

# Financial Markets This Week

5 DECEMBER 2025

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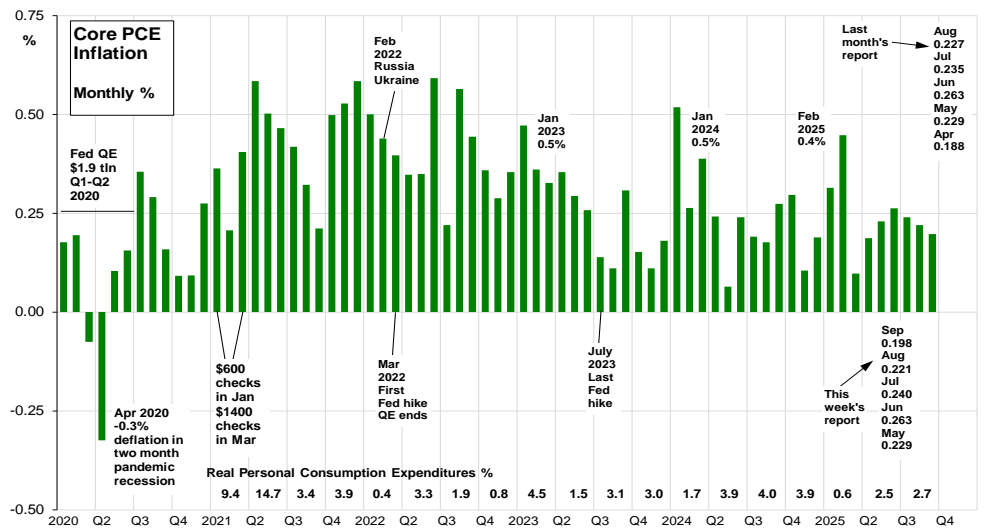
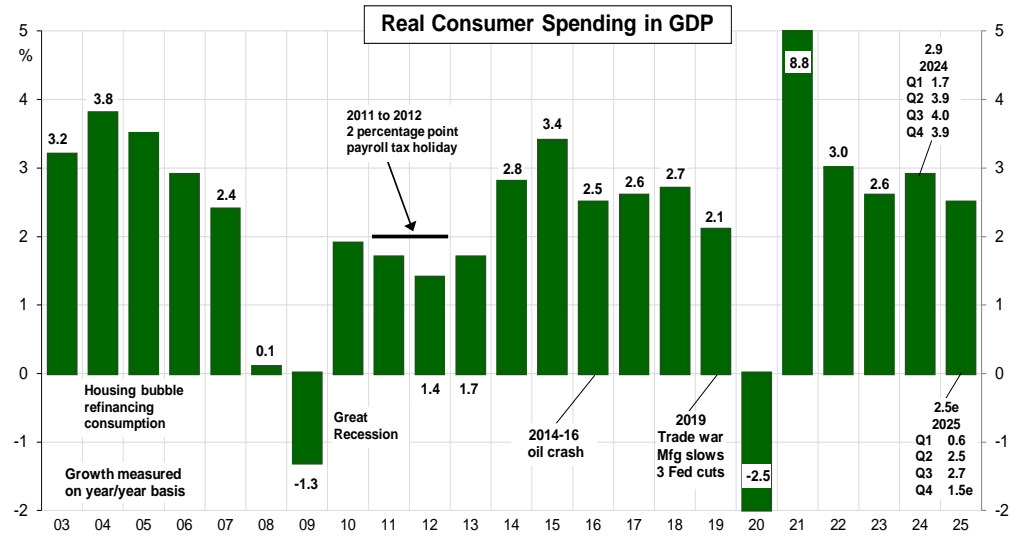
## Q3 CONSUMER OK

Third quarter sales were okay in today's delayed personal income report for September. But car sales fell off a cliff in Q4 after buyers exhausted themselves trying to beat real or imagined tariffs. The EV tax credit expired September as well. We were thinking that 2.7% Q3 real consumption was going

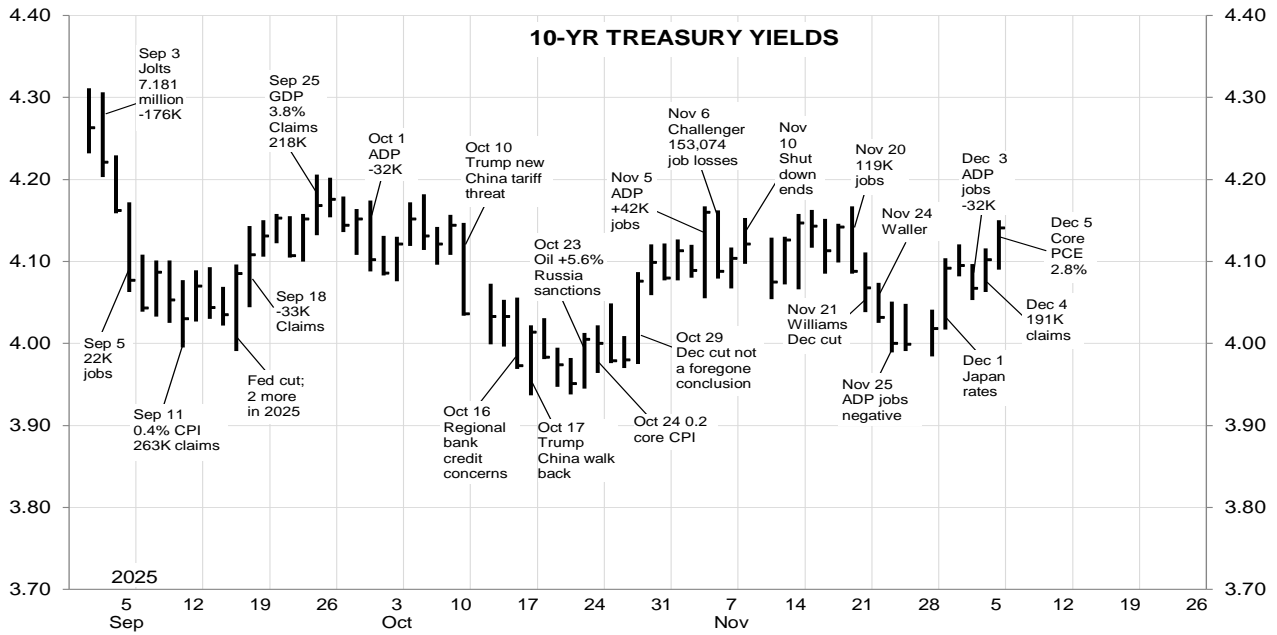
to be stronger, but September was 0.0%, and the 04% reading for August was revised to just 0.2%. Strength in the second half of 2024 helps keep full year 2025 real consumption acceptable at 2.5%. To sum up, real consumer spending stalled in September as higher tariff costs for many goods sitting on store shelves made the consumer increasingly gun-shy even as they continued to purchase needed services like health care, housing and utilities. There was a ray of hope in that personal income and wages were quite strong throughout the third quarter which gives economists hope that fourth quarter spending will not be as weak as many forecasts predict. Actual data on auto and light

truck sales have tumbled in the first two months of the fourth quarter. Fed officials are likely to vote for a rate cut next week after seeing the latest core inflation data running 2.8% year-on-year, and market-based core PCE inflation is even lower at 2.6% from year ago levels. Stay tuned. The personal income report provided support for the economic view that conditions

are not too hot and not too cold, and stock investors sent shares to near record closing levels on the hope that interest rates would be heading lower next week and the year ahead.



INTEREST RATES

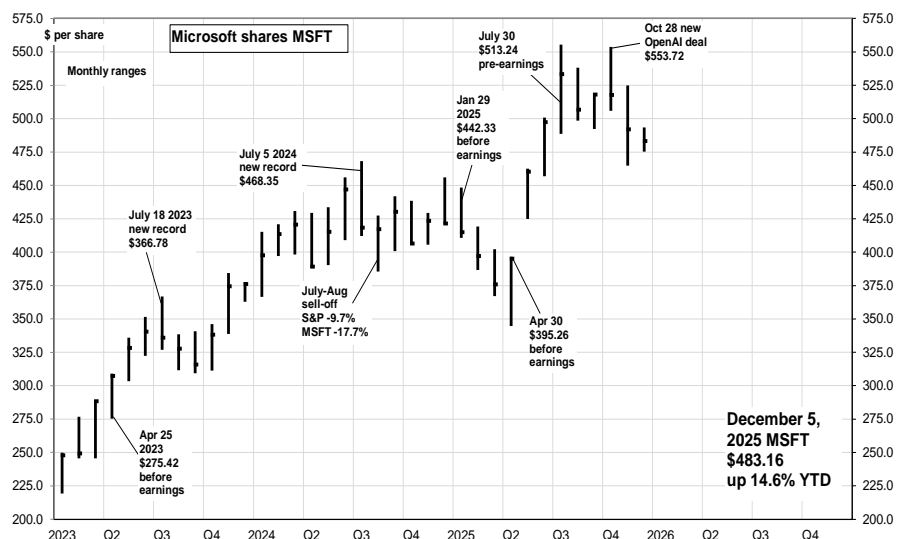


Bitcoin dropped back suddenly below \$85,000 on Monday to start the market off with a loss. The [stock market](#) rallied from Monday onward with the reason put on the daily moves largely an afterthought, thinking of the November ADP jobs drop of 32K on Wednesday, and September 2.8% YOY core PCE inflation on Friday. Anything that keeps the Fed on track for a rate cut next week is good news for investors apparently. Not good news for our money market fund savings yields. At Friday's close, stocks couldn't quite hold above the October 28 6,890.98 record. Hopefully it wasn't the 3% drop in Bitcoin that brought about the failure. [Bonds behaved as expected](#); yields down on ADP -32K Wednesday, yields up on 191K unbelievable jobless claims Thursday. Friday's personal income report, no real spending, slightly lower core PCE inflation may have spurred new yield highs for the week, but if that was the reason, the selling took a half-hour to get going. 10-yr closes week at 4.14%.

Microsoft (MSFT) up 14.6% YTD

There was a rally back to just short of the July \$555.45 record high on some kind of new OpenAI deal on October 28. It has been downhill since along with the rest of the market. Current earnings were okay on October 29, but investors started to dislike the large capex forecasts for AI infrastructure. There is also some belief that Alphabet might have an increasingly competitive AI model.

Calendar Year	Productivity			More Personal Computing
	Business	Intelligent	Cloud	
Mln \$	<u>Revenue</u>	<u>Processes</u>	<u>Cloud</u>	
Q3 2025	77,673	33,020	30,897	13,756
Q2 2025	76,441	33,112	29,878	13,451
Q1 2025	70,066	29,944	26,751	13,371
Q4 2024	69,632	29,437	25,544	14,651
Q3 2024	65,585	28,317	24,092	13,176
Q2 2024	64,727	28,627	23,785	12,315
Q1 2024	61,858	27,113	22,141	12,604
Q4 2023	62,020	25,854	21,525	14,641
	<u>Income</u>	<u>Processes</u>	<u>Cloud</u>	<u>Computing</u>
Q3 2025	37,961	20,407	13,391	4,163
Q2 2025	34,323	18,993	12,140	3,190
Q1 2025	32,000	17,379	11,095	3,526
Q4 2024	31,653	16,885	10,851	3,917
Q3 2024	30,552	16,516	10,503	3,533
Q2 2024	27,925	15,706	9,835	2,384
Q1 2024	27,581	15,143	9,515	2,923
Q4 2023	27,032	14,515	9,555	2,962

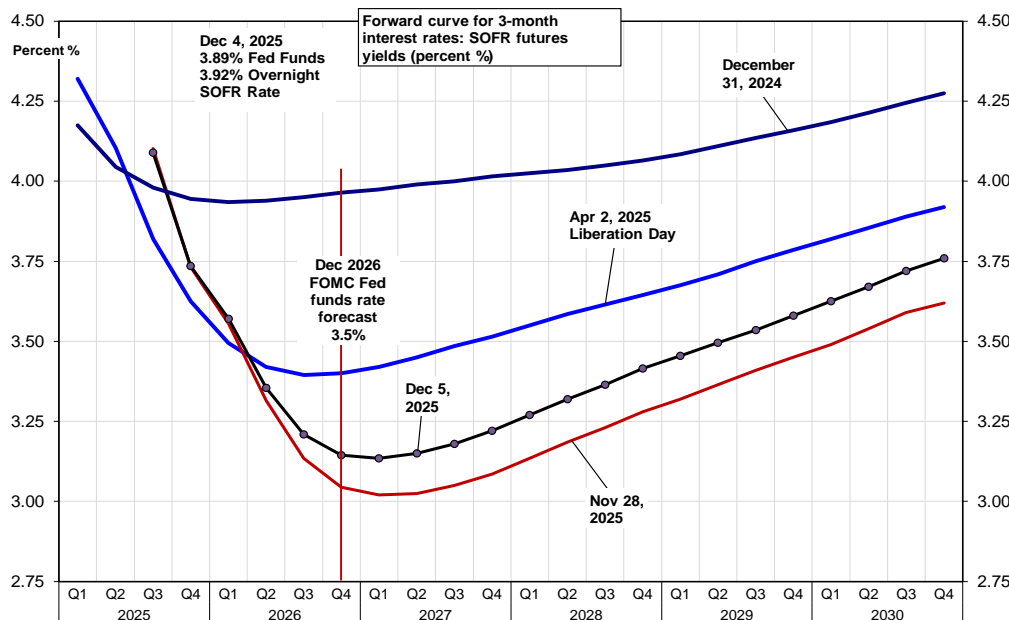


**FEDERAL RESERVE POLICY**

The Fed meets December 9-10, 2025 to consider its monetary policy. No Trump Powell replacement named yet. Maybe next year. In the meantime, the Committee meets and new forecasts are to be made. A rate cut to 3.75% at the end of 2025 was the forecast coming out of the September meeting. But then there was to be just one more cut for all of 2026 to 3.5% and then one more cut to 3.25% in 2027. Low enough for us savers certainly. Not sure there is a reason to cut interest rates below long-term neutral of 3.0% unless there is a recession. And it is hard to know what a recession is anymore with the unemployment rate already having risen by one full percentage point from the best of best times low of 3.4% in April 2023. Looking back to the 80s, every time unemployment rose 1 percentage point, the economy was in recession, all six of them starting with the short 1980 recession. One percentage point. How many people without paychecks would that be to keep consumer spending weak? In April 2023 there were 5.751 million unemployed behind the 3.4% rate. In September 2025 with a 4.4% unemployment rate there were 7.603 million. The difference is the economy lost the spending of an extra 1.852 million people. Real consumer spending was 2.7% in Q3 2025, but it is not where it was in 2024 and maybe unemployment is part of the reason. Stay tuned. Factory jobs coming the jobless workers' way soon.

Selected Fed assets and liabilities						Change from 3/11/20 to Dec 3
Fed H.4.1 statistical release billions, Wednesday data	3-Dec	26-Nov	19-Nov	12-Nov	3/11/20*	
<b>Factors adding reserves</b>						
U.S. Treasury securities	4188.739	4191.225	4190.939	4192.993	2523.031	1665.708
Federal agency debt securities	2.347	2.347	2.347	2.347		0.000
Mortgage-backed securities (MBS)	2053.665	2053.665	2069.907	2069.963	1371.846	681.819
Repurchase agreements	0.001	14.000	0.006	6.052	242.375	-242.374
Primary credit (Discount Window)	7.833	7.792	6.101	5.818	0.011	7.822
<b>Factors draining reserves</b>						
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	0.065	0.066	0.066	0.067		
Main Street Lending Program	2.461	2.458	3.659	3.845		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.029	0.046	0.047	0.031	0.058	-0.029
<b>Federal Reserve Total Assets</b>	<b>6586.2</b>	<b>6602.6</b>	<b>6606.2</b>	<b>6631.1</b>	<b>4360.0</b>	<b>2226.159</b>
3-month-Libor-% SOFR %	3.95	4.05	3.91	3.98	1.15	2.800
<b>Factors draining reserves</b>						
Currency in circulation	2428.573	2426.786	2421.226	2423.504	1818.957	609.616
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	908.523	899.678	900.832	943.145	372.337	536.186
Treasury credit facilities contribution	0.821	0.821	2.029	2.029		
Reverse repurchases w/others	2.514	2.217	1.129	5.886	1.325	1.189
<b>Federal Reserve Liabilities</b>	<b>3708.021</b>	<b>3704.610</b>	<b>3688.652</b>	<b>3747.758</b>	<b>2580.036</b>	<b>1127.985</b>
<b>Reserve Balances (Net Liquidity)</b>	<b>2878.164</b>	<b>2897.987</b>	<b>2917.531</b>	<b>2883.340</b>	<b>1779.990</b>	<b>1098.174</b>
Treasuries within 15 days	26.547	57.441	59.709	52.227	21.427	5.120
Treasuries 16 to 90 days	236.375	209.782	205.280	199.016	221.961	14.414
Treasuries 91 days to 1 year	431.655	430.300	432.488	442.612	378.403	53.252
Treasuries over 1-yr to 5 years	1403.892	1409.933	1409.816	1401.107	915.101	488.791
Treasuries over 5-yrs to 10 years	495.654	491.053	491.025	509.387	327.906	167.748
Treasuries over 10-years	1594.615	1592.716	1592.621	1588.644	658.232	936.383
Note: QT starts June 1, 2022	Change	12/3/2025	6/1/2022			
U.S. Treasury securities	-1582.040	4188.739	5770.779			
Mortgage-backed securities (MBS)	-653.781	2053.665	2707.446			

Fed Policy-key variables	2025				2026		2027		2028		Long Term
	2025	2026	2027	2028	2029	2030	2031	2032	2033		
Fed funds	3.6	3.4	3.1	3.1	3.0	3.0	3.0	3.0	3.0	3.0	
PCE inflation	3.0	2.6	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
Core inflation	3.1	2.6	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
Unemployed	4.5	4.4	4.3	4.2	4.2	4.2	4.2	4.2	4.2	4.2	
GDP	1.6	1.8	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	
September 2025 median Fed forecasts											



All but 1 basis point of a 25 bps rate cut to 3.75% is discounted on December 10.

Fed funds futures call Fed policy			
Current target: December 5 -- 4.0%			
Rate+0.11 Contract	Fed decision dates		
3.760 Jan 2026	Dec 10*		
3.615 Apr 2026	Adds Jan 28, Mar 18*		
* Jan 2026 could be two days at a new rate			
* Apr 2026 could be one day at a new rate			

**Next up: November CPI inflation report Thursday, December 18 at 830am ET**

Monthly % Changes	2025												2024														
	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	
Core CPI inflation	0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.2	0.4	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.4	0.3	0.2	0.1	0.3	0.3	0.3	0.2	0.2
Core PCE inflation	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.4	0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.4	0.3	0.2	0.1	0.3	0.3	0.3	0.2	0.2	
Core PCE YOY	2.8	2.9	2.9	2.8	2.8	2.6	2.7	3.0	2.8	3.0	3.0	3.0	2.8	2.9	2.8	2.8	2.8	3.1	3.3	3.2	3.3	3.3	3.3	3.3	3.2	2.8	
Core CPI YOY	3.0	3.1	3.1	2.9	2.8	2.8	2.8	3.1	3.3	3.2	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.1	3.3	3.2	3.3	3.3	3.3	3.3	3.2	3.2	

**OTHER ECONOMIC NEWS**

**Orders down, production up for ISM mfg (Monday)**

Breaking economy news. The ISM Manufacturing PMI report for November at 10am ET. The index fell to 48.2 in November from 48.7 in October. Production was up strong, and trade increased both import and export orders. We thought the word “tariffs” would be gone from the comments section, but 5 out of 10 respondents mentioned it. The computers and electronic products comment said international sourcing remains the lowest-cost solution compared with U.S. production and manufacturing.

<b>ISM manufacturing index</b>				
	Nov	Oct 25	Sep 25	Aug 25
PMI index	48.2	48.7	49.1	48.7
Prices	58.5	58.0	61.9	63.7
Production	51.4	48.2	51.0	47.8
New orders	47.4	49.4	48.9	51.4
Supplier deliveries	49.3	54.2	52.6	51.3
Employment	44.0	46.0	45.3	43.8
Export orders	46.2	44.5	43.0	47.6
Import orders	48.9	45.4	44.7	46.0

Net, net, purchasing managers in November say the nation’s manufacturing sector is still mired in a slump as it has been for most of the year. There are some anomalies in the report showing a jump in factory production by 3.2 points to 51.4 which is now in an expansion phase, even if most of the other important categories were down including new orders and employment. The overall index reading of 48.2 in November is much weaker than when Trump 2.0 started a new term in January with the index showing optimism at 50.9 at the beginning of the year. The Administration’s tariff policies rolled out this year are still contributing to uncertainty and generating higher costs for the inputs that go into the manufacturing process for goods. Stay tuned. Production has turned up and that was positive this month, but one wonders how long factories can continue like this with new orders received down in the dumps. Overall manufacturing is sputtering at the end of the year and Trump 2.0’s hopes for new hiring is simply not showing up in the numbers yet. Today’s economic data are the very latest reading and may convince some Fed officials to come off the fence and vote to support a third rate cut this year at next week’s meeting.



ADP jobs, industrial production and import prices (Wednesday)

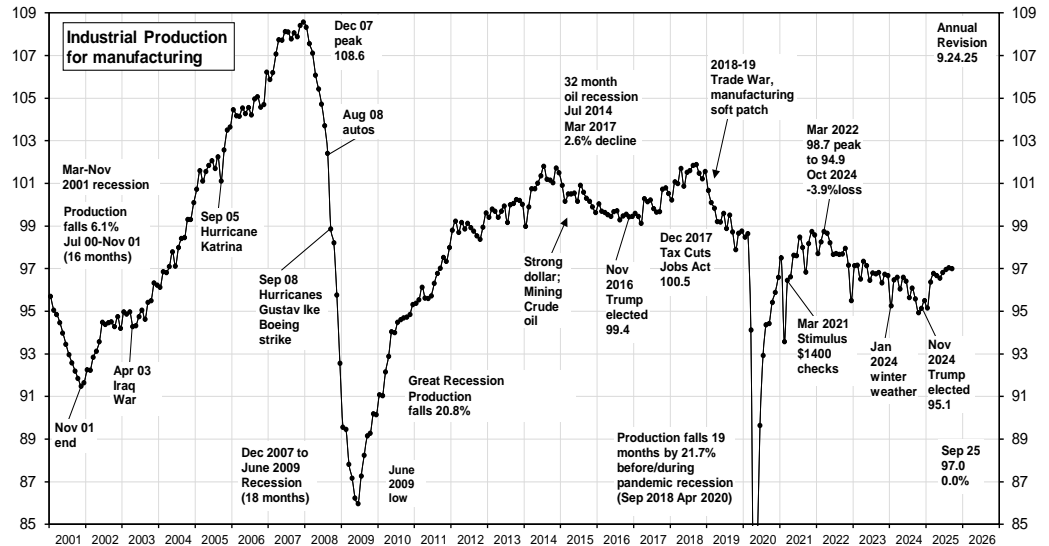
Private payroll jobs: ADP versus BLS

thousands	Jan 25	Feb 25	Mar 25	Apr 25	May 25	Jun 25	Jul 25	Aug 25	Sep 25	Oct 25	Nov 25
ADP	186	84	147	60	29	-23	104	-3	-29	47	-32
BLS	79	107	114	133	69	-27	56	18	97		

Nonfuel Imports prices-- Monthly Percent Changes NSA												September 2025	0.8% YOY	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
2023	0.2	0.4	-0.5	-0.1	0.0	-0.3	-0.1	-0.2	-0.2	-0.2	0.1	0.1		
2024	0.6	0.1	0.2	0.6	-0.2	0.2	0.2	0.0	0.2	0.2	0.1	0.0		
2025	0.0	0.2	-0.1	0.3	-0.1	-0.3	0.2	0.1	0.2					

Breaking economy news. The bond market rallied at least on the drop of 32K in ADP private payroll jobs, thinking a Fed rate cut was coming on December 10. The real BLS jobs data for November isn't even due for release until Tuesday, December 16 and the October report was canceled.

Net, net, the negative print on ADP jobs in November has put some pep in the bond market's step with lower yields today on anticipation of a third interest rate cut by Fed officials at next week's meeting. The weekly ADP data has taken away some of the surprise in this monthly jobs report, but



now that job losses are official in November, markets can make the needed adjustments to the fact that the economy or at least hiring is slowing. The Federal government shutdown was known to be over on Monday, November 10 certainly, so perhaps confidence will return for consumers and businesses in the weeks and months ahead. The ADP jobs report showed the loss of 32K jobs in November with smaller companies seeing the most layoffs. By industry the 18K drop in Manufacturing and 20K loss for Information were shocking as companies are apparently tightening their belts for the long and uncertain economic road ahead.

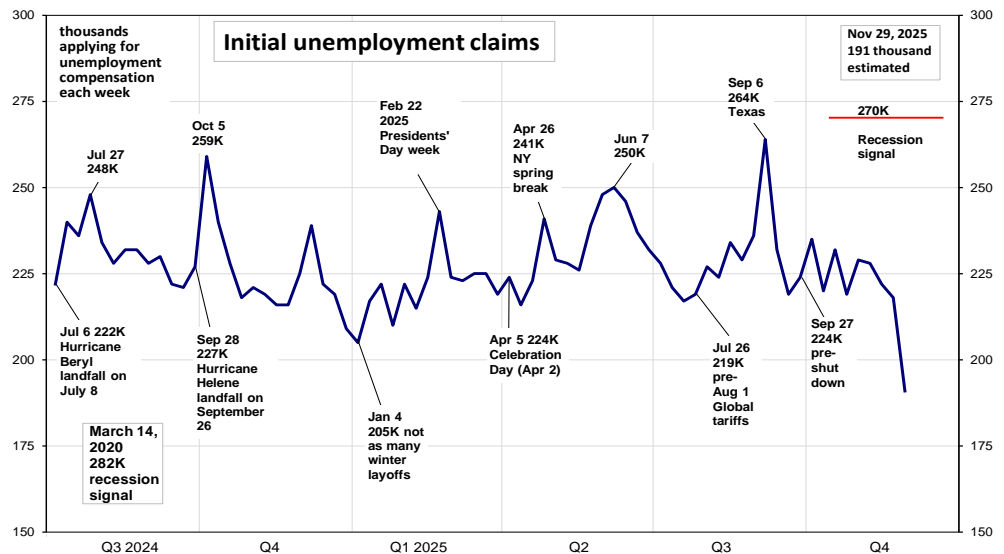
Meanwhile, the war on inflation is not over yet with nonfuel import prices increasing by 0.2% in September which is a trend now with three consecutive months of gains. Any hope from Washington officials that America's partners would try to cut back their prices to make the tariffs costs more palatable for US companies and consumers is not being seen in the data. The rise over the last year in nonfuel imports is only 0.8%, but tariffs will be added to the costs that Americans pay for the incoming goods once the ships dock at US ports. Stay tuned.

Manufacturing output in America slowed to a crawl in a shutdown delayed report from the Federal Reserve for the month of September as factories are at a virtual standstill as they await the new investments from overseas companies that have been part of the Trump 2.0 economic agenda. Manufacturing production has been in a long downtrend since the first Trump 1.0 trade war back in 2018, and it will be difficult to change the long-term outlook for the production of goods in the US that is generally much more costly than it is to have the goods made in factories overseas. Stay tuned. Manufacturing production was unchanged in September and up a modest 1.5% from a year earlier, but the best days are still ahead according to the Trump Administration's top economists.

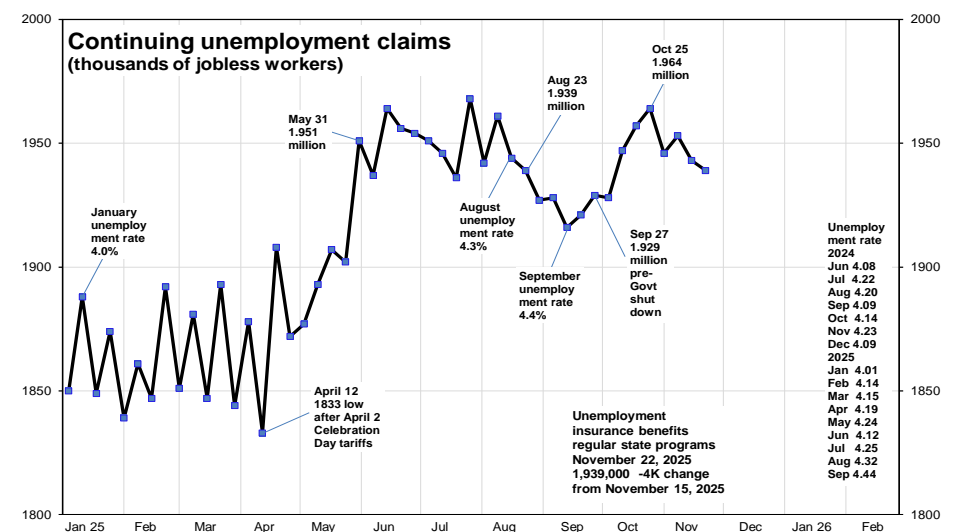
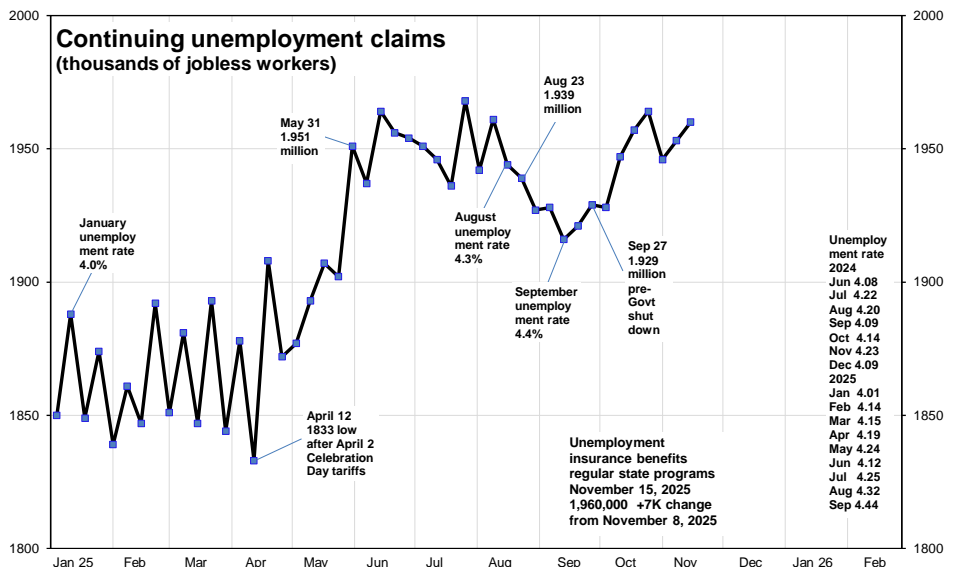
### Jobless claims say labor market boom (Thursday)

Breaking economy news. Weekly jobless claims tumbled 27K to 191K in the November 29 week. Apparently, the seasonal factor for the Thanksgiving week should have pushed the seasonally adjusted level of 191K much higher. It is a complicated time of year because the first week of

December is when the winter layoffs start in earnest. Continuing unemployment claims have come back down where that 1.96 million figure for November 15 was revised to just 1.943 million which changes the picture of a worrisome rising trend that could have meant there were no jobs out there so people were stuck longer with taking the unemployment benefits.

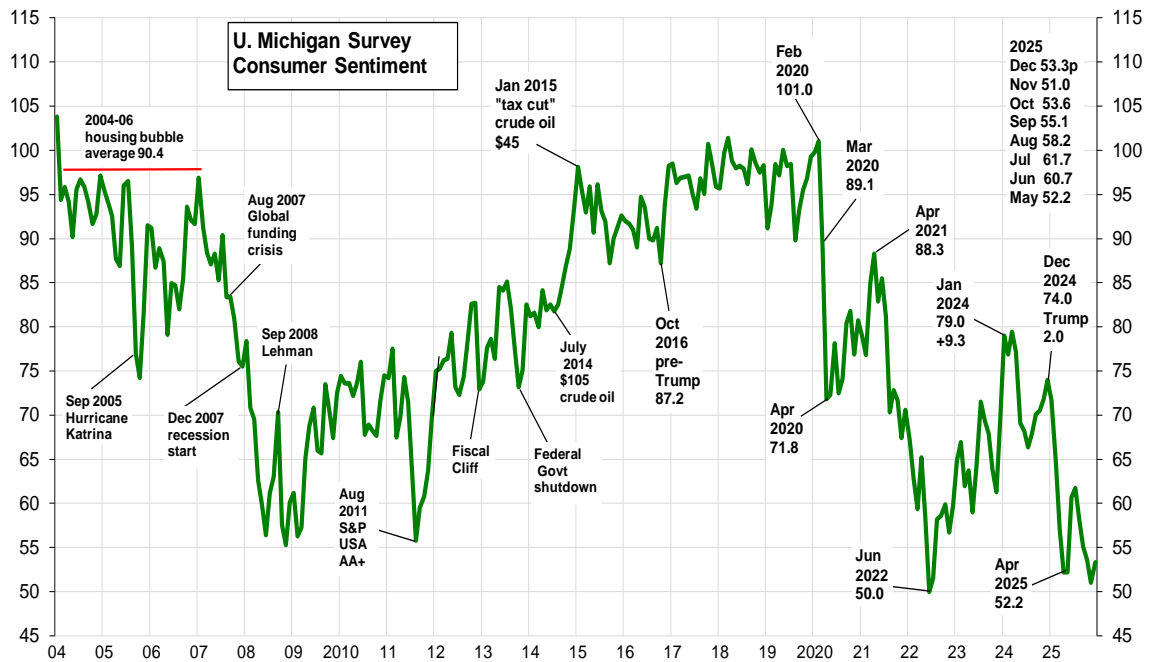


Net, net, we cannot continue to receive reports of tumbling applications for jobless benefits like this and pretend that the labor market needs the help of another rate cut from the Federal Reserve. Those job losses from other alternative measures of labor statistics may be overstating the weakness in the nation's employment markets because if there were actual job losses, those fired workers would have applied for jobless benefits in the last week of November. The November 28 week did have the Thanksgiving holiday and perhaps the seasonal factor was off this week, but regardless of this, 191 thousand new filings is a rock bottom low reading usually seen when the economy is booming. The tea leaf readers at the Federal Reserve may need to recheck their figures because it certainly does not look like economic growth is in danger of stalling out.



### Consumer confidence increases (Friday)

Breaking economy news. Michigan consumer sentiment rose to 53.3 in December from 51.0 in November which qualifies as an improvement. Slight improvement, but consumer sentiment remains pinned down by the affordability crisis. Certainly housing costs are sky-high. There is some disconnect between the CPI inflation index for new vehicles rising just 0.8% the last year, while sticker prices seem much higher in the consumer’s mind. Maybe the quality of cars are up, so this brings the inflation down.



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