

# WEEKLY BRIEFING

Week of December 1-7 2025

## Executive Take | Macro Regime

### Executive Take

Markets continue to trade as if a soft landing is guaranteed, but the underlying liquidity picture is tightening into year-end. The Treasury's cash rebuild is draining reserves, ON-RRP is effectively empty, and repo remains above the Fed's upper bound a signal that funding pressure is real. Credit spreads are still at cycle tight despite softer macro data, and positioning is crowded into rate cuts, long duration, and quality tech leadership.

The surface looks calm. The plumbing says otherwise.

**CE stance:** stay defensive-tilted and respect the liquidity squeeze.

### Macro Regime

The macro narrative remains constructive, but late-cycle signals are growing:

- Earnings expectations ~11% YoY continue to support the soft-landing story.
- PMIs mixed; global manufacturing remains weak.
- Europe and China are slowing; U.S. labor appears resilient on the surface.
- Fed officials turned more dovish — NY Fed President Williams signaled that QT effectively ends December 1, shifting to reinvestment of maturing Treasuries.
- Fed funds futures now price an ~80% probability of a December rate cut.

**Macro read:**

Still supportive for risk assets, but extremely sensitive to liquidity conditions and data surprises.

## Liquidity | Credit | Positioning | Cross Asset Pulse

### LIQUIDITY CHECK

Liquidity remains the primary headwind into December:

- TGA near ~\$800B, removing reserves from the system.
- ON-RRP at zero, eliminating the buffer that supported liquidity during QT.
- Reserves down ~350B since mid-year.
- GC repo ~4.05%, above the Fed's upper bound — a direct indication of funding stress.
- QT ending helps medium-term, but near-term liquidity continues to tighten.

Liquidity read:

Contracting. Funding stress visible.

Markets are not pricing the liquidity squeeze.

### Credit Check

Credit remains mispriced relative to the macro backdrop:

- HY OAS ~3.1%, near cycle tights.
- IG OAS ~84 bps, stable but tight.
- Brief mid-November widening reversed quickly.
- Primary issuance still absorbed, but lower-quality borrowers remain vulnerable.
- CRE and leveraged loans present structural risks not reflected in spreads.

Credit read:

Spreads offer almost no cushion if liquidity deteriorates.

Credit is still pricing a smooth landing that liquidity conditions do not confirm.

### Positioning

Positioning is heavily skewed toward a dovish pivot:

- Fed funds futures OI up ~275k contracts; December cut priced at ~80%.
- SOFR call spreads continue to attract flows (targeting 96.25).
- Equities net-long; concentrated in megacap quality and AI.
- Treasury longs at the highest level since 2010.
- Hedging flows rising in gold and duration, but equity volatility hedging remains light.

Positioning read:

*Crowded, one-sided, and vulnerable to macro disappointments or liquidity shocks.*

### Cross Asset Pulse

Asset Class	Comment
Equities	Rally held into late November; leadership narrow. Semis and crypto lag, early risk fatigue.
Treasuries	Yields moved lower; 2s/10s no longer inverted. Curve flattening toward neutral.
IG Credit	OAS stable near ~84 bps; still pricing stability.
HY Credit	~3.1% spreads — cycle tights, minimal cushion.
DXY	Softened after prior spike; USD/JPY rolling over. EM FX vulnerable.
Gold	Bid on safe-haven and pivot expectations.
Commodities	Oil weak despite geopolitics; supply improving. Broad commodities lack momentum.
Crypto	Weak; consistent with tightening liquidity.

**Cross-Asset Read:**  
Supportive surface tone but late-cycle fragility underneath. Divergences are widening.

## Theme of the Week | Tactical View

### Theme of the Week

#### Soft Landing vs. Liquidity Squeeze

Markets are banking on a smooth “soft landing”; expecting lower inflation, future rate cuts, and steady growth. Yet beneath the surface, liquidity conditions are flashing warnings of a potential squeeze. Cash is being pulled from the system as the Treasury drains reserves, the Fed’s overnight funding facility is depleted, and short-term lending rates remain elevated. Meanwhile, reserves are contracting, credit spreads remain unusually tight, and stock market leadership continues to narrow. In short, while the market narrative assumes an orderly pivot, liquidity is signaling the opposite—raising the risk that the current optimism could meet a harsher reality.

This is the defining tension into December.

Narrative says “soft landing.”

Plumbing says “tightening.”

### Tactical View

#### Equities

- Trim high-beta risk.
- Stick with quality and earnings visibility.
- Avoid chasing megacap extensions; breadth remains thin.

#### Commodities

- Gold constructive on hedging and pivot expectations.
- Oil vulnerable; supply improving, demand soft.

#### Fixed Income

- Underweight HY; spreads too tight.
- Favor IG credit.
- Duration constructive but hedge around key data (ISM, NFP).

#### FX

- USD in transition; can break either direction.
- EM FX vulnerable if USD firms or liquidity worsens.

#### Tactical stance:

*Selective. Defensive-tilted. Avoid crowded beta. Preserve flexibility.*

## Contrarian Decoder | Final Signal

### Contrarian Decoder

The financial backdrop is quietly shifting in ways that could squeeze markets. In simple terms, the Treasury is pulling cash out of the system, and even banks are charging above normal rates to lend overnight; a sign of underlying stress. At the same time, corporate bond markets are priced for perfect conditions, ignoring cracks in the economy. And while stock gains are concentrated in just a handful of big tech names, much of the broader market isn't participating. The tricky part is that while many investors expect the Fed to start cutting rates, liquidity conditions are actually moving in the opposite direction tightening, not easing and that's something markets haven't fully prepared for

**Translation:**

*The market looks calm because a few big names are holding it up, not because conditions are healthy.*

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### Final Signal

Based on the analysis, financial conditions are showing clear signs of strain: **liquidity is tightening** as funding stress emerges, while credit spreads remain **unsustainably tight**, failing to price in growing late-cycle risks. Markets **positioning is dangerously crowded** in megacap tech, and breath is weakening as leadership narrows, all against a backdrop of shifting USD that adds to further global pressure. This late-cycle setup remains intact, meaning the foundation for a broad rally deteriorating. Consequently, the **upsite appears narrow and fragile**, while the **downside remains significantly underpriced** by a market clinging to optimistic narratives.

**Favor:** quality equities, IG credit, gold

**Reduce:** HY, high-beta equities, EM beta

**Watch:** repo spreads, TGA path, USD trend, HY OAS, equity breadth