DECEMBER 2025

We hope everyone had a great Thanksgiving!

The markets started the month with the government shutdown that ended November 12th, the longest in history. While they did not agree on a resolution for the ACA subsidy extension, they did agree to funding SNAP, the Dept. of Agriculture, veteran's affairs, and Congress until next September along with backpay for all federal workers and undid shutdown related layoffs (source: BBC). One downside to the shutdown is that data the Federal Reserve relies on to help determine interest rates will be either delayed or not released. A lot of the markets back and forth this month was centered around 2 questions "Will they or Won't They (cut rates)" and "Are We or Aren't We (in a bubble)."

Starting with the first question- "Will They, or Won't They?" Remember that the FED's mandate is to maximize employment and keep prices stable; while there is no target for the unemployment rate, they do have a 2% target for inflation to help with their price stability mandate (source: Federal Reserve Board). An ADP Report that came out at the beginning of November showed private companies added 42,000 jobs for the month, topping the Dow Jones consensus estimate for a gain of 22,000. This followed an initially reported decline of 29,000 in September, with a revision for September showing 3,000 fewer jobs lost (source: WSJ). This caused the markets to doubt whether the Federal Reserve would cut interest rates at their December meeting, something that had already started to be priced into the markets. The markets then reversed course when the recent unemployment rate was released near the end of November, which showed the unemployment rate rose slightly to 4.4% as nearly half a million people joined the labor force. Economists expected the unemployment rate to hold at 4.3% according to the WSJ. We also received delayed inflation numbers near the end of the month which showed core wholesale prices rose less than expected in September, indicating a potential cooling in pipeline inflation pressures (source: Bureau of Labor Statistics). Also, in the Bureau of Labor Statistics report was that the producer price index, a measure of what producers get for final demand goods and services, increased a seasonally adjusted 0.3% on the month, in line with the Dow Jones consensus estimate. Federal Reserve Governor Waller signaled support for a near-term cut amid labor market concerns, pushing market-implied expectations for a December cut above 80% (CNBC). Morgan Stanley's view is that a cut in December could be put on hold until further data is available and based on the hawkish outlook from the Federal Reserve's October meeting notes.

The second question that drove the market performance this month was "Are We or Aren't We?" in an AI (artificial intelligence) bubble. Most of the negative market performance was in the mega-cap growth names who have powered much of the recent rally. Many of them delivered strong earnings beats yet shares fell due to skepticism about lofty valuations, and will these firms be able to recap the large capital expenditures they have committed. Overall, the third quarter were positive with several key highlights. The earning per share surprise was 8.7%, which significantly exceed the historical average of 4.4%. In addition, the sales surprise was 2.8%, compared to a historical average of 1.3% (source: Morgan Stanley). But some companies cautioned that consumers are increasingly bifurcated, with high income households spending strongly, while younger and lower-income consumers are under strain, which we had touched on in a previous newsletter (source: WSJ). For the month of November, Morgan Stanley analysts viewed the recent sell-off as more of a healthy reset for the markets following a sizeable advance rather than a bubble. Going forward, holiday sales could be a key driver for the markets.

As we head into the rest of the holiday season, please let us know if you need anything.

James M. Koehler, Senior Vice President
Financial Advisor
Senior Portfolio Manager
NMLS# 1316586
303 Lippincott Drive, Suite 300, Marlton, NJ 08053   856-489-2474