

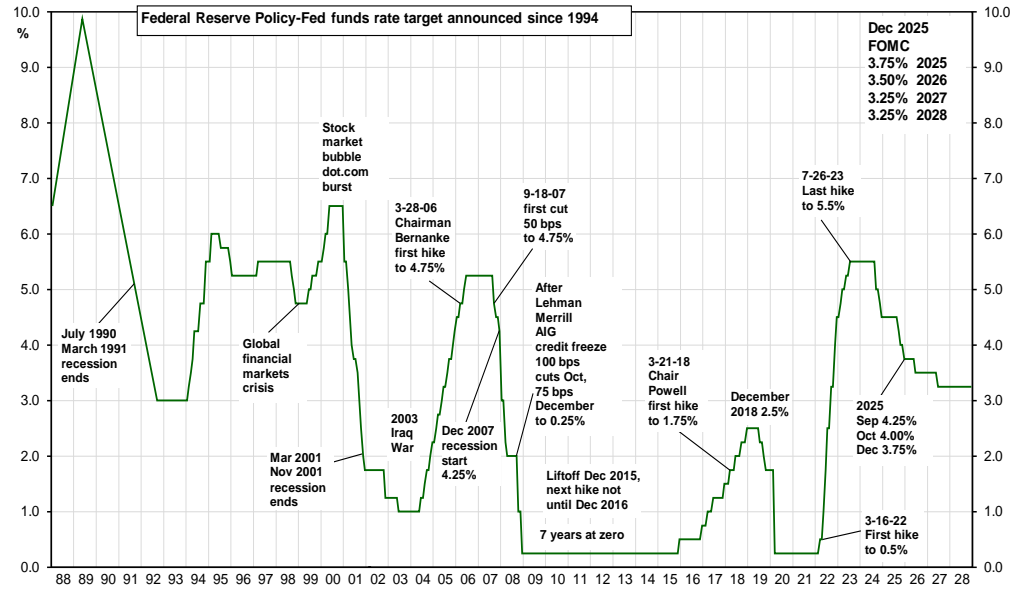
Financial Markets This Week

12 DECEMBER 2025

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3 FED CUTS 2025, 3 MORE 2026

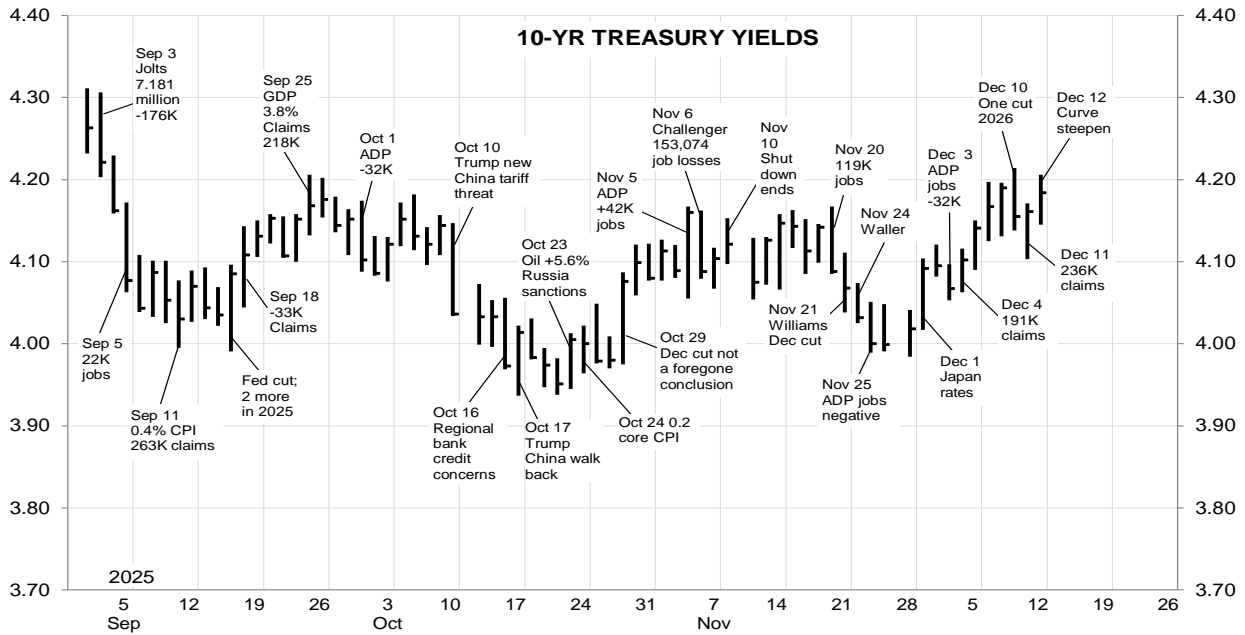
Inflation, what inflation? The import tariff effect is likely a one-off. The balance of risks have shifted, Fed officials said, pointing to the September 4.4% unemployment rate, so the Committee delivered on the market's expectations for a 25 bps rate cut to 3.75%. Funny the statement did not mention the drop in jobless claims reported Thursday, December 4 which showed no particular labor market worries two months later in November. (It's a little bit curious, jobless claims Powell said at the press conference and even more so the next day Thursday, December 11 when claims rose back to "normal.") All in all it wasn't a bad performance this week by the lame duck Fed Chair... he's on his game, too bad he screwed up so badly during the pandemic inflation outbreak, keeping rates down for too long and unleashing the main reason for Americans to vote for change. Back to this week's meeting. No change in the Fed's guidance on interest rates, just one cut forecast for next year and one more cut in 2027, but reading between the lines, the dissents favor slowing it down with two Fed votes for no change in rates at Wednesday's meeting, and one Fed vote for a bigger 50 bps rate cut. The dissents ruled against a faster pace of rate cuts but the winds of change are in the air and a new Fed Chair in 2026, and perhaps many more new Fed officials, means more interest



rate cuts are coming next year as rate cuts are big on the Trump 2.0 economic agenda even if not listed explicitly, if for nothing else but to weigh against the slowing economy due to the import tariffs uncertainty. The stock market lifted in relief, just missing a record close Wednesday, not buying into the "hawkish cut" market reaction stories. Stay tuned. No one in the markets believe the Fed's forecasts for just one rate cut in 2026, no one, as new management is coming and the next Fed Chair better align with the President's view on rates or suffer the consequences. Savers get ready. Winter is coming for interest rates.

Fed Individual Forecasts					
Fed funds rate at year-end					Longer
Votes	2025 End	2026 End	2027 End	2028 End	run
1	3.500	2.125	2.375	2.625	2.625
2	3.625	2.625	2.625	2.625	2.625
3	3.625	2.875	2.625	2.625	2.625
4	3.625	2.875	2.875	2.750	2.750
5	3.625	3.125	2.875	2.875	2.875
6	3.625	3.125	2.875	2.875	3.000
7	3.625	3.125	3.125	2.875	3.000
8	3.625	3.125	3.125	3.125	3.000
9	3.625	3.375	3.125	3.125	3.000
10	3.625	3.375	3.125	3.125	3.000
11	3.625	3.375	3.125	3.125	3.125
12	3.625	3.375	3.125	3.125	3.125
13	3.625	3.625	3.375	3.125	3.250
14	3.875	3.625	3.375	3.375	3.375
15	3.875	3.625	3.375	3.375	3.375
16	3.875	3.625	3.625	3.625	3.500
17	3.875	3.875	3.625	3.625	3.625
18	3.875	3.875	3.875	3.875	3.750
19	3.875	3.875	3.875	3.875	3.875
Median	3.625	3.375	3.125	3.125	3.000
Meeting	Dec 25	Dec 25	Dec 25	Dec 25	Dec 25

INTEREST RATES



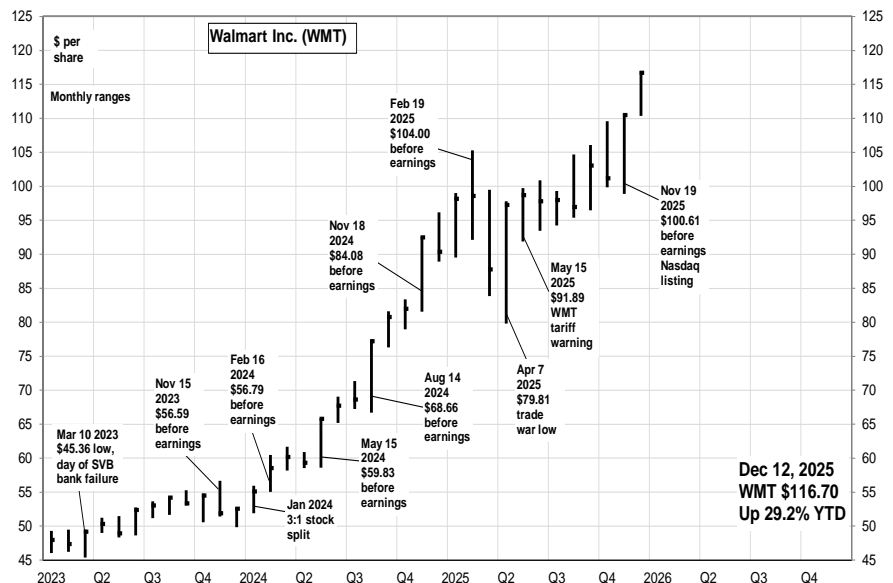
Stocks stopped short of the all-time high close, after the Fed meeting rally (0.7%) Wednesday. It was supposed to be a hawkish cut (last one for a while), but it didn't hurt that the Fed will do QE T-bills as part of its reserve management, and Powell seems to think tariff-based goods inflation will peak in Q1 2026. Nothing like a little QE to put some pep in the stock market's step. Throw a bone to social media. It was also a bit of a shock that the Fed eco staff thinks monthly payroll jobs will be negative since April, once the final BLS annual benchmark adjustments are made. Negative payroll jobs used to be a sure-fire indicator of recession before the new Trump 2.0 immigration and tariff policies made everything in the economic-monitoring world less reliable. Stocks finally made a new all-time closing high on Thursday even with Oracle down 10.8%. We were off Friday and DK what happened.

Walmart Inc. (WMT) up 29.2% YTD, switch to Nasdaq listing, company an innovator

The stock was \$100.61 on November 19 before earnings the next morning. Earnings, and oh, they said they were switching to a Nasdaq listing which is more in keeping with its e-commerce image and makes investors think of it more as a tech company. We just buy groceries there. The stock is rallying maybe as other tech companies are overspending on AI capex. Walmart raised its full year forecast.

	Bln \$	Revenue	Operating Income	Same-store Sales YOY *	13-weeks ending *
Q1 2023		152.3	6.2	7.3%	4/28/2023
Q2 2023		161.6	7.3	6.3%	7/28/2023
Q3 2023		160.8	6.2	4.7%	10/27/2023
Q4 2023		173.4	7.3	3.9%	1/26/2024
Q1 2024		161.5	6.8	3.9%	4/26/2024
Q2 2024		169.3	7.9	4.3%	7/26/2024
Q3 2024		169.6	6.7	5.5%	10/25/2024
Q4 2024		180.6	7.9	4.9%	1/31/2025
Q1 2025		165.6	7.1	4.8%	5/2/2025
Q2 2025		177.4	7.3	4.8%	8/1/2025
Q3 2025		179.5	6.7	4.4%	10/31/2025

* US comparable sales, incl. Sam's Club, ex-fuel



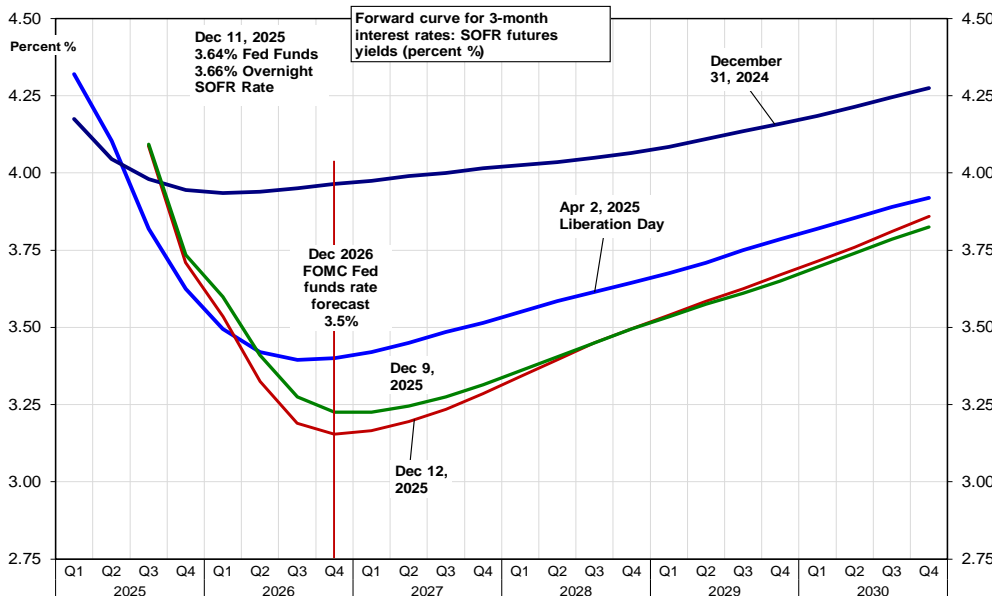
FEDERAL RESERVE POLICY

The Fed met December 9-10, 2025 to consider its monetary policy. The stock market might like the return of QE, even if it is [only T-bills in theory](#) (\$40 bln first month), despite Powell saying that this QE is not for monetary policy reasons. Stocks came off a little on the first press conference question where he had to explain what inserting new words “the extent and timing” into the sentence [“In considering the extent and timing of additional adjustments to the”](#) Fed funds rate in the press statement, does this mean you are done for now after 3 rate cuts the last 3 meetings etc. More or less Powell answered as rates now are “within the broad range of estimates of neutral,” 2.75-4.0 percent as we read their forecasts. There were other tidbits to think about even if Powell has one forecast meeting left. GDP was 1.7% 2025 and 2.3% in 2026, two-tenths is a shift due to the Federal government shutdown, so without the shutdown, growth would be 1.9% 2025 and 2.1% in 2026. Fiscal policy and AI should be supportive of 2026 GDP growth. The delayed November employment report is 830am ET Tuesday, December 16, but the Household Survey will be MIA, distorted, with data not having been collected in October and half of November. November CPI also distorted upon its Thursday, December 18 release. Powell did rule out the next move being a rate hike in response to a question which the stock market may have liked. Services inflation is coming down, and goods inflation only tariffs; think inflation is in low 2s if you ex-out tariffs. Payroll jobs average 40K April-September, but a benchmark revision of 60K, could make the trend negative or -20K.

Selected Fed assets and liabilities						Change from 3/11/20 to Dec 10
Fed H.4.1 statistical release billions, Wednesday data	10-Dec	3-Dec	26-Nov	19-Nov	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4188.975	4188.739	4191.225	4190.939	2523.031	1665.944
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2053.665	2053.665	2053.665	2069.907	1371.846	681.819
Repurchase agreements	0.002	0.001	14.000	0.006	242.375	-242.373
Primary credit (Discount Window)	8.339	7.833	7.792	6.101	0.011	8.328
Bank Term Funding Program	0.000	0.000	0.000	0.000	0.000	0.000
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000	0.000	0.000
Paycheck Protection Facility	0.064	0.065	0.066	0.066	0.066	0.000
Main Street Lending Program	2.464	2.461	2.458	3.659	0.000	0.000
Term Asset-Backed Facility (TALF II)	0.000	0.000	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	0.024	0.029	0.046	0.047	0.058	-0.034
Federal Reserve Total Assets	6590.3	6586.2	6602.6	6606.2	4360.0	2230.293
3-month Libor %	3.90	3.95	4.05	3.91	1.15	2.750
Factors draining reserves						
Currency in circulation	2425.673	2428.573	2426.786	2421.226	1818.957	606.716
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	805.827	908.523	899.678	900.832	372.337	433.490
Treasury credit facilities contribution	0.821	0.821	0.821	2.029	0.000	0.000
Reverse repurchases w/others	5.045	2.514	2.217	1.129	1.325	3.720
Federal Reserve Liabilities	3616.552	3708.021	3704.610	3688.652	2580.036	1036.516
Reserve Balances (Net Liquidity)	2973.767	2878.164	2897.987	2917.531	1779.990	1193.777
Treasuries within 15 days	20.134	26.547	57.441	59.709	21.427	-1.293
Treasuries 16 to 90 days	242.177	236.375	209.782	205.280	221.961	20.216
Treasuries 91 days to 1 year	432.304	431.655	430.300	432.488	378.403	53.901
Treasuries over 1-yr to 5 years	1403.989	1403.892	1409.933	1409.816	915.101	488.888
Treasuries over 5-yrs to 10 years	495.678	495.654	491.053	491.025	327.906	167.772
Treasuries over 10-years	1594.693	1594.615	1592.716	1592.621	658.232	936.461
Note: QT starts June 1, 2022	Change 12/10/2025	6/1/2022				
U.S. Treasury securities	-1581.804	4188.975	5770.779			
Mortgage-backed securities (MBS)	-653.781	2053.665	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables	2025				2026				Long Term
	2025	2026	2027	2028	2025	2026	2027	2028	
Fed funds	3.6	3.4	3.1	3.1	3.0	3.0	3.0	3.0	3.0
PCE inflation	2.9	2.4	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Core inflation	3.0	2.5	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Unemployed	4.5	4.4	4.2	4.2	4.2	4.2	4.2	4.2	4.2
GDP	1.7	2.3	2.0	1.9	1.8	1.8	1.8	1.8	1.8

December 2025 median Fed forecasts



A 25 basis point cut to 3.5% is discounted by the June 2026 meeting.

Fed funds futures call Fed policy	
Current target: December 12 -- 3.75%	
Rate+0.11 Contract	Fed decision dates
3.605 Apr 2026	Jan 28, Mar 18*
3.415 Jul 2026	Adds Apr 29, Jun 17*
*Apr 2026 could be one day at a new rate	
*July 2026 could be two days at a new rate	

Next up: November CPI inflation report Thursday, December 18 at 830am ET														
Monthly	2025							2024						
% Changes	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug
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
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
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	2.8
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

OTHER ECONOMIC NEWS

Market JOLTS to bond yields (Tuesday)

Breaking economy news. Jolts data for October. The report was delayed of course and there could still be larger than normal revisions, October was 7.670 million, September was 7.658 million, and the earlier report for August before the shutdown is left unchanged at 7.227 million for now. This monthly report is always a month behind the monthly payroll jobs report, but it tells a story assuming companies don't make up job offerings to keep a "presence."

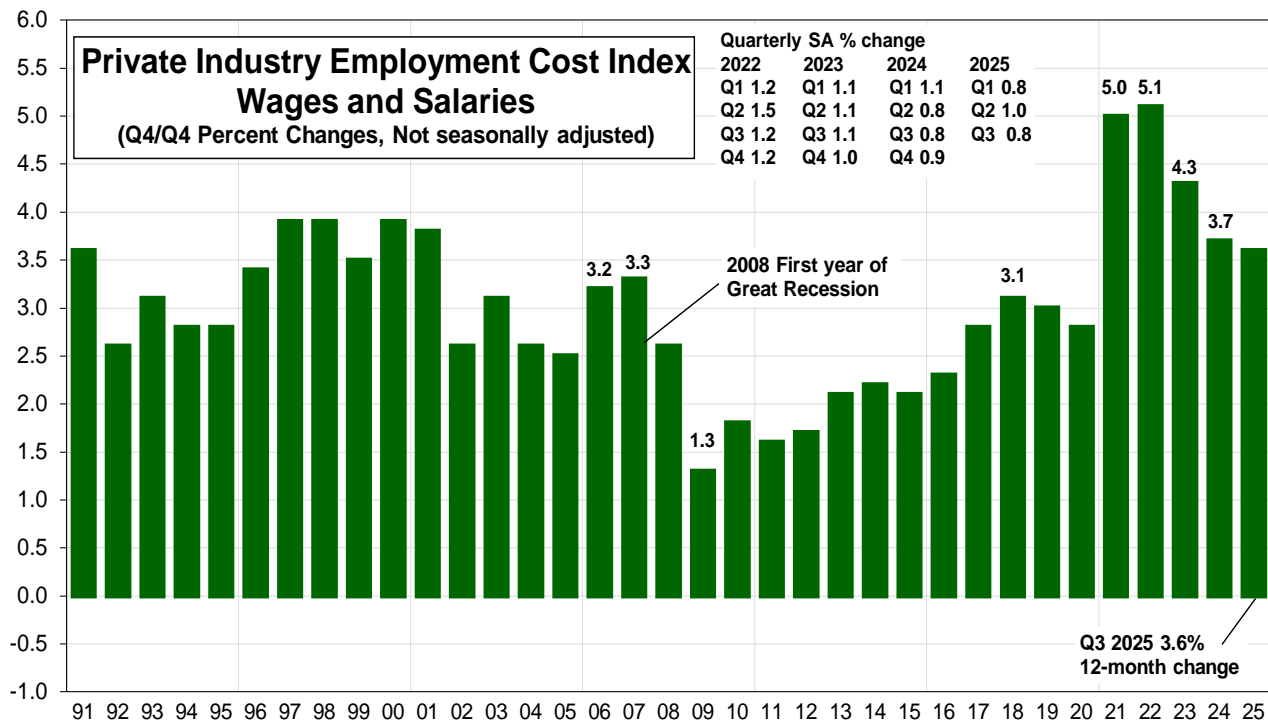
Net, net, it looks like the nation's employment markets have strengthened dramatically with the latest Job openings data for October where there are nearly half-a million more employment opportunities out there than there were in August, the last JOLTS report before the Federal government shutdown. Almost every day there are those attention-getting layoffs by premier US corporations, yet business leaders are at the same time adding substantially to the help-wanted listings on their job boards. Bond investors always wake up and smell the coffee with the Jolts data, and today was no exception with bond yields jumping on reports the labor market might be stronger than we think. No one wants to be in Fed officials' shoes ahead of the decision on whether to cut interest rates because unless you think the Jolts data are fake news, and there are some technical issues and revisions potentially to the long-delayed collection of job openings data, unless you think these data are faulty, they are telling data-dependent FOMC participants that the labor market is not slowing down and may not necessarily require a rates adjustment to restart the economy's engines.



Worker wages rose 3.6% this year, live it up (Wednesday)

Breaking economy news. The third quarter Employment Cost Index delayed by the shutdown. There is a lot of data, but we normally just focus on private industry wages and salaries in the graph below. The headline numbers are for civilian workers for compensation which includes benefits. Three-month seasonally adjusted data for September 2025 are all aligned at 0.8% for comp, 0.8% for wages, and 0.8% for benefits.

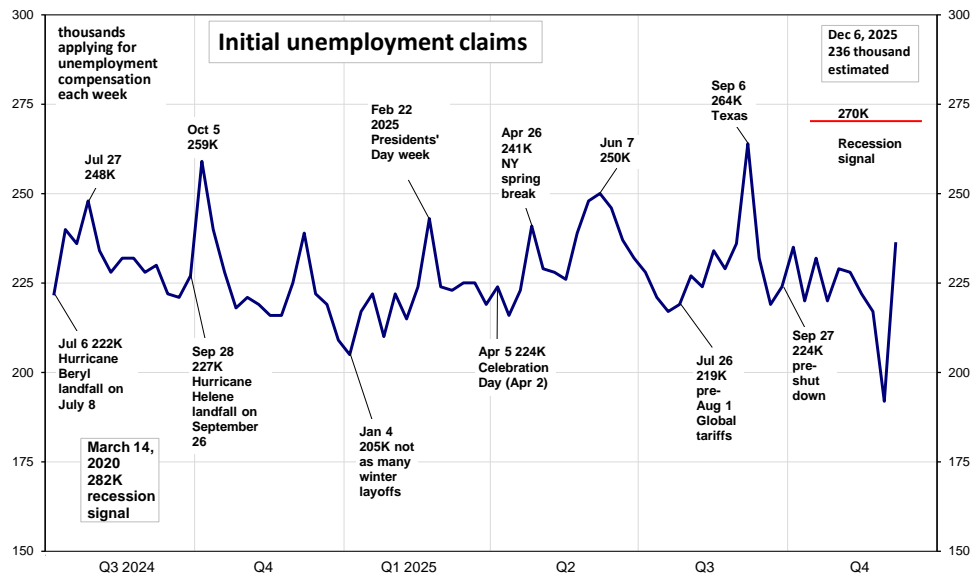
Net, net, the concerns about the labor market are real, but the wage gains experienced by those workers who have a job are still enough to beat inflation for now. Better wages are one of the goals of the President’s economic policies, although it is unclear how quickly material wage gains might be seen from America First trade policies because the factories have not been built yet. In real terms the worker wages win over inflation is slipping from 1.2% year-on-year in September 2024 to 0.8% in Q2 June 2025 and just 0.6% in September 2025 as reported today. Current dollar wages and salaries of private industry was 3.6% year-on-year in September which beats the 2.8% inflation adjustment for social security retirees, but workers are not likely to think they are getting ahead in life with 3.6% more in their paychecks. Stay tuned. The government shutdown affected the quality of the Employment Cost Index report today so the results should be taken with a grain of salt and markets and Fed officials must wait for additional reports next year. Workers are winning the battle of wages but the margin relative to the higher tariff-related inflation costs of goods and affordability is slipping.



Trade deficit, jobless claims not what they appear (Thursday)

Breaking economy news. Weekly jobless claims continue to look curious as Powell said at Wednesday's press conference, or at least not in step with the rising monthly BLS unemployment rate of 4.4%. True north from initial unemployment claims is probably close to where it had been at around 225K. Claims fell 25K from 217 thousand November 22 to 192 thousand November 29, only to jump back to 236 thousand in the December 6 week reported today. The December 6 week is the start of the winter layoffs where not seasonally adjusted claims jumped from 198,173 to 313,140 this week. This points out that the scattered, anecdotal layoff reports from various companies in the newspapers, those numbers

are swamped by the 313 thousand applying for benefits because they were sacked in the December 6 week. These actual layoffs and applications for jobless claims will continue to climb until the winter layoff peak in the first two weeks of the new year. Continuing unemployment claims? Don't ask. (Graph on next page if you must. Perhaps Trump 2.0 fired too many career economists at the Labor Dept.)

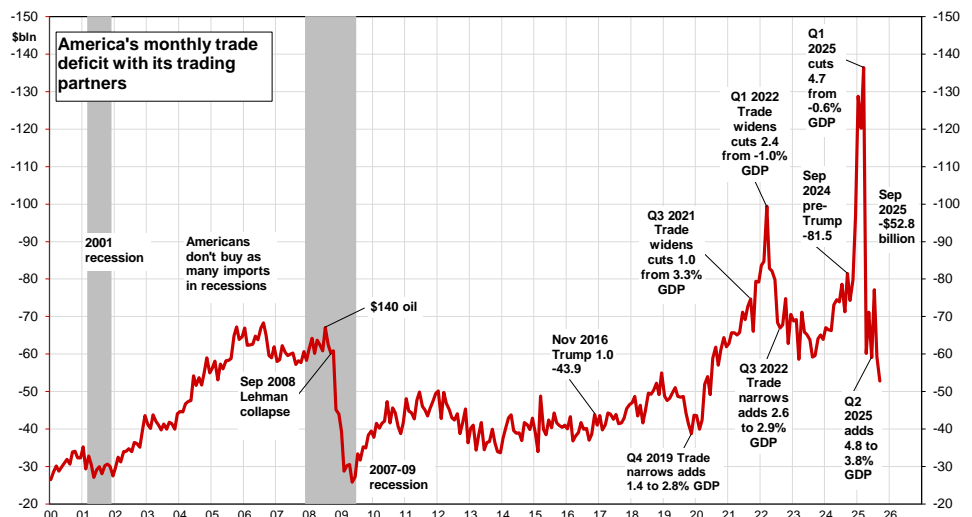


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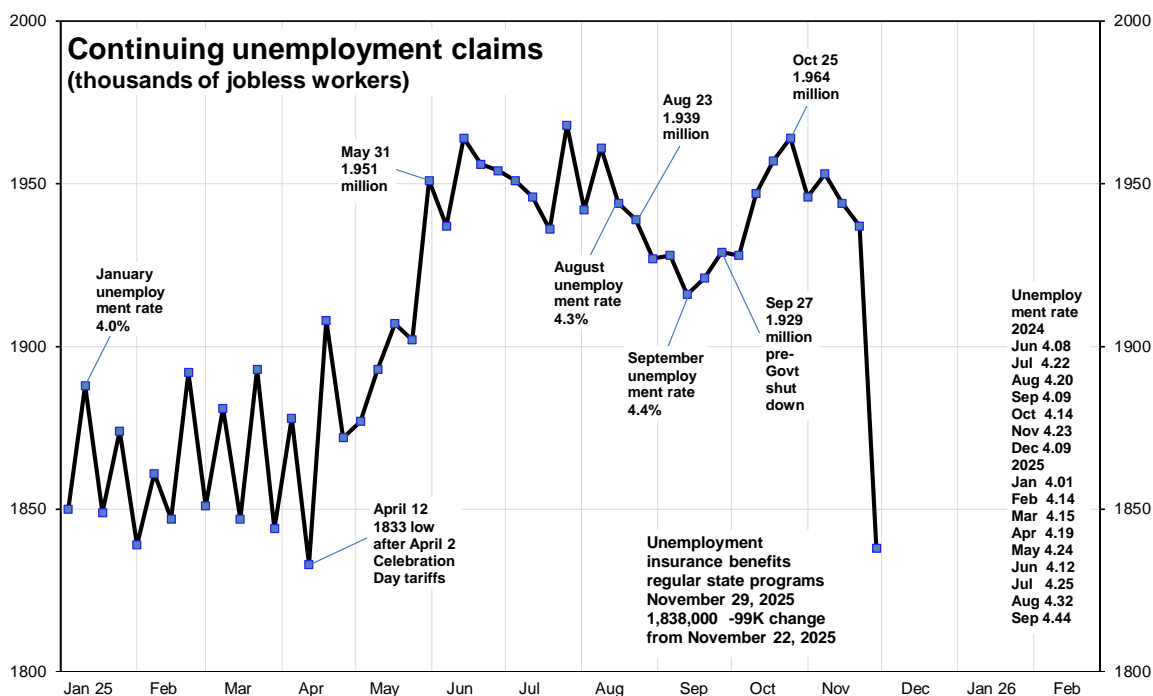
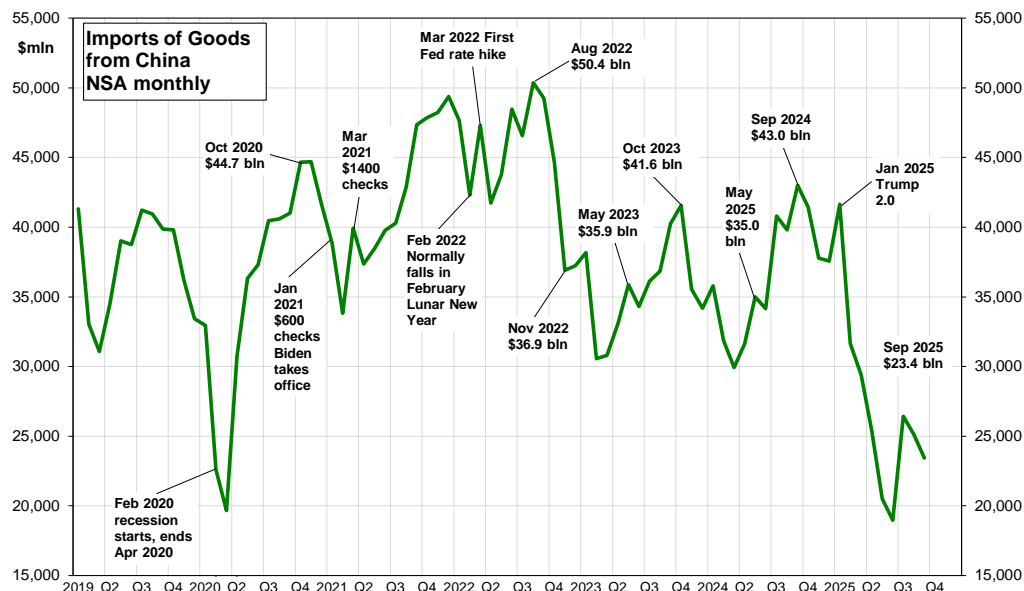
\$mIn	Trade balance			Exports			Imports		
	Total	Goods	Services	Total	Goods	Services	Total	Goods	Services
Aug 2025	-59,265	-86,059	26,795	280,921	178,857	102,064	340,185	264,916	75,269
Sep 2025	-52,828	-78,985	26,157	289,305	187,627	101,678	342,133	266,612	75,521
Change	6,437	7,074	-638	8,384	8,770	-386	1,948	1,696	252

Meanwhile, the pattern of US trade with the world has been changed dramatically under the new tariffs regime from Washington this year which has brought the trade deficit down to levels lower than anytime in 2024 for two consecutive months now. Before one jumps to the conclusion that tariffs are working and corralling the imports of goods, it must be noted that exports surged by \$8.4 billion in September to keep the deficit down a little more at \$52.8 billion versus \$59.3 billion in August.

Foreigners are not welcoming American goods with open arms necessarily as \$6.1 billion of the exports was a one-off from nonmonetary gold. One trend that looks more permanent is that goods imports from China were down in the dumps at \$23.4 billion in September, third month in a row with a 20 billion handle, though this was before the China framework



agreement was floated at the end of October. It seems a little early for Americans to go without imported goods before the factories can be brought back to the U.S. so the goods can be made here. If that is the goal we mean. Stay tuned.



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