WEEKLY BRIEFING

Week of December 22-28, 2025

Executive Take | Macro Regime

Executive Take

The global macro backdrop is becoming more unstable, not more supportive. Inflation remains sticky across major economies, forcing central banks to move in different directions. The Fed has cut rates, but Europe remains constrained by inflation and Japan is preparing to tighten policy for the first time in decades.

Liquidity conditions remain tight beneath the surface. Banks are optimizing balance sheets, repo markets are sensitive, and global excess cash buffers have largely disappeared. Credit spreads remain compressed and positioning continues to price a smooth easing cycle that is increasingly unlikely.

Markets are misreading policy divergence as relief. The reality is rising fragility.

Macro Regime

The global economy is entering a complex and risky new chapter. Growth is undeniably slowing across major regions, yet inflation, the stubborn problem central banks have fought for years remains a persistent threat. U.S. inflation is still above target, Europe just saw its inflation rate jump back up, and Japan is now facing price pressures it hasn't seen in decades. The critical issue is that this is forcing the world's top central bankers to act in opposite directions: the U.S. Fed has cautiously cut rates due to domestic weakness, while Europe's central bank is holding firm and Japan is actively preparing to raise rates for the first time in a generation. This dangerous divergence marks a classic late-cycle dilemma where policy options are narrowing and the coordinated response that markets rely on is breaking down, setting the stage for increased financial volatility and unpredictable crosswinds for investors.

World Econonic Dashboard

Country	GDP (USD)	GDP QoQ	GDP YoY	CPI YoY	Core CPI YoY
United States	29,184.89B	3.80%	2.10%	2.70%	2.60%
Euro Zone	16,406.13B	0.30%	1.40%	2.10%	2.40%
China	18,743.80B	1.10%	4.80%	0.70%	1.20%
Japan	4,026.21B	-0.60%	1.10%	2.90%	3.00%
Germany	4,659.93B	-0.20%	0.30%	2.30%	2.70%
United Kingdom	3,643.83B	0.10%	1.30%	3.20%	3.20%
France	3,162.08B	0.50%	0.90%	0.90%	1.00%
India	3,912.69B	2.00%	8.20%	0.71%	-
Italy	2,372.77B	0.10%	0.60%	1.10%	1.70%
Brazil	2,179.41B	0.10%	1.80%	4.46%	5.12%
Canada	2,241.25B	0.60%	1.40%	2.20%	2.90%
South Korea	1,712.79B	1.30%	1.80%	2.40%	2.30%
Russia	2,173.84B	-0.80%	0.60%	6.60%	6.12%
Spain	1,722.75B	0.60%	2.80%	3.00%	2.60%
Australia	1,752.19B	0.40%	2.10%	3.80%	3.30%
Mexico	1,852.72B	-0.30%	-0.10%	3.80%	4.43%
Indonesia	1,396.30B	1.43%	5.04%	2.72%	2.36%
Turkey	1,323.25B	1.10%	3.70%	31.07%	31.65%
Switzerland	936.56B	-0.50%	0.80%	0.10%	0.40%

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Liquidity | Credit | Positioning

Liquidity Check

The financial system's available cash isn't growing, it's being carefully rationed. Banks are now moving their last bit of spare cash out of central bank accounts and into ultra-safe, short-term government bills. This isn't a bet on interest rates; it's a defensive scramble to protect their balance sheets when there's very little extra money to go around. All the early warning signs point to a squeezed system: the emergency cash facility is empty, the crucial short-term lending market is on edge, and any moves to buy Treasury bills are now just patchwork fixes for a creaky system, not a sign of new stimulus. The safety nets that cushioned markets a year ago are gone. This is the behavior of a financial system in its later, more fragile stages, not one that's just beginning a new growth cycle.

Credit Check

Credit markets are showing no signs of panic, but that lack of fear is precisely the danger. Investors in both high-yield "junk" bonds and safer investment-grade corporate debt are accepting historically low returns for the risk they're taking, behaving as if the economic outlook is perfectly smooth.

This creates a hidden trap. The financial safety nets are gone, global central banks are moving in different directions, and the system's cash flow is tightening. Yet, corporate bond prices don't reflect any of this brewing trouble.

The risk is now lopsided. With returns so low, there's little reward left for investors, but the potential for a sudden, sharp drop is high if anything goes wrong. Credit isn't sounding an alarm; it's sleeping through one.

Positioning

Positioning remains one-sided:

- Markets continue to price multiple cuts in 2026.
- Long-duration exposure is crowded.
- Carry and basis trades remain elevated.

Speculative interest remains concentrated in AI-linked equities.

This leaves positioning vulnerable to policy disappointment, funding volatility, or a stronger dollar.

Yield Spreads Matrix

	US	CA	DE	FR	IT	JP	AU	CN	IN
30Y vs 10Y	67.9bp	42.0bp	63.5bp	91.3bp	90.9bp	139.5bp	51.5bp	39.0bp	68.7bp
30Y vs 5Y	113.0	89.8	104.8	162.5	155.9	193.2	99.5	62.5	94.5
30Y vs 2Y	133.3	127.2	138.2	223.8	217.0	232.4	126.7	89.0	146.8
30Y vs 3M	120.8	169.9	154.1	242.8	241.5	274.9	-	-	204.3
10Y vs 5Y	45.1	47.8	41.3	71.2	65.0	53.7	48.0	23.5	25.8
10Y vs 2Y	65.4	85.2	74.7	132.5	126.1	92.9	75.2	50.0	78.1
10Y vs 3M	52.9	127.9	90.6	151.5	150.6	135.4	-	-	135.6
5Y vs 2Y	20.3	37.4	33.4	61.3	61.1	39.2	27.2	26.5	52.3
5Y vs 3M	7.8	80.1	49.3	-	85.6	81.7	-	-	109.8

Cross Asset Pulse | Theme of the Week

Cross Asset Pulse

- **Equities:** Narrow leadership, rising dispersion, fading AI momentum.
- **Rates:** Long-end supported by growth fears, front-end constrained by sticky inflation.
- **Credit:** Calm but fragile.
- **FX:** Dollar vulnerable to policy confusion but supported by global stress.
- **Commodities:** Gold supported as a hedge against policy error.
- **Crypto:** Sensitive to liquidity swings, lacking a clear tailwind.

Cross-asset signals reflect redistribution, not expansion

Theme of the Week

"Policy Divergence Meets Sticky Inflation."

Markets are celebrating a U.S. rate cut while ignoring the global picture. Europe cannot ease, Japan is tightening, and inflation remains stubborn. This is not synchronized relief. It is fragmented policy in a tight liquidity system.

That combination historically produces volatility, not smooth rallies.

CE Dashboard

Ticker	Name	Last Price	1-Day %	Sparkline Graphs (1Y)	Total Return (1M)	Total Return (3M)	Total Return (YTD)	CAGR Total Return (5Y)	Price (1Y Ago)
Unclassified									
• WALCL	Assets: Total Assets...	6,556,861.00	0.27%		-0.36%	-0.78%	-4.31%	-2.29%	6,897,485.00
• WTREGEN	Liabilities and Capit...	833,093.00	-3.01%		-12.66%	10.14%	15.73%	-11.43%	775,067.00
• RRPONTSYD	Overnight Reverse R...	3.05	-73.98%		169.88%	-73.18%	-99.36%	148.49%	112.42
• DXY	United States Dollar	98.60	0.17%		-1.63%	0.98%	-9.09%	1.84%	108.40
• BTCUSD	Bitcoin - United St...	88,347.94	0.19%		3.51%	-23.42%	-5.72%	30.44%	95,103.88
+ Add Ticker	+ New Group								
CREDIT									
• HYG	iShares High Yield ...	80.36	-0.52%		1.20%	0.80%	8.23%	3.92%	78.09
• LQD	iShares iBoxx IG C...	110.13	-0.65%		0.54%	0.04%	7.84%	-0.70%	106.56
+ Add Ticker	+ New Group								
POSITIONING AND RISK									
• SPX	S&P 500	6,834.50	0.88%		2.90%	2.55%	16.20%	12.99%	5,867.08
• NDX	NASDAQ 100	25,346.18	1.31%		2.86%	2.92%	20.63%	14.73%	21,110.51
• RTY	Russell 2000 Index	2,529.42	0.86%		7.73%	3.29%	13.42%	5.12%	2,221.50
• VIX	CBOE SPX Volatilit...	14.92	-11.56%		-36.94%	-3.62%	-13.86%	-7.10%	24.09
• GC1	Gold	4,339.49	0.20%		6.40%	17.77%	65.35%	18.18%	2,593.51
• HG1	Copper	5.41	1.13%		7.42%	18.56%	36.00%	8.29%	4.02
• CL1	WTI Crude Oil	56.57	1.02%		-4.52%	-9.95%	-21.20%	2.87%	69.38
• USYC10Y2Y	United States Yield...	0.654%	-0.46%	-	21.11%	19.56%	101.85%	-4.53%	0.244%
• USYC10Y3M	United States Yield...	0.529%	-1.31%	-	98.13%	241.29%	109.92%	-9.29%	0.240%

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Tactical View | Contrarian Decoder | Final Signal

Tactical View

Equities	Maintain exposure but reduce beta; favor quality and rotation beneficiaries over crowded growth as upside becomes incremental.
Fixed Income	Hold duration as a hedge against growth disappointment, but avoid leverage given funding sensitivity and curve compression.
Credit	Stay selective and defensive; tight spreads offer poor compensation for late-cycle liquidity and funding risks.
FX	Treat dollar weakness as tactical; policy divergence and funding stress keep asymmetric upside risk to USD.
Commodities	Favor gold as a hedge against policy error and liquidity stress; industrial commodities remain range-bound without growth acceleration.
Liquidity	Operate with caution; short-term improvement does not offset structurally thin buffers and elevated regime fragility.

Contrarian Decoder

What the market thinks:
The Fed cut signals the start of a global easing cycle.

What is actually happening:
The Fed is easing into domestic weakness while Europe and Japan remain constrained by inflation. Global liquidity is not expanding. It is fragmenting.

Banks buying Treasuries are not betting on recession. They are protecting flexibility in a tighter system. Central banks are not coordinating stimulus. They are reacting to different inflation realities.

This is not strength. It is fragility being managed.

Final Signal

Sticky inflation and diverging central bank policies are creating a more unstable global environment. Liquidity is tight, positioning is crowded, and credit is complacent.

The next phase is unlikely to be smooth. Expect volatility, rotation, and episodic stress. Discipline and capital preservation matter more than chasing upside.

Signal: Defensive bias. Focus on quality. Prepare for liquidity-driven dislocations.

Liquidity Regime Overlay (CE Signal Check)

Liquidity Regime Update

The CE liquidity framework has shifted modestly, but not convincingly, toward expansion. The current regime is classified as Liquidity Expanding, with positive momentum, but the duration in regime remains very short. That combination matters.

Early-stage expansions that emerge late-cycle and into year-end funding windows tend to be unstable. They often reflect short-term liquidity management and positioning effects rather than a durable improvement in underlying funding conditions.

Importantly, this is not a green light. It is a conditional reprieve.

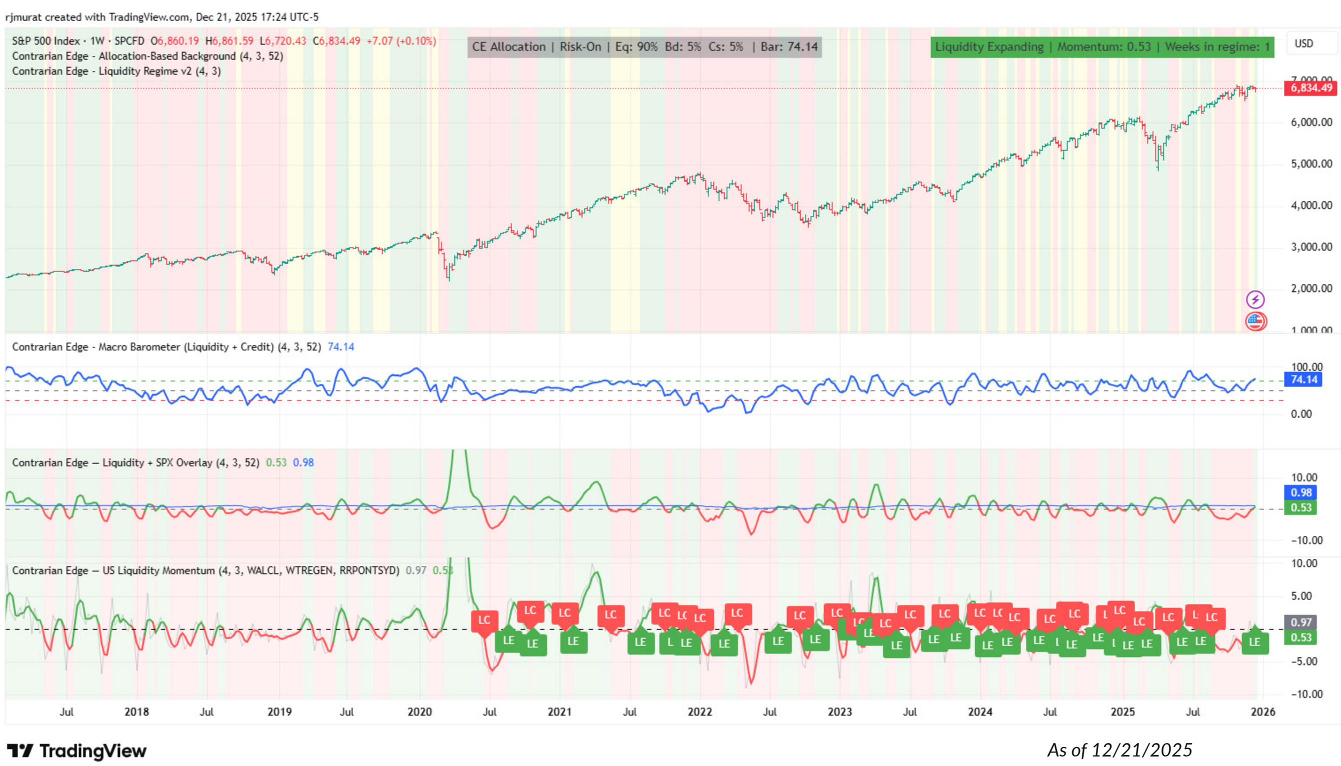
Markets can continue to grind higher in short-lived expanding liquidity regimes, particularly when positioning is supportive. But without a sustained improvement in reserves or funding buffers, upside remains fragile and increasingly dependent on sentiment.

The risk profile remains asymmetric. If growth data disappoints or funding conditions tighten into year-end, downside convexity rises quickly. Liquidity has improved at the margin, but the system is still operating with thin cushions.

Macro Barometer:
The move into the upper range reflects late-cycle optimism being priced in, not a durable improvement in fundamentals.

Liquidity + SPX Overlay:
Equities are rising alongside a short-term liquidity lift, but history shows similar late-cycle setups tend to resolve through consolidation or volatility rather than sustained acceleration.

U.S. Liquidity Momentum:
Liquidity momentum has turned marginally positive, but without a replenishment mechanism it represents temporary relief, not a regime shift.



As of 12/21/2025

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Sources | Methodology | Disclosures

Data Sources

Analysis in this report incorporates publicly available data, market pricing, and institutional data feeds, including but not limited to:

- *Bloomberg*
- *TradingView*
- *Federal Reserve Economic Data (FRED)*
- *Federal Reserve H.4.1 and Daily Treasury Statements*
- *U.S. Treasury*
- *European Central Bank*
- *Bank of Japan*
- *ICE BofA Credit Indices*
- *CME Group (Fed Funds and SOFR futures)*
- *Public issuer disclosures and market pricing*

All data is believed to be reliable at the time of publication but is not guaranteed as to accuracy or completeness.

Framework & Methodology

Contrarian Edge analysis is based on a proprietary macro framework focused on three primary pillars:

Liquidity: central bank balance sheets, reserves, funding markets, and liquidity transmission mechanisms

Credit: spreads, curves, and funding stress indicators

Positioning: market structure, flows, and risk concentration

Research is synthesized through the Contrarian Edge Liquidity Regime Model, Macro Barometer, and cross-asset confirmation tools. Commentary reflects the interpretation of observable market conditions rather than forecasts or predictions.

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