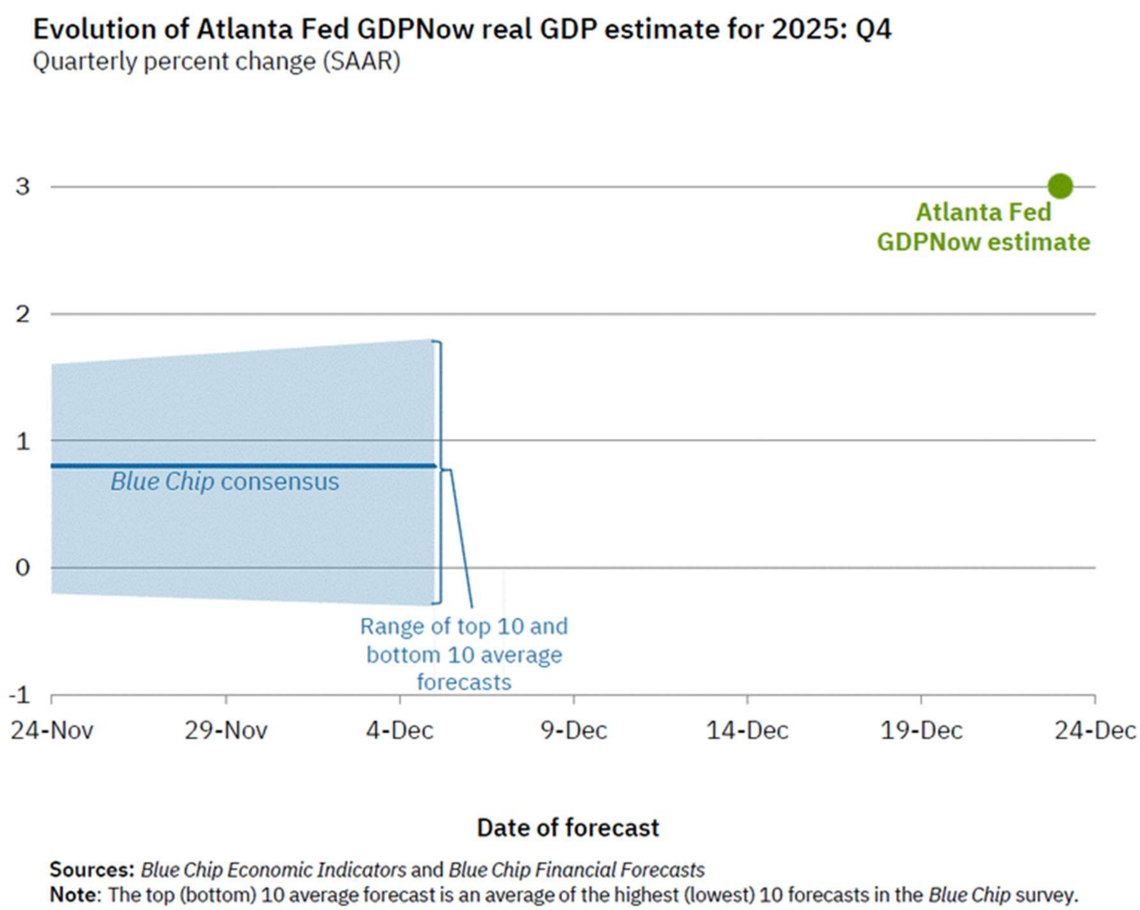
MARKET REVIEW & OUTLOOK

KEY TAKEAWAYS

- **Equities:** The markets meandered listlessly into year-end, hovering near all-time highs, seemingly awaiting direction in the new year.
- **Fixed Income:** The U.S. 10-year Treasury Yield moved up sharply to start the month but then spent the rest of the month oscillating around the 4.15% rate.
- **Crude oil** just continues to drift lower on supply glut concerns.

The U.S. Economy

We finally got a read on 3rd quarter GDP, which came in hot at 4.3%, handily beating expectations of 3.3%. The PCE, the embedded GDP inflation, soared to 3.8%, beating expectations of 2.7%, driven by health insurance. Now that we finally have 3rd quarter GDP reported, we turn to the 4th quarter, the GDPNow estimate is right at +3%, and the Blue-Chip consensus forecast is just under 1%, as shown in the chart below. The strong 3rd quarter GDP coupled with a decent forecast for 4th quarter looks to result in reasonably strong growth for 2025.



Source : https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

The U.S. 10-year Treasury yield quickly jumped almost 20 basis points to start the month, briefly hitting 4.2%, but then spent the balance of the month shuffling around 4.15%. We are starting to get more data after the government shutdown ended, but the cadence is still out of sorts and running behind. The big battle is which wins out, inflationary concerns or employment weakness. Additionally, the markets are anxiously awaiting Trump to announce his new Fed Head pick so they can parse out the implications. The markets are pricing in lower future inflation expectations, which should give the Fed some relief and allow them to focus on employment. The Fed again cut rates at the December meeting, though stated that January was data dependent and not an automatic cut. The meeting is at the end of the month, so we have lots of time to fret about what they might do. The increase in yields was a headwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF fell -0.24% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.16%, up from November's close of 4.02%.

The Dow Jones Industrial Average increased +0.73%, the S&P 500 decreased -0.05%, and the small cap iShares Russell 2000 ETF lost -0.61%. The International markets traded much better than the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index gained +2.61%, and the MSCI Emerging Markets iShares Core ETF Index climbed +2.38%.

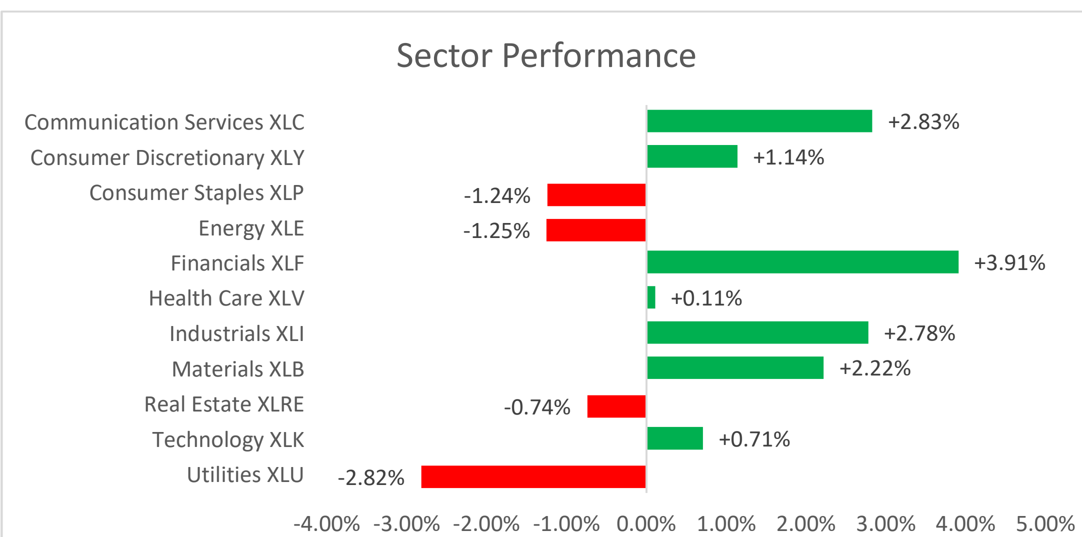
December's sector performance was mixed with winners edging out losers.

The best performers were…

- Financials: +3.91%
- Communication Services: +2.83%
- Industrials: +2.78%

The worst performers were…

- Utilities: -2.82%
- Energy: -1.25%
- Consumer Staples: -1.24%



Source: https://www.morningstar.com

Oil Report

Crude Oil is a broken record as it continues to meander lower, this month below the $60 level for all but a moment. The recurring themes are softness in global demand and “glut” supply concerns for 2026. The geopolitical landscape continues to be volatile with the almost but not quite peace accord in the Ukraine/Russia conflict and the flare ups in Venezuela around “drug” boats and sanctioned oil tankers. The current NYMEX WTI Crude Oil futures settled at $57.41, losing almost 2% from the prior month’s close of $58.55 a barrel. RBOB gasoline was worse than Crude, dropping by almost 6% for the month vs. November’s close. We remain in the slower winter season and barring some unexpected event, oil and gas prices are likely to continue drifting lower.

The Rest of the Data

The November ISM Manufacturing Index decreased to 48.2 from October’s reading of 48.7, remaining below 50. The ISM Services Index increased to 52.6 in November, from October’s print of 52.4, holding above the 50 level. Any reading below 50 generally indicates deteriorating conditions and any reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing firmed just below elevated levels and Services’ prices dropped below highly elevated levels, though remained at elevated levels. Consumer confidence dropped to 89.1 in December, which compared to a sharply upward revised 92.9 in November. The unemployment rate in November climbed to 4.6%, while the number of jobs added came in at 64,000, beating expectations of 50,000. The Consumer Price Index for All Urban Consumers (CPI-U), for November was not as granular as usual. The monthly data has a gap, so the focus for now, and into the future? Is on the last 12 months. Over the last 12 months, the All-Items Index rate rose by +2.7% on a non-seasonally adjusted basis. The CPI ex Food and Energy eased to +2.6% over the last year. Economic growth reports are good, unemployment is rising, but the employment data beat expectations, and inflation reports are generally moderating, and expectations for inflation has diminished. The Fed leadership announcement is likely to occur before the next Fed meeting, though probably doesn’t have any impact on the rate decision this month. The markets reduced inflation expectations may lead the Fed to make a cautionary cut to stave off percolating employment weakness. We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

The market just seems to be marking time. Waiting for more economic reports now that the government has reopened? Waiting for the new Fed head announcement? Something else? Again, lots of questions without a lot of answers yet. This month may provide more clarity as the first two questions are likely to get an answer. The end of month wild card, do we have another government shutdown just as we start to get back to normal?

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients’ portfolio in concert with the clients’ risk tolerance and long-term goals. The markets will always face different “worries”, today it is inflation/tariffs vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

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