



Independent Macro Strategy for Contrarian Thinkers

WEEKLY BRIEFING

Week of December 8-14 2025

Executive Take | Macro Regime

Executive Take

The market is navigating a dangerous disconnect. While the surface narrative is unequivocally bullish, the underlying financial plumbing is showing clear signs of strain. Liquidity conditions have tightened, funding markets are under pressure, the Treasury's cash balance remains elevated, and reserves are approaching the Fed's minimum comfort level. This fragile foundation clashes with the extreme complacency reflected in credit spreads at cycle lows and market positioning that has aggressively priced in a dovish Fed pivot. The current "bad data is good news" rally is fueled by the expectation that economic weakness will force immediate rate cuts, but this reflects a policy response to decelerating growth, not a triumphant soft landing. In this environment, the prudent course is to use market strength as an opportunity to derisk and upgrade quality, rather than to chase a rally built on deteriorating fundamentals.

Macro Regime

The economy is in a precarious transition. While growth is slowing without collapsing illustrated by Q3 earnings rising roughly 11 percent leading indicators continue to soften beneath the surface. Inflation is easing but remains stubbornly above target, and the Fed's recent decision to end Quantitative Tightening on December 1 acknowledges the underlying stress as reserve levels approach a critical floor. Futures markets are now pricing in an aggressive policy response, with an approximately 80 percent probability of a December rate cut, signaling that the market sees weakening data as a mandate for easing. This is compounded by decelerating global growth outside the U.S. Taken together, the current macro tone is neutral but on a negative forward trajectory, suggesting a pivot from resilience to policy-driven support as fundamental momentum fades.

Liquidity | Credit | Positioning

Liquidity Check

The current liquidity regime is firmly in contraction, with momentum turning negative across key indicators. System buffers have eroded: bank reserves hover near the Fed's ample floor at roughly \$2.8 trillion, while a bloated Treasury General Account between \$800 and \$950 billion continues to drain cash from the system. The traditional cushion is gone, as evidenced by the overnight reverse repo facility sitting at zero and funding markets flashing stress; GC repo trades above the policy ceiling and key rates like the EFFR remain elevated. These pressures have forced the Fed to halt quantitative tightening, and their public discussion of future "reserve management" purchases confirms the system is operating with minimal slack. The overall bias is a tightening-leaning neutral; conditions are not supportive of risk assets and are far from the easing backdrop the market expects.

Credit Check

Credit markets are signaling extreme complacency, with risk premia compressed to dangerous levels. High-yield spreads sit in a narrow band of 2.9–3.1 percent, while investment-grade spreads remain tight at 81–84 basis points, reflecting a pricing of near-perfect conditions. This is confirmed by key credit derivatives, with CDX indices for both IG and HY trading near cycle lows. Even short-term funding, as seen in commercial paper rates drifting lower, suggests a calm surface. However, this placid credit environment stands in stark contrast to the clear stress signals emerging from the liquidity and funding markets. This divergence is a hallmark of the late cycle, where historically tight spreads offer negligible protection and fail to compensate investors for the rising volatility in the system's financial plumbing. The overall credit bias is therefore clear: conditions are tight, structurally fragile, and acutely vulnerable to any external shock or a sudden reassessment of risk.

Positioning

Positioning across markets reflects a late-cycle, extended risk-on stance with clear signs of complacency. Investors are positioned aggressively for a dovish outcome, with markets fully priced for a December rate cut and SOFR options heavily skewed toward upside calls. This conviction is mirrored in the Treasury market, which holds its largest net long position since 2010, while ETF flows reveal strong demand for duration and investment-grade credit. In equities, although sector positioning may lean defensive, the underlying behavior is not cautious: market breadth remains weak, every dip is bought, and a low put/call ratio near 0.54 signals a distinct lack of hedging demand. Beneath this confident facade, a significant structural risk persists in the roughly \$2.4 trillion hedge fund basis trade, which remains acutely vulnerable to a spike in repo funding rates. Overall, the positioning bias is unambiguous: the market is leaning long into an aging cycle, with risk appetite extended and vulnerability high.

Cross Asset Pulse | Theme of the Week

Cross Asset Pulse

Equities

Trend is still up, but breadth is weak. Defensive sectors lead while semiconductors and crypto lag. Every dip is bought, but the rally is running ahead of liquidity. This is late-cycle behavior, not early-cycle strength.

Treasuries

Duration continues to attract flows as markets price heavy cuts. The front end is stable but not loose; the long end benefits from growth concerns. Positioning is crowded long, increasing reversal risk on any strong data print.

IG Credit

Spreads sit near 80–84 bps. Tight, complacent, and misaligned with funding stress. Supply has been easily absorbed, but valuations offer little cushion if liquidity deteriorates further.

HY Credit

HY OAS around 2.9–3.1 percent. This is the danger zone: spreads price perfection with no allowance for liquidity shocks, basis-trade unwind risk, or earnings weakness. HY is the most vulnerable part of credit right now.

DX

Dollar remains soft as rate-cut bets build, but softness is fragile. USD/JPY sits near 156 and is susceptible to a BoJ shift. EUR and GBP benefit from dovish Fed expectations, but none of these moves are supported by improving global growth.

Gold

Cleanest cross-asset signal. Funding stress + dovish pivot + soft dollar = tailwind. Gold continues to attract flows as the quiet hedge against a liquidity accident.

Commodities

Mixed. Copper lacks liquidity support and demand is lukewarm. Energy curves are mildly backwardated but not signaling strong macro momentum. Commodity beta is not a buy until liquidity expands.

Crypto

Lagging the risk rally. Weak breadth, fading momentum, and sensitivity to funding costs make it a poor proxy for risk appetite right now. Crypto strength typically requires liquidity expansion, which is not present.

Theme of the Week

This last burst of market optimism is built on a precarious contradiction: a "dovish pivot" colliding with tight liquidity. The celebration of impending rate cuts ignores the troubling catalyst; these cuts are a necessary response to funding strain, reserve scarcity, and a weakening macro foundation, not a reward for a healthy economy. History shows that when policy easing is driven by deteriorating financial plumbing rather than strong fundamentals, the resulting rallies tend to be brittle and short-lived. The current risk appetite, therefore, is resting on an unstable base of tightening funding conditions, setting the stage for potential volatility once the disconnect between celebration and cause is resolved.

Tactical View | Contrarian Decoder | Final Signal

Tactical View

Asset Class	Comment
Equities	Neutral. Trim high-beta and crowded exposures. Favor defensives and cash-flow quality.
Fixed Income	Favor 2–7 year duration. IG over HY. Avoid chasing the long end.
Cash	Maintain 15–25 percent. Optionality matters in tightening liquidity regimes.
FX	Mild USD downside bias; long JPY and GBP preferred. Avoid crowded EM.
Commodities	Gold remains the clean hedge. Keep other commodity exposure tactical.
Volatility	Do not sell vol aggressively. Funding stress raises tail risk.

Key triggers for regime confirmation:

Bullish → liquidity momentum turns positive, reserves stabilize.

Bearish → repo spreads widen, TGA builds further, HY cracks, or the curve re-inverts more deeply.

Contrarian Decoder

The market is at a clear point of divergence. While the consensus narrative tells a comforting story that rate cuts are bullish, credit is calm, and a soft landing is secure the underlying data points to a different and less forgiving reality. The truth is, cuts are becoming necessary not out of strength, but because reserves are falling, funding markets are strained, and growth is clearly rolling over. Credit spreads are at cycle tights not because of health, but due to mispricing; they are a trap for the complacent. The disinflation being celebrated stems from weakening demand, not policy genius. This is the fundamental tension: the consensus sees a reason to rally, while the state of liquidity sees the exhaustion that typically precedes a shift.

Final Signal

We are witnessing a classic late-cycle melt-up, where bullish price action is increasingly disconnected from its deteriorating foundation. While indices push higher, liquidity conditions are tightening, credit spreads reflect dangerous complacency, and market positioning has become stretched. This is not the beginning of a new, sustainable bull regime, but rather the final phase of an aging cycle. The prudent strategy is to use this market strength not to chase, but to derisk; trimming speculative exposures, upgrading into high-quality assets with strong balance sheets, and building defenses. Investors should prepare for a volatility event likely triggered by funding market stress, as the next sustained market trend will ultimately be dictated by the harsh realities of liquidity, not the prevailing optimistic narrative.