Ascentis
Asset Management

Weekly Market Commentary

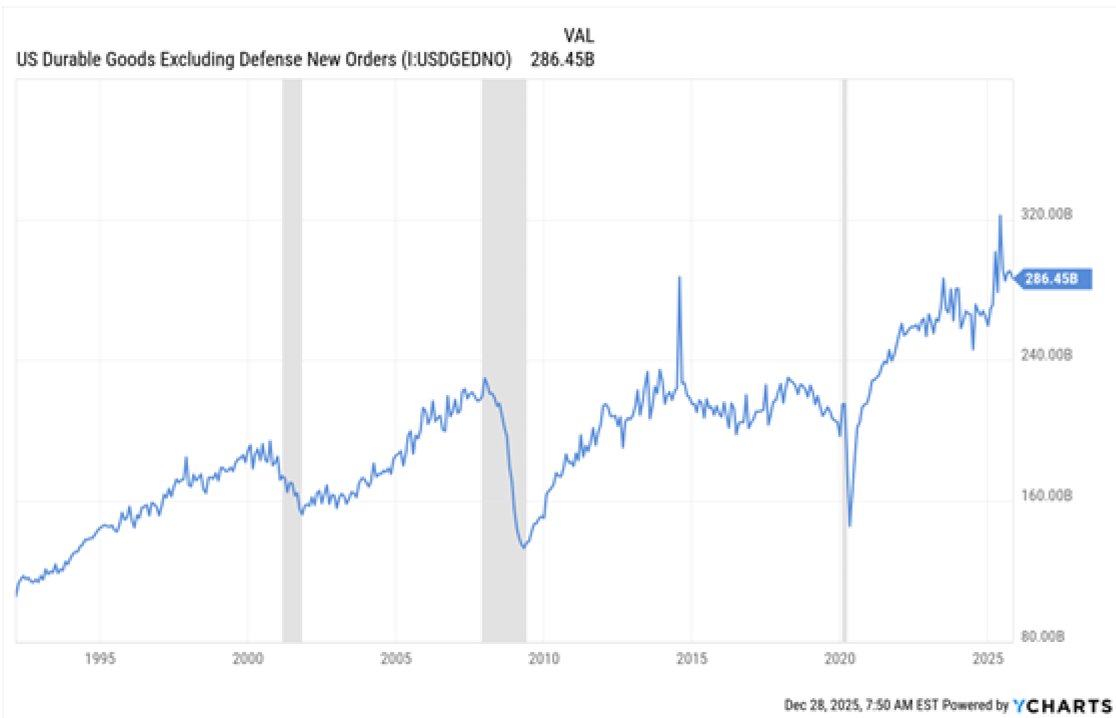
December 29, 2025

GRIP Summary – Week Ending December 26, 2025

Growth

Durable Goods Orders

Durable goods orders excluding defense spending continued to ease in November, but they remained near all-time highs. New orders came in at roughly $286 billion, down modestly from a September peak above $290 billion but still well above pre-pandemic levels. The attached chart shows how orders have trended higher over the last three decades and only pulled back slightly from recent peaks:



Although capital goods orders have softened since mid-year, the overall level suggests businesses are still investing, particularly in equipment and technology, despite the headwinds from higher borrowing costs.

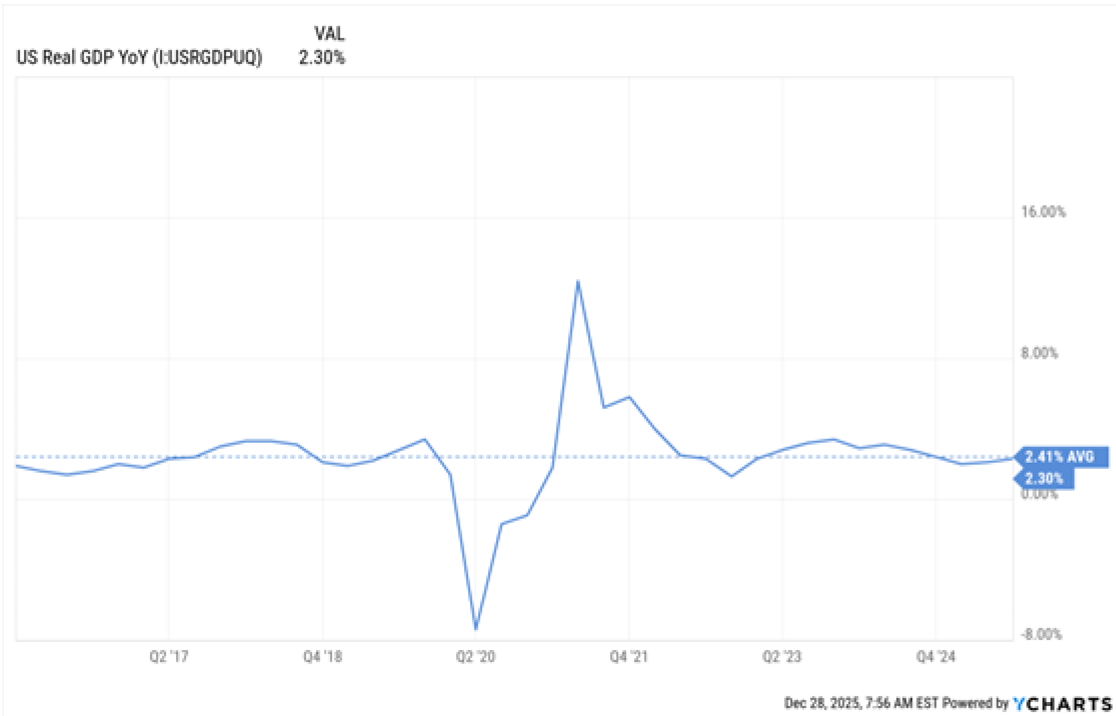
Industrial Production

Industrial output continued to grow modestly. The Federal Reserve's G.17 release reported that industrial production rose 0.2% in November after a 0.1% decline in October. On a year-over-year basis, industrial production is 2.5 % above its year-earlier level[1]. Capacity utilization remained below its long-run average at 76 %, pointing to spare capacity across factories. The industrial production YoY chart shows an uptick back into positive territory around 2.5 % for late 2025:

The upward momentum suggests that the manufacturing sector is stabilizing after the late-summer slowdown.

Real GDP and Consumption

The latest GDP update from the U.S. Bureau of Economic Analysis indicated that real GDP grew at an annualized 4.3 % in the third quarter of 2025, up from 3.8 % in the second quarter[2]. Year-over-year real GDP growth stands near 2.3 %, as seen in the chart below:



The rebound in Q3 was driven by consumer spending, exports and government expenditures, while private investment subtracted as businesses slowed inventory accumulation. High-frequency data for Q4—such as retail sales and payrolls—suggest consumption moderated in November and December, though spending remains positive for the year.

Total Vehicle Sales

Auto demand has been a bright spot despite higher interest rates. November data show total vehicle sales running at an annual rate of 15.93 million units, compared with 15.63 million units in October[3]. The attached chart shows vehicle sales rebounded quickly after the pandemic shock and have trended sideways at around 16 million units since early 2024:

The resilience in auto sales reflects pent-up replacement demand and improved supply chains, though some analysts expect a slowdown if credit conditions tighten further in early 2026.

Summary of Growth

Leading indicators still signal sluggish growth heading into the first quarter of 2026. Durable goods orders and industrial production are potentially losing momentum, while the labor market—discussed in prior updates—continues to weaken as hiring slows and layoffs rise. Nevertheless, real GDP growth in Q3 was robust, and pockets of strength remain in consumer durables and manufacturing. The overall picture is one of slow expansion, not outright contraction, but a growth scare is possible in the near term if the labour market deteriorates further.

Risk Appetite

Market Breadth and Equity Leadership

Risk appetite remained strong during the holiday-shortened week. The Bullish Percent Index (BPI) for the S&P 500 climbed further into positive territory, indicating an increasing share of stocks on point-and-figure buy signals. Market breadth improved as more sectors participated in the rally. High-beta stocks, which tend to benefit from investor risk-taking, surged to all-time highs relative to low-volatility indices; this ratio has been steadily climbing for months[4]. Likewise, global equity benchmarks—including the S&P 500 and MSCI World—closed at record highs in the days leading up to Christmas, underscoring broad investor confidence[5].

Rotation into economically sensitive areas continued. Small-cap and micro-cap stocks outperformed large caps, reflecting expectations that easier monetary policy and a soft landing will bolster domestic activity. The Russell 2000 surged 12 % to a record high earlier this month and remained near that level[6]. Meanwhile, traditional defensive sectors lagged, though they remained positive as a hedge against volatility.

Cross-Asset Indicators

Despite the upbeat tone in equities, credit and crypto markets offered more subdued signals. High-yield bonds have yet to confirm the rally: the ratio of the iShares High-Yield Corporate Bond ETF (HYG) to the 7–10 Year Treasury ETF (IEF) stalled below its summer high, indicating that credit spreads are not tightening in tandem with equities. Corporate bond spreads remain compressed relative to history but have not broken out to new lows, reflecting some caution from fixed-income investors. Bitcoin and other major cryptocurrencies remain in downtrends. After spiking to records mid-year, bitcoin suffered a sharp drop in October and has struggled to recover; some analysts expect the year to end with crypto posting its first annual decline since 2022[7].

Cross-Market Correlations

Cross-market relationships underscore the mixed risk picture:

- Stocks vs. Bonds – Equities continue to outperform Treasuries as investors position for falling rates, yet the high-yield vs. Treasury ratio has not confirmed the move.

- Gold vs. Stocks – Gold prices remain elevated near record highs. Precious metals have outperformed broad commodity indices, suggesting ongoing demand for monetary debasement protection and risk aversion[5]. The ratio of the S&P 500 to gold remains near multi-year lows, indicating that stocks have yet to reclaim leadership over real assets.

- Precious Metals vs. Other Commodities – Gold and silver are outperforming energy and industrial metals. Copper prices—often viewed as a barometer of economic health—have risen near their all-time highs, lending some support to the recovery thesis but also reflecting supply constraints[8].

- U.S. Dollar Trend – The U.S. dollar resumed its downtrend as markets anticipate further rate cuts by the Federal Reserve in 2026. A weaker dollar boosts risk appetite and commodity prices. A Reuters foreign-exchange report noted that the greenback weakened in late December amid expectations of policy easing and concerns that the labour market might force the Fed's hand[9].

Summary of Risk Appetite

Overall, risk appetite remains constructive. Equity markets are being led higher by cyclicals, small caps and high-beta names. Breadth improvement and record highs in major indices suggest the bull trend is intact. However, caution is warranted because credit and crypto markets have not confirmed the risk-on move; the dollar's weakness and elevated gold prices hint at lingering uncertainty. Investors should remain selective, balancing participation in the rally with hedges in case volatility resurfaces.

Inflation and Liquidity

Inflation trends remained supportive of further monetary easing. Although the November CPI report was delayed due to the government shutdown, preliminary readings suggested headline inflation cooled to the high-2 % range, down from peaks above 3 %. The Fed's preferred inflation gauge, the PCE price index, is now comfortably below 3 %. Falling energy prices and moderating wage growth contributed to the decline. The composite inflation indicators we track—combining price indexes, energy benchmarks and market-based measures like the TIP/TLH ratio—continued to point downward. Brent crude oil prices fell sharply from late-summer highs and ended December below $70 per barrel, reinforcing the disinflation trend.

Lower inflation is fostering expectations of multiple rate cuts in 2026. Money markets price the federal funds rate to fall by as much as 100 basis points next year. With inflation easing and labour markets softening, the Fed has room to ease without rekindling price pressures. Simultaneously, the Treasury General Account (TGA) drawdown and the end of quantitative tightening are injecting liquidity into the banking system. This liquidity backdrop is a tailwind for risk assets and helps explain the rally in both stocks and bonds.

Policy

The Federal Reserve cut rates by 25 basis points in early December and signaled a bias toward further easing if growth decelerates or inflation remains subdued. Markets expect at least one additional quarter-point cut by the March meeting. Fiscal policy is also turning supportive. The federal government restarted discretionary spending after the autumn shutdown, and the Treasury is drawing down its TGA, releasing cash into the economy and mitigating liquidity pressures.

However, there is typically a lag between policy action and real economic impact. The benefits of lower rates and fiscal stimulus may not fully materialize until mid-2026. In the interim, the combination of easing monetary conditions and slowing labour markets could produce a growth scare before the economy gains traction. We maintain a cautious near-term stance, expecting growth and risk appetite to wobble in early 2026 even as the longer-term outlook improves.

Looking Ahead: AI and Investment in 2026

While the near-term outlook remains clouded by labour-market deterioration and high valuations, we see structural reasons for optimism in 2026. The coming year is likely to be dominated by the artificial intelligence (AI) mega-trend. Companies across industries are investing heavily in compute infrastructure, data centers and AI-driven software to maintain competitiveness. These investments represent the first major capital cycle in decades and should boost productivity and economic potential. Heavy capital spending will support manufacturing, industrial equipment and technology suppliers. “Dr. Copper” – copper prices near record highs – signals strong demand for infrastructure and technology metals[8], reinforcing this view.

At the same time, sector leadership is shifting. Mega-cap technology companies may not drive returns as they did during the pandemic era. New leaders will likely emerge from capital-intensive sectors—such as industrials, energy infrastructure, and materials—that benefit from the AI build-out and public-private investment in critical industries. This rotation could create asset price deflation in previously crowded areas (as margins compress and cash flows are redirected toward infrastructure) while unlocking asymmetric gains in capital-constrained companies. Consumers, meanwhile, may curtail discretionary spending amid weaker labour markets, yet robust investment spending could offset consumption weakness and help the economy avoid recession.

Conclusion

For the week ending December 26, 2025, the macro landscape remains a story of slow growth and improving risk sentiment. Durable goods orders, industrial production and vehicle sales point to an economy that is expanding but losing momentum. Real GDP growth remains solid, although forward-looking labour data suggest a slowdown. Risk appetite is robust as stock markets hit new highs and breadth improves, yet credit markets and crypto do not fully corroborate the equity rally. Inflation trends are favorable and likely to support further rate cuts, while policy is aligned to sustain growth. The near-term outlook includes the possibility of a growth scare due to lagged policy effects and labour weakness, but the medium-term picture is brightened by the AI-driven investment cycle. Investors should stay nimble—participating in risk assets with a focus on next-generation sectors while maintaining hedges against potential volatility.

Sources

1. Industrial Production (Federal Reserve G.17) – The Federal Reserve reported that industrial production rose 0.2 % in November after a 0.1 % decrease in October, with production 2.5 % above its year-earlier level and capacity utilization at 76 %[1].
2. Durable Goods Orders (FRED) – U.S. durable goods orders excluding defense were $286.45 billion in October 2025, down from $290.8 billion in September, according to seasonally adjusted FRED data.
3. Total Vehicle Sales (FRED) – U.S. total vehicle sales were 15.926 million units (annual rate) in November 2025, up from 15.63 million units in October[3].
4. Real GDP (BEA) – The U.S. Bureau of Economic Analysis reported that real GDP grew at an annual rate of 4.3 % in Q3 2025 (July–September), with growth driven by consumer spending, exports and government expenditures[2].
5. High-Beta vs. Low-Volatility Leadership – TrendLabs noted that the S&P 500 High Beta index reached new highs relative to the Low Volatility index, illustrating strong risk-on leadership. The same report highlighted that the small-cap Russell 2000 and S&P 500 excluding its top seven mega-cap stocks were also at new highs[4].
6. Market Breadth – ChartMill observed that 75.5 % of stocks advanced versus 22 % declining, with new highs outpacing new lows. Participation above major moving averages improved markedly, pointing to broadening market strength[10].
7. Small-Cap Rotation – AInvest reported that the Russell 2000 surged 12 % to 2,590.61, an all-time high, driven by the Fed's rate cuts and improved earnings outlook[6].
8. Precious Metals and Equities – Reuters noted that U.S. stock indices, including the S&P 500 and Dow Jones, closed at record highs in late December while gold remained near record levels, making 2025 a strong year for both stocks and precious metals[5].
9. U.S. Dollar – Reuters reported that the U.S. dollar weakened in late December on expectations the Fed would cut interest rates further, with strategists suggesting that labour market weakness could drive the dollar lower in 2026[9].
10. Bitcoin Trend – Reuters detailed that bitcoin remained in a negative trend, struggling to recover after a major sell-off in October and heading for its first annual decline since 2022[7].
11. Copper Near Record High – A Reuters article stated that three-month copper prices were near their all-time high of $11,952 per tonne in mid-December, supported by strong demand and limited supply[8].
12. Institutional Investor on BDCs – Institutional Investor reported that the benchmark BDC index was down 0.4 % year-to-date in July 2025 and highlighted structural challenges in private credit markets[11] (referenced for the negative credit trend).

Sources

[1] Federal Reserve Board - Industrial Production and Capacity Utilization - G.17
https://www.federalreserve.gov/releases/g17/current/default.htm

[2] Gross Domestic Product | U.S. Bureau of Economic Analysis (BEA)
https://www.bea.gov/data/gdp/gross-domestic-product

[3] Total Vehicle Sales (TOTALSA) | FRED | St. Louis Fed
https://fred.stlouisfed.org/series/TOTALSA

[4] High Beta Is Bullying Low Vol Again - TrendLabs
https://trendlabs.com/high-beta-is-bullying-low-vol-again/

[5] S&P 500, Dow hit all-time closing highs; gold, silver touch records | Reuters
https://www.reuters.com/world/china/global-markets-wrapup-1-pix-2025-12-24/

[6] The Great Rotation: Small-Caps Seize the Spotlight as Mega-Cap Fatigue Sets In
https://www.ainvest.com/news/great-rotation-small-caps-seize-spotlight-mega-cap-fatigue-sets-2512/

[7] Bitcoin's 2025 rollercoaster may end on a low | Reuters
https://www.reuters.com/business/finance/bitcoins-2025-rollercoaster-may-end-low-2025-12-09/

[8] Copper nears record high as supply tightness back in focus | Reuters
https://www.reuters.com/world/china/copper-ticks-higher-supply-tightness-focus-heads-weekly-gain-2025-12-19/

[9] US dollar retreats as prospect of Fed rate cuts overshadows growth data | Reuters
https://www.reuters.com/world/asia-pacific/us-dollar-trims-losses-after-stronger-than-expected-growth-data-2025-12-23/

[10] Market Breadth: Bulls Regain Control as Small Caps Rejoin the Rally | ChartMill.com
https://www.chartmill.com/news/IWM/Chartmill-38563-market-breadth-bulls-regain-control-dec-3-2025

[11] It's Not Business as Usual for BDCs | Institutional Investor
https://www.institutionalinvestor.com/article/its-not-business-usual-bdcs

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