

Chief Investment Office

Weekly Bulletin

December 16, 2025

The Fed vs. U.S. economic data

TOP THREE TAKEAWAYS

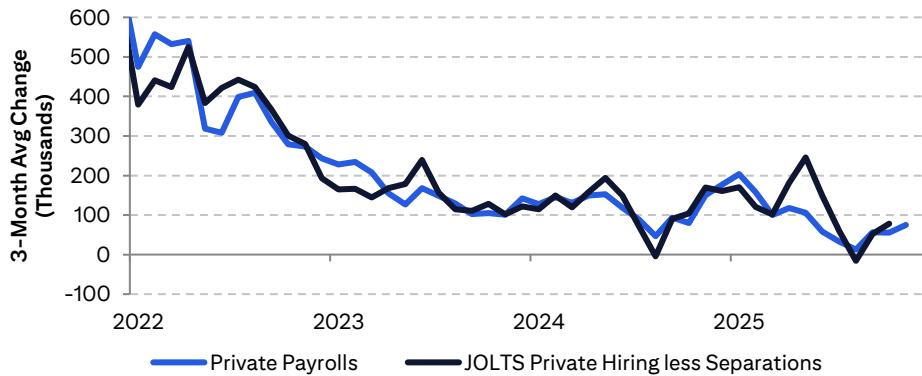
The Fed cut rates, but opposition to the easing appears greater than implied by the dissents given details in the Fed's Summary of Economic Projections (SEP) and fewer requests for discount rate cuts.

Despite inflation remaining above the Fed's target, markets are anticipating additional rate cuts in 2026. In other major economies with above target inflation, markets are now leaning toward rate hikes. Policymakers will need to be data-driven to set policy appropriately.

Rising real rates reflect the intact nature of our positive nominal growth outlook for 2026. We expect a barbell of core AI / Growth exposure paired with tactical, value-oriented exposure via commodities and upstream AI resource plays to work well in portfolios.

THIS WEEK IN CHARTS

Figure 1: Private payrolls vs. Job Openings and Labor Turnover Survey (JOLTS) Private Hiring less Separations



Source: Bureau of Labor Statistics as of December 16, 2025.

LOOKING CLOSER

Private payrolls and data on gross hiring minus separations from the JOLTS report both suggest that net hiring trends have strengthened since the summer.



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The Fed is leaning against labor market risks, but the underlying data still points to resilience.

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Growing policymaker skepticism persists on risk-management rate cuts

The Fed delivered the widely expected 25-basis-point rate cut, but we believe the debate was likely contentious. There were three dissenting votes – two for no change and one for a larger cut. But in the SEPs, six participants judged it appropriate to keep rates steady at the December meeting, which implies that four additional non-voting presidents preferred to leave rates unchanged.

The Fed framed recent rate cuts as insurance against downside labor market risks, but a broad set of indicators do not point to deterioration. JOLTS data on gross hiring and separations indicate a trend of stronger net job creation since the summer. Although the November employment report showed total payroll growth was held back by a sharp decline in government jobs, growth in private payrolls has also strengthened since the summer (see Figure 1).

The recent rise in the unemployment rate has been driven by strong labor force growth, while jobless claims remain subdued. Survey data from the S&P Global Purchasing Managers' Index (PMI) and the National Federation of Independent Business (NFIB) also suggest expanding employment at a larger share of firms. Employment-related tax receipts are also running stronger than the comparable period last year.

In addition to lowering the policy rate, the Fed resumed balance sheet expansion through \$40 billion per month of Treasury bill purchases.

Accommodative Fed policy is supportive of economic growth but raises the risk of higher underlying inflation and upward pressure on longer-term bond yields. We remain fully invested in equities and continue to prefer gold over long-end duration as a ballast to risk in this environment.

Bottom line: The Fed cut rates, but a growing number of policymakers appear skeptical that further easing is warranted. The Fed's accommodative stance should support nominal growth and risk assets over the medium-term.

Growth and inflation trends look poised to challenge easier monetary policy globally

Globally, U.S. monetary policy stands out in an uncomfortable way. Inflation remains above target, yet market expectations still lean toward additional rate cuts – placing the U.S. alongside the UK as outliers relative to peers that face still-high inflation but appear less inclined to ease.

The disconnect between U.S. (and the UK) policy paths and domestic economic data will likely persist into 2026. Currently, estimates for G20¹ real GDP growth show a reacceleration into 2026 that is sustained into 2027. Many sell-side research firms have revised up growth expectations for the year ahead in line with this view. We continue to believe that AI capex plans will contribute to the upside for the next two years and remain a growth driver alongside any fiscal stimulus plans that materialize in Europe, China, and other regions.

We challenge that this global growth environment and trajectory require additional policy easing, and forward interest rates are reflecting this with neutral or tightening policy path rates from here. For example, the central banks of Australia and New Zealand have recently noted an uptick in activity and inflation momentum that could require pivots in policy in the near-term. If the Fed continues to ease in the face of resilient growth and above-target inflation, we see potential for further downside in the U.S. dollar and bond prices.

Bottom line: If a reacceleration in real global growth couples with rising inflation, policymakers will be pressured to tighten rather than ease. The Fed will be at the center of this dynamic in 2026.

¹The G20, or Group of Twenty, is an international forum comprised of 19 countries, the European Union, and the African Union.

The Fed delivered a 25-basis-point rate cut, but the decision revealed growing divisions on the rates outlook as policymakers increasingly question the efficacy of further easing. The case for easier policy is also becoming more difficult globally as nominal growth looks poised to remain resilient in 2026. To position accordingly, consider pairing core, AI-oriented names with cyclical exposures geared towards this environment.

Recent equity rotations point to growing awareness of resilient growth environment

As the ex-ante outlook for nominal growth improves, earnings expectations for businesses and sectors tied to that growth improve as well. Since early October, investors have rotated portfolios meaningfully beneath the surface of global equity markets to align with a strengthening economic backdrop. Value-oriented sectors have outperformed growth-oriented sectors in this environment.

Fundamental data supports this shift. Earnings revision ratios—upgrades relative to downgrades—have slowed in growth-oriented sectors but remain more resilient in value-oriented sectors. Even as growth sectors generate more upgrades in absolute terms, the ratio of growth factor revisions to value factor revisions remains above one.

The U.S. equity market maintains a high correlation with the growth factor because of its heavy Technology weighting. When real interest rates rise alongside a more optimistic growth outlook—as they do today—factor rotations tend to occur beneath the index level. Although these rotations have appeared periodically over the past decade, they intensified in the post-COVID period as fiscal and monetary policy shifts drove large swings in real rates.

We have emphasized the rising probability of an improving nominal growth trajectory for some time. Accommodative fiscal and monetary policy outside a recession, combined with rapidly accelerating AI-related capex, continues to support this view. Against this backdrop, we maintain our call to keep structural exposure to U.S. large cap equities while tactically allocating to attractively valued segments of global markets tied to major secular themes.

Brazil offers a compelling expression of this positioning. It provides exposure to commodities in a strengthening global growth environment with sticky inflation, participation in the AI-driven capex cycle, and relative currency stability supported by high real policy rates. The Brazilian Bovespa Index also offers more value exposure than most global indices due to its substantial Financials weighting — a sector that continues to record broad-based earnings upgrades globally. Tactical allocations to natural resources and energy add another way to participate upstream in the AI investment cycle, seeking to capture the theme without relying on its most concentrated segments.

Bottom line: Improving nominal growth, rising real rates, and accelerating AI-driven capex continue to favor maintaining U.S. large cap exposure while tactically adding global, value-oriented exposure via commodities and upstream AI resource plays.

WHAT HAPPENED

U.S.

- Employment growth (+64K) beat estimates in November but fell in October (-105K); unemployment rate for November rose to 4.6%.
- NFIB small business sentiment improved; hiring intentions and price measures jumped.
- JOLTS job openings rose but hires rate remained subdued and layoffs rate edged higher.
- Both Manufacturing and Services Flash PMIs missed for December.

GLOBAL

- China Consumer Price Index (CPI) rose to 0.7% year-over-year from 0.2% year-over-year.
- China retail sales, industrial production, and investment all weaker than expected.
- UK employment for October was a bit softer than estimates.

ECONOMIC DATA

WHAT'S AHEAD

U.S.

- November CPI

U.S.

- Fed cut rates 25bps on a 9-3 vote and resumed balance sheet expansion via T-bill purchases.
- Fed dissents defend positions amid lack of inflation data (Chicago Fed President Austan Goolsbee's position) and little change in economic landscape (Kansas City Fed President Jeffrey Schmid's position).

GLOBAL

- Bank of Canada (BoC) held rates steady and described the economy as "resilient overall."

POLICY

U.S.

- Supreme Court decision on International Emergency Economic Powers Act (IEEPA) tariffs expected in the coming weeks.

U.S.

- 10-year real Treasury Inflation-Protected Securities (TIPS) yields rose to the highest level since August.

MARKETS

U.S.

- Notable tech and retail earnings set to report this week.

GLOBAL

- EM Asia equities saw biggest outflow in nearly six years last month.

GLOBAL

- Value and cyclical rotation gained steam following December Fed cut.
- Oil prices approaching key support levels of ~\$61/bbl.

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Medium grade	Baa	BBB	BBB
Not Investment Grade			
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Low grade (speculative)	B	B	B
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Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

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