

Summary

Economic news for the week included another quarter-percent policy interest rate cut by the Federal Reserve, a seasonal rise in jobless claims, and stronger-than-expected job openings data.

Equities were mixed globally, with U.S. value and small caps among the strongest. U.S. bonds pulled back for the most part, along with higher interest rates across the yield curve. Commodities were mixed, with stronger metals and weaker energy.

Economic Notes

(0) The **FOMC** cut rates by a quarter-percent on Wednesday to 3.50-3.75%, despite three dissents in the voting. While three dissents seem like a lot for FOMC meetings in recent memory, and it's been six years since the last dissent of that size, there were some calls out there for up to 4-5 dissents, so that outcome wasn't 'that bad.'

The post-meeting press conference included Chair Powell mentioning overall economic activity continues to expand at a "moderate" pace, and consumer spending appeared to "have remained solid." He noted that the FOMC was "well positioned to wait and see how the economy evolves," but, as importantly, highlighted "significant downside risks" in the labor market and a "good part of the slowing" in labor likely reflects a drop in labor force growth, "due to lower immigration and labor force participation, though labor demand has clearly softened as well." Additionally, the rate of payroll growth may be "overstated" by about 60k per month, so "a world where job creation is negative" is one that the committee would need to watch "very carefully." That was probably the most meaningful comment that markets took dovishly, as opposed to early expectations that comments would have been more hawkish. That said, the consensus view is that the FOMC will be on pause for the next few meetings (with last Friday's odds of a January rate cut at 20-25%, and March rising to 40-45%).

The FOMC announced that it would again be buying Treasury debt next year (\$40 bil. next month), another form of easing response, in addition to the \$20 bil. per month of agency mortgage-backed security run-off that's being repurchased into Treasuries. This relates to quantitative easing (QE), which is a dovish strategy used to further depress market interest rates (in addition to Fed funds rates directly voted on in the meeting), utilized as a technical tool to reduce the effective market FF rate by a few basis points (as it had drifted up above their target), and also keep ample liquidity in money markets, which rely on a robust market for short-term Treasury debt and repurchase agreements. There has been some discussion (including in Congress) of the Fed's movements since the GFC to maintain a policy of 'abundant' reserves, which encourages banks to keep Fed excess reserves high since they're paid a competitive short-term interest rate. This is seen by the Fed as important in keeping enough 'dry powder' available to inject liquidity where needed and prevent potential crises and 'runs' such as highlighted during the 2008 GFC period. (Prior to 2008, the policy was more of 'scarcity,' where bank excess reserves weren't paid interest by the Fed, so consequently, balances tended to be far lower, around the amount legally required of them.). Economists debate which method is superior, as each has pros and cons. As it stands, the

Fed's balance sheet has been steadily shrinking since a peak of around \$9 tril. after it doubled in size after the GFC, doubled again in the decade afterward, and doubled again during the pandemic, now heading back toward \$6 tril.

(0) The **JOLTS** job openings report showed a rise of 431k to 7.658 mil. in September (data which had been postponed) and 7.670 mil. in October (14k), the latter being well above the 7.117 mil. expected by consensus. By segment, gains were largest in retail (142k) and wholesale trade (52k), while declines were most pronounced in professional/business services (-114k) and finance/insurance (-69k). For October, the job openings rate was flat at 4.6%, while the hiring rate fell by -0.2% to 3.2%. On the departure side, the layoff rate rose by a tenth to 1.2% (mostly in state and local governments), while the quits rate fell by -0.2% to 1.8%, which was the lowest rate in over 10 years outside of the pandemic.

(-) **Initial jobless claims** for the Dec. 6 ending week rose by a dramatic 44k to 236k, well above the 220k median forecast, and the largest weekly gain in over four years. Continuing claims for the Nov. 29 week, on the other hand, fell by -99k to 1.838 mil., below expectations for a 1.950 mil. level. The more dramatic changes were attributed by the DOL to seasonal effects, which had caused the dramatic drop the week prior. This is a more challenging time of year for more normal single-week jobless claim numbers, where seasonal effects could continue for several more weeks. The 4-week moving average softened the magnitude of the change a bit, as that has actually been in a decline back to year-ago levels after peaks in June and September.

Market Notes

Period ending 12/12/2025	1 Week %	YTD %
DJIA	1.10	15.84
S&P 500	-0.61	17.51
NASDAQ	-1.61	20.87
Russell 2000	1.21	15.85
MSCI-EAFE	0.85	29.47
MSCI-EM	0.43	32.09
Bloomberg U.S. Aggregate	-0.20	6.73

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2024	4.37	4.25	4.38	4.58	4.78
12/5/2025	3.71	3.56	3.72	4.14	4.79
12/12/2025	3.63	3.52	3.75	4.19	4.85

U.S. stocks were mixed last week, with a pullback in the large cap growth segment, offset by gains in more cyclical value and small caps, in line with a less hawkish Fed than was initially expected. By sector, returns were strongest in materials and financials, each up over 2%, while communications and technology lagged, declining by -2% to -3% (mostly via negative contributions from Intel and Nvidia). In

the latter, investors showed some nervousness after the announcement that the U.S. administration is easing export curbs on fairly high-end H200 semiconductors to China. Higher technology company valuations also appeared to be a bit of a concern, as AI favorite Oracle reported weaker revenue but also higher expected capex spending than markets anticipated.

Foreign stocks were also mixed, with gains in Europe and Japan offsetting declines in emerging markets. Several ECB members made positive comments about the growth trajectory in the eurozone, which pointed to continued expectations for no policy action this coming week. Within EM, Brazil, Mexico, and Turkey all rose several percent (the latter in line with a central bank rate cut of -1.5% to 38.0%), along with positive sentiment around higher commodities prices for the first two, in contrast to declines of a few percent in China and India. Large index components South Korea and Taiwan also fell, along with their usual high correlation to U.S. technology stocks, which pulled back last week.

Bonds fell back last week as interest rates ticked higher, along with expectations that the Fed might not cut rates as much as initially hoped for in 2026. U.S. Treasuries and investment-grade corporates performed similarly, and were outperformed by positive returns for floating rate bank loans. Foreign bonds were mixed as well, in keeping with a half-percent drop in the value of the dollar.

Commodities were down on net last week, as gains in precious metals were offset by substantial declines in energy. Crude oil prices fell over -4% last week to \$57/barrel, as U.S. oil rig count grew, along with ongoing fears of a supply glut. Natural gas prices also plummeted by over -25%, a product that tends to be driven by weather changes this time of year.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.

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