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WEEKY ECONOMIC UPDATE DEC. 15, 2025

Stocks ended last week mixed. A widely anticipated Federal Reserve decision on interest rates and a rotation into non-tech areas helped push the Dow Industrials higher, while the broader market and technology stocks lagged behind.

The Standard & Poor's 500 Index declined 0.63 percent, while the Nasdaq Composite Index fell 1.62 percent. Meanwhile, the Dow Jones Industrial Average advanced 1.05 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, rose 0.89 percent.[1,2]

Market Rotation After Fed Decision

Stocks stayed in a fairly tight trading range over the first half of the week. Tech remained a strong spot on Monday despite slight to modest declines in all three major averages.[3]

By Tuesday's close, all three major averages were slightly to modestly lower week-to-date as the Fed's last interest-rate-setting meeting of the year approached.[4]

Then, on Wednesday morning, stocks rose ahead of the Fed's announcement that it was lowering rates by a quarter percentage point—a widely expected move. By the close, all three major averages ended in the green.[5,6]

A market rotation theme dominated the rest of the week, as investors shifted into cyclical areas of the economy that are likely to benefit from an economic rebound. The Nasdaq ended Thursday's session lower, while the S&P and Dow Industrials hit fresh record closes. The Russell 2000 Index of small-cap stocks also notched new closing highs.[7]

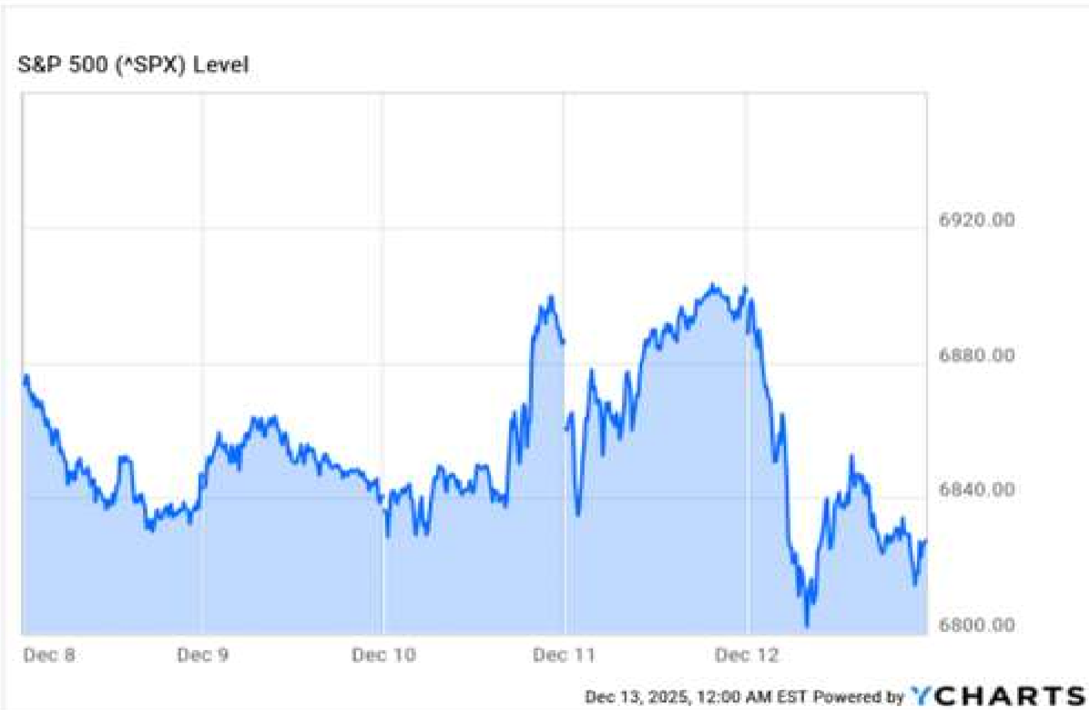
The rotation into value stocks continued on Friday, with some AI names coming under pressure. The financial, healthcare, and industrial sectors were among the groups that seemed to benefit from the rotation.[8]

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	1.91%	16.42%	12.22%	78.49%
MSCI EAFE	0.98%	30.15%	26.08%	59.51%
S&P 500	0.93%	18.77%	14.89%	102.8%
Nasdaq Composite	0.61%	22.93%	18.53%	97.80%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 12/12/25	4.19%	4.08% 4.06% 4.32%	2.70% ▲ 3.20% ▲ -3.01% ▼

No Surprise, Just Tea Leaves

Last week's rate decision from the Federal Reserve was no big surprise. Speculators had already priced in this outcome weeks ago.

Now for reading the tea leaves: First, Fed Chair Powell stated in his press conference on Wednesday that they have ruled out a rate hike for the foreseeable future, but also noted that it would be a higher bar for further rate reductions. Another point was the degree of dissent: the vote was 9-3.[9]

Then on Friday, voting members who dissented expressed views on inflation and jobs, and which risk was the more important one to address through monetary policy.[10]

This Week: Key Economic Data

Monday: Homebuilder Confidence Index.

Tuesday: Employment Reports, Oct.* (limited) + Nov. (full). Retail Sales, Oct.* Business Inventories, Sept.* Purchasing Managers Index (PMI)—Services. Purchasing Managers Index —Manufacturing.

Thursday: Consumer Price Index (CPI). Weekly Jobless Claims. Philadelphia Fed Manufacturing Survey.

Friday: Existing Home Sales. Consumer Sentiment.

Quote of the Week

Happy Birthday Beethoven:

https://www.youtube.com/watch?v=kbJcQYVtZMo

Of Note

The Federal Reserve announced a new round of quantitative easing (QE) on Wednesday.

It also cut the federal fund rate by another 25 basis points. The mainstream called this “a hawkish cut.” Is that anything like a jumbo shrimp? Or government intelligence? And if this is hawkish, we can’t wait to see what happens when they turn dovish!

The CNBC report on the December Fed meeting was typical. It highlighted the so-called dot plot projecting just one cut in 2026 and another in 2027. And then 19 paragraphs in, the report mentions that the Fed will resume buying Treasury securities starting Friday. The AP never mentioned it.

In plain English, this means the central bank plans to resume expanding its balance sheet.

If only there was a term for that…Oh wait! There is…..Quantitative Easing!

At the October meeting, the Fed announced it would end balance sheet reduction effective December 1. According to Fed officials, the central bank will purchase $40 million in Treasury Bills (Bills are short-term Treasuries that mature in one year or less). From that point, purchases will "remain elevated for a few months" before they are "significantly reduced." Of course, you will not hear any central banker or mainstream pundit utter the words "quantitative easing."

In fact, if pushed, they'll almost certainly deny that they're doing it. They'll call it "reserve management," or tell you they're engaged in "technical operations" to keep the financial system's plumbing moving. However, an expansion of reserves is an expansion of reserves. You can call it QE. You can call it reserve management. You can call it tap dancing with unicorns.

In practice, the Fed plans to start buying Treasury bills with money created out of thin air. This will increase the money supply and put downward pressure on Treasury rates. The balance sheet will grow; liquidity will increase; risk asset bubbles will get more air. This is exactly what QE does. So, call it what you want. If it walks like a duck...

By the way, it goes by another name by definition…Inflation.

In effect, the Fed supersized its rate cut while still maintaining a somewhat cautious stance on further rate cuts. TradeStation head of market strategy, David Russell, told CNBC the central bankers "threaded the needle" by delivering a modest cut while quietly easing monetary policy even more through the back door.

The stock market rallied on the move, thrilled that the easy money punch bowl is going to fill up even faster than they thought. Gold also saw modest gains as the dollar weakened. But where was the hawkish part? What exactly is hawkish about it? Certainly, nothing that Powell & Company just did was hawkish. They cut rates – again. They announced balance sheet expansion. But Jerome Powell did say some things that one might perceive as hawkish. Powell was clearly trying to tamp down expectations of future rate cuts. He framed it as a "wait-and-see" situation.

"We'll carefully evaluate that incoming data, and also, I would note that having reduced our policy rate by 75 basis points since September and 175 basis points since last September, Fed funds rate is now within a broad range of estimates of its neutral value, and we are well positioned to wait and see how the economy evolves."

He also emphasized that the December cut was "a close call."

"I could make a case for either side," he said. "We always hope that the data will give us a clear read. ... It's a very challenging situation. I think we're in a good place to, as I mentioned, to wait and see how the economy evolves."

Powell conceded that there are still upside risks for inflation, but proactively blamed tariffs, saying, "It's really tariffs that's causing most of the inflation overshoot."

"Our obligation is to make sure that a one-time increase in the price level does not become an ongoing inflation problem, but with downside risks to employment having risen in recent months, the balance of risks has shifted. Our framework calls for us to take a balanced approach in promoting both sides of our dual mandate."

Establishing a scapegoat now was probably wise, given the inflationary actions the Fed just put in place. The Fed's new dot-plot was also viewed as hawkish, calling for just one cut next year. However, there was wide divergence among committee members on the future trajectory of rates.

Furthermore, these dot plots are virtually worthless. FOMC members are notoriously bad at projecting the trajectory of interest rates, even though they're the ones setting the rates. How bad is their track record? Fund manager David Hay analyzed past dot plots and found the FOMC only got interest rate projections right 37 percent of the time. And as Hay pointed out, “They control interest rates!”

For instance, in March 2021, the FOMC projected the interest rate would still be zero in 2022. The actual 2022 rate was 1.75 percent. And in 2023, the vast majority of FOMC members thought the rate would still be at zero. The actual rate was over 5 percent. The FOMC would probably get much better results by flipping coins, casting lots, or throwing darts at the wall.

So, to sum it all up, the central bankers at the Fed are revving up the inflation machine while trying to convince you they are diligently fighting the inflation dragon. They made two concrete moves to loosen monetary policy, but they said some things to make you think they might not loosen much more.

Bear in mind, we got this same song and dance at the November meeting. The Fed cut and ended balance sheet reduction but then tried to convince you there would be no December cut. So here we are, emphasizing again this money creation and credit expansion is inherently inflationary.

The reality is the Fed is in a Catch-22. It simultaneously needs to hold rates higher to deal with inflation and cut rates to try to keep the economy from being completely sucked into the Debt Black Hole. Make no mistake, no matter what you hear coming out of the mouths of Fed officials, they’ve picked inflation.

The bottom line is you need to watch what the Fed does, and you can almost completely ignore what they say. The open-mouth operations are a deflection as they keep relentlessly devaluing your money.[11]

Footnotes and Sources

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