxy for breakeven inflation expectations – has been negative, indicating declining inflation expectations[13]. This suggests markets believe inflation will drift toward the Fed's target, providing room for additional rate cuts.

Inflation stance: While recent data confirm that inflation is falling, it remains above the Fed's goal and could re-accelerate if growth surprises on the upside. Overall, the inflation composite is **negative** (disinflationary) when considering energy prices and inflation expectations[13], but caution is warranted because underlying pressures persist.

Policy

- **Federal Reserve actions:**
  - At its December 10 meeting, the **Federal Open Market Committee (FOMC)** delivered a **0.25-percentage-point rate cut**, lowering the federal funds rate to a **3.50–3.75 percent range**[14]. The committee also declared that reserve balances had declined to ample levels and **ended quantitative tightening**, signaling it will buy shorter-term Treasury securities as needed to maintain reserves[15].
  - The decision was unusually divided: Washington Trust noted that three members formally dissented – one in favor of a deeper cut and two preferring no cut – and several others expressed "soft" dissent[8]. RBC emphasized that the dissents reflect a growing divide within the Fed over which side of the mandate (inflation vs. employment) poses greater risk[4].
  - Fed officials characterized the cut as a **fine-tuning** move rather than the start of a prolonged easing cycle. Chair Powell signaled a pause to evaluate incoming data, and the updated Summary of Economic Projections continued to show no additional cuts until 2026[3]. Nonetheless, markets are pricing in further easing in 2026 as growth slows and inflation trends lower.
- **Political and leadership developments:**
  - Attention is shifting to who will succeed Jerome Powell as Fed chair. Fortune reported that National Economic Council Director **Kevin Hassett** is a top contender and could be nominated early in 2026[16]. Traders are watching this nomination closely because Hassett is perceived as a monetary policy dove.
  - Looking ahead, the rotation of FOMC voting members in January will bring in more hawkish regional presidents, which could make consensus harder[6].
- **Other policy factors:**
  - The **Treasury General Account** drawdown and the end of the federal shutdown should return liquidity to the banking system, easing the funding strains that erupted when the TGA was rebuilt and QT was still ongoing[17].
  - Fiscal policy remains neutral to slightly supportive: no major stimulus packages have been enacted, but automatic stabilizers will cushion any downturn. Election-year politics in 2026 could prompt further fiscal easing if growth slows materially.

Policy stance: Monetary policy has shifted from restrictive to moderately accommodative. The December cut and halt of QT inject liquidity and signal a willingness to support growth. However, the Fed remains divided and will likely proceed cautiously, awaiting clearer data on inflation and labor markets. A new Fed chair and changes in FOMC composition could influence the path of rates in 2026.

Outlook

With growth indicators softening, inflation moderating, and policy turning cautiously accommodative, the near-term outlook is **mixed**. We remain **cautious** over the next few months because the absence of timely data and lingering liquidity tightness could produce a growth scare. Credit spreads and equities suggest improving risk appetite, but cross-asset signals (safe-haven demand) remind investors to maintain hedges.

Looking into 2026, we are **optimistic**. The disinflation trend and easier monetary policy should eventually revive growth. Earnings projections point to a pickup next year, and a broader equity rally—extending beyond mega-caps—is already underway. As liquidity conditions improve and the Fed potentially cuts rates further, the environment could shift from a late-cycle slowdown toward a new expansion. We therefore recommend maintaining diversified exposure, gradually adding to risk assets on weakness, and emphasizing active management to navigate cross-asset divergences.

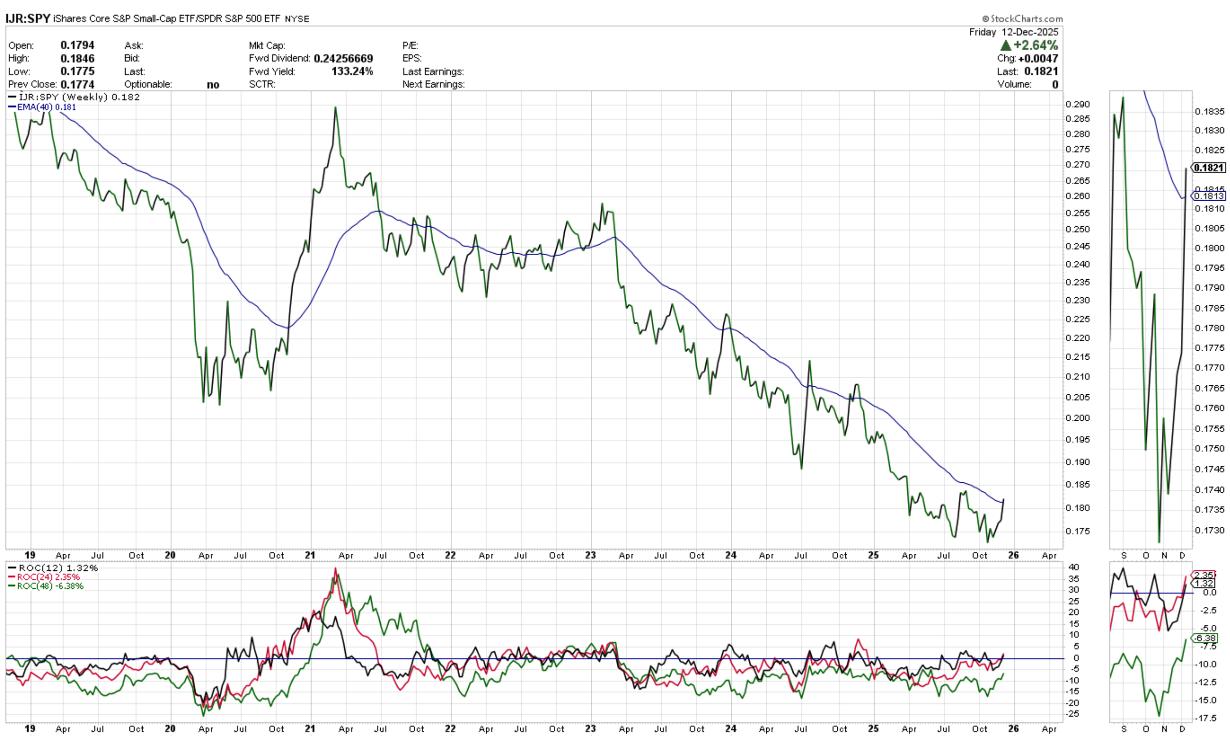

Chart of the week: Small caps are trying to breakout versus large caps.

Sources

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Ascentis
Asset Management

CONTACT US

Please feel free to call us or contact us
via email if you require any further information.

EMAIL: max.rockwell@ascentisasset.com

ADDRESS: 5001 Spring Valley Road,
Suite #810W
Dallas, TX 75244 USA

WEBSITE: www.ascentisasset.com