



## MONTHLY MARKET PULSE – DECEMBER 2025

### HIGHLIGHTS

- ▶ **December Rate Cut?** The Federal Reserve (Fed) has cut rates by 50 basis points over the past two months, but expectations for a December cut have shifted meaningfully over the past month.
- ▶ **AI Misstep:** Information technology underperformed during the month following shifting sentiment around artificial intelligence valuations.
- ▶ **K-Shaped Economy:** Bifurcation is evident throughout macroeconomic data and across different areas of the investment landscape. We take a look at how the current environment is affecting certain securitizations in this month's *Spotlight* below.

### MONTHLY SPOTLIGHT: Impact of the K-Shaped Economy on Fixed Income Investors

Author: Laura L. Mayfield  
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### MACRO INSIGHTS

#### Mixed Month as Tech Sentiment Wavers

U.S. equities delivered a mixed performance in November, with the S&P 500 rising 0.2% and extending its winning streak to seven consecutive months despite sharp mid-month volatility. The equal-weight S&P 500 outperformed with a gain of nearly 2%, while the Nasdaq fell 1.5%, breaking its own run. Leadership rotated away from the AI and mega-cap tech trade, as several large names—including Nvidia, Tesla, Microsoft, and Amazon—posted declines. Google and Apple were notable exceptions, helped in part by enthusiasm around Google's Gemini 3 launch.

Macro drivers were similarly uneven. Expectations for a December Fed cut swung widely during the month, with odds falling below 30% after cautious Fed commentary early on, before climbing to 100% following remarks from New York Fed President John Williams. Treasury yields edged lower as the curve steepened, and oil recorded its fourth monthly decline. AI remained in focus, with growing scrutiny around the sustainability of hyperscaler spending, financing structures, and competitive dynamics—particularly following Google's advances in its custom-chip roadmap.

The early-month pullback reflected weakness across popular thematic areas—including AI and unprofitable tech—before a broad rebound late in the month as Fed expectations shifted and market sentiment steadied. Underlying fundamentals continued to provide support. With the Q3 reporting season nearly complete, S&P 500 earnings were up roughly 13.5% year over year, outpacing expectations, and demand for AI compute remained exceptionally strong, underscored by Nvidia's revenue beat and raised guidance. At the same time, consumer signals remain bifurcated, with strength at the upper end contrasting with pressures elsewhere—a dynamic we explore more fully in this month's *Spotlight* on the "K-shaped" economy.

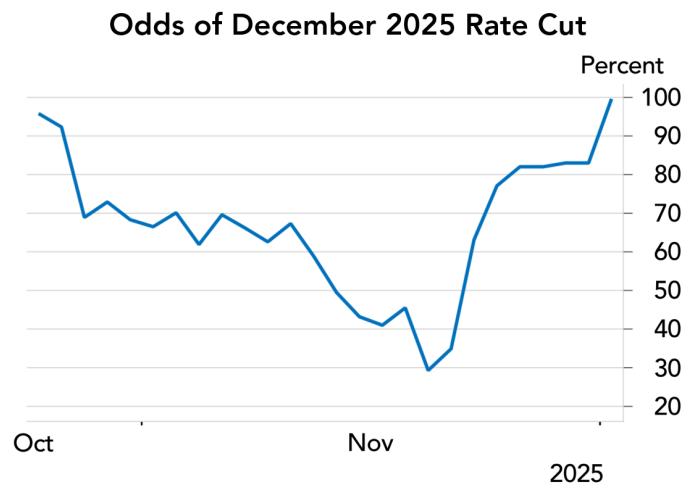
Sector performance showed notable dispersion. Health care led the market with strong gains across pharmaceuticals, while materials, consumer staples, and financials also

outperformed. More cyclical and growth-oriented sectors—including technology, consumer discretionary, and industrials—lagged amid the rotation away from crowded leadership.

Overall, with expectations for Fed easing, firm earnings, and resilient AI investment continue to support equities, November's crosscurrents and narrowing leadership argue for maintaining balance in positioning and keeping us close to neutral.

#### Market Pricing of December 2025 Rate Cut

Commentary from Federal Open Market Committee (FOMC) officials has led to volatility in the market's expectations for a rate cut in December.



Sources: Bloomberg and Macrobond.

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## WHAT TO WATCH

The government shutdown has ended, and economic data has begun to flow again; however, some releases—such as the October Consumer Price Index (CPI) and portions of the October Jobs Report—will not be published. Nevertheless, investors will continue to rely on government data to monitor trends in consumer activity and the labor market.

- ▶ The next FOMC meeting is on December 10. Investors have shifted rate-cut expectations dramatically over the past few weeks but currently expect the Fed to cut rates by 25 basis points. Additionally, investors will focus on forward estimates in the new Statement of Economic Projections (SEP).
- ▶ The November Jobs Report from the Bureau of Labor Statistics (BLS) will receive considerable attention due to heightened focus on labor market softness. The release is scheduled for December 16.

## MONTHLY SPOTLIGHT



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### Impact of the K-Shaped Economy on Fixed Income Investors

The state of the U.S. consumer has become a tale of two very different stories. On one side, the high-income consumer appears fundamentally solid. Rising stock and home prices, combined with steady income growth, have fueled a strong “wealth effect,” and these consumers have been the primary drivers of economic growth over the past few years. Conversely, lower-income households are under pressure as excess savings have largely dried up and wage growth has fallen behind that of higher earners. This divergence—often described as a “K-shaped” economy—has drawn attention from both Wall Street and Main Street, given that personal consumption accounts for nearly 70% of GDP.

Despite solid aggregate consumption data, consumer sentiment remains historically weak. Much of that pessimism stems from the large share of Americans who fall into the more financially strained category. Only about the top 10% of income earners own equities, meaning most households haven’t benefited from rising asset prices. Many of these consumers don’t own a home and instead have faced higher housing costs through rising rents, alongside elevated prices for groceries, cars, and other essentials. Access to credit has also dried up for these borrowers, widening the spending gap between the two consumer groups.

This bifurcation is also evident within consumer-oriented securitization markets. Subprime auto asset-backed securities (ABS)—pools of auto loans to lower-credit-quality borrowers (FICO below 620)—have seen delinquencies and losses rise meaningfully over the past few years. Interestingly, while delinquency rates now exceed those seen during the Global Financial Crisis, loss rates remain roughly in line with 2019 levels. This suggests borrowers are doing everything possible to avoid losing their vehicles even after missing payments—a sign of limited savings and very little margin for unexpected costs.

Also within the subprime auto space, issuer performance has diverged. Some issuers have proven adept at underwriting in this environment, effectively pricing and modeling expected losses—albeit at higher nominal levels. Other issuers, however, have struggled to manage loss rates within expectations despite progressively tightening credit standards over the past two to three years. This K-shaped trajectory in the market’s perception of issuers has driven wider spread tiering across the sector.

Bifurcation itself is not new, but it continues to permeate both the macroeconomic landscape and the investment environment. While we expect consumer spending to pick up in 2026 and support economic growth, this underlying divergence reinforces the importance of careful credit selection. For investors, it underscores why active management remains critical—particularly within securitized products, where dispersion among issuers and borrowers can be pronounced.

### Nominal Wage Growth by Wage Level

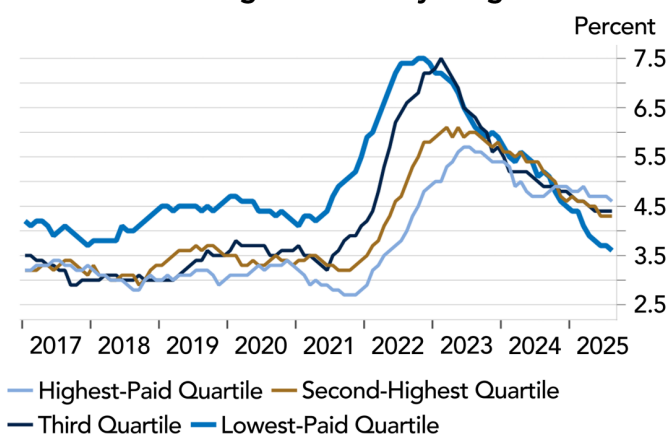


Chart sources: Federal Reserve Bank of Atlanta and Macrobond.

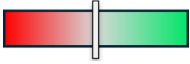





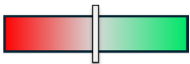
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## CURRENT OUTLOOK

Topic	View	MoM Change	Commentary
Macroeconomic Views			
Economic Growth		–	<ul style="list-style-type: none"> <li>U.S. economic <b>growth is expected to remain lower</b> relative to the recent trend, as sentiment presents a near-term headwind for consumer spending and business investment. However, growth expectations for 2026 are improving.</li> <li>Recent labor market weakness presents downside risks to the current economic expansion.</li> <li><b>Uncertainty remains elevated</b> amid U.S. trade policy, geopolitical tensions, and pending court decisions related to executive authority. Additionally, the recent void in government data has contributed to limited visibility for investors and economists.</li> </ul>
Inflation		–	<ul style="list-style-type: none"> <li>Market forecasts project that inflation will plateau around 3% before declining gradually toward the mid-2% range in 2026. With growth expected to remain modest, investors anticipate that most near-term inflation will come from goods, while services continue cooling.</li> <li>The impact on consumers has been limited so far, as companies are absorbing part of the cost. Whether companies protect margins and raise prices over the coming quarters remains a key question.</li> </ul>
Monetary Policy		–	<ul style="list-style-type: none"> <li>The Fed has cut rates by 50 basis points this year and ended its balance-sheet runoff. Investors have wavered on whether the Fed will cut rates for a third consecutive meeting in December, but odds are currently leaning toward a cut.</li> <li>FOMC members are balancing their dual mandate of stable prices and full employment. There appears to be a division among members over whether to prioritize the upside risk to inflation or the downside risk to the labor market.</li> <li>Shifting growth estimates, tariff concerns, and executive-branch actions have resulted in volatile expectations for the path of monetary policy. Current pricing implies a terminal rate of around 3% in 2026.</li> </ul>
Fiscal Policy		–	<ul style="list-style-type: none"> <li>The government shutdown has come to an end, and economic data releases are flowing again; however, we expect some lingering weakness and data noise in the near term.</li> <li>The Big, Beautiful Bill (BBB) is expected to provide a marginal boost to growth into 2026 through individual tax cuts as well as by encouraging CAPEX through accelerated depreciation. We believe larger refunds should provide some relief to lower-income households next year.</li> <li>Flexibility within fiscal policy remains low, as federal debt levels continue to increase and <b>higher interest costs</b> consume a larger portion of government outlays.</li> </ul>
Market Valuations			
Rates		–	<ul style="list-style-type: none"> <li>Yields moved modestly lower over the month as investors increased their expectations for rate cuts over the next year.</li> <li>We anticipate that the <b>magnitude of expected rate cuts will continue to shift</b>, with new data around the state of the labor market being a primary driver.</li> <li>Both short- and long-rates are within our expected fair-value range, presenting a largely balanced risk–reward profile at current levels.</li> </ul>
Credit		–	<ul style="list-style-type: none"> <li>Credit spreads widened marginally during November but remain <b>tight relative to historical averages</b>.</li> <li>We believe the <b>risk/reward is skewed to the downside</b>, although strong corporate fundamentals should help support spreads.</li> <li>Investment-grade spreads (10-yr BBB Industrials) ended the month at their 14<sup>th</sup> percentile, and high-yield spreads (single-B corporates) ended at their 6<sup>th</sup> percentile since the 1990s.</li> </ul>
Equity		–	<ul style="list-style-type: none"> <li>The <b>S&amp;P 500 exhibited some volatility during November</b> and ended the month roughly flat (+0.2%), following investor hesitation around AI valuations.</li> <li><b>Equity valuations remain above long-term averages</b>, largely due to elevated multiples on mega-cap technology companies, which continue to increase their share of economic profits.</li> <li>Q3 earnings for S&amp;P 500 companies have exceeded expectations, with earnings up more than 13% year over year. Earnings expectations for the next 12 months have also been revised higher.</li> </ul>

## MARKET DATA & PERFORMANCE | AS OF 11/30/2025

U.S. Snapshot	Current	6 Months Prior	1 Year Prior
Core Inflation (YoY%)	2.9	2.8	3.0
Unemployment Rate	4.4	4.2	4.2
Real GDP (YoY%)	2.1	2.0	2.8
Retail Sales (YoY%)	4.3	3.4	3.9
30-Year Mortgage Rate	6.2	6.9	6.8
10-Year Treasury	4.0	4.4	4.2
US Corporate IG Yield	4.8	5.2	5.1
US Corporate HY Yield	6.6	7.5	7.1

### TOTAL RETURNS

Asset Class	MTD	QTD	YTD	1 Year	3 Years*	5 Years*
Equity						
Russell 3000 Index	0.3%	2.4%	17.2%	13.6%	19.8%	14.2%
S&P 500 Index	0.2%	2.6%	17.8%	15.0%	20.6%	15.3%
S&P Midcap 400 Index	2.0%	1.6%	7.4%	-0.2%	10.4%	10.5%
Russell 2000 Index	1.0%	2.8%	13.5%	4.1%	11.4%	8.0%
MSCI World Index	0.3%	2.3%	20.6%	17.5%	19.7%	13.4%
MSCI World Excluding US	1.1%	2.2%	28.7%	25.2%	16.9%	10.4%
Fixed Income						
Bloomberg US Aggregate	0.6%	1.2%	7.5%	5.7%	4.6%	-0.3%
US Corporate Investment Grade	0.6%	1.1%	8.0%	6.0%	5.9%	0.1%
US Corporate High Yield	0.6%	0.7%	8.0%	7.5%	9.6%	4.8%
Emerging Market Debt	0.4%	3.0%	12.5%	10.8%	10.2%	1.8%
US Treasury (7-10 Year)	1.0%	1.5%	8.6%	6.0%	3.5%	-1.5%
Cash	0.3%	0.7%	3.9%	4.3%	4.9%	3.2%

Source: Fort Washington and Bloomberg. \*Returns longer than 1 year are annualized. Past performance is not indicative of future results.

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