

Good morning,

What's in this week's Report:

- Updated Market Outlook Post Fed Decision & AI Disappointment (Still Bullish?)
- Weekly Market Preview: Does Data Stay Goldilocks
- Weekly Economic Cheat Sheet: Jobs Report Tomorrow is the Key Event
- What Does the Fed Decision Mean for Markets? (Bullish Short Term but Not Long Term)

Futures are solidly higher on rising hopes that Kevin Warsh, not Kevin Hassett, would be the next Fed Chair.

President Trump said that Fed Governor Warsh had moved to the top of his Fed Chair list, which is positive, as markets view Warsh as more independent than Hassett.

Economically, Chinese data disappointed as retail sales, industrial production, and Fixed Asset Investment missed estimates.

Today's focus will be on economic data, with the first data point for December: Empire Manufacturing (10.6). This is a volatile metric, but as long as it's mostly stable (so no significant drop), it shouldn't weigh on markets.

We also get the Housing Market Index (E: 38) and have two Fed speakers: Miran (9:30 a.m. ET) and Williams (10:30 a.m. ET). Of the two, Williams is the most important, and if he's dovish, it should help support markets.

Market	Level	Change	% Change
S&P 500 Futures	6,861.50	30.75	0.45%
U.S. Dollar (DXY)	98.22	-0.18	-0.18
Gold	4,372.00	43.70	1.01%
WTI	57.13	-0.11	-0.19%
10 Year	4.167%	-0.028	-0.67%

Stocks

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

Stocks wavered between gains and losses over the course of last week as investors digested the Fed's less-hawkish-than-feared December rate cut amidst a fading sense of AI enthusiasm following several key industry earnings releases. The S&P 500 fell 0.61% on the week.

U.S. equities pulled back moderately to start last week as traders monitored the bidding war that broke out between NFLX and PSKY for WBD, while some less-dovish comments from Fed chair hopeful Kevin Hassett weighed on Treasuries. A weak NY Fed Consumer Survey (dovish) and news that the U.S. was set to permit the sale of NVDA's H200 chip to China helped stabilize stocks, but the S&P 500 still fell 0.35%.

The market initially rallied on Tuesday as Hasset's tone regarding the future path of Fed policy became more dovish. At the same time, the NFIB Small Business Optimism Index, the ADP report, and the JOLTS report were all better-than-feared, easing worries about the economy. Stocks turned lower after the *Financial Times* reported that China was set to restrict imports of NVDA chips, and the S&P 500 closed the session down a modest 0.09%.

Stocks remained heavy in early trade on Wednesday, largely thanks to cautious comments from the Bank of Canada, which noted mounting stagflation risks in the wake of their latest policy meeting. The market churned ahead of the Fed decision before a late-session rally was sparked by the surprise announcement of Treasury Bill purchases in the statement and the mention of "significant downside risks to the labor market," both of which were received as dovish and positive for stocks. The S&P 500 rose 0.67%.

There was a clear shift in money flows on Thursday as mixed earnings and disappointing guidance from ORCL weighed on mega-cap tech. At the same time, the expected market-friendly combination of monetary and fiscal stimulus in 2026 kept a firm tailwind behind small-caps, value, and the "rest of the market." The S&P 500 gained 0.21%.

Stocks sold off hard on Friday thanks to poorly received earnings from semiconductor giant AVGO, and a Bloomberg report that ORCL is beginning to delay orders for data centers for OpenAI. Tech weakness and hawkish Fed speak from Hammack and Schmid on inflation saw the S&P 500 close down 1.05%.

Updated Market Outlook Post Fed & AI News

Three of the last "big" events of the year came and went last week, and they did impact markets, but to understand that, we have to look at it in two separate time frames: Between now and year-end and in 2026.

First, covering what happened, the Fed gave us a mixed decision: it cut rates, signaled a pause, and provided investors with a surprise (the T-bill purchases). Then, ORCL earnings (which were the most important of the week) did nothing to reduce rising concerns that all this AI capex may not be sustainable (or produce the best ROI). At the same time, AVGO earnings (which were good) revealed that AI Enthusiasm is under serious pressure. These developments altered the market outlook, though the specific impact will depend on the time frame.

Looking at the market between now and year-end, which I admit is more shortsighted, I am in this Report, but still matters given annual performance numbers, the net impact of last week's news is to favor the "rest of the market" over tech. The Fed decision wasn't hawkish enough to trigger a broader decline, which is why we saw non-tech sectors rally on Thursday and Friday, and that can continue into year-end if the data this week don't contain any negative surprises.

Looking at 2026, the bullish case for stocks has been somewhat diminished. AI Enthusiasm isn't dead by any means, but it has sustained damage, and sooner than later, the market needs news that shows all this massive capex spend is producing positive ROI.

Turning to the Fed, its support for the market was also diminished if we look beyond the short term. According to the Fed, it is effectively "done" with rate cuts, removing a bullish tailwind that has excited markets since mid-2024. Yes, the new Fed chair could be more dovish than Powell, but the chair is just one vote, and as we've seen, the Fed is very divided. Positively, the Fed isn't a headwind for growth, and the Fed's pause isn't a problem as long as economic data stays solid. However, it does diminish a tailwind that's helped stocks rally for more than a year.

So, is the outlook for 2026 suddenly bearish? No. The diminishing of tailwinds doesn't mean the outlook is suddenly negative, so I am not advocating for reducing long exposure. But I do think that, as we start 2026, the case for the "rest of the market" finally taking leadership from tech is the strongest it's been in two-plus years, and I would urge everyone to review exposure to ensure we're not all still married to the fortunes of the tech sector. And if that means increasing allocations to the "rest of the market" and balancing out sector allocations, there are reasons to justify it. To be clear, I'm not negative on tech, but the tailwinds that have propelled tech to massive outperformance over the past few years (and carried the rest of the market higher with it) have been diminished, and that needs to be acknowledged as we head into 2026.

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

Last Week

There weren't many economic events last week. Still, the ones that occurred were important, and the net impact was that neither the Fed nor labor market data surprised markets dramatically, and as such, they allowed stocks to largely stay in year-end rally mode (DJIA & Russell 2000 were up).

Starting with the Fed, there were fears it would execute a "hawkish cut," and to a point it did, although there were enough moving parts that investors could focus on some positives as well, and the net result was that the decision wasn't as bad as feared.

Looking at the specifics, we'll start with the "dovish" events in the decision. First, the Fed did cut by 25 basis points, as widely expected, and that is positive, as lower rates are supportive of economic growth. Second, the Fed announced it would buy short-term Treasury bills to support year-end liquidity and prevent the balance sheet from shrinking now that QT is over. That's not exactly new, and it's not going to be stimulative for the economy. Still, investors interpreted the surprise announcement as mildly dovish, and that helped push yields lower post-meeting and fueled a stock rally.

But as mentioned, this was a complex meeting with dovish and hawkish pieces. So, shifting to the "hawkish" events in the meeting, the Fed did alter forward guidance to reflect the fact that the Fed is likely on hold for the immediate future (something investors weren't shocked by but still wasn't ideal) and that two Fed officials voted for no cut last week, reflecting the fact that the Fed is still very divided.

Finally, Fed Chair Powell, in his press conference, reassured markets that while the Fed has likely paused rate cuts for the time being, there was no intention to hike rates anytime soon, which helped ease concerns that a pause could turn into a hike later in 2026. Additionally, Powell offered some positive commentary on inflation, stating that he thought the economy had absorbed much of the tariff-driven inflation, which was interpreted as implying he was not concerned about future inflation risks (which also reinforces the view that there will be no rate hikes anytime soon).

Bottom line, for all the moving pieces the Fed decision wasn't dovish but it also wasn't hawkish enough to cause a decline in stocks, in part because there are three weeks left in the year and markets "want" to go higher (so, it'll take real bad news to prevent that in the short term and the Fed meeting didn't meet that burden). But the Fed did signal that rate cuts are likely done for the near term and that will be a removal of a market tailwind as we start the new year (although investors won't worry about that until 2026).

Important Economic Data This Week

This is the last busy and important economic week of 2025, and it's made even more so as the government plays "catch-up" from the shutdown.

The key report this week is tomorrow's November jobs report, which should have been released about two weeks ago but was delayed by the government shutdown. As has been the case over the past few months, the key to this jobs report is solidly positive jobs growth. The worst case here would be for a surprisingly negative number that spooks investors into thinking the economy may be slowing at a time when the Fed said it was pausing rate cuts. Barring a surprisingly weak report, this shouldn't impact markets too much between now and year-end (investors will worry about December data in 2026).

While the jobs report is the most important report of this week, it isn't the only notable one, as Tuesday also brings November Retail Sales and the December flash PMIs. Combined, those two reports will give us an updated look at consumer spending and broader economic activity this month, and the key for both is stability. JPMorgan management recently warned of mild softening in consumer spending, and if we get a weak Retail Sales report, that will be a negative surprise. Turning to the flash PMIs, this is the first national data point for December, and investors will not want to see a sudden, sharp deterioration. Again, economic stability is very much priced into stocks at these levels, and the data needs to reinforce that reality.

Finally, not all the important data is on the growth and employment fronts, as we also get the two most important inflation reports for the month this week. Thursday brings the November CPI report, while Friday brings the Core PCE Price Index, and, like most of the other data coming this week, stability is the key. Fed Chair Powell downplayed the risks of tariff-driven inflation last week, which helped stocks overcome the hawkish shift in forward guidance. That optimism needs to be confirmed by the readings in both CPI and the Core PCE Price Index.

Bottom line, this week brings important updates on both growth and inflation. If they don't provide any negative surprises that 1) increase concerns about an economic slowdown or 2) show an inflation pop that gets people worried about rate hikes in 2026, the data should further pave the way for a continued grind higher into year-end.

Special Reports and Editorial

What Does the Fed Decision Mean for Markets? (Bullish Short Term but Not Long Term)

While not a bullish game-changer, the net impact of the Fed decision will be to support a year-end rally, and the reason is apparent: The Fed wasn't as hawkish as feared.

Notably, to reach that conclusion took some work, as there were many moving pieces in the Fed statement. But the net impact of the decision was that the hawkish parts of the FOMC statement weren't worse than feared, while there was one surprise the market took as dovish: the Fed's decision to buy short-term Treasury bills.

Put simply, the Fed announced it would buy \$40 billion of short-term U.S. Treasury bills to provide ample liquidity to the system by year-end. The Fed's purchasing of short-term bills wasn't a total surprise, as it was expected in early 2026 for this reason: The Fed ended Quantitative Tightening, and because of that, it needs to keep its balance sheet the same size. Well, short-term Treasuries are short-term, so if you don't buy new ones to replace the short-term ones maturing, the balance sheet will shrink. So, we always knew the Fed would be buying short-term T-bills. The surprise would be that they are buying them now.

Here's the important part: That's not really additional stimulus in the economy. The Fed is temporarily satisfying liquidity needs and then just replacing what's maturing. They aren't sustainably adding liquidity as they do in QE. What was announced yesterday is not Quantitative Easing.

However, right now, investors want to avoid any surprise "land mines" that could disrupt the year-end rally, and the Fed met that goal. As such, it made a Santa Claus rally more likely.

The Fed decision is not a bullish game-changer beyond the short term, and instead, it's more neutral. I say that because 1) The Fed did signal its pause on rate cuts, and while Powell softened that message by stating the Fed wasn't thinking about rate hikes, it still means we'll start 2026 without the tailwind of an easing Fed. 2) Additionally, the Fed did see two hawkish dissents that wanted no rate cuts, so we can expect the Fed to remain divided (perhaps even more divided) once a new and presumably more dovish Fed chair takes over in 2026.

Bottom line: the Fed wasn't as hawkish as feared on Thursday, which is positive into year-end. But don't confuse last week's events with an on-balance positive. The Fed did not restart QE, but it did signal a pause in rate cuts. And while that's not a direct negative, it does put more pressure on the economy to maintain growth and removes a tailwind from the market as we start 2026.

Disclaimer: The Weekly Advisory Update is provided to clients on an informational basis only and is not intended to be considered investment advice or recommendations to buy or sell any security or a solicitation to buy or sell any security. Information contained in The Weekly Advisory Update is compiled from various sources and is not necessarily complete, and its accuracy is not guaranteed. Neither the information contained in The Weekly Advisory Update or any opinion expressed in The Weekly Advisory Update constitutes a solicitation for the purchase of any future or security referred to in the Newsletter. The Newsletter is strictly an informational publication and does not provide individual, customized investment or trading advice to its clients. CLIENTS SHOULD VERIFY ALL CLAIMS AND COMPLETE THEIR OWN RESEARCH AND CONSULT A REGISTERED FINANCIAL PROFESSIONAL BEFORE INVESTING IN ANY INVESTMENTS MENTIONED IN THE PUBLICATION. INVESTING IN SECURITIES, OPTIONS AND FUTURES IS SPECULATIVE AND CARRIES A HIGH DEGREE OF RISK, AND SUBSCRIBERS MAY LOSE MONEY TRADING AND INVESTING IN SUCH INVESTMENTS.

REPRESENTATIVES ARE REGISTERED THROUGH, AND SECURITIES ARE SOLD THROUGH NATIONWIDE PLANNING ASSOCIATES, INC., MEMBER FINRA/SIPC, LOCATED AT 32-16 BROADWAY, 2ND FLOOR, FAIR LAWN NJ 07410. INVESTMENT ADVISORY SERVICES ARE OFFERED THROUGH NPA ASSET MANAGEMENT, LLC. INSURANCE SOLD THROUGH LICENSED NPA INSURANCE AGENCY, INC. NON-DEPOSIT INVESTMENT PRODUCTS ARE NOT FEDERALLY INSURED, INVOLVE INVESTMENT RISK, MAY LOSE VALUE, AND ARE NOT OBLIGATIONS OF OR GUARANTEED BY THE BROKER/DEALER. NATIONWIDE PLANNING ASSOCIATES, INC. IS A REGISTERED BROKER/DEALER.



Richard Rose AIF®
917-597-7432
rrose@nationwideplanning.com