

Good morning,

What's in this week's Report:

- Can the Market Rally Without AI and a Dovish Fed?
- Weekly Market Preview: Santa Rally On?
- Weekly Economic Cheat Sheet: More Insight on Growth
- An Interesting Chart to Show Clients: Santa Tends to Arrive in the Second Half of December

Futures are higher mostly on momentum from Friday's rally and following a quiet weekend of news, as AI-linked tech stocks continued to rebound.

Both gold and silver hit new all-time highs on rising geopolitical tensions as U.S. forces boarded another oil tanker bound for Venezuela, further increasing tensions.

Economically, the only notable report overnight was the United Kingdom's Q3 GDP, which met expectations, rising 0.1% q/q and 1.3% y/y.

Market and economic calendars are mostly quiet this week, including today, with no notable economic reports or Fed speakers. That said, geopolitics remains a potential market mover this week if we see a further increase in tensions between the U.S. and Venezuela.

Market	Level	Change	% Change
S&P 500 Futures	6,912.50	25.25	0.37%
U.S. Dollar (DXY)	98.43	-0.17	-0.17%
Gold	4,451.45	64.15	1.47%
WTI	57.75	1.23	2.18%
10 Year	4.165%	-0.016	-0.38%

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks wavered between early-week losses amid rising geopolitical tensions in the Western Hemisphere and negative AI-tech headlines; however, they recovered most of those losses after a key AI tech company delivered blowout quarterly earnings and robust forward guidance. The S&P 500 edged up 0.13% on the week. U.S. equities began last week with modest losses as further profit-taking in mega-cap tech dragged the broader market indices lower. At the same time, weak global economic data rekindled worries about growth. However, news that former Fed Governor Warsh had overtaken former front-runner Hasset (currently the Chief White House Economic Advisor) helped quell "Fed independence" worries. Declining bond yields helped stocks steady, and the S&P 500 ended lower by just 0.16%.

Stocks continued to fall on Tuesday as more soft economic data from overseas preceded a concerning rise in the official BLS Unemployment Rate to 4.6%, a fresh multi-year high. In contrast, Retail Sales data and the U.S. Composite Flash PMI both missed estimates. Stocks reversed off the lows on news that President Trump was also considering the Fed's Waller as a candidate for the next Fed Chair, which saw the S&P 500 end down 0.24%.

Volatility picked up considerably on Wednesday, initially thanks to rising geopolitical tensions in the Caribbean as President Trump announced a naval blockade preventing any oil tankers from entering or leaving Venezuela after the U.S. officially designated that nation's President Maduro and his regime as a terrorist organization. Selling pressure intensified when news broke that a key capital partner of legacy tech giant ORCL opted out of participating in the company's latest data center investments, denting optimism surrounding the AI narrative. The S&P 500 ended near the lows, down 1.16%.

Stocks snapped a four-day losing streak on Thursday as the major indexes gapped meaningfully higher on a blowout earnings release from large-cap tech company MU, which rekindled AI optimism. There was limited follow-through, however, as AI-darling NVDA and other AI-sensitive names struggled to extend gains. News that House Democrats introduced a bill to ban AI chip sales to China capped gains, but the S&P 500 still rose 0.79%.

U.S. equities rallied out of the gate on Friday amid continued strength in mega-cap tech, which extended gains after MU reported robust earnings. At the same time, economic data was largely Goldilocks, with a slight dip in both the December Consumer Sentiment headline and the November Existing Home Sales data. The morning rally lost momentum as the S&P approached technical resistance near Monday's highs and the market chopped sideways into a record Triple Witching options expiration, ending with a 0.88% gain.

Can the Market Rally Without AI and a Dovish Fed?

Stocks weathered more mixed tech news and conflicting economic data last week to eke out a small gain. Still, the price action of the past few weeks gives us insight into an increasingly important question once year-end positioning and window dressing end and the calendar flips to 2026: can the market hold up if AI Enthusiasm and a dovish Fed aren't helping it?

The reality is that two of the most important pillars of the rally (AI Enthusiasm and expected Fed rate cuts) will not be in place as we start 2026. Regarding AI, it appears we are entering a phase where there are mega-cap winners (Micron) and potential losers (Oracle), depending on specific performance, and that fracturing, while not demonstrably bearish, will remove a broad, tech-driven tailwind that propelled the S&P 500 in 2025.

Turning to the Fed, there's a lot of uncertainty about future cuts, but the bottom line is that, with the Fed very divided, regardless of who the new chair is, it'll be hard to get the FOMC to pivot dovishly. And while there may be a rate cut in 2026, for all intents and purposes, the Fed is on hold.

So, can the market hold up without those two previous tailwinds (AI Enthusiasm and dovish Fed)? The answer is yes, but only as long as economic growth stays solid.

A few weeks ago, we showed that as long as economic growth is solid, the rest of the market can rally even if tech is weak. Similarly, the rest of the market can rally even without the looming Fed rate cuts, but the key is that growth stays solid and we do not have a slowdown scare.

Bottom line, this market will enter 2026 with weakened bullish tailwinds from AI and the Fed, but that doesn't mean this market can't 1) Hold 2025 gains and 2) Extend them as long as economic growth stays solid (and we'll be watching the data closely to make sure it does, because if it doesn't, the outlook will turn more negative).

Economic Data (What You Need to Know in Plain English)

Last Week

There was a data deluge last week on the growth and inflation front. Still, for all the releases, at the end of last week, the economic outlook was essentially unchanged, i.e., growth is generally solid, the labor market is losing momentum (a potential risk to monitor, but it's not a problem yet), and inflation remains largely stable (and not high enough to cause the Fed to get more hawkish). The net result of all of that is that economic data and inflation remain Goldilocks sufficient to help support stocks, and that's a good thing.

Looking at the specific reports, the headliner last week was the jobs report, which mostly fell into our "Just Right" category. November job adds were 64k vs. (E) 40k, while wages were better than expected, and the unemployment rate rose to 4.6% vs. (E) 4.5%, a four-year high. Additionally, the October jobs report was released at the same time and showed a negative 105k job loss. But while the 4.6% unemployment rate and -105k October jobs reading imply the labor market is deteriorating, both need to be taken with a grain of salt. Regarding the unemployment rate, it rose because more people entered the labor pool, not because more people lost their jobs. Looking at the October jobs number, that -105k was driven almost entirely by the accounting of DOGE federal government workers that were laid off in the spring but finally had their severance end, so they were now counted as terminated.

Bottom line, for all the noise, the October and November jobs reports confirmed what we all already knew: Yes, the labor market is losing momentum, and that's a potential economic risk we need to monitor in 2026, but so far, it's not to a point that would make us more broadly concerned about growth.

Looking at other growth data last week, it was generally fine. Retail Sales was the next most important report, and the headline was soft (flat vs. 0.1%), but that was because of a drop in automobile purchases. The more important "Control Group," which is our best look at discretionary spending, rose 0.8% and solidly beat estimates, suggesting that, through November, consumer spending remained solid (a major economic positive).

Finally, the various PMIs from last week (Empire, Philly, and the Flash Composite PMIs) were generally "fine. They provided no major surprises that would suddenly make us more worried about growth. Looking a bit deeper, Empire and Philly both missed estimates and were negative, but these are volatile metrics, and the declines aren't bad enough to imply a sudden loss of momentum.

Turning to the national flash PMI, both manufacturing and services missed estimates and declined from November, but they both remained comfortably above 50 (51.8 for manufacturing and 52.9 for services). As such, they aren't implying contraction in the labor market.

Turning to inflation, the key report was Thursday's CPI, and it was much better than expected as headline CPI rose 2.7% y/y vs. (E) 3.1% y/y, while core CPI rose 2.6% vs. (E) 3.0%. Both of those numbers are, ostensibly, dovish, and they were welcomed by markets, as falling inflation would make more Fed rate cuts more likely in 2026. However, the numbers aren't as good as they look. Due to the government shutdown, several categories in the CPI report were essentially omitted or "guessed," including the critical shelter costs, which are about 1/3 of the entire CPI. So, CPI isn't as good as the numbers last week implied, but there's nothing in the data to suggest inflation is surging, either (the price indices in all the PMIs were generally ok). Bottom line, last week was the final big week of data for 2025, and while it wasn't perfect, it was good enough to support stocks.

Important Economic Data This Week

This week is relatively quiet on the data front, not just because of the Christmas holiday. The key report is today's Core PCE Price Index. This is a delayed release from October, but it still matters, and if it shows another benign inflation reading (like we saw from CPI), that will increase hopes for more rate cuts in 2026.

Beyond inflation, there are several growth updates that markets will want to see confirm current stable growth expectations. Durable goods, which is our best look at business spending and investment, comes out on Tuesday, while the final look at Q3 economic activity via the Q3 GDP is released on Wednesday. Industrial production is also released on Tuesday. Finally, jobless claims come on Wednesday.

Given likely sparsely populated trading desks, it'll take some shocking good or bad numbers to move markets from the above releases, and, more broadly, markets do still want a continuation of Goldilocks economic data (not so good it makes the Fed more hawkish, but not so bad it raises growth concerns). Goldilocks economic data will help to support stocks through year-end.

Special Reports and Editorial

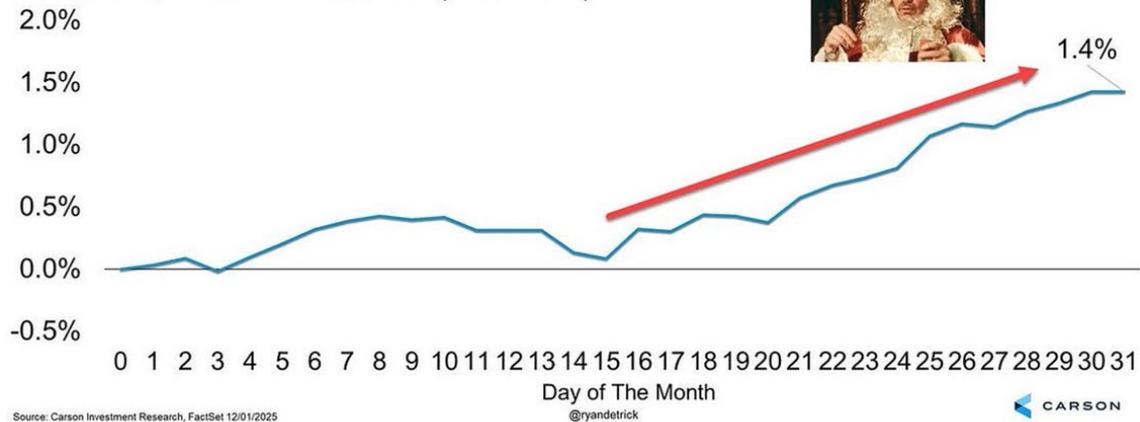
An Interesting Chart to Show Clients: Santa Tends to Arrive in the Second Half of December

Historically, December is one of the stock market's best months of the year. According to Carson Group's Ryan Detrick, it has averaged a 1.4% return over the last 75 years (ranking second only to November) and has been positive 73.3% of the time (the highest win rate of all months).

The rationale for why the last month of the year is traditionally a good one includes holiday spirit, lighter trading volumes, fund manager "window dressing," year-end bonuses, anticipation of the "January Effect," etc.

Santa Comes Later In December

S&P 500 Index Returns In December (1950 - 2024)



Interestingly, the above-average performance is due to the second half of the month. As you can see from the chart above, nearly 100% of December's average return since 1950 has come from the back half of December (Through the first half of this month, the S&P 500 is down 0.67%, pretty much in line with the first half of December's typical choppiness.)

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