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Weekly Market Commentary

December 8, 2025



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Weekly Market Commentary – GRIP Report – Week Ending December 5, 2025

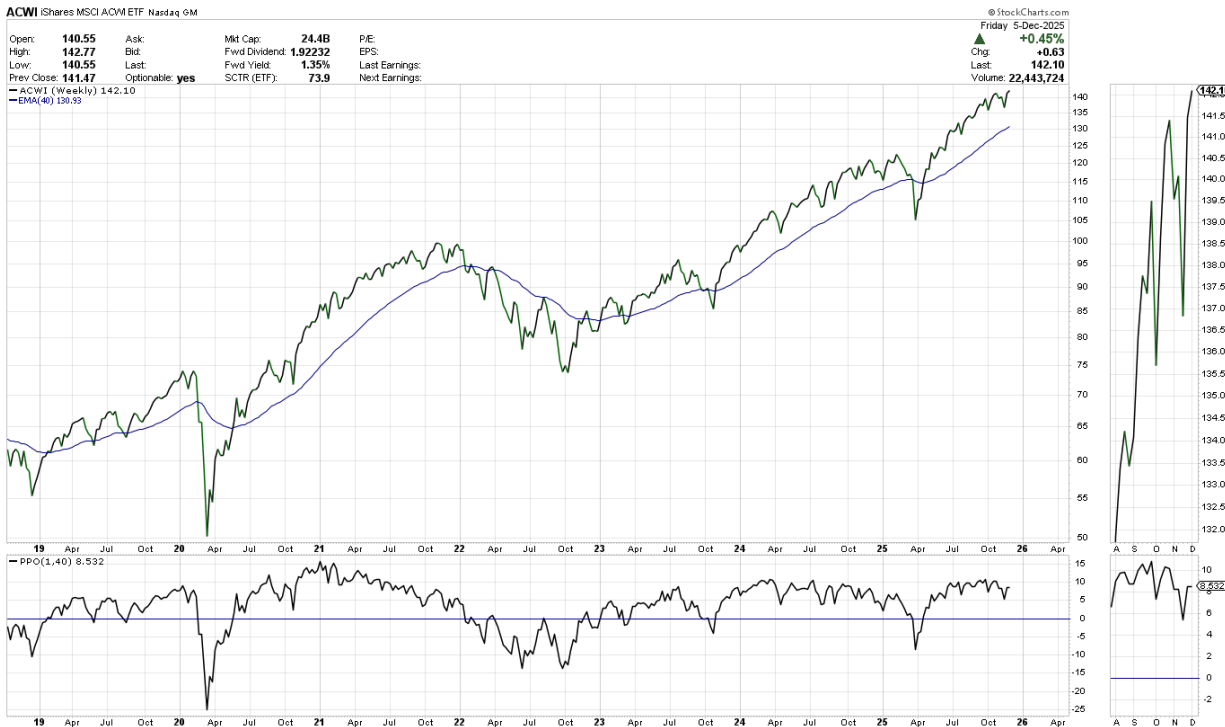
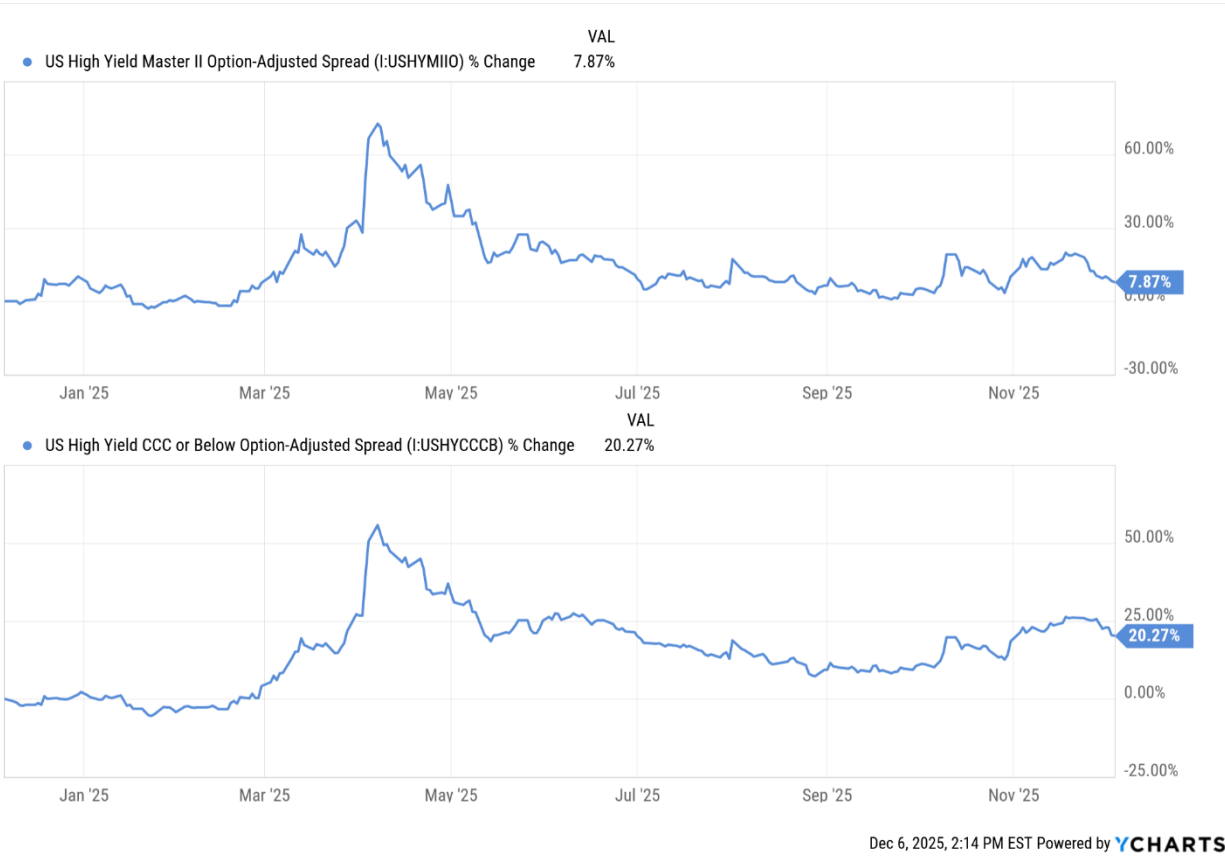
Growth

The latest data from The Conference Board show that U.S. leading indicators remain in a downward trend. Meanwhile, the Coincident Economic Index (CEI) is holding in modestly positive territory, indicating the economy continues to expand slowly. However, the pace of coincident growth has cooled – up just 0.6% over the past six months vs. 0.9% in the prior period – reflecting a deceleration in current economic activity. In short, leading indicators point to further slowing ahead (though not an outright recession in the Conference Board's view), even as current conditions continue to improve gradually. We will be watching for any inflection in these trends once data releases resume (the recent government shutdown delayed some updates), but for now the growth outlook is one of continued deceleration into year-end.

Risk Appetite

Market risk appetite has increased recently, though some indicators show mixed signals. Credit spreads have narrowed lately, signaling greater investor risk-taking, despite year-over-year widening. Global equities continue to rise: the MSCI World is up nearly 20% in a year, and major U.S. indices, including the S&P 500 and ACWI ETF, are at or near record highs. Our risk composite's price component turned positive with the latest move in high yield spreads. It remains to be seen if this trend will last through month-end.



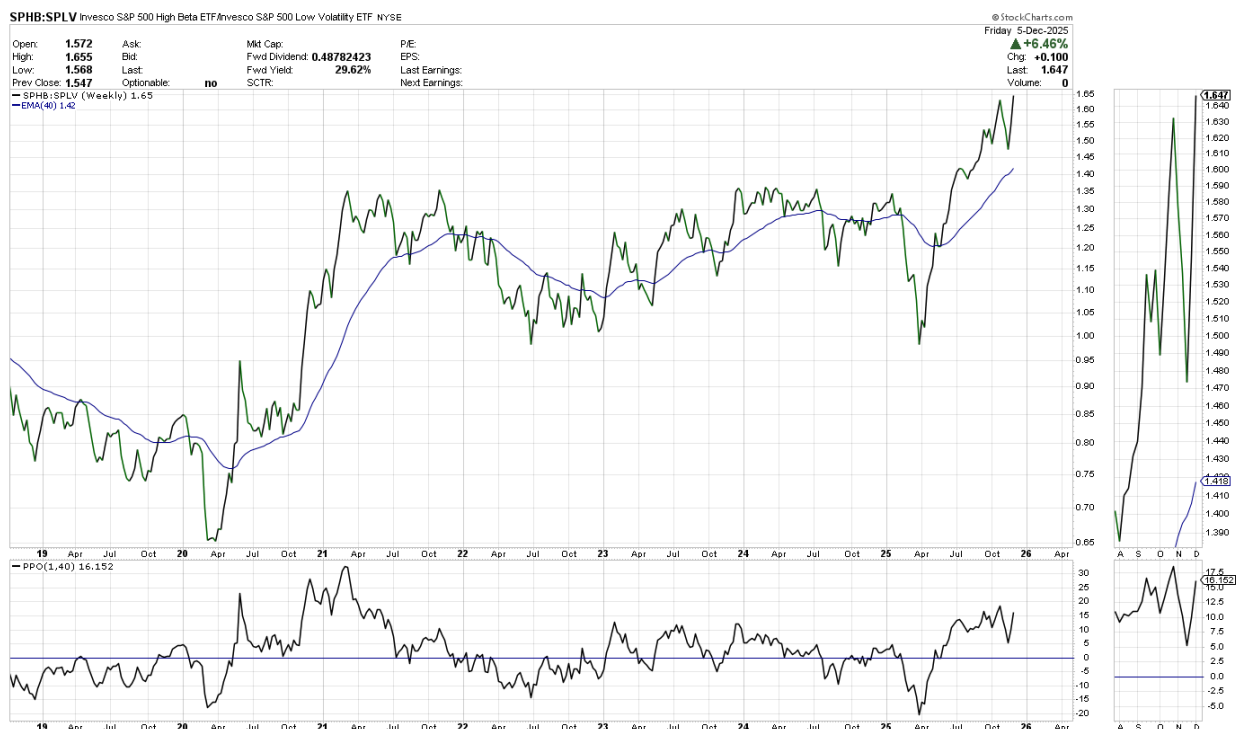


Cross-asset indicators present a negative outlook for risk taking. Traditional “risk-on vs. risk-off” ratios tied to commodities have been subdued by the year’s big safe-haven rally in gold. For example, the lumber-to-gold ratio – which tends to rise when growth sentiment is strong – remains relatively low, as gold’s outperformance over lumber keeps the spread depressed (a classic risk-off signal). The same is true for the copper-to-gold ratio, with copper prices lagging while gold has surged to record highs in 2025. These depressed ratios reflect lingering investor caution. Stocks also remain in long-term negative trends when priced in gold, a classic risk-off signal.



By contrast, equity sector and factor relationships show a decisive swing toward risk-taking. In the past two weeks, small-cap stocks have exploded upward – the Russell 2000 jumped ~5.5% last week and another ~0.8% this week – outpacing large caps as traders bet on economically sensitive names benefiting from lower rates. Indeed, “all the low-quality, unprofitable, highly levered businesses...have been the best performing stocks” lately. High-beta shares are outperforming low-volatility stocks, a clear sign that investors have moved into more aggressive positioning as yields retreat and liquidity improves. Even the stock-bond interplay has been favorable: equities and Treasuries have *rallied together* recently, indicating that falling interest rates (which push bond prices up) are boosting stocks rather than driving a flight-to-safety divergence.





Market breadth has also started to recover, albeit from weak levels. The Bullish Percent Index (BPI), which tracks the percentage of stocks on point-and-figure buy signals, has turned up for major indices. The S&P 500's BPI now sits in the mid-50s (% of constituents bullish). This uptick indicates more than half of S&P stocks have returned to technical "buy" signals after the recent pullback. The Nasdaq 100's BPI and NYSE Composite's BPI are lagging somewhat, the Nasdaq's was still below its prior bullish support line and the NYSE's had not yet shown a clear bottoming[1] – but both have likely stabilized as the early December rally lifted a wider swath of shares. In short, breadth is improving modestly: we've moved off the narrow, FAANG-driven leadership of early 2025 into a broader advance, but these breadth indicators are not yet at overtly euphoric levels. They remain well below the 70%+ zone that would indicate a highly inclusive bull move, instead hovering just above 50% – enough to support the rally, but a reminder that many stocks are still recovering[1]. Robust breadth *confirmation* of the rally is something we will look for heading into 2026.



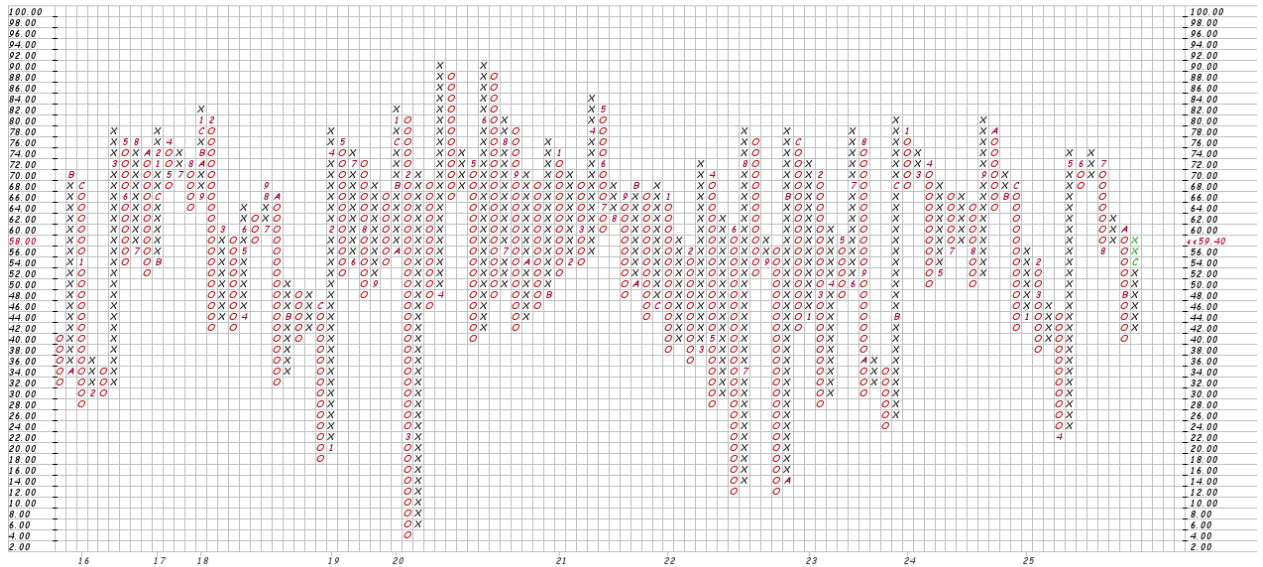
\$BSPX S&P 500 Bullish Percent Index: INDY

05-Dec-2025, 16:00 ET, weekly, O: 53.00, H: 60.521, L: 53.00, C: 59.40, Chg: +6.80 (12.93%)

Status: Bear Correction on 01-Dec-2025

Scaling: User-Defined [Reversal: 3, Box Size: 2.0]

(c) StockCharts.com

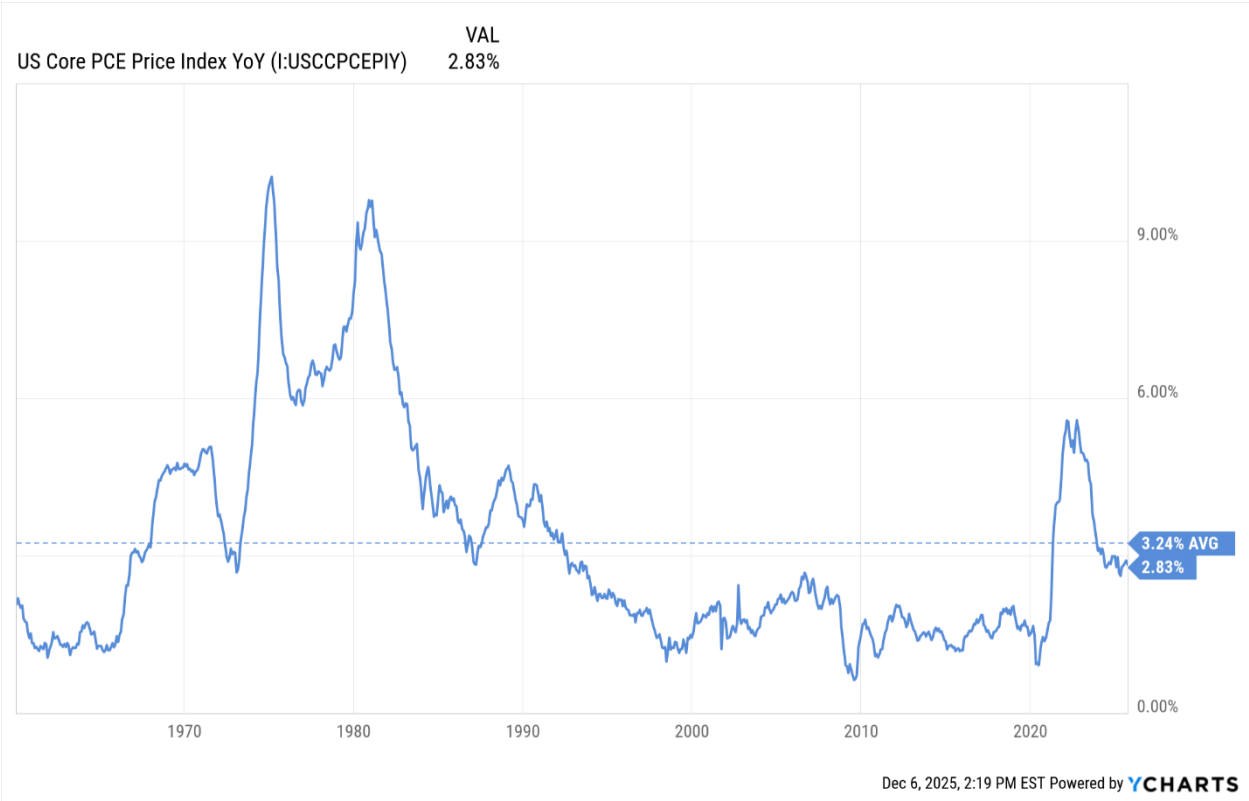


Overall risk appetite (The R in GRIP) is suggesting a somewhat neutral stance now. Market internals are suggesting caution while price trends suggest more upside. Valuations for the broad stock market remain elevated and thus diversification and risk management are of paramount importance currently.

Inflation

Inflation readings continue to grind lower, bolstering the case that price pressures are under control. This week's data showed that the Fed's preferred gauge – the Personal Consumption Expenditures (PCE) Price Index – remains on a cooling trajectory. The delayed report for September (released after the government shutdown) showed headline PCE inflation up 0.3% month-on-month, the same pace as in August. That kept the annual PCE inflation rate at 2.8%, only a tick above August's 2.7% and down sharply from the 4%+ readings seen at the start of the year. Core PCE (excluding food and energy) is likewise estimated to be in the low-3% range, reflecting a continued gradual decline. In essence, inflation is back within sight of the Fed's 2% target, although not yet all the way to goal.





Falling energy costs are a major contributor to the benign inflation outlook. Crude oil prices have retraced significantly from their peaks. Brent crude, for instance, is now trading in the mid-\$60s per barrel, down from the \$80s just a few months ago and well below last year’s levels. This decline in oil (and gasoline) has acted as a *deflationary force*, helping to offset other price increases and keep headline inflation in check. The trend in Brent has been steadily downward through the autumn, reflecting ample global supplies and perhaps some demand softening. Similarly, food commodity costs have stabilized, and used car prices are off their highs – all easing the pressure on consumer prices.



Market-derived inflation expectations remain anchored. One illustrative metric, the ratio of the TIPs ETF to the long-duration Treasury ETF (TIP/TLH), has been trending modestly higher in recent weeks – which indicates a slight uptick in breakeven inflation expectations. Long-term inflation expectations are hovering around 2.2% on the Fed's 5-year, 5-year forward measure, a level consistent with confidence that inflation will stay near target. Short-term inflation expectations (e.g. from surveys and TIPS breakevens) did firm a bit over the summer but have since eased. This week's preliminary December University of Michigan survey showed consumer inflation expectations dipping alongside an improvement in sentiment. In summary, the inflation picture is favorable: price gains are slowing to a sustainable pace, energy costs are receding, and expectations remain well-contained. This gives the Federal Reserve latitude to shift toward easier policy without fear of reigniting inflation in the near term.

Policy

Monetary policy is at a turning point: after an aggressive tightening cycle, the Federal Reserve is widely expected to begin cutting rates in December. Markets are now pricing in an almost certain quarter-point rate cut at the upcoming FOMC meeting (approximately 87% implied probability). This marks a rapid shift in expectations – as recently as two weeks ago, odds of a December cut were below 30%, but a raft of dovish Fed speakers and benign data flipped the script. Fed officials have given signals that the economy's "softening" warrants some preemptive easing: for example, San Francisco Fed President Mary Daly and Governor Chris Waller both hinted that cooling labor markets and moderating inflation justify ending the tightening phase and easing policy. While a few more hawkish regional Fed presidents remain cautious, the consensus at the Fed appears to be coalescing around the need to support growth as price stability comes into sight. Thus, barring any shock, the December meeting should deliver the first rate cut of this cycle – likely a 25 basis point reduction – and an official shift to an easing bias.



The prospect of a new Fed Chair is also coloring the policy outlook. According to multiple reports, Kevin Hasset has emerged as the frontrunner to be President Trump's nominee for Federal Reserve Chair, to replace Jerome Powell when his term expires. Hasset, a former White House economic adviser, is considered a policy dove and is closely aligned with the administration's preference for lower interest rates. Betting markets now give him better-than-even odds of being the pick, and if confirmed, he would likely reinforce the tilt toward accommodative policy. The mere possibility of Hasset taking the helm has added to market expectations for a more aggressive rate-cutting cycle in 2024–2025, as he is perceived to favor pro-growth, easy monetary conditions. This comes as part of a broader global trend: other major central banks have also toned down hawkishness, and some (like China's PBoC) are easing – contributing to a worldwide shift toward easier monetary policy heading into 2026.

Even as the policy stance pivots, officials are keenly aware of some persistent headwinds. We must acknowledge the near-term economic weakness stemming from the prolonged federal government shutdown this fall. The 43-day shutdown not only delayed a slew of economic reports but also likely dampened government spending and private sector confidence during the period. The data we do have for Q4 suggests a soft patch – for instance, consumer spending slowed in September as households grew cautious. Fed policymakers have indicated they will look through some of this “bad data” noise, recognizing that the shutdown created temporary distortions. Additionally, liquidity constraints in financial markets remain a concern. The Treasury's heavy issuance of debt (to rebuild its cash balance post-shutdown and fund the deficit) and the Fed's earlier quantitative tightening have together drained some liquidity, pushing up short-term funding rates and straining bank balance sheets. While the Fed has quietly taken steps to ease money market stress (e.g. tweaking reserve repo operations), year-end funding markets are still tight. The combination of a deflationary shock from the shutdown and constrained liquidity could pose near-term risks to the economy and markets.

Policymakers are thus walking a fine line – pivoting to easing to offset these drags, but also communicating that the first cut is not the start of a reckless easing spree (especially with some FOMC members still wary of persistent inflation). Overall, however, the direction of policy is now clearly toward accommodation. The December cut is likely to be followed by further gradual rate reductions in 2026 (the UBS House View, for example, expects two more cuts by Q1 2026). In effect, monetary policy is shifting from being a headwind for markets to becoming a tailwind, a transition that is already boosting risk assets and should continue to do so, provided inflation behaves.



Outlook

Looking ahead, we recommend a cautious but constructive stance. In the very near term, it pays to be somewhat guarded. The impressive equity rally of the past month has been narrow in leadership and driven in part by “lower quality” high-beta stocks, which could make it fragile if conditions shift. Market breadth, while improving, is not yet unequivocally strong, and pockets of the market remain in a risk-off posture (e.g. defensive assets like gold still outperform on a year-to-date basis). Moreover, the overhang of delayed economic data and the recent liquidity tightness warrant a bit of caution – we are still gauging the full impact of the autumn’s events on holiday consumer spending and corporate activity. Valuations, too, are elevated after a year of robust gains; by some measures the U.S. stock market is “priced for perfection,” which could limit upside in the absence of fresh positive catalysts. All this suggests maintaining cautious positioning in the short run – for instance, favoring high-quality balance sheets, keeping some dry powder, and ensuring portfolios are diversified in case of renewed volatility.

Beyond the immediate term, however, the outlook for 2026 is brightening. The economy appears poised to enter the new year with improving fundamentals: inflation is tame, the Fed is shifting to easier policy, and fiscal drag is set to lessen (especially if the government avoids further shutdowns). Critically, growth prospects for 2026 are starting to firm. Consensus forecasts for corporate earnings point to an acceleration next year – analysts project S&P 500 earnings growth of roughly 14% in 2026, a notable pickup from 2025’s pace^[2]. Such an earnings rebound, if realized, would support continued bull-market momentum and broaden out the rally to more sectors. Likewise, many economists expect GDP growth to improve modestly in the second half of 2026 as the full effects of rate cuts filter through and global conditions (e.g. Europe’s and China’s economies) stabilize. In essence, we may be transitioning from a late-cycle slowdown in 2025 to a re-energized expansion in 2026.



Therefore, while we counsel vigilance over the next few weeks (given year-end liquidity quirks and any potential surprises from the Fed or data), we also see growing reasons for optimism on the horizon. A gradual shift toward risk-on positioning could be warranted as confirmation of the Fed's dovish turn and improving macro data arrives. This might include adding exposure to economically sensitive assets or beaten-down segments that could benefit from easing financial conditions – but timing and selectivity will be key. The bottom line: near-term caution, longer-term optimism. We are mindful of the remaining risks (a shallow earnings recession in certain sectors, geopolitical wildcard events, etc.), yet we believe the foundation is being laid for better economic and market performance in 2026. With monetary policy winds at our back and inflation tamed, the coming year could finally deliver the “Goldilocks” mix – moderating inflation, easier credit, and reaccelerating growth – that supports a more broad-based rally. As always, we will adjust our stance if the facts change, but as of now, the path ahead appears to be clearing. Staying nimble in the short run while positioning to participate in the next phase of growth is our playbook as we move from 2025 into 2026.

Sources:

The Conference Board; Reuters; Bloomberg/Traders Union; Interactive Brokers; UBS; Federal Reserve/FRED; Man Group; Nasdaq Dorsey Wright; StockCharts; (see inline citations)[2].

[1] Weekly Charts 11/22/2025 - by Andrew Moss, CMT
<https://www.trading-adventures.com/p/weekly-charts-11222025>

[2] 新闻
https://www.sophorion.com/home/hotspots?page=5&page_size=20



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