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INVESTMENT MANAGERS

ECONOMIC UPDATE — DECEMBER 2025

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The broad markets continued to build on recent strength, though with more modest gains in November. The S&P 500 advanced slightly, supported by steady corporate earnings and improving sentiment around disinflation. While the tech sector remained a focal point, leadership broadened somewhat as small caps and international equities posted solid monthly gains.

Interest-rate expectations continued to ease as inflation data showed gradual improvement and the Federal Reserve maintained its current policy stance. Long-term Treasury yields drifted downward over the month, offering some relief to fixed-income investors.

Key themes shaping the market in 2025

- **AI and corporate capital spending**: Major technology firms continue to increase capital spending to support next-generation data centers, model development, and productivity-enhancing tools. While AI-related stocks have experienced some recent weakness after an exceptionally strong run, corporate investment in AI infrastructure and related technologies remains robust which can support the long-term growth narrative.
- **Interest-rate dynamics:** With the Fed maintaining the current 3.75%–4.00% policy range and inflation under control, September CPI registering 0.3% and Core PCE rising 2.9% year-over-year—markets grew more confident in a potential easing cycle in 2026.
- **Labor and economic resiliency**: The unemployment rate ticked up to 4.4%, suggesting some cooling in the labor market but not enough to raise recession alarm bells.

Risks on the horizon

- Valuations remain elevated, and even modest shifts in Fed communication could introduce volatility.
- A reacceleration in inflation or unexpected economic weakness would challenge the soft-landing narrative.
- Geopolitical and trade uncertainties continue to add background risk.

Key takeaways

- Review risk exposures—portfolios may have drifted more aggressive after a strong year for equities.
- Fixed income, money markets, buffer ETFs and premium income funds can help mitigate volatility.
- Diversification is prudent.

As always, if you'd like a deeper dive into your personal portfolio's alignment or a review of income-planning for the years ahead, we'd be happy to assist.

Key Statistics

Consumer Price Index (September)	3.0%
Core PCE Deflator (August)	2.9%
Unemployment Rate (September)	4.4%
10-Year US Treasury Yield (11/30)	4.02%
Fed Funds Rate (11/30)	3.75% – 4.25%

Index Returns

	Nov	YTD
S&P 500	0.25%	17.81%
MSCI EAFE	0.62%	27.40%
Russell 2000	0.96%	13.47%
US Agg Bond	0.62%	7.46%

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