

WEEKLY ECONOMIC UPDATE DEC. 22, 2025

Stocks posted a slight gain last week as mixed jobs data triggered some selling pressure before a cooling inflation report helped stocks recover.

The Standard & Poor's 500 Index inched ahead 0.10 percent, while the Nasdaq Composite Index advanced 0.48 percent. The Dow Jones Industrial Average slipped 0.67 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, rose 0.21 percent.^{1,2}

Round Trip for Stocks

A mixed jobs report on Tuesday created some concerns about the economy, leading the S&P 500 and Dow Industrials to modest declines. However, the tech-heavy Nasdaq posted a modest gain.^{3,4}

Stocks continued their retreat on Wednesday with a handful of AI-related names leading the decline.⁵

Markets then staged a rebound as a fresh inflation report came in cooler than expected for November, raising investor hopes that interest rates may trend lower. The S&P 500 and Dow Industrials broke four-day losing streaks, while the Nasdaq rebounded 1.4 percent on Thursday alone.⁶

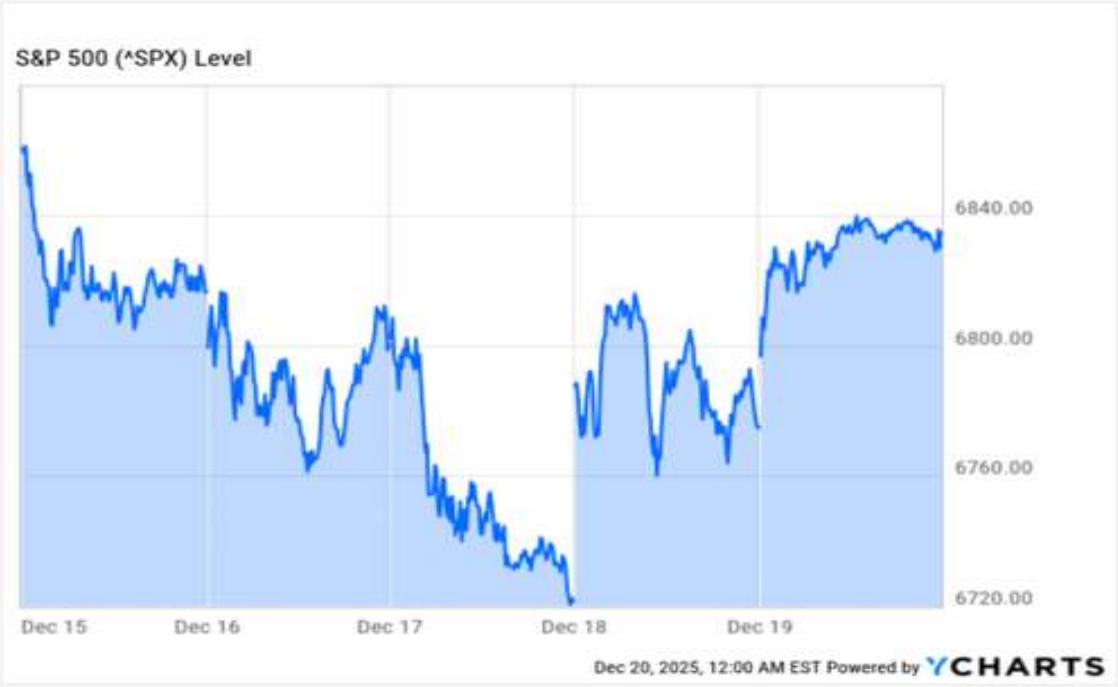
Megacap tech stocks rebounded on the last trading day of the week, lifting the broader market. Investors appeared to look past a disappointing report on consumer sentiment.⁷

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
MSCI EAFE	4.41%	30.22%	28.01%	56.45%
Dow Jones Industrial Average	4.30%	14.66%	15.24%	74.99%
Nasdaq Composite	2.64%	19.89%	19.41%	87.15%
S&P 500	2.50%	16.63%	16.86%	96.60%

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 12/19/25	4.16%	4.13% 4.14% 4.57%	0.73% ▲ 0.48% ▲ -8.97% ▼

The Push & Pull of Jobs & Inflation

The Bureau of Labor Statistics combined its October and November employment data into one report. However, the October report only contained partial data due to the shutdown, while the November numbers reflected full data.

While November saw an unexpected increase (+64,000 versus economist expectations of +45,000), the October report showed employers cut 105,000 jobs. The unemployment rate ticked up to 4.6 percent.⁸

The Consumer Price Index's (CPI) 2.7 percent year-over-year pace for November was slower than the 3.1 percent economists expected, and slower than September's 3.0 percent pace. Market gains were tempered, however, as economists cautioned that shutdown-related gaps may have influenced some of the data.⁹

This Week: Key Economic Data

Tuesday: Gross Domestic Product (GDP)*, Q3. Durable Goods* (Oct). Consumer Confidence. New Home Sales, Sept.* Industrial Production, Oct.*

Wednesday: Weekly Jobless Claims. Survey of Business Uncertainty.

Thursday: CHRISTMAS HOLIDAY—MARKETS CLOSED

Quote of the Week



Did you know?

The expression "Perfection is the enemy of the good." derives from Voltaire's "Le mieux est l'ennemi du bien" ("The best is the enemy of the good") in 1770, quoting an Italian proverb and that earlier roots trace to Montesquieu and even Shakespearean ideas like "striving to better, oft we mar what's well."



The Two percent inflation target, monetary policy's sacred commandment for three decades, has become structurally impossible to achieve. Not because central bankers lack skill but because every attempt to hit the target destroys the financial architecture that previous monetary expansion built. This is the endgame of central planning: a system that cannot tolerate its own success criteria without collapsing.

New Zealand invested the two percent target in 1989 by looking backward at what inflation had been when things felt stable, hardly rigorous science. Other central banks copied this guess, transforming it into dogma. But the economy of 2025 bears no resemblance to 1989. We've financialized every asset class, built supply chains optimized for fragility, and erected a debt tower requiring perpetual refinancing at suppressed rates just to avoid collapse. The two percent target was designed for a world we've already destroyed.

Monetary expansion doesn't spread evenly. New money concentrates where it enters, in financial assets, real estate, and the balance sheets of those with credit access. This creates two

economies: one for asset-holders, enriched by expansion; another for wage-earners, crushed by the cost increases that follow.

To hit two percent consumer inflation, central banks must restrict money supply enough to destroy demand among ordinary households, the people furthest from the monetary spigot. But they've already inflated assets to the point where millions of families, pension funds, and governments depend on continued expansion to stay solvent. Tightening enough to hit two percent CPI means liquidating the phantom wealth propping up the entire system. We glimpsed this in 2022-2023; modest rate increases triggered bank failures and sovereign debt crises.

The trap is complete, monetary expansion enriches the few while punishing the many, but contraction would bankrupt both.

The CPI doesn't measure what people experience. Housing costs appear through "owner's equivalent rent", a fiction understating reality by a significant amount. Healthcare, education, childcare, costs that have doubled or tripled, receive minimal weight. Meanwhile, falling electronics and import prices pull the average down.

A family whose rent has doubled, childcare tripled, and healthcare quadrupled is told inflation is "only" three percent. Central banks fight to hit a target disconnected from lived reality, using tools that damage those already most hurt by mismeasured inflation.

The United States now carries \$38.12 trillion in debt, with deficits locked in structural overdrive. For fiscal year 2025 (ending September 30, 2025), the federal budget deficit totaled approximately \$1.8 trillion, marking one of the largest annual deficits in US history in nominal terms. In calendar year 2025 alone (through November), the debt has already climbed by over

\$1 trillion, representing one of the fastest accumulations outside of pandemic-era spikes.

The Fed cannot pursue “price stability” without triggering sovereign default. It cannot monetize the debt without abandoning its inflation target. Monetary and fiscal policy have fused into a single system where every path leads to ruin.

The Federal Reserve announced in October 2025 that quantitative tightening will end in December after reducing its balance sheet from \$9 trillion to \$6.6 trillion. This isn’t a policy choice, it’s mathematical surrender.

The Fed’s balance sheet remains bloated with low-yielding assets from QE rounds dating to 2008, earning two to three percent while the Fed pays 4.5 percent on reserves it created to buy them. The Fed operated at a loss for three consecutive years.

But the Fed cannot shrink its balance sheet to pre-crisis levels without triggering a liquidity crisis. The modern financial system operates under an “ample reserves framework”, a euphemism for permanent monetary expansion. Banks, pension funds, and Treasury markets have become structurally dependent on massive reserve creation. When the Fed attempted modest QT reductions, repo markets showed stress. They’re stopping, not because inflation is conquered, but because the financial system cannot handle genuine monetary normalization.

The QT cessation sets the stage for QE’s inevitable return. The Fed is now in what Austrian economists call the “crack-up boom” phase, the point where monetary authorities choose between deflation (and cascading debt defaults) or continued inflation (and currency destruction). The QT cessation signals their choice.

The Fed needs tight policy to combat inflation, inflation partly driven by tariffs the administration defends as revenue

generators. But tightening is impossible because government debt service already consumes \$1 trillion annually and the financial system requires ongoing liquidity support. So, the Fed will maintain its swollen balance sheet, ready to expand again at the first crisis signal, while the administration pumps fiscal stimulus through tariff dividends into the economy.

The two percent inflation target becomes farcical. How can the Fed hit an inflation target when fiscal policy is overtly inflationary, when monetary policy cannot genuinely tighten without breaking the system, and when political pressure tilts entirely toward more spending? The Fed's QT announcement is an admission they've lost control, even if they won't admit it.

High inflation destroys savings, distorts price signals, and creates social instability. But we must be honest: the two percent target cannot be achieved without either. The options seem to be: 1) a deflationary depression that liquidates the debt overhang, and likely the social order with it; 2) a financial repression that slowly confiscates wealth through negative real rates; or, 3) a restructuring of how we conceptualize monetary stability in a hyper-financialized economy.

The first option is politically impossible and humanly catastrophic. The second is what we're already doing, just with more dishonesty. The third requires admitting central banking as currently practiced has failed.

Precision inflation targeting was always hubris, imposing mechanical control over an organic, complex system. The error wasn't choosing two percent specifically; it was believing any centrally planned monetary system could generate sustainable prosperity while coupled with fiscal incontinence.

We've created a monetary system that cannot tolerate the price discovery necessary for genuine economic coordination. Every

attempt to hit an arbitrary inflation target generates distortions, making the next cycle more severe. The Fed's balance sheet cannot shrink because the economy was restructured around permanent monetary expansion. Interest rates cannot normalize because the debt burden makes higher rates catastrophic. The two percent target isn't failing because central bankers lack competence, it's failing because it represents an impossible constraint on a system that has already inflated beyond the point of return.

The question isn't whether we'll abandon the two percent target. The Fed's QT cessation and the tariff dividend have already abandoned it in practice, whatever they claim in theory. The real question is whether we'll do so explicitly, through honest debate about what comes after central banking's failure, or implicitly, through the slow-motion credibility crisis we're witnessing, where inflation stays persistently above target, the Fed's balance sheet can never shrink, and fiscal policy becomes increasingly untethered from reality.

This is the endgame of monetary central planning, not with hyperinflationary bang or deflationary whimper, but with the confused stumbling of policymakers who cannot admit their tools have welded them into a cage. The two percent target, tariff dividends, ample reserves frameworks, and technocratic jargon cannot obscure the simple truth; we have built an economic system requiring perpetual monetary expansion to avoid collapse, and we've run out of ways to pretend this is sustainable policy rather than slow-motion currency debasement with extra steps.¹⁰

Footnotes and Sources

1. WSJ.com, December 19, 2025

2. Investing.com, December 19, 2025

3. CNBC.com, December 16, 2025

4. WSJ.com, December 16, 2025

5. CNBC.com, December 17, 2025
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10. mises.org/wire/impossible-two-percent-why-central-banks-cannot-afford-price-stability

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