THE CONTRARIAN EDGE

*Independent Macro Strategy for Contrarian Thinkers*

# WEEKLY BRIEFING

**Week of December 15-21, 2025**

## Executive Take | Macro Regime

### Executive Take

The December rate cut did not change the regime. Liquidity remains tight, buffers are gone, and credit continues to price outcomes that the macro data does not support. The Fed cut because the system needed relief, not because conditions improved. Markets are attempting to treat the cut as a green light, but the plumbing says otherwise. This remains a late-cycle enviroment where patience and risk discipline matter more than chasing upside.

### Macro Regime

U.S. growth continues to slow across labor, consumption, and manufacturing. Inflation has eased but remains sticky near 3 percent, limiting the Fed's room to ease aggressively. The December cut removed a near-term tail risk but did not mark the start of a new cycle. Policy is now reactive, not stimulative. The soft-landing narrative is losing credibility as growth weakens without a corresponding improvement in financial conditions.

**Macro regime:** *Neutral to negative, late cycle*

# Liquidity | Credit | Positioning

## Liquidity Check

Liquidity conditions remain structurally tight.

- **TGA**: ~$879 billion. Down marginally day-over-day but still historically elevated, continuing to drain reserves.
- **ON RRP**: ~$1.7 billion. Effectively empty. The system no longer has a parked-cash buffer.
- **SOFR / Repo**: ~3.93 percent. Funding markets are stable but operating close to policy, leaving little margin for error.
- **Bills**: Front-end curve slopes gently lower from 1-month to 6-month, signaling shallow easing expectations, not aggressive relief.
- **2-Year**: ~3.56 percent, only modestly above bills. Curve compression persists.
- **Fed balance sheet**: QT continues via SOMA runoff. Securities held outright declined again week-over-week.

Daily Liquidity Bias: ***Tightening***

The net effect is a low-cushion system. Reserves are constrained, RRP is gone, and the TGA remains a persistent drain. This is not an easing backdrop.

## Credit Check

Credit remains the clearest expression of complacency.

- **IG OAS:** ~0.79 percent, grinding tighter.
- **HY OAS**: ~2.9 percent, near cycle tights.
- **CDX IG / HY**: ~50 bp / ~317 bp. Extremely tight for this stage of the cycle.
- **Commercial paper**: ~3.72 percent, easing modestly but still restrictive in real terms.

Credit markets are pricing a smooth path forward while liquidity remains tight and growth slows. This configuration offers very little shock absorption.

Credit bias: ***Late-cycle complacency***

## Positioning

Positioning remains crowded and asymmetric.

- Heavy long exposure in duration and investment grade.
- Continued inflows into high yield despite compressed spreads.
- Elevated hedge fund basis trades increase sensitivity to repo stress.
- Equity positioning shows narrow leadership with defensives outperforming.
- Volatility remains suppressed, signaling low hedging demand.

***This positioning leaves markets vulnerable to any funding or growth surprise.***

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# Cross Asset Pulse | Theme of the Week

## Cross Asset Pulse

**Equities**
The rally stalled immediately after the cut. Breadth is weak, leadership is narrow, and defensives continue to outperform. High beta failed to confirm. This does not resemble the start of a new expansion.

**Treasuries**
The front end eased, but the long end refuses to rally. The curve remains flat to inverted. A cut that fails to steepen the curve is a warning signal.

**IG Credit**
Spreads remain tight but momentum has stalled. Credit is no longer confirming equity optimism.

**HY Credit**
HY looks increasingly vulnerable. Spreads do not compensate for slowing growth or liquidity risk.

**DXY**
The dollar stabilized quickly after an initial dip, signaling that global growth remains too weak to sustain broad USD downside.

**Gold**
Gold remains supported as a hedge against policy error and funding stress.

**Commodities**
Copper and oil remain range-bound, reinforcing the low-growth signal.

**Crypto**
Lacks confirmation. Liquidity conditions are not supportive of sustained upside.

## Theme of the Week

**A rate cut does not equal a new cycle.**

Markets are attempting to front-run a benign easing path. The data shows a system operating without a buffer, where policy is reacting to strain rather than driving growth.

# Tactical View | Contrarian Decoder | Final Signal

## Tactical View

| | |
|---|---|
| **Equities** | Remain underweight high beta and cyclicals. Favor quality, cash flow, and defensives. |
| **Fixed Income** | Hold moderate duration as a hedge, but avoid chasing the long end. |
| **Credit** | Stay selective. High yield offers poor compensation for risk. |
| **FX** | Treat dollar weakness as tactical, not structural. |
| **Commodities** | Gold remains the preferred hedge. |
| **Liquidity** | Maintain flexibility. Dry powder matters. |

## Contrarian Decoder

The market is trading on a hopeful narrative, celebrating the Fed's cut as an all-clear signal for risk, yet liquidity conditions tell a starkly different story, key buffers have vanished and underlying funding stress persists. This divide deepens with credit, where the surface calm of tight spreads clashes with the liquidity-driven reality that risk is dangerously mispriced. Ultimately, the consensus view of a smooth soft landing is being challenged by the data, which increasingly points to the classic signs of late-cycle fragility. In this environment, trusting the narrative over the mechanics of money could prove costly.

## Final Signal

The December rate cut may have provided a temporary cushion against an immediate market drop, but it failed to fundamentally reset the economic cycle. The underlying pressures remain firmly in place: liquidity is still tight, economic growth continues to decelerate, and asset prices are still priced for an unrealistically smooth path forward. In this environment, the true strategic edge lies not in chasing the rally, but in exercising patience, prioritizing quality assets, and maintaining strict discipline. The market's next decisive and sustained trend will not be born from renewed optimism, but will instead be dictated by the concrete, and currently constrictive, realities of global liquidity conditions.

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# Liquidity Regime Overlay (CE Signal Check)

The CE liquidity framework continues to flash caution.

The current regime is classified as Liquidity Flat, with negative momentum and limited duration in the regime. That combination matters.

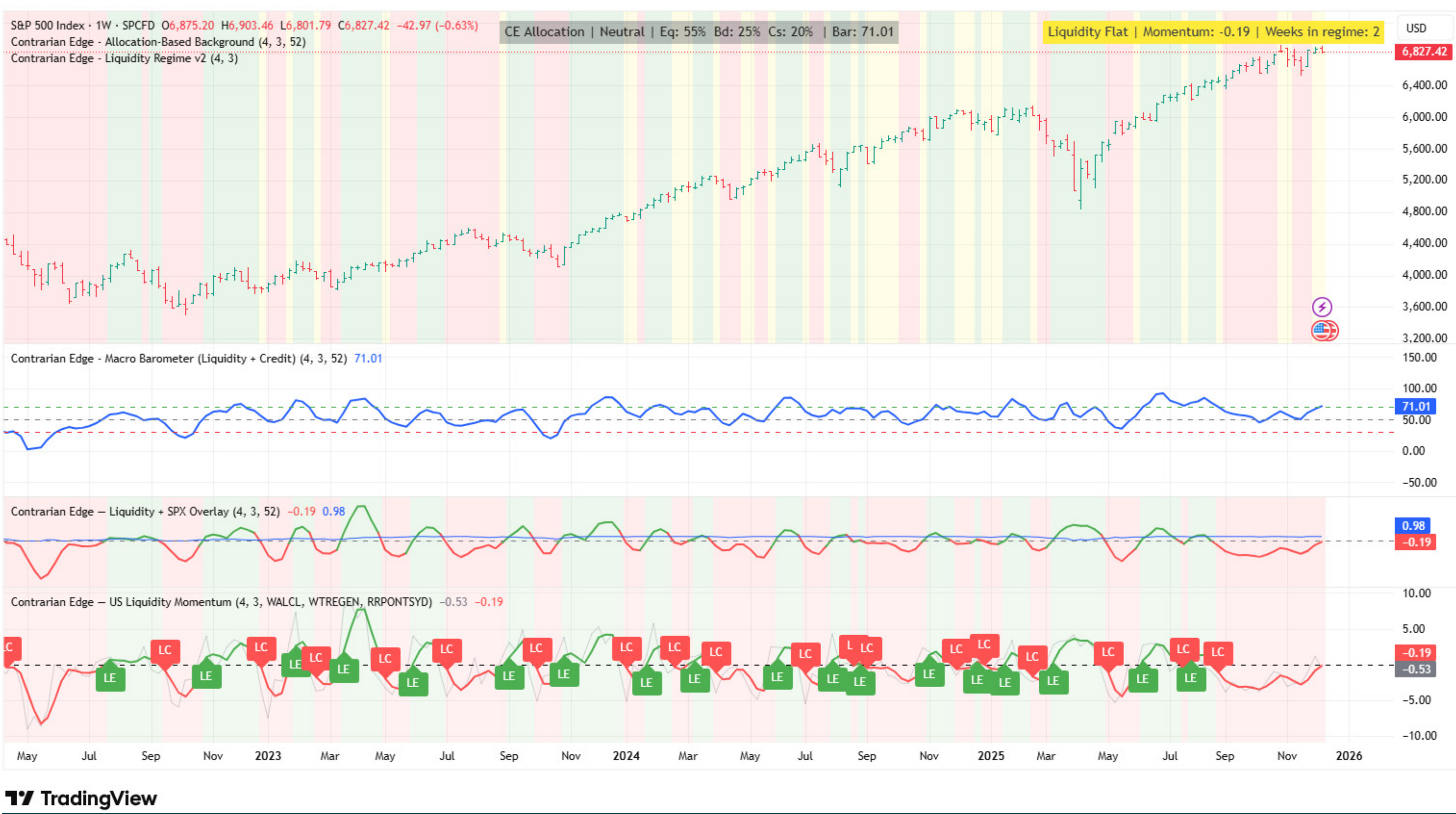
While headline liquidity is no longer tightening aggressively, momentum has rolled over. Flat liquidity with declining momentum historically coincides with late-cycle market behavior, where risk assets can continue higher temporarily but become increasingly sensitive to shocks.

Key observations from the overlay:

- **Macro Barometer:** Reading near the upper band reflects residual optimism priced into markets, not improving fundamentals. This has historically preceded periods of consolidation rather than sustained upside.
- **Liquidity + SPX Overlay**: Equity prices remain elevated even as liquidity momentum fails to confirm. This divergence has repeatedly resolved via volatility or sideways price action rather than renewed acceleration.
- **U.S. Liquidity Momentum:** Momentum remains negative. The system lacks a replenishment mechanism with RRP depleted, QT ongoing, and the TGA still elevated.

Importantly, this is not a crash signal. It is a fragility signal.

Markets can grind higher in flat-liquidity regimes, but upside becomes more dependent on positioning and sentiment rather than durable funding support. That increases downside convexity if growth data weakens or funding conditions tighten.



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