

# THE ECONOMY AT A GLANCE

## ECONOMIC HIGHLIGHTS

December 15, 2025  
 Vol. 92, No. 177

### OPTIONS AMONG SOVEREIGN-DEBT YIELDS

The benchmark U.S. 10-year Treasury bond yield is near 4.15%, down from 4.8% earlier in the year but trading within a tight range of 4.0%-4.25% since August. Interest rates were higher earlier in the year due to President Trump's tariff and trade war rhetoric, but have come down in recent months as the domestic employment environment has cooled and the Federal Reserve has resumed its rate-cutting campaign at the short end of the yield curve. Other sovereign long-term rates generally have held at higher levels, with UK's benchmark yield near 4.5% and the debt of Australia, which we view as a proxy for China growth, at 4.3%. But not all have climbed to heights on fears of rekindled inflation. For example, sovereign-debt yields for Japan and Switzerland remain near their pandemic lows at sub-2.0% levels. China has maintained its interest rate near or below 2.0% as well. Elsewhere around the globe, tariff worries in Mexico and political uncertainty in Brazil are keeping sovereign-debt interest rates in those countries near 10%. Russian debt yields are close to 14%, up 100 basis points from a year ago, as the conflict with Ukraine drags on and inflation runs at an 8.0% rate. As U.S. inflation once again starts to moderate, the Federal Reserve is expected to continue its strategy of lowering short-term interest rates through 1H26, this in order to keep the U.S. economy growing. Should that occur, longer-term U.S. Treasury yields may stay in the 4.0%-4.5% range as the domestic economy continues to grow. With inflation moderating, that's not a bad return.

### GLOBAL INTEREST RATES & INFLATION (%)

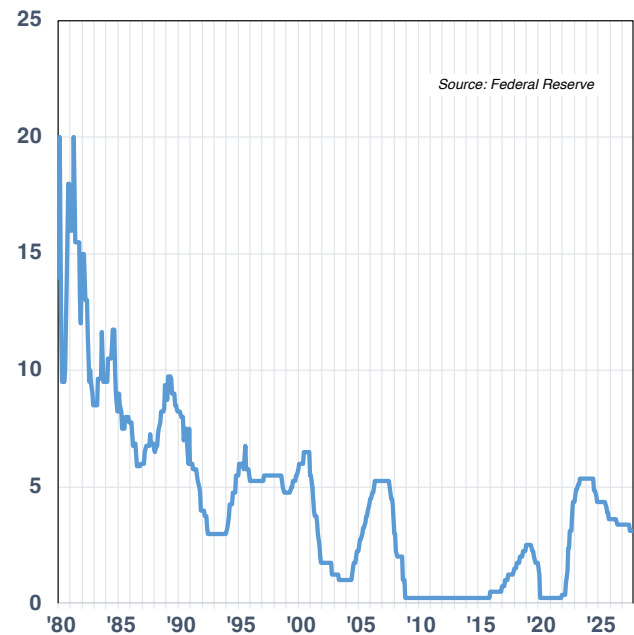


## ECONOMIC HIGHLIGHTS (CONTINUED)

### CLEANING UP SHOP

At the recent Federal Open Market Committee (FOMC) meeting, the FOMC, as expected, lowered the fed funds target rate 25 basis points to the 3.50 to 3.75% level. This was the third cut in 2025, and is likely to be the final reduction before Jerome Powell's term as Fed chair is up in May. The FOMC also announced that the Fed's reserve balances have declined to a satisfactory level and the central bank will now go back into the market to purchase shorter-term Treasuries. In the financial markets, interest rates declined after the modest QE program was announced. The decisions reinforce the notion that the Fed is less concerned about the impact of tariffs on inflation and more concerned about the employment sector of the economy. The decisions also leave the incoming chairman of the Fed -- to be appointed by Donald Trump -- with a solid and flexible balance sheet, and room to maneuver on rates should the need arise. The Trump administration has been extraordinarily vocal in its opinions on interest rates, blurring a clear line of independence that has long existed between the White House and the Fed. The White House wants lower rates and the central bank has headed in that direction. That said, in the Summary of Economic Projections published along with the Fed meeting, the central bankers are on record favoring only one cut in 2026 and one in 2027. That would lower the target rate to 3.0% to 3.25%, likely representing a 100-basis-point cushion above the prevailing rate of inflation. That sounds good, but the "Road to the Neutral Rate" may turn out to have some twists and turns.

### FEDERAL FUNDS TARGET RATE & FORECASTS (%)

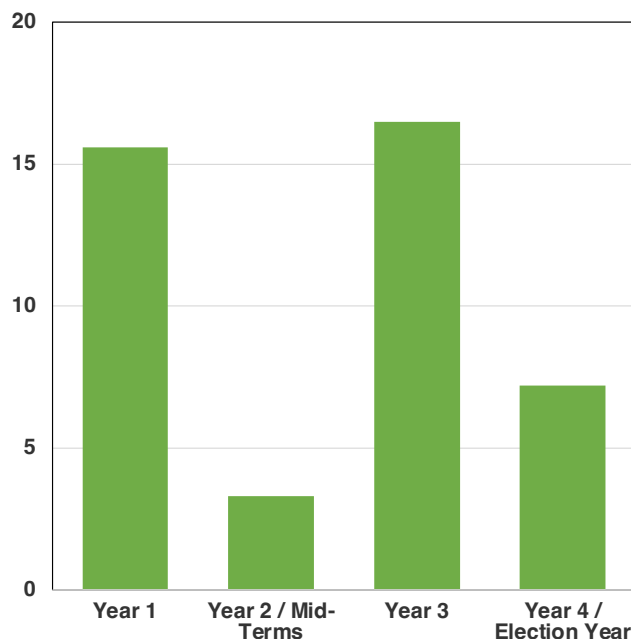


# FINANCIAL MARKET HIGHLIGHTS

## MID-TERM ELECTION YEAR CHALLENGES STOCKS

Of the four years in a presidential term, the second year -- the mid-term election year -- has been the worst for investors. Consider that since 1980, returns in the second year of a presidential term have averaged 3.3%, compared to average returns of 15.6% and 16.5%, respectively, in the first and third years. Even the fourth year, with all the drama of the election itself, outperforms the second year, with an average gain of 7.2%. What is more, the “batting average” of positive second years for the S&P 500 is only 55%, compared with 80%-plus averages for the other three years. Why? Investors favor predictability and continuity, and a mid-term election year offers a real opportunity for a significant shift in direction -- whether it is in fiscal policy, antitrust philosophy, or a certain regulatory focus. We note that incumbent parties typically lose seats in mid-term elections, and even the loss of a few Republican seats in the House could tip the chamber Democratic and then lead to gridlock in Washington D.C.

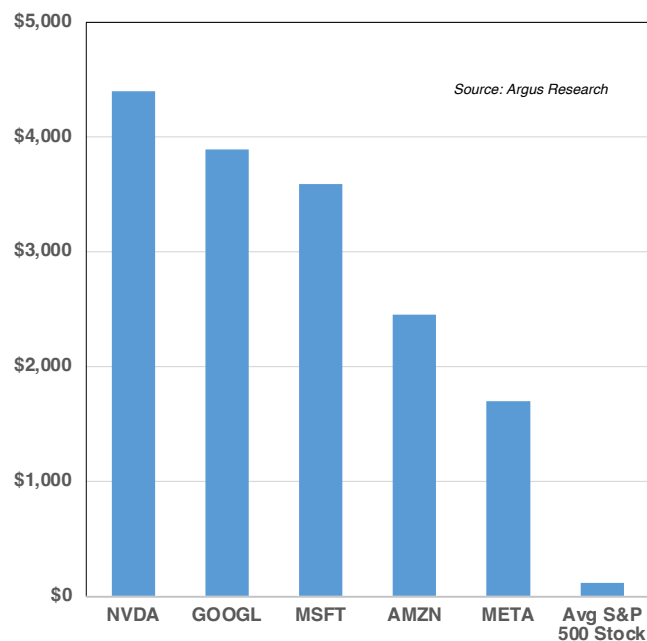
STOCK MARKET ANNUAL RETURNS THROUGH THE PRESIDENTIAL CYCLE (%)



## CRACKS IN THE AI FOUNDATION?

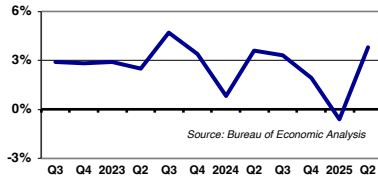
Are the recent cracks in the AI foundation superficial? Or do they run deeper? The latest concerns include the charge that tech earnings are inflated artificially due to accounting decisions, as well as allegations that the industry’s hyper-growth is due to circular funding, with tech giants simply buying products from each other. The tentpole of the AI revolution, Nvidia, reported after the market close on 11/19/25. What transpired in the following 24 hours encapsulated the excitement, astonishment, skepticism, and fear that has characterized the three years since ChatGPT was made widely available. Pushing back against fears that AI was in a bubble phase, Nvidia CEO Jensen Huang reiterated his claim that the global annual spend on AI infrastructure can soar to \$3-\$4 trillion by 2030. He can make such a claim because the market for AI technology is changing and broadening dramatically. In the months leading up to Nvidia’s results, the company announced multiple new AI partnership deals -- not with the hyperscalers that dominated earlier GPU demand, but with multiple neoclouds, large global enterprises, and sovereign clients. NVDA and other AI leaders rallied across Thanksgiving week, reversing most of their mid-month losses. As investors cashed out of these names, AI winnings were redeployed into other sectors -- some of which are seen as beneficiaries as AI expands. That rotation is healthy for near-term stability in the stock market. We expect the AI trade to be bumpy, but still long and fruitful.

ROOM TO CATCH UP (MKT CAP/BIL)

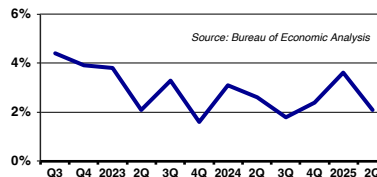


# ECONOMIC TRADING CHARTS & CALENDAR

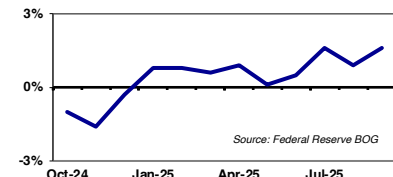
Release: **GDP Annualized QoQ**  
 Date: 12/23/2025  
 Month: 3Q  
 Previous Report: 3.8%  
 Argus Estimate: 2.6%  
 Street Estimate: 3.2%



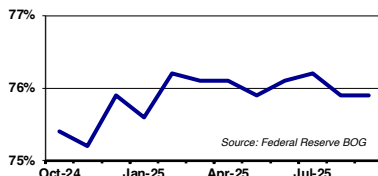
Release: **GDP Price Index**  
 Date: 12/23/2025  
 Month: 3Q  
 Previous Report: 2.1%  
 Argus Estimate: 2.7%  
 Street Estimate: 2.6%



Release: **Industrial Production**  
 Date: 12/23/2025  
 Month: November  
 Previous Report: 1.6%  
 Argus Estimate: 2.0%  
 Street Estimate: NA



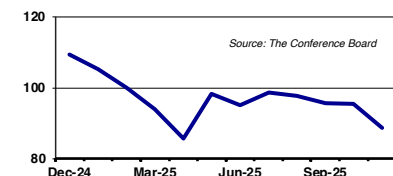
Release: **Capacity Utilization**  
 Date: 12/23/2025  
 Month: November  
 Previous Report: 75.9%  
 Argus Estimate: 76.0%  
 Street Estimate: 75.9%



Release: **Durable Goods Orders**  
 Date: 12/23/2025  
 Month: October  
 Previous Report: 9.7%  
 Argus Estimate: 5.0%  
 Street Estimate: NA



Release: **Consumer Confidence**  
 Date: 12/23/2025  
 Month: December  
 Previous Report: 88.7  
 Argus Estimate: 91.0  
 Street Estimate: 92.0



*Previous Week's Releases and Next Week's Releases on next page.*

## ECONOMIC TRADING CHARTS & CALENDAR (CONTINUED)

### Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
16-Dec	Nonfarm Payrolls	November	<b>-105K</b>	20K	40K	<b>64K</b>
	Unemployment Rate	November	4.4%	4.5%	4.4%	<b>4.6%</b>
	Average Weekly Hours	November	34.2	34.2	34.3	<b>34.3</b>
	Average Hourly Earnings	November	<b>3.7%</b>	3.7%	3.6%	<b>3.5%</b>
	Retail Sales	October	<b>4.2%</b>	3.9%	NA	<b>3.5%</b>
	Retail Sales ex-autos	October	<b>3.9%</b>	4.0%	NA	<b>4.0%</b>
	Business Inventories	September	<b>1.0%</b>	1.2%	NA	<b>1.2%</b>
18-Dec	Consumer Price Index	November	3.0%	3.0%	3.1%	NA
	CPI ex-Food & Energy	November	3.0%	3.0%	3.0%	NA
19-Dec	Existing Home Sales	November	4.10 mln.	4.10 mln.	4.14 mln.	NA

### Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
29-Dec	<b>No Major Announcements</b>					
2-Jan						

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