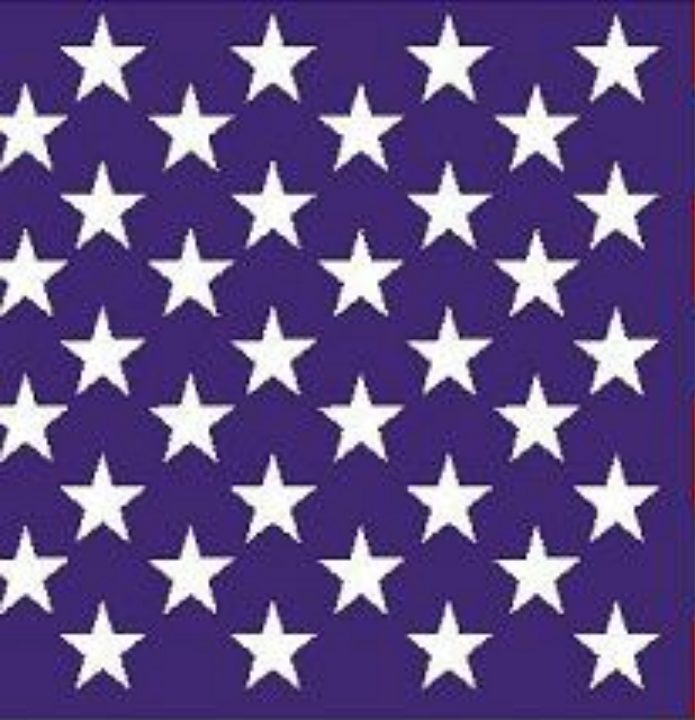


2025 Q4 Commentary



K

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Note: Government Shutdown Effect

Due to the extended US government shutdown, BLS could not collect October 2025 reference period survey data for some surveys due to a lapse in appropriations, resulting in missing data values where data could not be retroactively collected. Missing data for October 2025 may be represented differently across BLS products but will be indicated with a footnote. In the BLS Public Data API and the database, a dash will represent a missing data value, and associated net and percent changes will not be visible.

For some programs, products with missing data may be curtailed. For example, the CPI latest numbers page will be temporarily disabled, and the CPI inflation calculator will not calculate output using October 2025 data.

The K Shaped Economy – Not a New Story

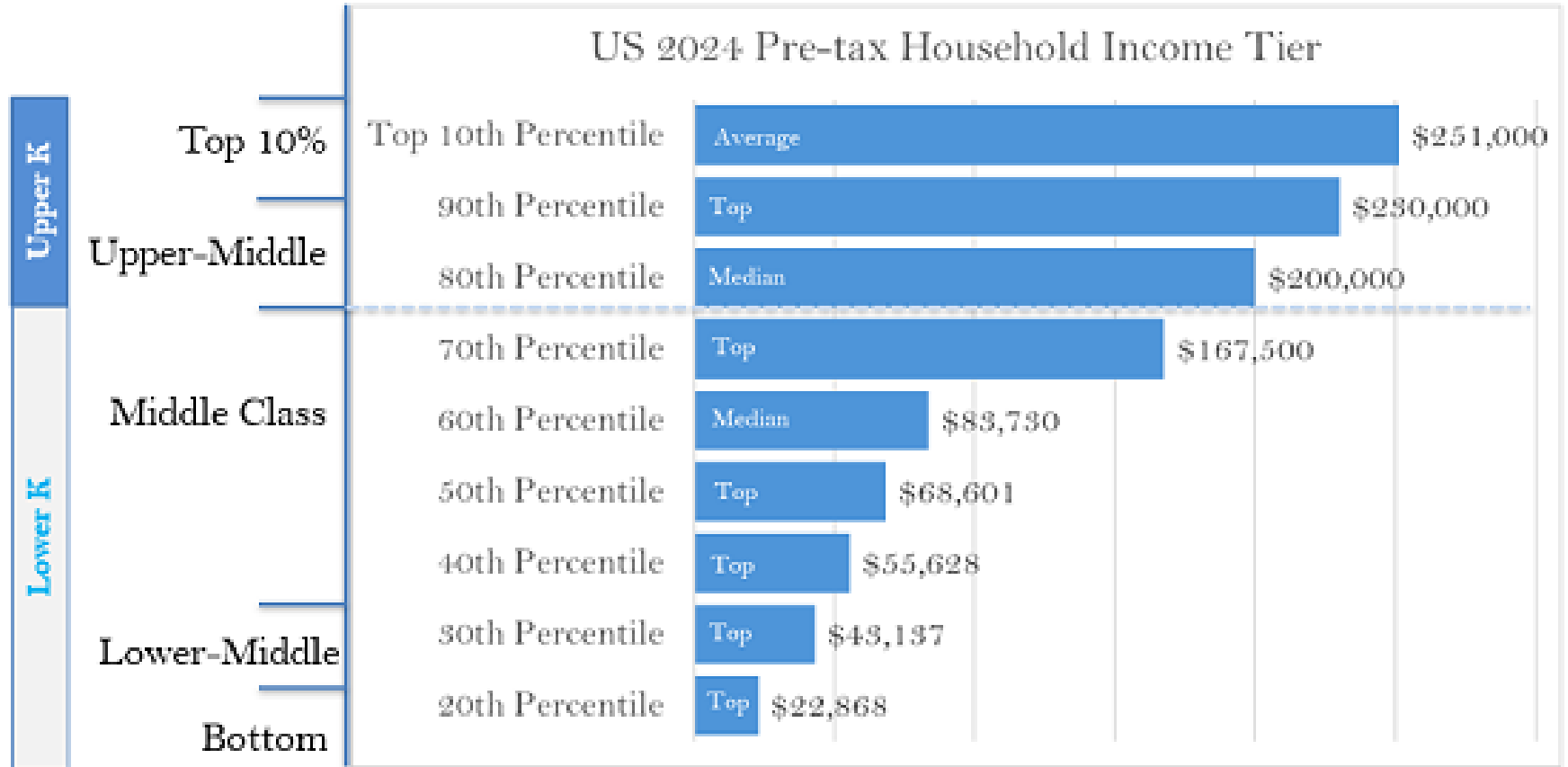
The U.S. in the 2020s has settled into a structurally K-shaped economic system, where prosperity and hardship coexist side-by-side. Instead of rising and falling together, different parts of the economic and income tiers experience increasingly divergent economic outcomes. The upper arm of the “K” represents households with higher income, higher educational attainment, strong asset ownership, and access to capital. These groups have benefited disproportionately from the digital transformation of the economy, the extraordinary rise in asset prices since 2010, and the acceleration of AI-enabled productivity. Their wages have grown faster than inflation, their wealth has compounded through rising equity markets and real estate, and their job opportunities remain robust.

The lower arm of the “K” reflects the reality for a greater share of American households who face wage stagnation, higher volatility in employment, and inflation pressures that erode purchasing power. Inflation in food, rent, transportation, and healthcare – basic survival spending categories that dominate low-income budgets - have risen materially faster than headline CPI. These households typically own few assets and thus have not benefited from rising stock prices or housing values. Instead, they face rising debt balances and higher interest payments with higher delinquencies in auto loans and credit card debts. The decline in savings since the pandemic and tightening credit conditions have further deteriorated financial resilience.

While aggregate economic indicators, such as GDP growth, corporate earnings, and headline unemployment rates, suggest economic strength, they mask the divergence beneath. The top third of households continues to experience a robust, opportunity-rich economy. The bottom two-thirds face more precarious conditions marked by unstable hours, job displacement pressures from automation and AI, higher borrowing costs, and persistent affordability challenges. This bifurcation is not new. Its origins lie in long-run structural forces beginning in the 1980s, including deindustrialization, globalization, declining labor power, and an economy increasingly dominated by intangible and knowledge-based capital. The 2008 financial crisis widened this gap further, and the pandemic magnified it through unequal health risks, uneven ability to work remotely, and differential exposure to inflation and asset-price volatility. The rapid growth of AI and mega-cap technology firms between 2023 and 2025 has also disproportionately rewarded high-skill labor and capital owners.

U.S. Household Income Tiers in a K Economy

(Income tiers are estimates from a number of sources.)



Source:

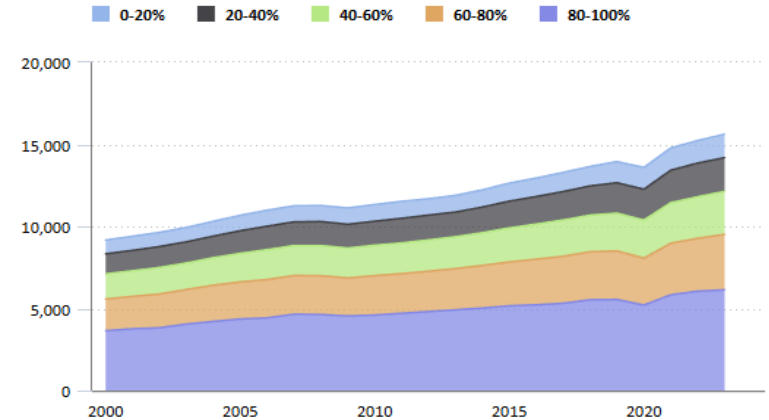
- https://www.theguardian.com/us-news/2025/jul/03/trump-budget-bill?utm_source=chatgpt.com
- <https://apnews.com/article/income-inflation-economy-ae72499ff0de2e0251061ff3a502228b>
- <https://www2.census.gov/library/publications/2025/demo/p60-286.pdf>

Top 20% Represents 40% of Consumption

	All Consumer Units	Lowest Quintile	Second Quintile	Third Quintile	Fourth Quintile	Highest Quintile
Average Annual Expenditure	\$78,535	\$35,046	\$50,054	\$66,900	\$89,972	\$150,342
Y2024 Lower Income Bound			\$29,932	\$57,452	\$94,511	\$155,925

Product & Services	Lower Arm (80%) of K Economy	Upper Arm (20%) of K Economy	Top 40% of K Economy
Personal Consumption Expenditure	60.50%	39.5%	61.1%
Goods	61.09%	38.9%	60.5%
Durable Goods	44.82%	55.2%	75.5%
Nondurable Goods	69.85%	30.2%	52.5%
Services	60.22%	39.8%	61.3%
Housing and Utilities	65.42%	34.6%	56.6%
Healthcare	73.92%	26.1%	48.4%
Transportation Services	52.45%	47.6%	69.7%
Recreation Services	56.44%	43.6%	66.8%
Food Services & Accommodations	55.50%	44.5%	66.8%
Financial services and insurance	42.10%	57.9%	75.6%

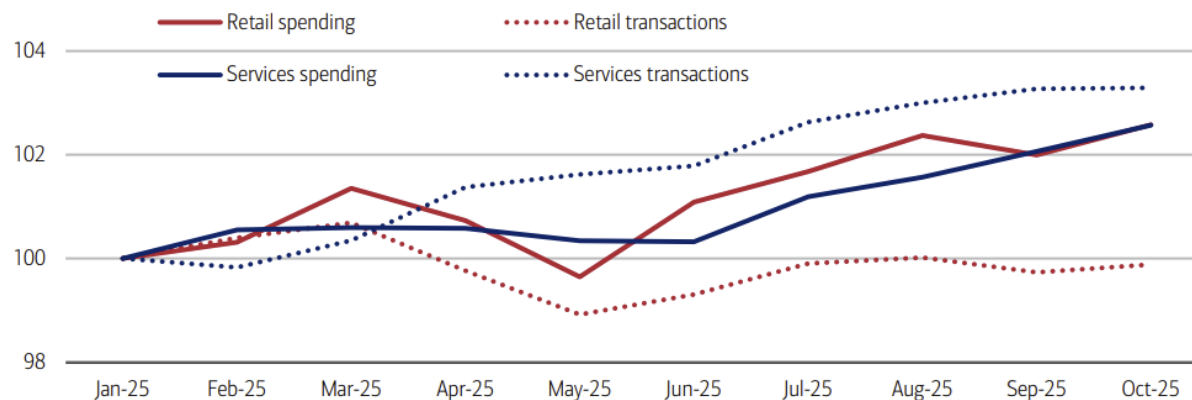
Real PCE by Quintile of Equalized PCE (billions of 2017 dollars)



- The Bureau of Labor Statistics study using PCE distributional results for 2000–2023 (last updated March 14, 2025) shows a systematically growing share of consumer spending is from the top 20% of income households. There are approximately 136 million consumer units in the population in 2024, each quintile includes about 27 million consumer units.
- The top 20% income tier represents 39.5% of the Personal Consumption Expenditure. More specifically, this highest income tier represents almost 49% of goods purchased and almost 40% of services consumed in the economy as of March 2025.
- In the area of durable goods purchases, the highest 20% income tier represents over 55% of spending.
- In fact, the top 40% of income earners represent between 60% to 75% of all spending in this economy.

Bank of America Consumer Spending – November 12, 2025

- According to Bank of America aggregated card data, the total credit and debit card spending per household rose 2.4% year-over-year in October - the strongest annual growth since early 2024,. Seasonally adjusted spending rose 0.3% month-over-month, the fifth consecutive month of gains, with services contributing the most to monthly spending growth for the second straight month.
- Large gaps continue between both higher- and lower-income households' spending and wage growth. Higher-income households saw 2.7% YoY spending growth in October. Lower-income groups lagged at just 0.7%; after-tax wages increased at 3.7% YoY for higher-income households and at 1.0% YoY for lower-income households.
- Across all incomes, households hold more deposits than in 2019, suggesting they are in decent financial shape overall. However, the holiday season will bring some challenges - 62% of respondents to Bank of America's 2025 Holiday Survey reported feeling financial strain.
- Spending on holiday items per household surged 5.7% YoY through October, yet Bank of America card data shows retail transaction volumes have slightly declined since January. Some of the strength in holiday spending – and retail spending more broadly – likely reflects price increases as opposed to growth in the number of consumer purchases. The graph shows that, while overall retail (excluding food and gas) spending was up 2.0% in October 2025 compared to January, the number of transactions has actually declined since then. This is likely due to tariff- induced inflation on goods.



Source: Bank of America internal data

Punch One: the Global Financial Crisis (GFC)

The Global Financial Crisis of 2007–2009 ended in a severe recession and a temporary collapse of financial markets. It marked a structural shift in the evolution of the American economy. Among other ills, the GFC exposed long-standing vulnerabilities of rising household leverage, overextended banks, and an overreliance on housing wealth. Then, it set in motion a recovery that was deeply unequal across income, wealth, skill, and geographic lines. The United States emerged, not with a unified economic trajectory, but with a deepened K-shaped economy, where one part of society experienced a powerful rebound and compounding prosperity while the other part struggled through stagnation, unemployment, lost wealth, and increasingly fragile financial fundamentals. The divergence began during the crisis itself. In general, high-income households lost wealth through the collapse in stock portfolios and housing prices, but they were better positioned to absorb those losses through diversified assets, secure employment, liquidity buffers, and access to credit. By contrast, lower-income households faced layoffs mainly in construction, retail, manufacturing, and service industries - sectors that disproportionately represented undereducated workers. They entered the crisis with minimal savings and heavy exposure to predatory mortgages, adjustable-rate loans, and high leverage. When foreclosures swept the nation, they disproportionately impacted lower-income and minority communities. These households not only lost their homes; they lost their main wealth accumulation vehicles. Wealth inequality widened instantly and dramatically. The policies that were needed to stabilize the financial system successfully prevented a depression, but their design and transmission mechanisms favored certain households and sectors far more than others. The result was a recovery that was technically broad in macroeconomic statistics with GDP rebounding, financial markets soaring, and bank balance sheets healing, but deeply divided at the household level.

Monetary Policies favoring Capital over Labor

The Federal Reserve's response to the GFC was unprecedented: near-zero interest rates, quantitative easing (QE) or large-scale asset purchases, liquidity facilities, and the implicit backstop of major parts of the financial system.

- Quantitative Easing (QE) drove down long-term interest rates, increased liquidity, and raised valuations in equities, corporate bonds, other financial assets, and real estate, which helped the upper income and asset owners who experienced an expansion of net worth. The S&P 500 recovered its losses far sooner than labor markets did. Housing prices rebounded first in high-value metropolitan areas tied to technology, finance, and professional services, where demand was already strong and borrowers had good credit histories. QE and asset inflation produced a massive upward redistribution of purchasing power. Even middle-income households with 401(k)s benefited meaningfully from the rebound in stocks, while renters and low-income households remained fully exposed to rising living costs and stagnant wages.
- Credit flowed to those who already had credit. Monetary policy works by lowering borrowing costs, but only for those who can borrow. After the GFC, lending standards tightened sharply for lower-income households, first-time home buyers, and small businesses without collateral. Wealthier households, by contrast, accessed cheap credit easily: they refinanced mortgages, financed property purchases, invested in businesses, and expanded their financial portfolios. Low rates rewarded borrowers with strong balance sheets and shut out households with poor credit, further widening the gap.
- Asset inflation outpaced wage growth. While QE pushed asset values upward, labor markets recovered far slower. Real wages for the bottom half of earners stagnated for years after the crisis. Productivity grew, but wage growth lagged behind, leading to a widening disconnect between the returns to capital (which surged) and the returns to labor (which stagnated). This divergence is one of the defining characteristics of the K-shaped economy. Financial markets became detached from the real economy.
- Wall Street boomed while Main Street languished. Stock indices hit new highs even as unemployment remained elevated and millions of households faced foreclosure or long-term joblessness. QE and ultra-accommodative policy supported financial valuations but did not materially improve the lives of those without meaningful exposure to those assets.
- Monetary policy prevented a systemic collapse but favored capital over labor. Fiscal policy helped the bottom temporarily but was withdrawn too soon. Together, they stabilized the economy while inadvertently accelerating inequality.

Fiscal Support withdrawn too quickly

The 2009 American Recovery and Reinvestment Act (ARRA) provided significant support, but it was not large enough to fully offset the severity of the downturn. Many lower-income households received temporary lifelines through extension of unemployment benefits, modest tax credits, and safety-net improvements, but these measures expired quickly, even as the labor market remained fragile. Between 2010 and 2015, state and local governments underwent deep budget cuts that eliminated public-sector jobs, reduced social services, and cut funding for schools, infrastructure, and healthcare. These cuts disproportionately impacted lower-income households and workers, particularly minorities and those dependent on public employment or public benefits. The decline in local government employment became a drag on the lower arm of the K. As fiscal support contracted prematurely, the Federal Reserve was left to shoulder the entire burden of economic recovery. But monetary policy, by design, flows disproportionately through asset prices, credit channels, and capital markets. That means households with assets, strong credit, and income stability benefited while households without them retreated further. By the mid-2010s, the new shape of the economy was firmly in place: the top half of the K benefited from compounding wealth effects. Asset appreciation compounded year after year, raising net worth among higher-income households and reinforcing advantages in education, geography, and mobility. The bottom half faced a lost decade where lower-income households contended with stagnant wages, rising rent, high medical, transportation, and childcare costs, and elevated debt loads which limited access to credit and reduced homeownership. Labor markets bifurcated structurally with job polarization where high-skill roles grew while low-wage service jobs expanded, and middle-skill jobs disappeared. These trends were further exaggerated by automation and globalization. The geographic divide widened as a result where high-skill, tech-driven metro areas boomed and rural, ex-urban, and industrial regions stagnated or declined. Finally, asset inflation outpaced wage growth and significantly benefited asset owners (the wealth effect).

In retrospect, the GFC created the structural framework of the modern K-shaped economy. The crisis and the policies that followed ensured that returns to capital would grow faster than returns to labor. They entrenched a two-track system in which the top half compounds wealth through assets and the bottom half sees living costs outpace earnings which contributed to a dual track economy.

Punch Two: COVID-19

When COVID-19 arrived in early 2020, the lower leg of the K had never really recovered from the GFC. A large share of households were still living with thin financial cushions, high debt burdens, and unstable work. The GFC had carved a clear structural divide: one America that owned assets and had degrees and geographically mobile skills and another whose net worth and job security had never been meaningfully rebuilt.

COVID amplified the economic divide further. During COVID, jobs that could be done remotely - professional knowledge work - were instantly reclassified as "remote-eligible." Those workers' income streams continued. Many, by spending less, accumulating forced savings as in-person consumption collapsed. In contrast, jobs that required physical presence were either shut down entirely or thrown into chaotic, high-risk conditions. It was the lower-paid half of the economy that bore the brunt of layoffs, furloughs, health risks, and schedule volatility. The fact that they entered the pandemic already weakened by the GFC made this second punch more damaging. Many of these households had never rebuilt a substantial savings buffer after the GFC. The brief period of deleveraging had been followed by a slow grinding reality of flat real wages and rising costs. They had less housing wealth to borrow against, fewer retirement accounts to tap, and more exposure to unstable gig and hourly jobs. COVID hit a population that had spent a decade oscillating between "getting by" and "falling behind."

Fiscal policy in the early months of the pandemic was both massive and, initially, somewhat equalizing. Direct stimulus checks, expanded unemployment insurance, and temporary eviction moratoria delivered much-needed cushions to this group. Measured poverty fell in 2020 and 2021. Temporary child tax credits, PPP loans for small businesses, and other programs helped the bottom and middle segments of the income tiers. However, the support was designed as crisis insurance, not structural repair. As those benefits rolled off by 2022, the same households that had been at the edge before 2020 quickly saw their savings eroded, their debts rise, and their budgets squeezed by escalating inflation. Inflation hit hardest on spending categories that dominate the budgets of the lower arm of the K.

COVID monetary policy followed a familiar pattern, but at greater speed and scale than during GFC. The Federal Reserve cut rates to zero, restarted and expanded quantitative easing, and created new facilities to backstop financial and investment assets. These interventions stabilized financial markets with equity indices rebounding at lightning speed. Housing markets, turbo-charged by rock-bottom mortgage rates and the newfound flexibility of remote work, began an extraordinary price boom. For the upper arm of the K, this was a windfall. Their 401(k)s, brokerage accounts, options packages, and home equity all surged. For the lower arm, it was a "nothing burger"!

Pandemic Gave Rise to Fatter Margins

- In the aftermath of COVID-19, inflation increased to levels that the U.S. economy had not witnessed in more than 40-years. One popular narrative was that, in the aftermath of the COVID-19 pandemic and amid a surge in demand and contemporaneous supply chain bottlenecks, corporate businesses increased the prices of their final goods and services above and beyond what was justified by changes in labor costs and input prices. The outcome was a marked increase in profit margins that contributed to overall inflation.
- Using a measure of nonfinancial corporate profits from the national income accounts, which is before tax profits with capital consumption adjustment, nonfinancial corporate profit margins, or profits over gross value added, shows they increased sharply to about 19% in 2021Q2 and slipped back to 15% in 2022Q4, compared to about 13% in 2019Q4. This contrasts sharply with the steep dive in margins that normally occurs during a severe economic contraction.
- Much of the increase in aggregate profit margins following the COVID-19 pandemic can be attributed to: (i) the unprecedented large and direct government intervention to support U.S. small and medium sized businesses and (ii) a large reduction in net interest expenses due to accommodative monetary policy. Once adjusted for fiscal and monetary interventions, the behavior of aggregate profit margins appears much less notable, and by the end of 2022, they were essentially back at their pre-pandemic levels.
- In conclusion, the unprecedented support for U.S. businesses via the Coronavirus Aid, Relief and Economic Security Act (CARES) of 2020, the Paycheck Protection Program and Health Care Enhancement Act of 2020, and the American Rescue Plan Act of 2021 greatly increased the subsidy component of non-labor costs, thus providing a large boost to corporate profits. Profit margins also received a boost over the 2020Q1-2022Q4 period by a rapid decline in interest expenses. The decline was driven by many companies refinancing their obligations to ensure lower interest payments going forward. As such, the interest share of value added declined from 2.8 percentage points in 2019Q4 to 1.8 percentage points in 2022Q4, thus contributing to an increase in profit margins of 1 percentage point during that period.

The Missing Full Impact of Tariffs

- When tariffs were imposed or increased, companies had 4 possible channels to absorb or offset the costs: prices, margins, supply chains, and labor. The tariff impact didn't vanish. It was stored in thinner margins, deferred price increases, strained supply chains, and postponed investment decisions.
- Most firms used all four channels at once, but in the early phase, they deliberately avoided raising consumer prices because demand was fragile and competition intense.
 1. A meaningful portion of the tariff burden was absorbed inside corporate margins, but not evenly or immediately. Large importers, wholesalers, and retailers, especially those with scale and pricing power, chose to compress margins rather than risk losing volume. Tariffs initially functioned as a margin cut, not a margin collapse. Pandemic-era demand surges, supply shortages, and pricing power had pushed gross margins to levels well above long-term averages in many sectors.
 2. Firms leaned hard on supply-chain reconfiguration. Instead of passing tariffs on, they rerouted sourcing by switching countries of origin, reclassifying products, renegotiating supplier terms, or moving final assembly to tariff-advantaged locations. This didn't eliminate cost inflation, but it delayed and diluted it. These hidden frictional costs take time to surface.
 3. Corporate America benefited from operating leverage on the revenue side, especially among firms serving higher-income consumers. While low-end retailers and discretionary mass-market sellers struggled, companies exposed to the upper arm of the K-shaped economy enjoyed resilient demand. Higher-income consumers absorbed modest price increases, continued spending on services, travel, and premium goods, and helped keep topline revenue humming.
 4. The tariff cost was partially offset by financial engineering and accounting optics. Companies slowed hiring, cut discretionary spending, reduced marketing, paused capex, and leaned on share buybacks to support earnings per share even when operating margins narrowed. EPS stability does not mean cost pressure is absent; it means it has not yet crossed the threshold that forces broad repricing.

Labor is the Next Absorber for Tariff Impact

- There is a limit to how much margin compression firms can withstand before return-on-capital thresholds are violated. There is a limit to how much working capital can be tied up in more complex supply chains. How long can management reassure investors that “conditions are temporary” before demanding visible action? As tariffs persist, three things begin to happen simultaneously:
 - 1) Margin normalization becomes margin erosion. What started as a modest trim turns into a structural decline in profitability, especially for firms with thin margins to begin with (retailers, assemblers, distributors, transportation).
 - 2) Price pass-through becomes unavoidable when contracts renew, inventories cycle, and competitive dynamics reset and firms begin to push more of the costs onto customers. At that point, demand, especially from lower-income consumers, starts to weaken more visibly.
 - 3) When cost cutting shifts from discretionary to structural, it will be the pivot point where layoffs, automation, and AI acceleration could enter forcefully.
- Labor is the shock absorber once price increases threaten demand and margin absorption threatens earnings. Historically, this is how corporations protect profitability in periods of cost pressure that cannot be passed on cleanly. AI provides both a tool and a justification. Companies are increasingly framing workforce reductions, not as cyclical layoffs, but as “efficiency transformations,” “digital optimization,” or “AI-driven productivity initiatives.” This framing matters because it reassures investors that cost cutting is permanent, not temporary. It also reduces reputational risk compared to traditional layoffs. The sectors most exposed are those where tasks are repetitive, rule-based, or administrative; pricing power is weak; margins were already thin; and demand skews toward the lower-income consumer.
- Retail operations, customer service, back-office functions, logistics coordination, accounting, marketing, and parts of compliance are already under stress. AI and automation are reducing headcount growth, increasing output per worker, and shrinking teams quietly over time. This process allows companies to say, truthfully, that earnings are stable, or even improving, while employment growth stalls or turns negative.

Immigration and the Labor Market

Over the past several years, immigration policy has become a central driver of U.S. labor-market dynamics in structurally important ways. The defining shift is that immigration is no longer being treated primarily as a growth and labor-supply matter, but increasingly as a border, security, and enforcement issue, with labor effects viewed as secondary or incidental. This reframing has altered both the composition and the elasticity of the workforce, especially in sectors that rely on physical presence, mobility, and rapid scaling of labor. Policies emphasizing tighter border controls, expanded removals, faster adjudication thresholds, and reduced reliance on humanitarian or discretionary work authorizations have materially constrained the inflow and persistence of workers in construction, agriculture, energy infrastructure, hospitality, logistics, and certain manufacturing segments. These are the sectors where the domestic labor supply has proven inelastic and where automation remains limited or capital-intensive. At the same time, the policy environment has increased uncertainty even for legally in-country workers. Temporary statuses, parole programs, Temporary Protected Status (TPS) designations, and pending asylum work authorizations are now less reliable. That uncertainty has real labor market consequences: it reduces geographic mobility, lowers labor-force participation at the margin, and makes employers more cautious in hiring or expanding capacity.

These immigration dynamics are also reshaping the future of labor in relation to technology. Current immigration policy changes do not primarily accelerate the substitution of low-wage physical labor with automation. Instead, they coexist with a technological transition that is most disruptive to middle class, white-collar, non-professional roles such as administrative, coordinative, and process-driven work that is highly amenable to AI substitution. Immigration enforcement constrains the supply of workers whose jobs are hardest to automate, while AI compresses demand for workers whose jobs are easiest to digitize. This divergence produces a bifurcated labor market: sustained demand and localized wage inflation for physical labor on one side, and headcount compression with weak bargaining power in white-collar support roles on the other. Taken together, these policy shifts mark a departure from the assumption that labor shortages could be resolved primarily through immigration expansion while technology absorbs displaced workers elsewhere. In fact, this dynamics is further promoting the mismatch of skills and jobs. Immigration policy is therefore no longer just a demographic or social issue; it is actively redefining the balance between capital and labor, influencing inflation dynamics, and shaping which segments of the workforce retain bargaining power in an economy increasingly organized around ownership, scalability, and technological leverage rather than sheer labor availability.

New Restrictive Immigration Policies & Actions

- The administration has sharply increased deportation and detention operations, with more than 600,000 removals in 2025 so far and ICE detention hitting record highs (~68,000 people detained). Federal policy has offered tripled cash incentives (now ~\$3,000) and free flights for undocumented migrants who choose voluntary self-deportation, while threatening arrest and removal for those who do not comply.
- New rules require biometric entry/exit checks at all U.S. ports of entry for non-citizens, expanding tracking and identity verification across land, air, and sea. The administration has expanded social media vetting of visa applicants, including H-1B skilled workers, looking for “anti-American” speech and support of terrorism. This has led to visa revocations and deportations based on online activity. Visa processing delays tied to enhanced screening have prompted major tech employers to warn foreign employees against international travel due to potential return delays of up to a year.
- A major overhaul to the H-1B employment visa program is underway. It abandons the random lottery and moves to a wage-based selection model, prioritizing higher salaries and advanced skills and thus reducing access for lower-paid foreign workers in research, tech, and other sectors.
- The Laken Riley Act was enacted early in 2025, requiring detention without bond for non-citizens charged with certain crimes and empowering states to sue DHS over enforcement failures. A series of executive orders (e.g., “Protecting the American People Against Invasion”) revoked prior asylum and integration policies and directed agencies to aggressively enforce immigration law and removals.
- Numerous additional regulatory proposals surfaced throughout 2025 (e.g., expanded biometrics, visa cost and “visa bond” requirements, and restrictions on student, exchange, and research visas) aimed at increasing barriers to legal immigration and reducing stays and renewals.
- These recent shifts in U.S. immigration policy are reshaping the labor market in ways that are both economically consequential and politically paradoxical. The renewed emphasis on enforcement—expanded removals, tighter work authorization, heightened visa scrutiny, and the narrowing of temporary legal pathways—has had the immediate effect of constraining the labor supply in a narrow but critical set of industries. Construction, energy infrastructure, agriculture, logistics, and certain manufacturing trades rely disproportionately on immigrant labor where much of it is physically intensive and not easily automated. In these sectors, labor scarcity is already translating into higher costs, delayed projects, and reduced capacity. Yet, this tightening does not register cleanly in aggregate employment data, masking a growing mismatch between labor demand and available workers at precisely the moment when public policy seeks to expand domestic production.

Policy Impact with secondary effect on the K-Shaped Economy

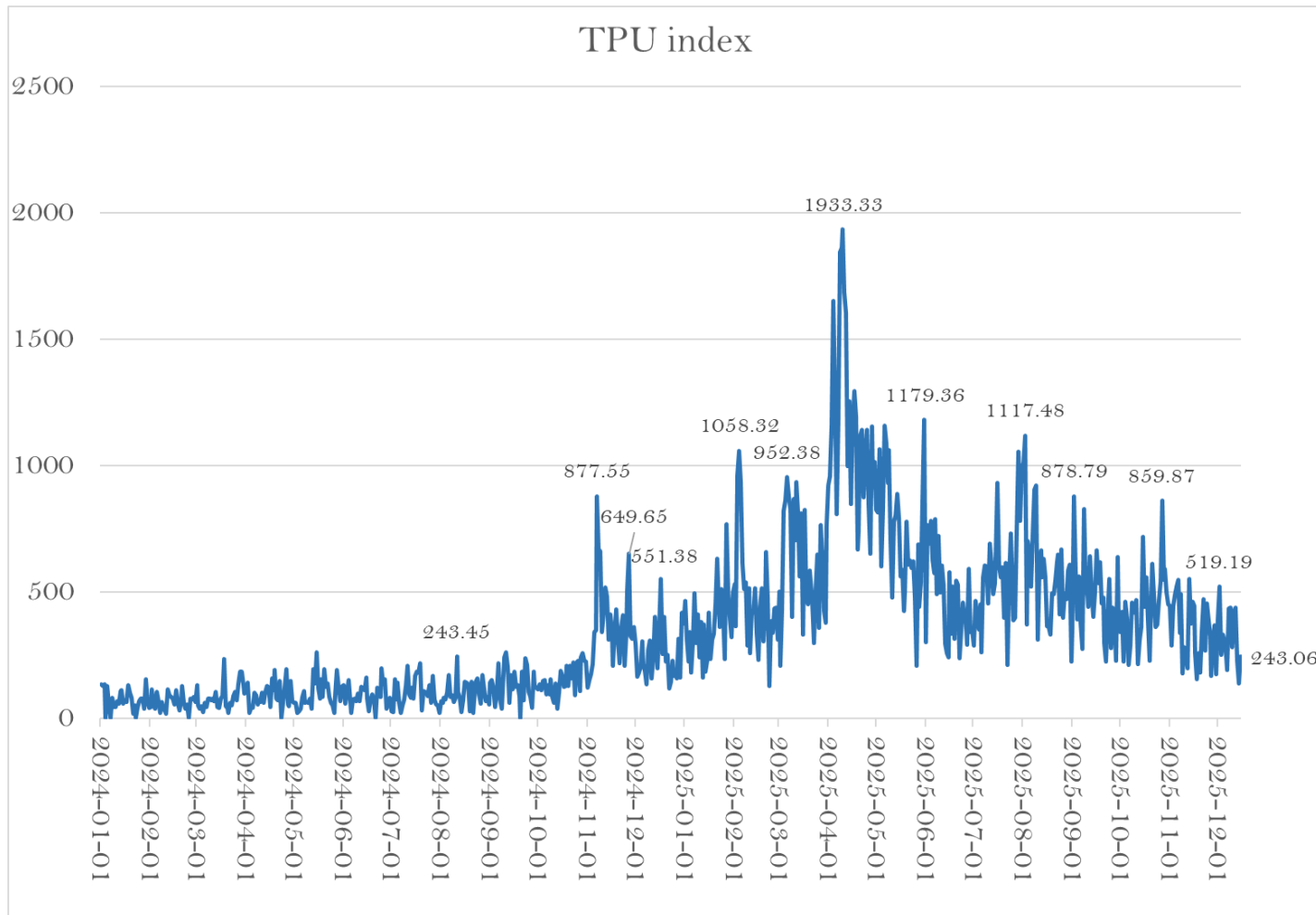
The immigration enforcement-heavy policies, from expanded deportations to visa vetting and entry/exit tracking, are tightening access and legal status for both documented and undocumented workers. Many industries that depend on foreign labor (e.g., agriculture, construction, hospitality, tech, etc.) are already reporting labor shortages and operational strain.

The restructuring of H-1B visa selection and enhanced screening raises costs and uncertainties for employers and foreign professionals, potentially slowing the inflow of global talent at a time when sectors like advanced manufacturing and digital infrastructure are competing globally for skilled workers. The administration replaced the traditional random lottery that has governed annual H-1B allocations with a wage- and skill-based selection process. Under this new rule, effective for the fiscal year 2027 visa season, visas are allocated preferentially to applicants commanding higher salaries and demonstrating advanced skill levels. Additionally, the administration imposed a \$100,000 one-time fee on new H-1B visa petitions — a dramatic increase from the prior fee regime. This steep cost burden is intended to discourage what the administration views as misuse of the program for lower-paid labor substitution, but it also raises recruitment costs for U.S. employers and could deter some companies from sponsoring foreign talent at all. For existing H-1B visa holders, these changes mean heightened uncertainty around renewals, travel, and long-term career planning in the U.S., as well as increased scrutiny that can affect status and mobility. This has begun to dampen the U.S. talent pipeline at precisely the moment when advanced manufacturing, energy infrastructure, and high-technology industries require deep pools of engineers, technicians, and applied scientists to scale domestic capacity. AI reduces demand for certain categories of labor, while immigration policy restricts supply in the very segments, such as technical, engineering, and applied STEM, that are hardest to replace and most essential to long-term growth. This dynamic complicates the Administration's objective of reshoring manufacturing and rebuilding domestic industrial capacity. Modern manufacturing and infrastructure development are not purely capital-driven endeavors; they rely on layered human expertise spanning design, construction, operation, and maintenance. In effect, the U.S. is constraining both ends of its labor spectrum; limiting physical labor through enforcement while narrowing skilled labor through visa reform. The likely outcome is not a broad-based revival of domestic production, but a further entrenchment of a K-shaped economy in which capital and scarce expertise capture disproportionate gains, and labor—domestic and foreign alike—bears the adjustment costs.

The Labor Economy – Below the Surface

- The U.S. unemployment rate remains stable when both labor demand and labor supply weaken at the same pace. As such, focusing only on the headline unemployment rate or U3 is likely not telling the complete story. Over the past 18–24 months, job openings have been trending down steadily. At the same time, the number of people actively seeking work has not surged. In reality, this reflects less hiring, less quitting, and less opportunity—especially at the bottom of the labor market.
- Immigration policy does matter at the margin, but it is not the main driver of this phenomenon. Tighter border enforcement, removal of immigrants, and slower legal immigration flows do reduce labor supply growth in certain sectors—construction, agriculture, hospitality, home health care. However, the lack of evidence for wage acceleration in those sectors with labor shortages also suggests a demand reduction.
- What is observable is that companies are adjusting through hiring freezes, since layoffs can be expensive—financially, legally, reputationally, and operationally. Instead, positions are left unfilled and employers let attrition reduce staff gradually. This causes job openings to fall without increasing unemployment. At the same time, productivity and AI are absorbing demand without new workers involved. Many firms are discovering they can maintain output, protect margins, and reduce costs without hiring by using AI tools and automation. This is a structural change to the labor market. This disproportionately affects lower- and middle-wage jobs, which matters enormously for the lower arm of the K-shape economy. After two major economic shocks, workers, and especially lower-income workers, are: quitting less, changing jobs less, and accepting suboptimal conditions. The quit rate has fallen significantly from its 2021–2022 highs. That reduces job-to-job transitions, which are the main driver of wage growth for lower-K workers. A labor market with fewer quits looks “stable,” but it is actually less dynamic and less upwardly mobile. Labor force participation has plateaued. Participation among prime-age workers has recovered, but workers age 55+ have not fully returned while some marginal workers have exited entirely due to disability, caregiving, health issues, or discouragement. All these factors have capped labor supply growth even without immigration effects.
- As long as companies can hold margins, avoid price pass-through, and rely on productivity gains, this can keep the unemployment rate stable. However, if tariffs are passed through more fully, demand weakens (especially among lower-income consumers) and margins compress beyond tolerance, and then unemployment will rise in earnest.

Trade Policy Uncertainty Index – Continues to Improve



Dario Caldara, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo construct a monthly index of Trade Policy Uncertainty (TPU Index) by counting the frequency of joint occurrences of trade policy and uncertainty terms across major newspapers. Source: <https://www.matteoiacoviello.com/tpu.htm> & Philip Chao

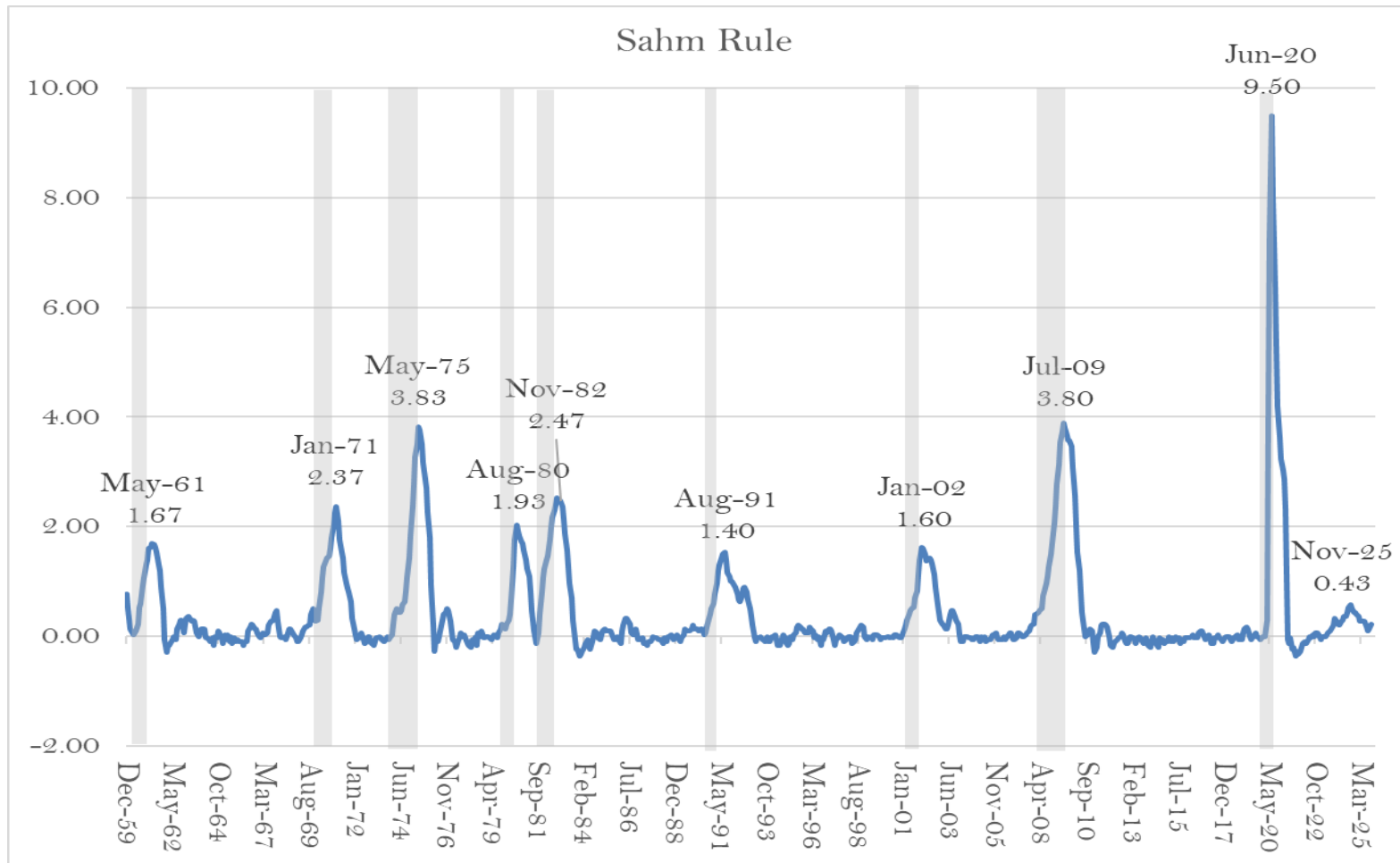
IEEPA at the Supreme Court

- On September 9, 2025, the Supreme Court granted review of the consolidated tariff challenges of *Learning Resources, Inc. v. Trump* and *V.O.S. Selections, Inc. v. Trump*; which were filed earlier in June 2025. The Court agreed to hear the case on an expedited schedule given its broad constitutional and economic implications. The Court heard oral arguments on November 5, 2025. The arguments focused on whether the International Emergency Economic Powers Act (IEEPA) actually authorizes the President to impose sweeping tariffs or whether that authority must come from a clear congressional grant.
- What are the issues:
 - Is the authority to “regulate” imports under IEEPA broad enough to include imposing tariffs, essentially a tax, without explicit statutory language?
 - Even if IEEPA could be read to allow tariffs, does it unconstitutionally delegate legislative authority to the executive branch without an “intelligible principle”?
 - The Court has increasingly required clear congressional authorization for decisions of vast economic and political significance
 - What Constitutes an “Emergency”? Does President Trump’s justification (e.g., trade deficits, economic competition) sufficiently connect to a genuine national emergency that IEEPA was meant to address?
- Even without IEEPA, the Administration could re-announce tariff measures under one or more of the following statutory authorities, albeit with procedural reviews and perhaps slower implementation. Overall tariff levels might remain similar in aggregate over time, albeit restructured under different legal authorities.
 - Section 301 (Trade Act of 1974) allows the U.S. to impose tariffs in response to unfair trade practices by another country. This was the basis for many of the China tariffs in the 2018–2020 period.
 - Section 232 (Trade Expansion Act of 1962) permits tariffs or quotas for national security reasons (e.g., steel and aluminum tariffs historically).
 - Section 122 (Trade Act of 1974) is related to balance of payments issues, allowing temporary tariffs (e.g., up to 15% for 150 days).
 - Section 338 (Tariff Act of 1930) targets unfair practices and can impose up to 50% tariffs.

Stagflation to Recession: 2026?

- Stagflation is loosely defined as below-trend growth with inflation still above the 2% target. The U.S. economy feels like it is in stagflation. The latest core PCE inflation is at 2.8% YoY in the latest September 2025 data, and core CPI in the latest November 2025 data is at 2.6%. Multiple forecasters describe growth as fragile into early 2026. Current, forward-looking signals suggest elevated risk with no certainty of a recession. Bloomberg's monthly economists survey puts 2026 recession odds roughly in the ~30–40% range. As of December 15, 2025, the Sahm Rule is estimating a 43% likelihood. This triggers when the 3-month average unemployment rate rises 0.5pp above its 12-month low.
- The economy could tip from “stagflation” into “recession” when:
 - broad tariff pass-throughs finally hit consumer spending,
 - real wages soften further,
 - corporations turn from “openings down” to “headcount down” in labor and there is increasing use of AI as a head count reduction and productivity enhancement tool,
 - credit tightens (auto + card delinquencies) through reduced lending,
 - a shock occurs (energy, geopolitics, financial accident).
- The lower arm of the K economy probably is in recession-like conditions (falling real discretionary spending, rising delinquencies, unstable work) long before the aggregate economy is “officially” in recession.
- Predicting an economic recession has never been an exact science. This is even more the case in today's protectionist/tariff driven policy world bathed in a heightened geopolitical environment along with a significant immigration policy shift and the rapid deployment of AI and AI related investments. It is never clear in any seismic transition from the past to the future state. It is and continues to be messy.

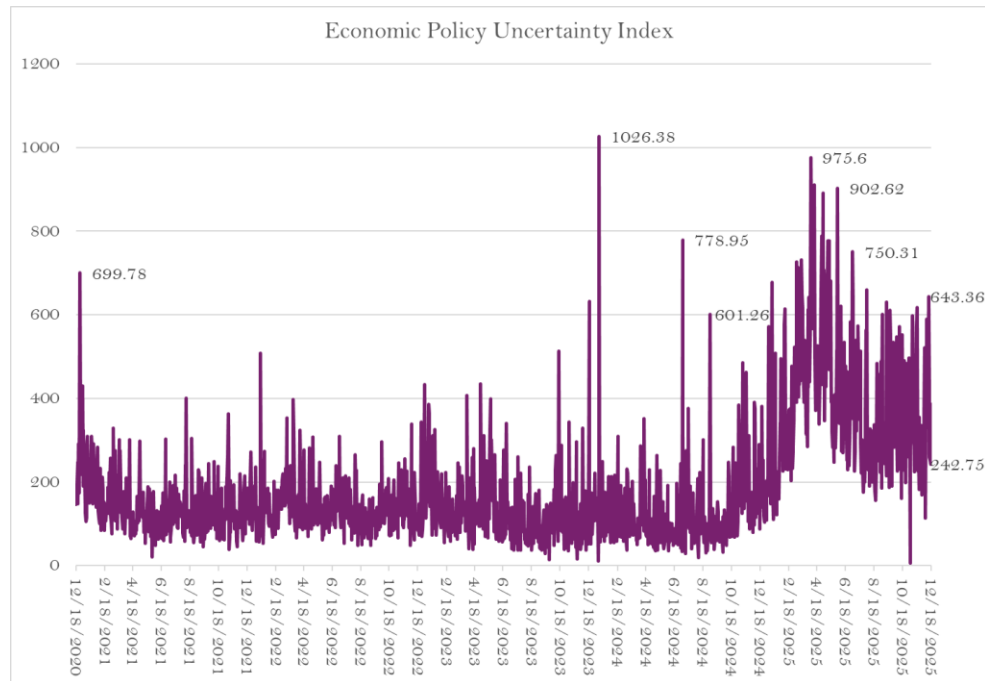
Sahn Rule Recession Indicator



Sahn Recession Indicator signals the start of a recession when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to the minimum of the three-month averages from the previous 12 months.

Source: <https://fred.stlouisfed.org/series/SAHMREALTIME> and Philip Chao

Economic Policy Uncertainty Index – Continues to improve



To measure the U.S. policy-related economic uncertainty, this index consists of three types of underlying components.

- (1) The newspaper-based component is an index of search results from 10-large newspapers. From these papers, a normalized index is constructed of the volume of news articles discussing economic policy uncertainty. It also utilizes data from two other sources: the number of federal tax code provisions set to expire and disagreement among economic forecasters.
- (2) Reports by the Congressional Budget Office (CBO) that compile lists of temporary federal tax code provisions create annual dollar-weighted numbers of tax code provisions scheduled to expire over the next 10 years, giving a measure of the level of uncertainty regarding the path that the federal tax code will take in the future.
- (3) The Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters utilizes dispersion between individual forecasters' predictions about future levels of the Consumer Price Index, Federal Expenditures, and State and Local Expenditures to construct indices of uncertainty about policy-related macroeconomic variables.

OECD Economic Outlook – 2025 December

The global economy has proved more resilient than expected this year, but underlying fragilities remain. Supportive macroeconomic policies improved financial conditions fueled by optimism about the potential impact of new technologies, and rising AI-enabling investment and trade have helped underpin demand to a varying extent across economies, cushioning the headwinds from elevated policy uncertainty and rising barriers to trade. The full effects of higher tariffs have yet to be felt but are becoming increasingly visible in spending choices, business costs, and consumer prices, especially in the U.S. Global trade growth has moderated after strong front-loading of merchandise trade early in the year ahead of anticipated tariff increases, and inflation has yet to return to target in some countries. There are also some signs of weakening labor demand across economies. Global GDP growth is projected to slow from 3.2% in 2025 to 2.9% in 2026, before picking up to 3.1% in 2027. Further, policy interest rate reductions are expected, and little fiscal tightening is anticipated in many countries despite the need to address rising budgetary pressures. Labor markets are projected to continue to ease, putting additional downward pressure on labor cost growth and inflation. Annual consumer price inflation in the G20 countries is expected to moderate to 2.8% and 2.5% in 2026 and 2027 respectively, from 3.4% this year. By mid-2027, inflation is projected to be back to target in almost all major economies.

These projections are subject to substantial risks, which may interact with each other. Further increases or swift changes in trade barriers, including the application of higher tariff rates to a broader range of goods or stricter controls on the export of critical products such as rare earth elements, would weaken growth, add to policy uncertainty, and generate significant disruptions in global supply chains. Weaker-than-expected growth, lower-than-expected returns from net AI investment, or upside inflation surprises could all trigger widespread risk repricing given stretched asset valuations and optimism about corporate earnings and be amplified by forced asset sales by highly leveraged non-bank financial intermediaries (NBFIs). The high price volatility of crypto-assets and the growing interconnectedness of NBFIs with the traditional financial system also raise financial stability risks. Businesses may also prove more adaptable than expected when faced with significant adverse shocks and elevated uncertainty, limiting the downside impact on growth. The future productivity benefits of new technologies could also emerge more rapidly and more widely than anticipated, providing an additional impetus to global growth prospects.

OECD: Global GDP Growth Projections

	Average 2013-2019	2024	2025	2026	2027	2025 Q4	2026 Q4	2027 Q4	
		Per cent							
Real GDP growth¹									
World ²	3.4	3.3	3.2	2.9	3.1	3.0	3.0	3.1	
G20 ²	3.5	3.4	3.2	2.9	3.1	2.9	3.0	3.2	
OECD ²	2.3	1.7	1.7	1.7	1.8	1.5	1.8	1.8	
United States	2.5	2.8	2.0	1.7	1.9	1.8	1.6	1.9	
Euro area	1.9	0.8	1.3	1.2	1.4	1.0	1.5	1.4	
Japan	0.8	-0.2	1.3	0.9	0.9	0.5	1.3	0.7	
Non-OECD ²	4.4	4.5	4.4	3.9	4.0	4.1	3.9	4.1	
China	6.8	5.0	5.0	4.4	4.3	4.7	4.3	4.3	
India ³	6.8	6.5	6.7	6.2	6.4				
Brazil	-0.4	3.4	2.4	1.7	2.2				
OECD unemployment rate⁴	6.5	4.9	5.0	5.0	4.9	5.0	5.0	4.9	
Inflation¹									
G20 ^{2,5}	3.0	6.3	3.4	2.8	2.5	2.9	2.6	2.4	
OECD ⁶	1.6	5.0	4.2	3.5	2.8	4.2	3.1	2.6	
United States ⁷	1.3	2.6	2.7	3.0	2.3	3.0	2.9	2.1	
Euro area ⁸	0.9	2.4	2.1	1.9	2.0	2.0	1.9	2.0	
Japan ⁹	0.9	2.7	3.2	2.2	2.1	2.7	2.2	2.1	
OECD fiscal balance¹⁰	-3.1	-4.7	-4.5	-4.6	-4.6				
World real trade growth¹	3.3	3.9	4.2	2.3	2.8	3.3	2.7	2.9	

1. Percent; last three columns show the change over a year earlier. 2. Moving nominal GDP weights, using purchasing power parities. 3. Fiscal year. 4. Percent of labor force. 5. Headline inflation. 6. Moving nominal private consumption weights, using purchasing power parities. 7. Personal consumption expenditures deflator. 8. Harmonized consumer price index. 9. National consumer price index. 10. Percent of GDP. Source: OECD Economic Outlook 118 database.

Central Bank Policy Divergence

- Global easing has come to an end. Financial conditions become region-specific, and asset prices must reflect genuine capital costs rather than abundant liquidity.
- The post-pandemic cycle is increasingly defined, not by synchronized global policy, but by policy divergence across the world's three most important currency blocs. The European Central Bank remains comparatively hawkish; the Federal Reserve is debating how much it will ease, and the Bank of Japan is cautiously exiting decades of extraordinary accommodation and normalizing rates.
- The ECB's posture reflects a structural inflation challenge rather than cyclical overheating. Wage pressures, services inflation, energy sensitivity, and fiscal fragmentation limit how quickly Europe can ease without risking credibility. As a result, European policy rates remain restrictive relative to growth, and the ECB is signaling patience rather than accommodation. With rates higher for longer, Europe is no longer a reliable source of "policy relief."
- The Federal Reserve faces a different constraint set. U.S. inflation has moderated but remains sensitive to services, housing, and labor-market tightness. At the same time, the U.S. Treasury is issuing debt at historically high levels, increasing the importance of term premiums and foreign demand for Treasuries. Even as the Fed begins to cut rates, they will remain measured and conditional, not the rapid easing cycles markets became accustomed to in the post-GFC era. This limits how much the dollar weakens and how much global financial conditions actually loosen.
- Bank of Japan's shift is the most consequential, despite still-low absolute rates. Rising Japanese yields and the end of yield-curve suppression challenge the assumption that the yen will always be the world's cheapest and most stable funding currency.
- The global financial system is adjusting to a reality in which no major central bank is willing or able to subsidize global risk-taking indefinitely. Europe's hawkish stance, Japan's normalization, and the Fed's constrained easing mark a transition away from the post-2008 liquidity and post-pandemic regime toward a world where capital has a real cost again. That transition implies higher volatility, more frequent repricing events, and greater importance of liquidity, diversification, and risk discipline. Such divergence increases the risk of unintended tightening in global financial conditions and heightens the probability of episodic market dislocations.

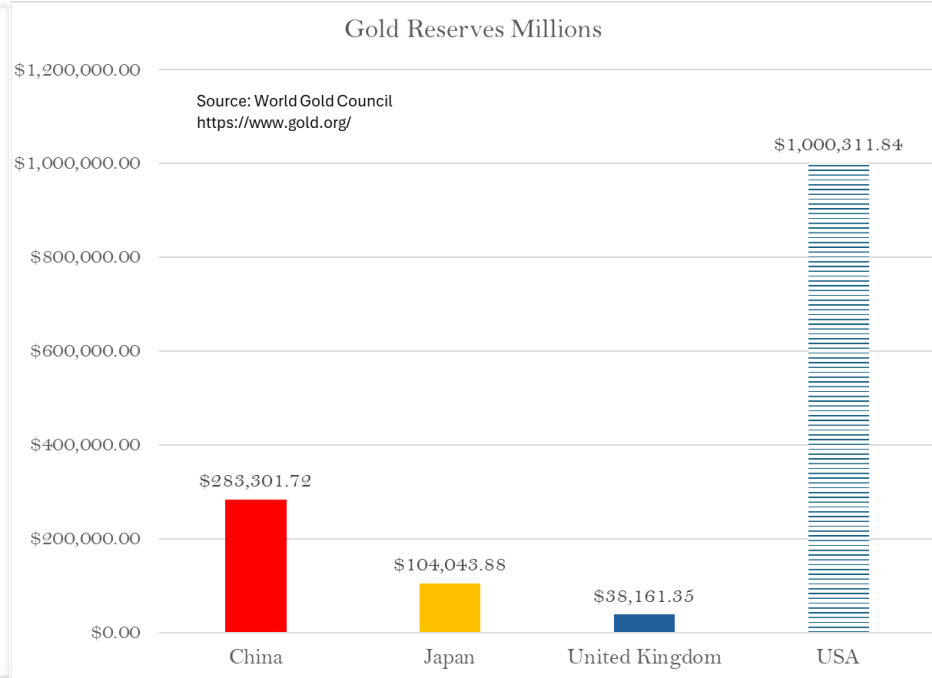
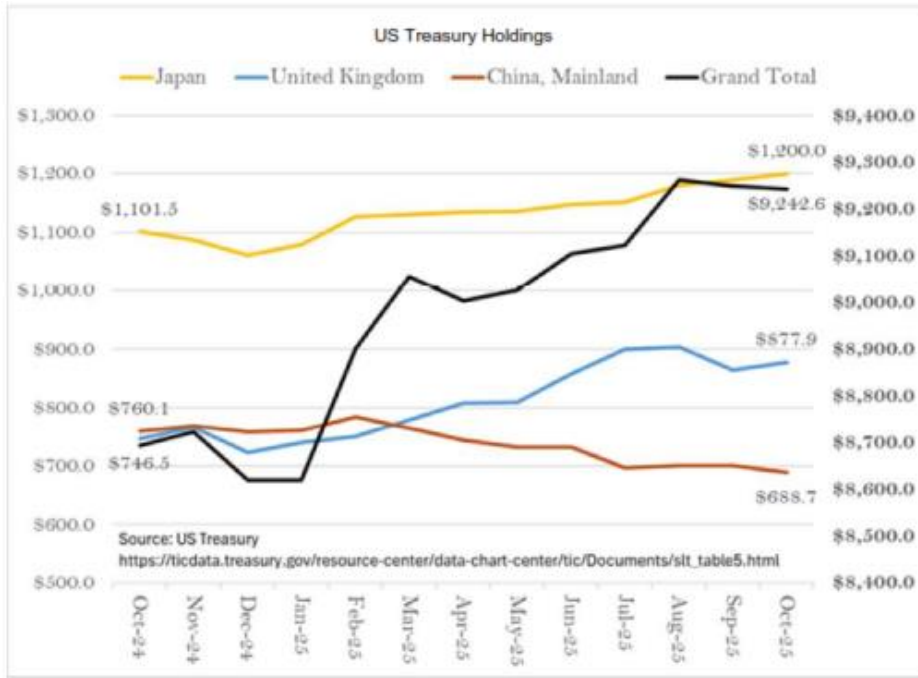
Japan's Monetary Policy is Normalizing – end of the funding currency

For the first time in decades, the 10-year Japanese Government Bond (JGB) yield has moved decisively above the 2% level. While this may appear modest, it represents a meaningful regime shift for the global financial system. For nearly 30 years, Japan has functioned as the world's lowest-cost funding source. Persistently low interest rates, suppressed yield curves, and a structurally weak yen enabled global investors to borrow cheaply in yen and redeploy capital into higher-yielding assets abroad. This “yen carry trade” quietly became embedded across hedge funds, bank balance sheets, risk-parity strategies, emerging-market portfolios, and even portions of developed-market equity allocations. Higher domestic yields raise the cost of funding carry trades, compress interest-rate differentials, and materially increase the risk of yen appreciation. Because carry trades structurally “short” the yen, even modest currency moves can overwhelm years of incremental yield pickup, leading to rapid deleveraging when positions are unwound. This dynamic has important second-order effects. Japanese institutional investors—pension funds, insurers, and banks—have historically been among the largest marginal buyers of foreign sovereign debt, particularly U.S. Treasuries. At higher JGB yields, domestically hedged returns become competitive, reducing the incentive to export capital. Over time, this diminishes a critical source of demand for global bond markets and places upward pressure on long-term interest rates elsewhere. The implications for global liquidity are significant. Japan has long served as a quiet exporter of liquidity to the rest of the world. As that flow slows—or reverses—financial conditions tighten, particularly for assets most dependent on leverage and cross-border capital flows. Emerging markets, high-beta credit, and volatility-sensitive equity strategies tend to feel these effects first. Historically, episodes of yen carry unwinds have often coincided with periods of elevated market volatility and risk-off behavior, even when no obvious domestic catalyst was present.

A 10-year yield above 2% means funding costs drift upward (directly via higher short rates and indirectly via higher forward expectations) and term premium returns to Japan. Now, Japanese investors can earn something real at home, so the hurdle rate for owning foreign bonds rises. FX hedging gets more expensive as the rate differential compresses in an unstable way. Once Japan becomes a place in which investors can earn yield again, the global system loses one of its most reliable sources of cheap leverage.

Central Bank Holdings of US Treasuries and Gold Bullions

Total holdings of US treasury across the world are close to the historical high even though holdings at Bank of China are at a multi-year low. Further, China's holdings of gold bullions have increased in 2025.



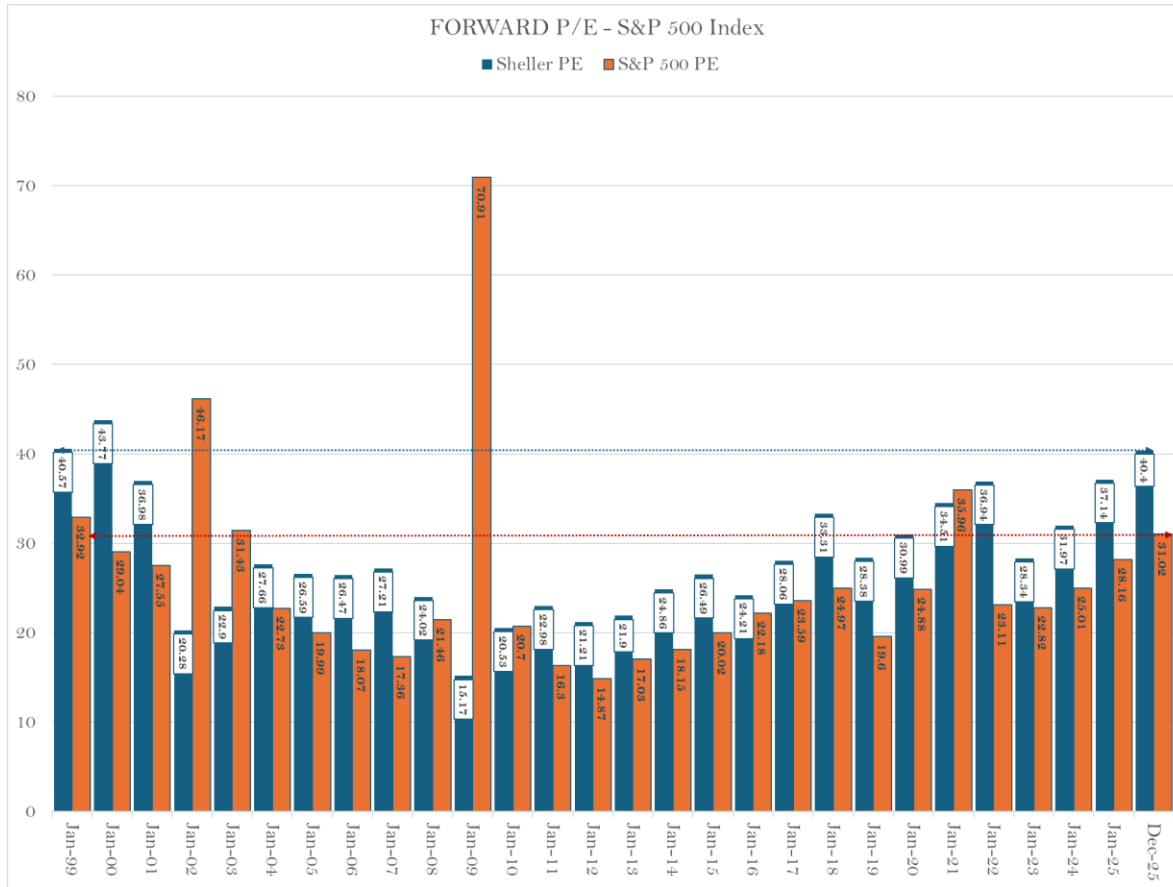
Little Change in International Reserves Composition

Currency Composition of Foreign Exchange Reserves, 2025Q3, Millions of U.S. Dollars

	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3
Total Foreign Exchange Reserves	12,315,223	12,727,823	12,329,908	12,496,929	12,935,727	13,025,462
Claims in U.S. dollars	7,249,857	7,372,894	7,215,363	7,312,550	7,383,128	7,414,472
Claims in euros	2,318,164	2,438,426	2,331,832	2,388,968	2,618,529	2,647,978
Claims in Chinese renminbi	255,711	269,354	254,565	245,538	257,281	251,259
Claims in Japanese yen	679,626	716,770	692,960	716,675	730,991	757,832
Claims in pounds sterling	588,204	617,884	566,872	576,361	608,245	580,798
Claims in Australian dollars	269,444	284,871	250,954	249,100	266,531	268,128
Claims in Canadian dollars	327,511	350,153	349,315	328,482	340,354	346,892
Claims in Swiss francs	24,334	22,755	23,514	23,882	22,385	23,228
Claims in other currencies	602,372	654,714	644,533	655,372	708,283	734,874

	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3
Total Foreign Exchange Reserves	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Shares of U.S. dollars	58.87%	57.93%	58.52%	58.51%	57.08%	56.92%
Shares of euros	18.82%	19.16%	18.91%	19.12%	20.24%	20.33%
Shares of Chinese renminbi	2.08%	2.12%	2.06%	1.96%	1.99%	1.93%
Shares of Japanese yen	5.52%	5.63%	5.62%	5.73%	5.65%	5.82%
Shares of pounds sterling	4.78%	4.85%	4.60%	4.61%	4.70%	4.46%
Shares of Australian dollars	2.19%	2.24%	2.04%	1.99%	2.06%	2.06%
Shares of Canadian dollars	2.66%	2.75%	2.83%	2.63%	2.63%	2.66%
Shares of Swiss francs	0.20%	0.18%	0.19%	0.19%	0.17%	0.18%
Shares of other currencies	4.89%	5.14%	5.23%	5.24%	5.48%	5.64%

S&P 500 Forward Price/Earnings Ratio is near Historical Highs



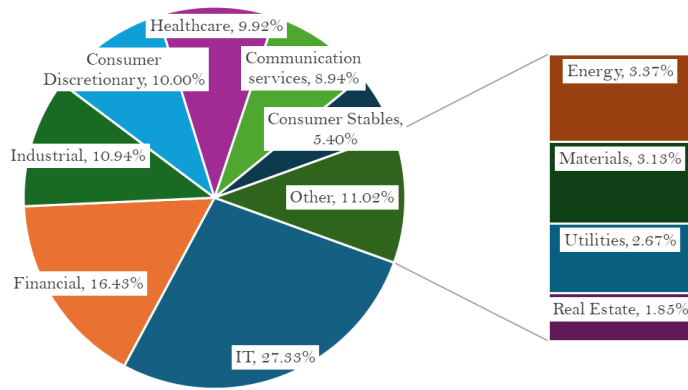
The dot-com bubble burst on 03/10/2000. This period saw significant growth in the valuation of internet-related companies, but it ultimately led to a sharp decline in stock prices, particularly in the NASDAQ Composite index. Today, the S&P 500 P/E is around 31, while in January 2000, the P/E was around 29 from almost 33 in 1999. For the Shiller P/E, it was almost 44 in January 2000 as compared to 40 on December 22, 2025. It is at 40.4 comparable to the 1999 January level of 40.57. Although the Dot-Com era and today's AI environment are not exactly the same, there is no doubt that the market is highly valued with an aggressive forward-looking expectation for earnings and growth. Even if the current level is not a bubble, the future stock market return starting from this level is expected to be below the historical average and is likely to be in the mid-single digit range.

Source: <https://www.multpl.com/s-p-500-pe-ratio>, <https://www.multpl.com/shiller-pe> and Philip Chao

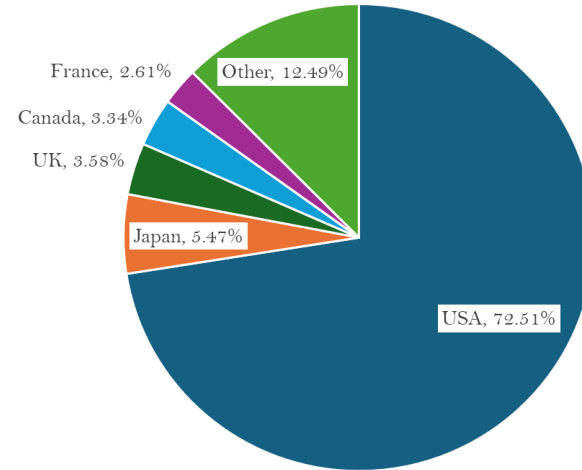
- The price-to-earnings (P/E) ratio measures a company's share price relative to its earnings per share (EPS). Often called the price or earnings multiple, the P/E ratio helps assess the relative value of a company's stock. It's handy for comparing a company's valuation against its historical performance and against other firms within its industry or the overall market.
- The Shiller P/E Ratio, also known as the Cyclically Adjusted Price to Earnings (CAPE) Ratio, measures the current price of a stock or index divided by its inflation-adjusted, 10-year average earnings. This ratio is adjusted for inflation to smooth out the natural ups and downs of business cycles, economic recessions, and temporary booms, providing a clearer picture of what stocks are really worth over the long term. This acts as an indicator of potential overvaluation or undervaluation compared to historical norms.

MSCI World Index – USA and Tech Weighting, Nov 2025

Industry Weighting

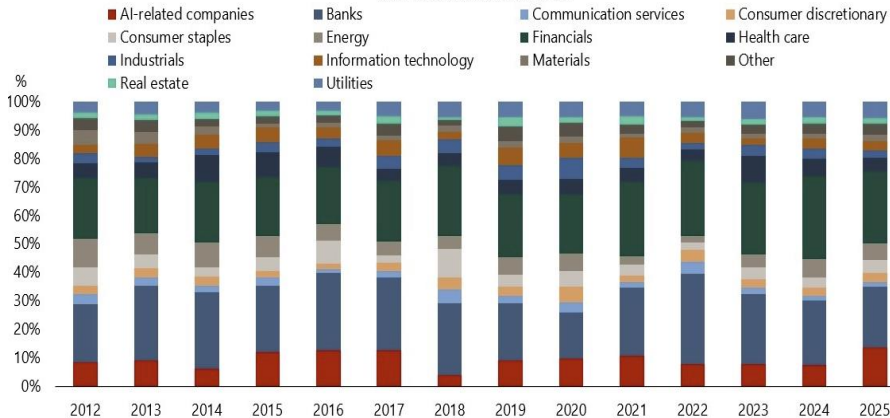


Country Weighting



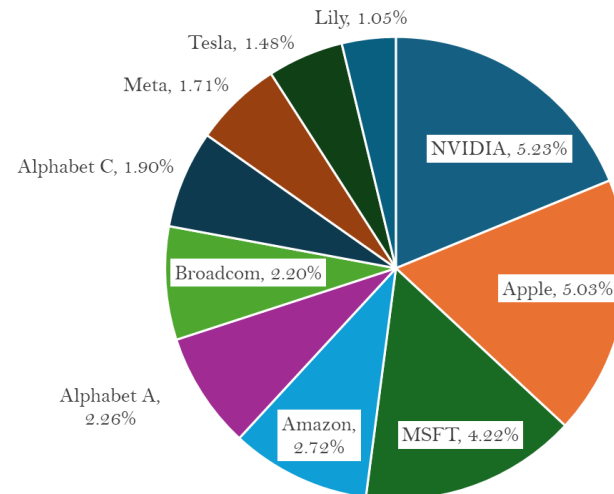
Source: <https://www.msci.com/documents/10199/178e6643-6ae6-47b9-82be-e1fc565ededb> & Philip Chao

New IG issuance in the US



Source: The Daily Spark from Torsten Slok, Apollo 2025 12 27

Stock Weighting



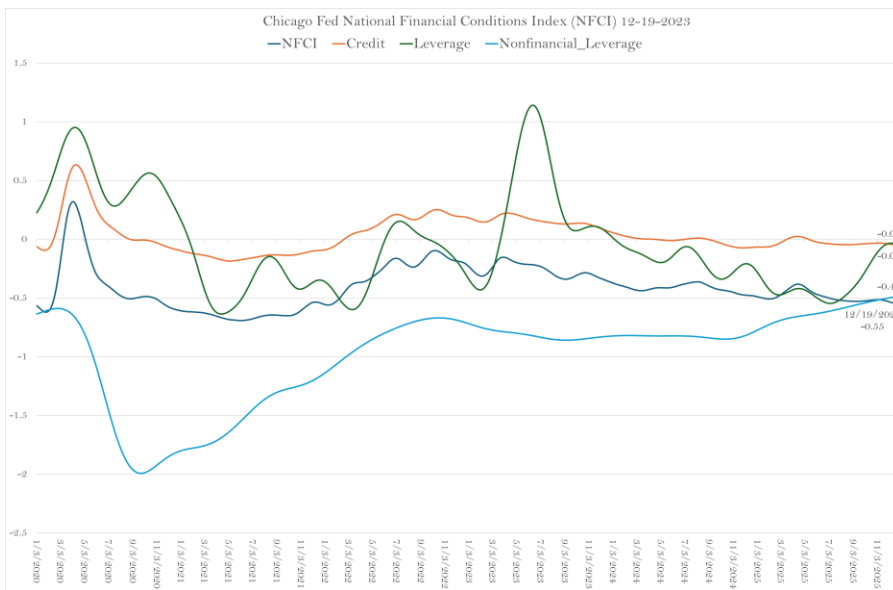
Where is Diversification - Increasingly dependent on AI

The most important feature of U.S. markets in this cycle isn't simply that a handful of AI-exposed mega-caps are large; it's that they have become a shared driver of returns across what investors often think of as separate "diversifying sleeves": U.S. large-cap equities, global developed-market benchmarks, and increasingly, investment-grade credit. The "Magnificent Seven" now represent roughly a third of the S&P 500's value, a level that forces even broadly diversified investors to own the same risk. This concentration is also reflected globally. The MSCI World Index, a global developed-markets cap-weighted benchmark, currently carries roughly 72.5% weight in the U.S., largely because U.S. mega-caps have outgrown everything else. MSCI "world equity" has drifted closer to a U.S. mega-cap growth allocation with an international satellite. The same dynamic is visible in the more inclusive "all-country" benchmark. MSCI ACWI Index's U.S. weight is roughly 64.7%. This is a dominant share for what many investors deem as a global core holding. Since these are cap-weighted indexes, the largest names increasingly are dominating the index. The link into credit is no longer theoretical either. The AI infrastructure buildout of data centers, chips, networking, power, and cooling has coincided with a surge in investment-grade borrowing led by the same large technology and AI-adjacent issuers. In 2025, U.S. investment-grade issuance approached record territory, with reporting that AI-related borrowing has become a major share of net Investment Grade supply. When a sector becomes a marginal source of both equity performance and bond supply, future repricing tends to travel faster and it becomes more correlated across asset classes. For example, a growth scare that widens spreads can feed back into equity P/E multiples; a drawdown in equity can tighten financial conditions and raise the cost of capital for the same issuers funding multi-year capex plans.

The "upper arm" of the K-shaped economy has disproportionately benefited from this cycle because equity ownership is highly concentrated. Federal Reserve distributional data show that the top of the wealth distribution holds an outsized share of corporate equities and mutual fund shares—meaning rising mega-cap prices translate quickly into stronger balance sheets, spending resilience, and incremental risk appetite among high-net-worth households. This creates a reinforcing loop: concentrated equity gains support concentrated consumption, which support earnings, which support multiples until the cycle breaks. Today, even traditionally "diversified" portfolios will share the same shock. The uncomfortable implication is that many portfolios now carry more correlated risk. U.S. large-cap is increasingly a bet on a small cohort of hyperscalers and AI infrastructure beneficiaries. If capex returns disappoint, regulation bites, competition compresses margins, or the cost of capital resets, then the shock is less likely to be "contained." It is more likely to express itself as a cross-asset repricing event: equities down, credit spreads wider, and "global" benchmarks decline in tandem.

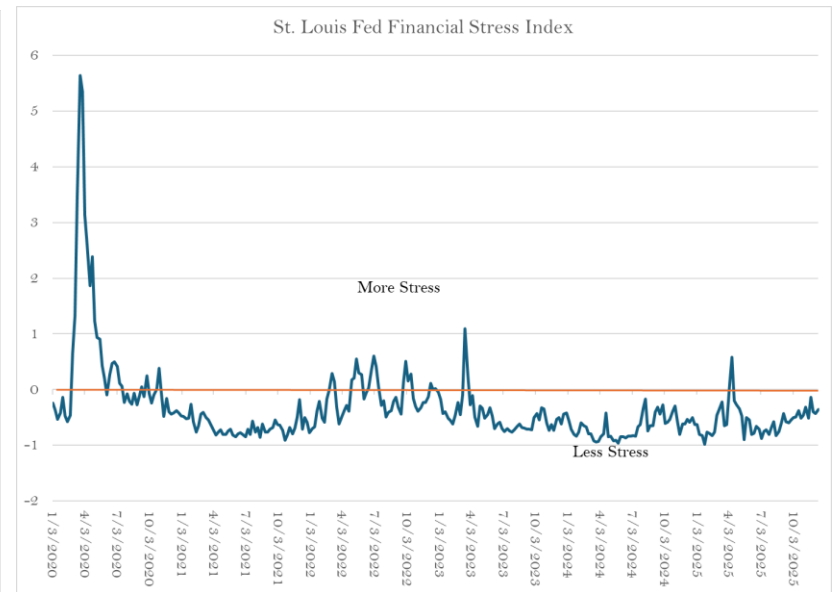
This is not a forecast of imminent collapse. It is simply the arithmetic of cap-weighted markets and concentrated ownership: when one theme grows large enough, it stops being a sector and starts behaving like the market's common factor. To put it another way, portfolio diversification requires a lot more than just stocks and bonds, foreign and domestic, in today's environment. At the same time, the allure and excitement (plus fantastic returns thus far) of all things AI are hard for investors to turn away. Nothing else seems to look as good.

Financial Condition & Stress (less stress below 0)



Source: <https://www.chicagofed.org/publications/nfci/index>, Philip Chao

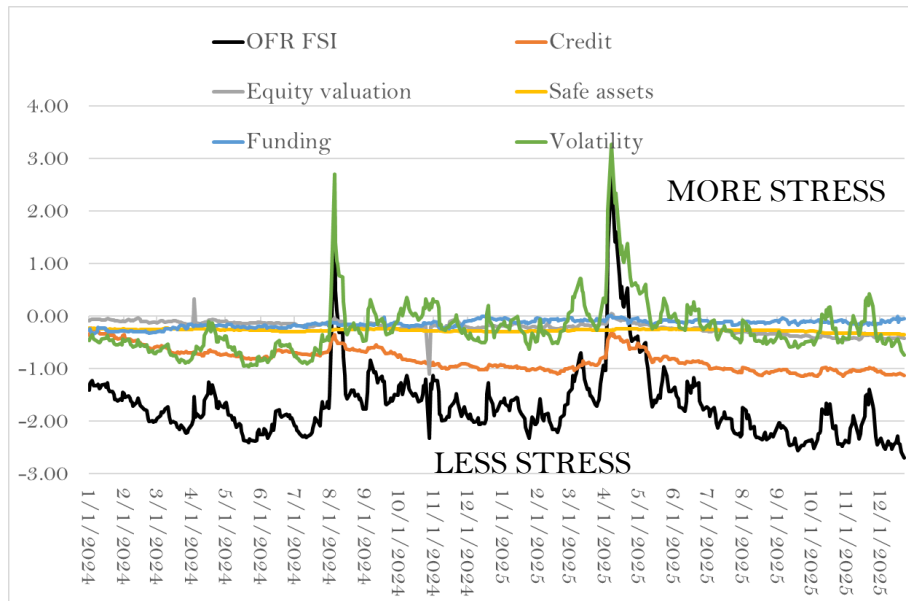
The Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt, equity markets, and the traditional and "shadow" banking systems. Because U.S. economic and financial conditions tend to be highly correlated, we also present an alternative index, the adjusted NFCI (ANFCI). This index isolates a component of financial conditions uncorrelated with economic conditions to provide an update on financial conditions relative to current economic conditions. The NFCI decreased to -0.55 in the week ending December 19.



Source: <https://fred.stlouisfed.org/series/STLFSI4>, Philip Chao

The St. Louis Federal Reserve Bank's Financial Stress Index measures the degree of financial stress in the markets and is constructed from 18 weekly data series: 7 interest rate series, 6 yield spreads, and 5 other indicators. Each of these variables captures some aspect of financial stress. Accordingly, as the level of financial stress in the economy changes, the data series are likely to move together. A zero value is viewed as representing normal financial market conditions. Values below zero suggest below-average financial market stress, while values above zero suggest above-average financial market stress. The Index continues to show below-average financial market stress.

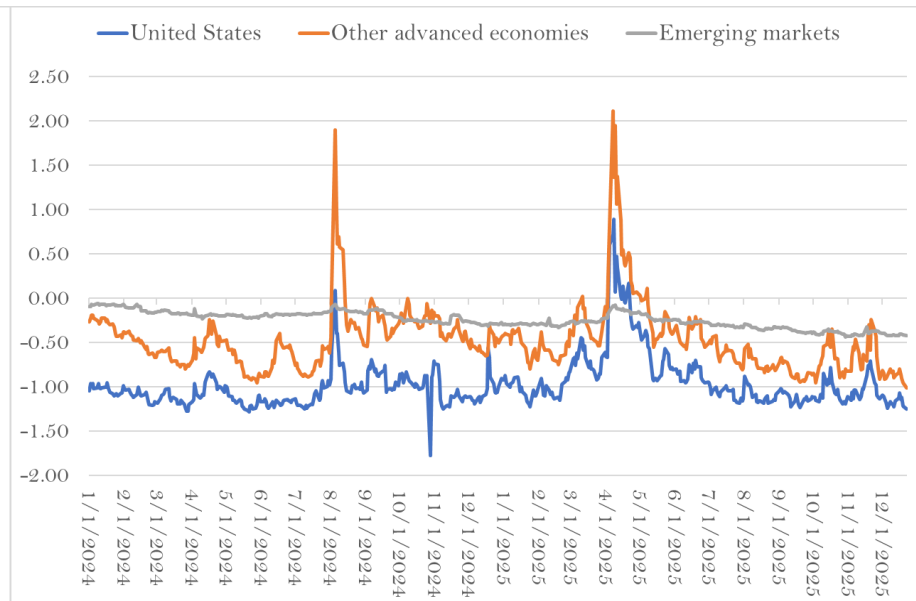
Financial Stress



Source: FSI, Philip Chao

<https://www.financialresearch.gov/financial-stress-index/#ae>

- The OFR Financial Stress Index (OFR FSI) is a daily market-based snapshot of stress in global financial markets. It is constructed from 33 financial market variables, such as yield spreads, valuation measures, and interest rates. The OFR FSI is positive when stress levels are above average and negative when stress levels are below average. The OFR FSI incorporates five categories of indicators: **credit**, **equity valuation**, **funding**, **safe assets**, and **volatility**.
- **Overall financial stress in the U.S. continues to remain below the neutral “0” value. All categories are below “0” value.**



Source: FSI, Philip Chao

The FSI also shows stress contributions by three regions: United States, other advanced economies, and emerging markets.

Other advanced economies: Variables measuring stress from advanced economies other than the United States, including primarily the eurozone and Japan

Emerging markets: Variables measuring stress from emerging markets

Overall, global financial stress continues to remain below the neutral “0” value.

2025Q4 Stocks & Bonds Performance & 60/40

Benchmark Index TR in USD	TR 2025 Q4	TR YTD	TR Amlzld 3 Yr
DJ Industrial Average NR USD	3.90	14.33	14.70
S&P 500 TR USD	2.66	17.88	23.01
S&P 500 Growth TR USD	2.21	22.18	29.30
S&P 500 Value TR USD	3.20	13.19	15.82
Russell Mid Cap TR USD	0.16	10.60	14.36
Russell Mid Cap Growth TR USD	-3.70	8.66	18.64
Russell Mid Cap Value TR USD	1.42	11.05	12.27
Russell 2000 TR USD	2.19	12.81	13.73
Russell 2000 Growth TR USD	1.22	13.01	15.59
Russell 2000 Value TR USD	3.26	12.59	11.73
NASDAQ 100 TR USD	2.47	21.02	33.20

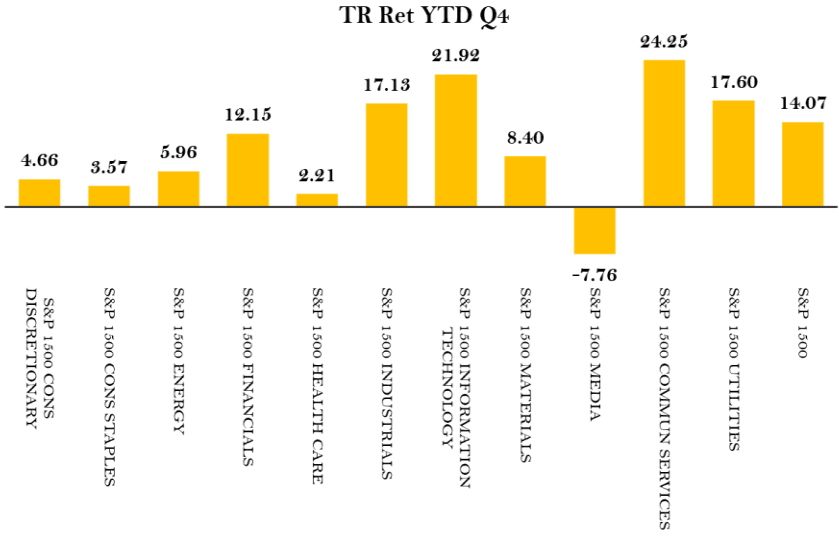
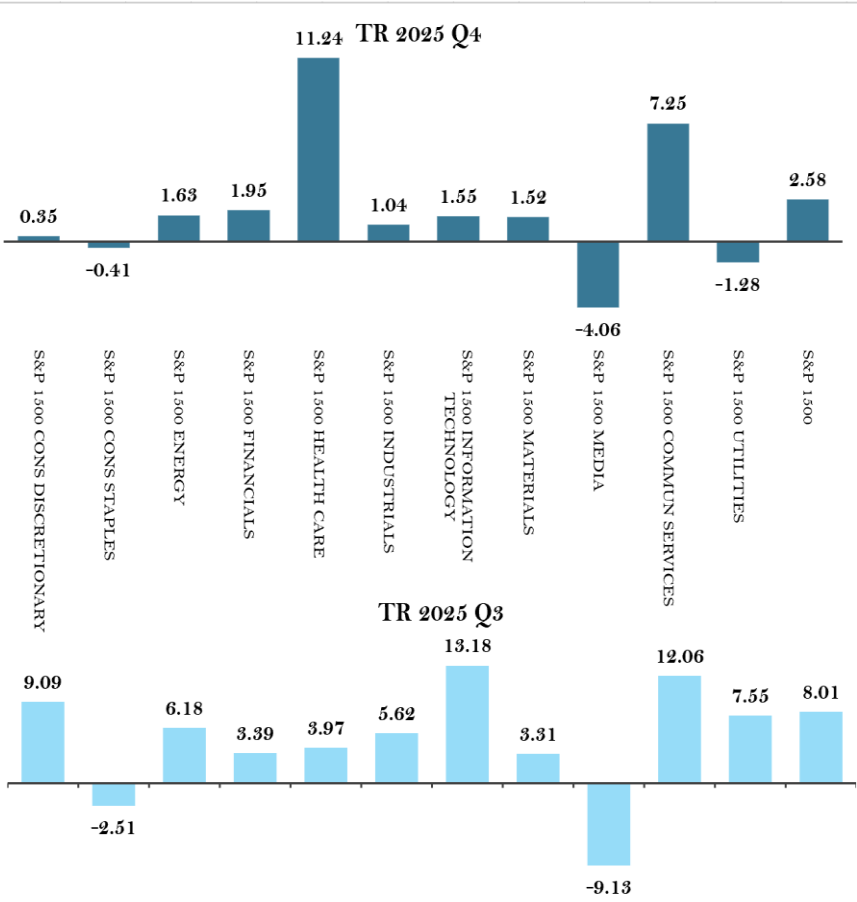
Benchmark Index TR in USD	TR 2025 Q4	TR YTD	TR Annlzd 3 Yr
Bloomberg US Agg Bond TR USD	1.10	7.30	4.66
Bloomberg US Corp IG + HY TR USD	0.92	7.91	6.74
Bloomberg Municipal TR USD	1.56	4.25	3.88
Bloomberg High Yield Corporate TR USD	1.31	8.62	10.06
Bloomberg Gbl Agg Ex USD TR Hdg USD	0.52	2.80	5.34
Bloomberg EM Local Currency Broad TR USD	1.19	17.85	7.44
Bloomberg EM Hard Currency Agg TR USD	2.21	12.16	9.17

US 60/40 Portfolio 2025 Q4	TR 2025 Q4	TR YTD	TR Annlzd 3 Yr
S&P 500 TR USD	2.66	17.88	23.01
Bloomberg US Agg Bond TR USD	1.10	7.30	4.66
60/40 Portfolio 2025 Q4	2.03	13.65	15.67
International 60/40 Portfolio			
Bloomberg Gbl Agg Ex USD TR Hdg USD	0.52	2.80	5.34
MSCI ACWI ex USA All Cap GR USD	4.77	32.72	17.65
60/40 Portfolio 2025 Q4	2.22	14.77	10.26

Benchmark Index TR in USD	TR 2025 Q4	TR YTD	TR Amlzld 3 Yr
S&P 1500 Cons Discretionary TR	0.35	5.03	23.54
S&P 1500 Cons Staples TR	-0.41	3.15	6.25
S&P 1500 Energy TR	1.63	7.69	4.29
S&P 1500 Financials TR	1.95	14.34	18.33
S&P 1500 Health Care TR	11.24	13.71	6.01
S&P 1500 Industrials TR	1.04	18.34	18.55
S&P 1500 Information Technology TR	1.55	23.81	38.11
S&P 1500 Materials TR	1.52	10.05	7.57
S&P 1500 Media TR	-4.06	-11.51	-0.57
S&P 1500 Commun Services TR	7.25	33.25	42.11
S&P 1500 Utilities TR	-1.28	16.09	9.90
S&P 1500 TR	2.58	17.02	22.09

Benchmark Index TR in USD	TR 2025 Q4	TR YTD	TR Annlzd 3 Yr
MSCI ACWI ex USA All Cap GR USD	4.77	32.72	17.65
MSCI EAFE GR USD	4.91	31.89	17.82
MSCI Europe GR USD	6.26	36.25	18.97
MSCI AC ASEAN GR USD	3.40	16.95	9.84
MSCI EM GR USD	4.78	34.36	16.98
MSCI Frontier Emerging Market GR USD	7.65	43.66	19.95
MSCI Australia GR USD	-0.99	14.84	10.18
MSCI Brazil GR USD	7.18	50.44	12.27
MSCI Canada GR USD	7.85	37.38	21.72
MSCI China GR USD	-7.35	31.42	11.85
MSCI France GR USD	3.46	29.50	14.74
MSCI Germany GR USD	2.58	37.08	23.57
MSCI Hong Kong GR USD	2.24	34.83	4.77
MSCI India GR USD	4.83	4.29	12.45
MSCI Italy GR USD	6.51	57.46	35.08
MSCI Japan GR USD	3.26	25.05	17.96
MSCI Korea GR USD	27.38	100.76	24.04
MSCI Mexico GR USD	5.58	56.94	17.57
MSCI UK All Cap GR USD	6.40	33.50	17.81
MSCI ACWI All Cap GR USD	3.30	22.66	20.48

S&P 1500 Sector Performance – 2025Q4



Source: Morningstar Direct, Nexus338

Investment Style Summary 2025Q4

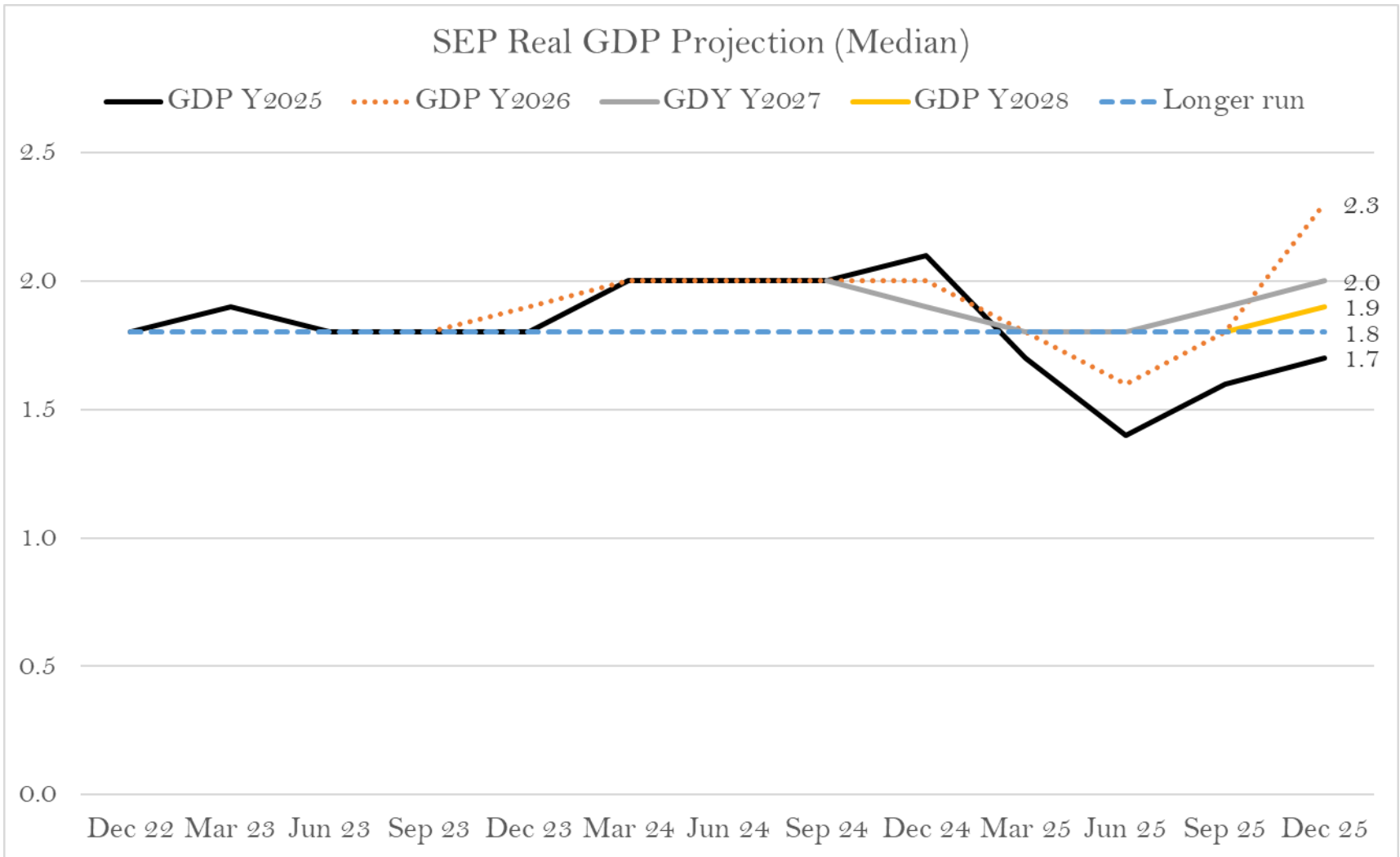
	2025 Q4 TR				2025 YTD TR Q4		
	Value	Blend	Growth		Value	Blend	Growth
Large	3.20	2.66	2.21	Large	13.19	17.88	22.18
Mid	1.42	0.16	-3.70	Mid	11.05	10.60	8.66
Small	3.26	2.19	1.22	Small	12.59	12.81	13.01

The Federal Reserve Summary of Economic Projections

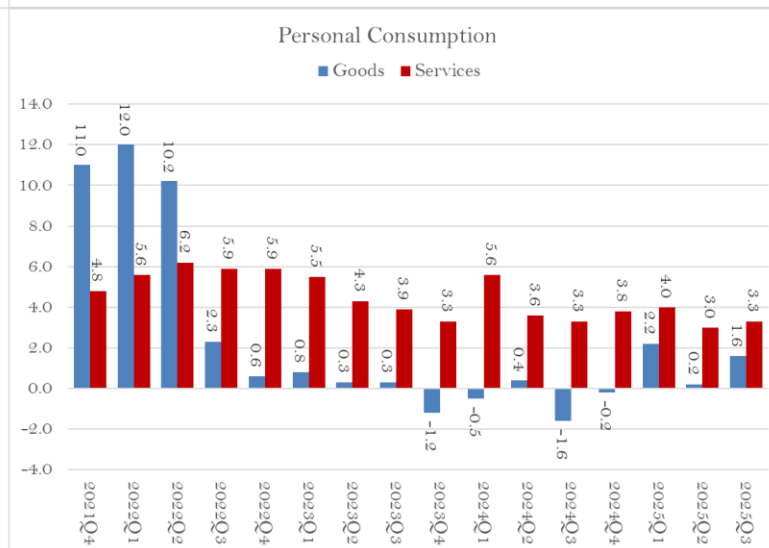
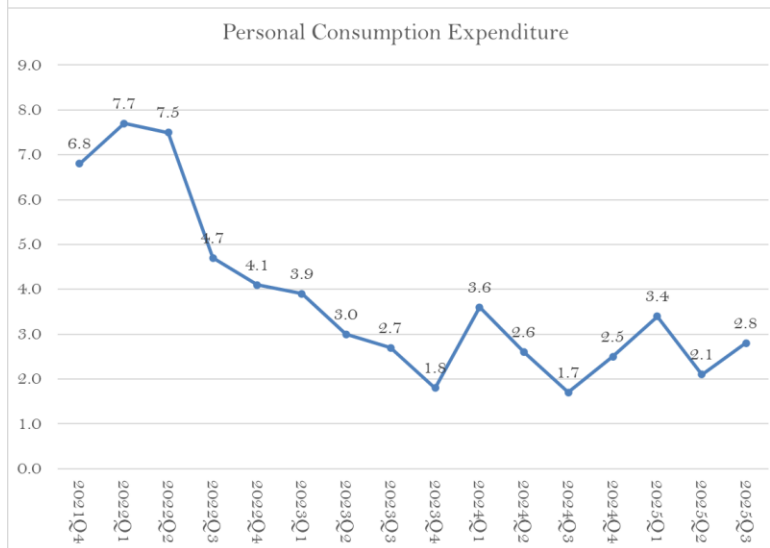
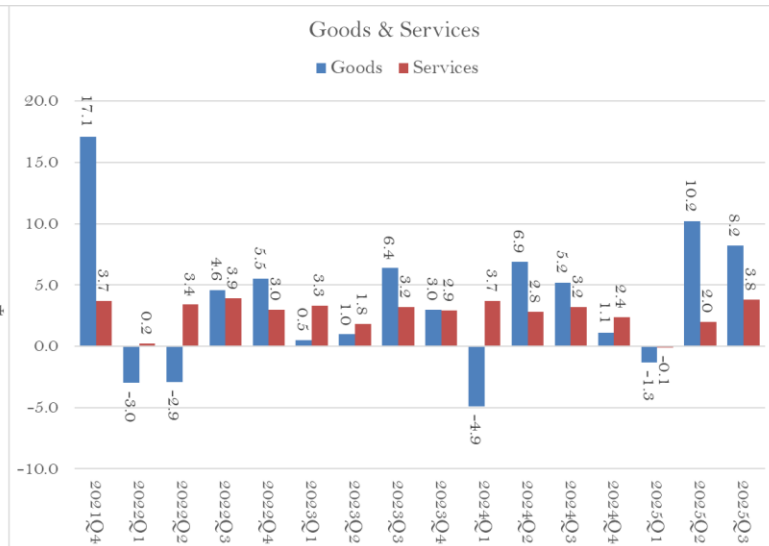
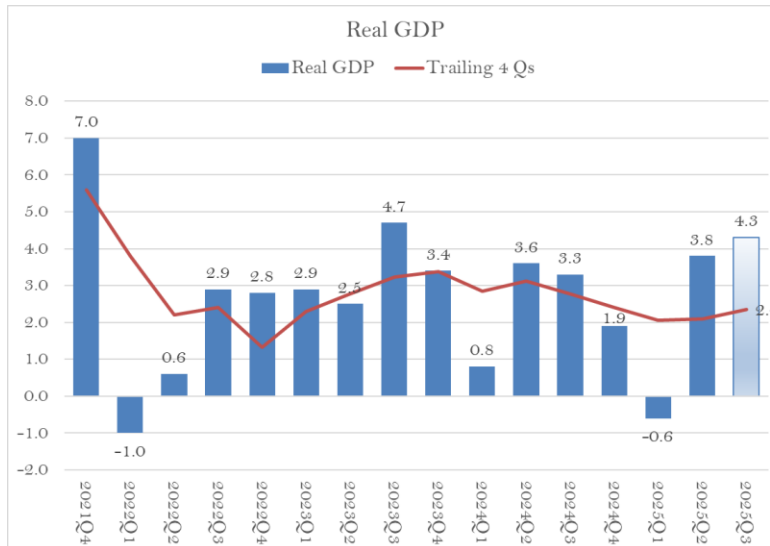
Central Tendency	Y2025		Y2026		Y2027		Y2028		Longer run	
Real GDP	Low	High	Low	High	Low	High	Low	High	Low	High
Sep 25	1.4	1.7	1.7	2.1	1.8	2.0	1.7	2.0	1.7	2.0
Dec 10	1.6	1.8	2.1	2.5	1.9	2.3	1.8	2.1	1.8	2.0
Unemployment Change	Y2025		Y2026		Y2027		Y2028		Longer run	
Sep 25	4.4	4.5	4.4	4.5	4.2	4.4	4.0	4.3	4.0	4.3
Dec 10	4.5	4.6	4.3	4.4	4.2	4.3	4.0	4.3	4.0	4.3
PCE Inflation	Y2025		Y2026		Y2027		Y2028		Longer run	
Sep 25	2.9	3.0	2.4	2.7	2.0	2.2	2.0		2.0	
Dec 10	2.8	2.9	2.3	2.5	2.0	2.2	2.0		2.0	
Core PCE Inflation	Y2025		Y2026		Y2027		Y2028		Longer run	
Sep 25	3.0	3.2	2.5	2.7	2.0	2.2	2.0	2.0	n.a.	
Dec 10	2.9	3.0	2.4	2.6	2.0	2.2	2.0	2.0		
Fed Funds Rate	Y2025		Y2026		Y2027		Y2028		Longer run	
Sep 25	3.6	4.1	2.9	3.6	2.9	3.6	2.8	3.6	2.8	3.5
Dec 10	3.6	3.9	2.9	3.6	2.9	3.6	2.8	3.6	2.8	3.5
		Higher								
		No Change								
		Lower								

- In summary, the Fed expects a nice pick up in GDP in 2026 and a slightly higher range for the following few years. At the same time, unemployment remains higher this year and lowers in the following two years. 2% headline inflation is not expected until 2027 with Core inflation trending down a bit this year and 2026; reaching 2% target in 2028. The Fed Fund rate remains unchanged from the September meeting overall.

Fed's Summary of Economic Projections for The Economy – 12-2025

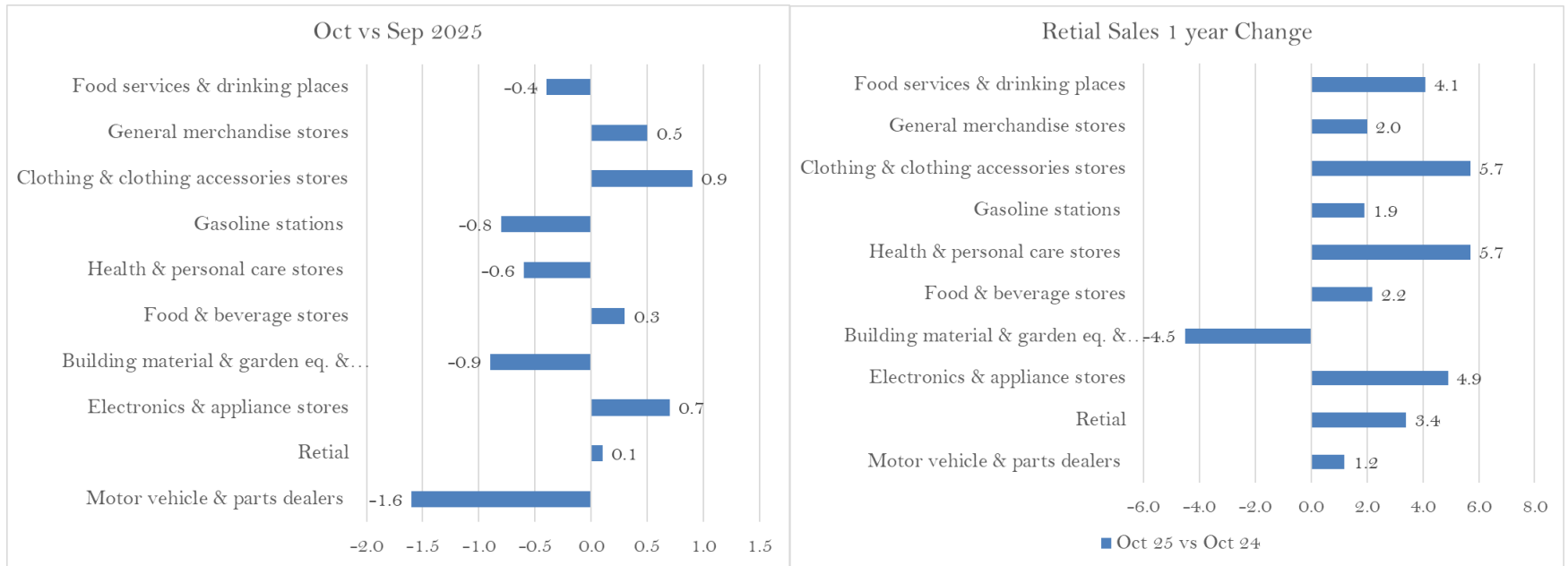


US GDP and Consumption 2025Q3



Source: BEA, Philip Chao

Retail sales continue to support the economy - October 2025



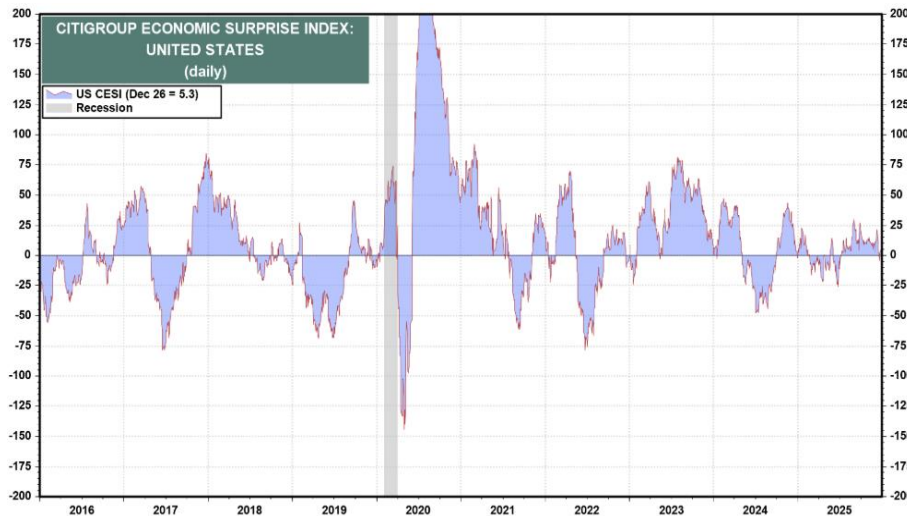
Source: https://www.census.gov/retail/marts/www/marts_current.pdf & Philip Chao

Advance estimates of U.S. retail and food services sales for October 2025, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$732.6 billion, virtually unchanged (± 0.5 percent)* from the previous month and up 3.5 percent (± 0.5 percent) from October 2024. Total sales for the August 2025 through October 2025 period were up 4.2 percent (± 0.4 percent) from the same period a year ago. The August 2025 to September 2025 percent change was revised from up 0.2 percent (± 0.4 percent)* to up 0.1 percent (± 0.3 percent)*.

Retail trade sales were up 0.1 percent (± 0.5 percent)* from September 2025, and up 3.4 percent (± 0.5 percent) from last year. Non-store retailers were up 9.0 percent (± 1.2 percent) from last year, while food service and drinking places were up 4.1 percent (± 1.8 percent) from October 2024.

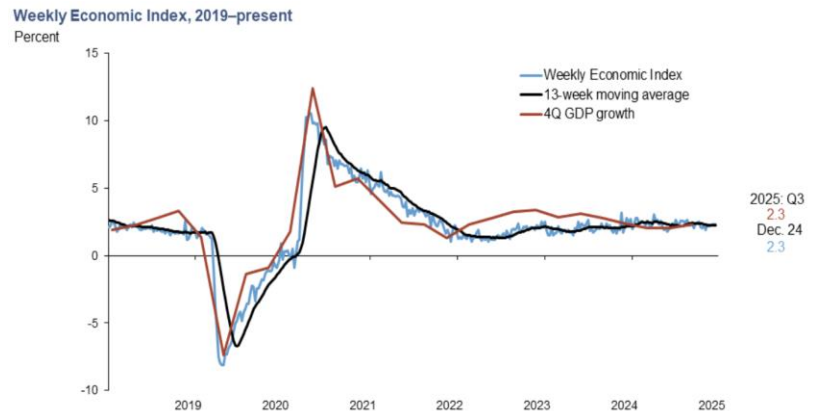
The overall picture suggests consumption remains healthy on the aggregate as the K-shaped economy continues to evolve.

High Frequency Economic Data



Source: LSEG Datastream and © Yardeni Research, and Citigroup Inc.

<https://yardeni.com/charts/citigroup-economic-surprise/>



NOTE: Annual real GDP growth (four-quarter moving average) is based on the latest quarterly GDP data release from the Bureau of Economic Analysis.
SOURCES: Authors' calculations based on data from Haver Analytics, Redbook Research, Rasmussen Reports, the Association of American Railroads and Booth Financial Consulting.
Federal Reserve Bank of Dallas

Source: Federal Reserve Bank of Dallas, Philip Chao as of 12-13-2025

<https://www.dallasfed.org/research/wei>

Citi's Economic Surprise Index, which measures the degree to which economic data is either beating or missing expectations, is now back to neutral. (We prefer "exceeding" expectations). As a trend, going forward the expectation is more likely to be somewhat exceeding than disappointing. This is a sign of the economy exceeding a bit more than the market's expectation. Since the summer of 2025, the economy seems to be rebounding somewhat.

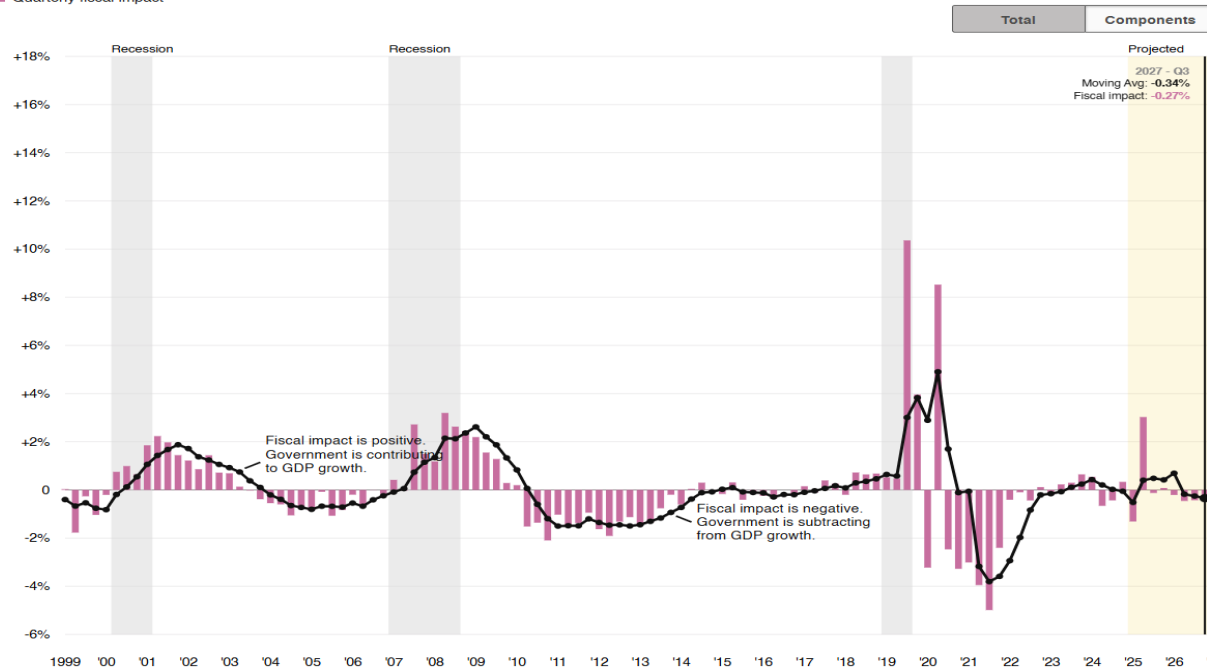
Dallas Fed's Weekly Economic Index (WEI) provides a signal of the state of the U.S. economy based on data available on a daily or weekly frequency. It represents the common component of 10 different daily and weekly series covering consumer behavior, the labor market, and production. A high Dallas Fed Weekly Economic Index (WEI) is generally good, signaling stronger economic growth (closer to positive GDP), while a low or negative reading suggests a weakening economy or contraction, as the index tracks real-time economic activity and scales to GDP growth. The WEI is currently 2.32 percent, scaled to four-quarter GDP growth, for the week ended Dec. 20 and 2.31 percent for Dec. 13. The 13-week moving average is 2.26 percent. This is compared with 2.33 percent four-quarter GDP growth through third quarter 2025.

Brookings Financial Impact Measure

Hutchins Center Fiscal Impact Measure

Contribution of Fiscal Policy to Real GDP Growth

— Four-quarter moving average
 ■ Quarterly fiscal impact



Source: Hutchins Center calculations and projections using data from Bureau of Economic Analysis (historical) and the Congressional Budget Office (projections)

H Hutchins Center
 on Fiscal & Monetary Policy

- Fiscal policy was roughly neutral for U.S. GDP in the third quarter of 2025, the Hutchins Center Fiscal Impact Measure (FIM) shows. The FIM illustrates the effects of fiscal policy on real GDP growth. It translates changes in taxes and spending at federal, state, and local levels into changes in aggregate demand. It also includes the supply side effects of fiscal policy and the effects of fiscal policy uncertainty on GDP growth. The neutral forecast for the third quarter reflects boosts from the One Big Beautiful Bill Act (OBBBA) and the delayed effects of the Inflation Reduction Act on equipment spending offset by the effects of tariffs and weak underlying (non-OBBBA) federal spending. Hutchins expects fiscal policy to lower GDP growth by 1.6% in the fourth quarter of 2025, largely reflecting the temporary effects of the government shutdown, which Hutchins assumes will reduce real GDP in the quarter by 1.5 percentage points. Fiscal policy is projected to boost GDP growth by about 2.3% in the first quarter of 2026 as delayed federal spending resumes and the OBBBA tax cuts boost spending. For the remainder of 2026, as the post-shutdown spending boost gradually dissipates, fiscal policy turns restrictive. In the forecast period, tariffs lower real GDP growth, while the OBBBA boosts it. The underlying FIM—excluding the supply side effects of recent policies and the effects of the OBBBA and tariffs—is moderately restrictive in 2026. This is due to weak government purchases—particularly state and local—that more than offset modestly stimulative underlying net transfer payments.

National Federation of Independent Business (NFIB) – 11-2025

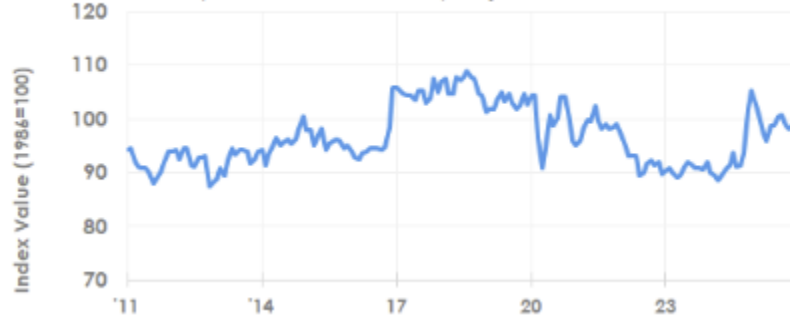
- In November, the net percent of owners raising average selling prices rose 13 points from October to a net 34% (seasonally adjusted), the highest reading since March 2023 and the largest monthly jump in the survey's history.
- In November, 21% of small business owners cited labor quality as their single most important problem, down 6 points, erasing most of October's sudden increase. Labor quality ranked as the top problem, 6 points ahead of inflation, which ranked second.
- The net percent of owners expecting higher real sales volumes rose 9 points from October to a net 15% (seasonally adjusted). This component contributed the most to the rise in the Optimism Index.
- The average rate paid on short maturity loans was 7.9% in November, down 0.8 points from October and the lowest level since May 2023.
- When asked to evaluate the overall health of their business, 11% reported it as excellent (down 1 point), and 53% reported it as good (up 2 points). Thirty percent reported the health of their business as fair (down 3 points), and 5% reported it as poor (up 1 point).
- In November, 64% of small business owners reported that supply chain disruptions were affecting their business to some degree, up 4 points from October.
- The net percent of owners expecting better business conditions fell 5 points from October to a net 15% (seasonally adjusted). Expectations for better business conditions have fallen by 32 points since January.

Source: https://www.nfib.com/news/monthly_report/sbet/

National Federation of Independent Business (NFIB) – 11-2025

Small Business Optimism Index at 99.0

Based on 10 survey indicators, seasonally adjusted, Jan. '10 – Nov. '25



<https://www.nfib.com/surveys/small-business-economic-trends/>

The NFIB Small Business Optimism Index rose 0.8 points in November to 99.0 and remained above its 52-year average of 98. Of the 10 Optimism Index components, six increased, three decreased, and one was unchanged. An increase in those expecting real sales to be higher contributed most to the rise in the Optimism Index. The Uncertainty Index rose 3 points from October to 91. An increase in owners reporting uncertainty about capital expenditure plans over the next three to six months was the primary driver of the rise in the Uncertainty Index. The economy has been doing reasonably well and so have small businesses. Consumer spending is solid, but the real driver of GDP growth is the massive level of AI investment spending, including investment in electricity generation. The administration is making substantial policy changes, elevating the level of uncertainty as owners wait for resolutions.

SMALL BUSINESS OPTIMISM INDEX COMPONENTS

Index Component	Seasonally Adjusted Level	Change from Last Month	Contribution to Index Change
Plans to Increase Employment	19%	4	*
Plans to Make Capital Outlays	20%	-3	*
Plans to Increase Inventories	-1%	1	*
Expect Economy to Improve	15%	-5	*
Expect Real Sales Higher	15%	9	*
Current Inventory (too low)	-1%	3	*
Current Job Openings	33%	1	*
Expected Credit Conditions	-5%	-2	*
Now a Good Time to Expand	13%	0	*
Earnings Trends	-23%	2	*
Total Change		10	

Based on a Survey of Small and Independent Business Owners

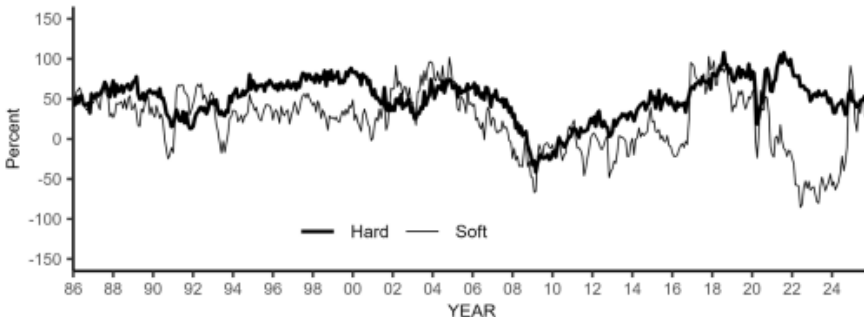
Owners have been frustrated by the lack of qualified workers available to fill their open positions. Job openings were above the historical average all year, compensation has increased, but few new workers were actually hired. Excluding government supported jobs, private sector job growth was weak. The most recent reported (Sept.) inflation rate was 3%, still above the Fed target but dramatically below the rate in 2022 that peaked at 9.1%. “Affordability” continues to be a concern among many. The Fed will likely continue to allow interest rates to fall because of concerns related to the employment side of their mandate. Uncertainties will hopefully soon be resolved, and small business owners will feel more confident in making decisions about their businesses going into 2026.

NFIB Survey – Still Uncertain, 11-2025

OPTIMISM INDEX COMPONENTS

Hard: Job Creation Plans, Job Openings, Inventory Plans, Earnings, Capital Expenditure Plans

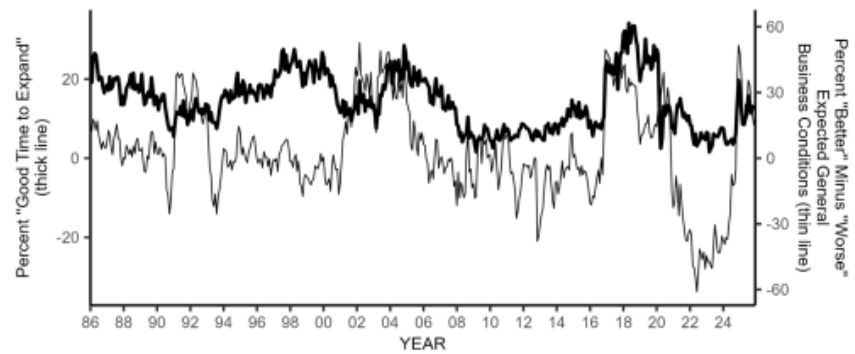
Soft: Expected Business Conditions, Outlook for Expansion, Expected Real Sales, Expected Credit Conditions, Inventory Satisfaction



SMALL BUSINESS OUTLOOK

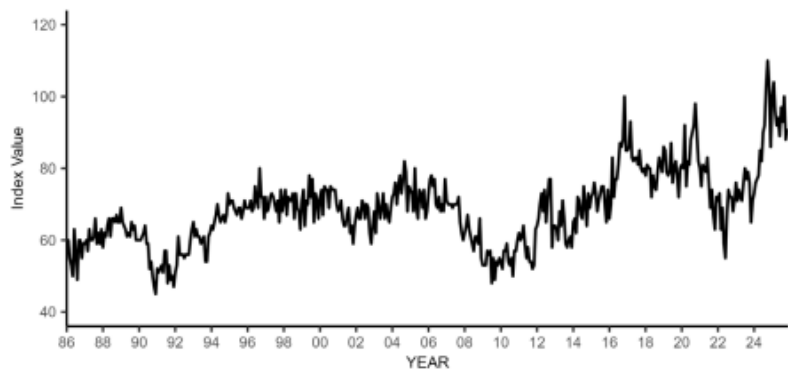
OUTLOOK

Good Time to Expand and Expected General Business Conditions
January 1986 to November 2025
(Seasonally Adjusted)



UNCERTAINTY INDEX

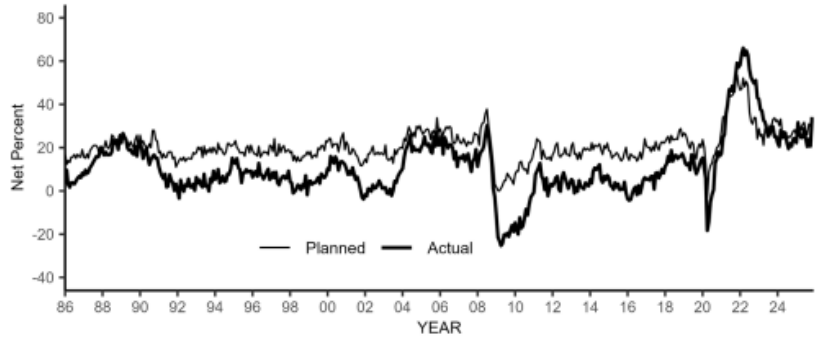
Sum of "Don't Know" & "Uncertain" Answers on 6 Questions



SMALL BUSINESS PRICES

PRICES

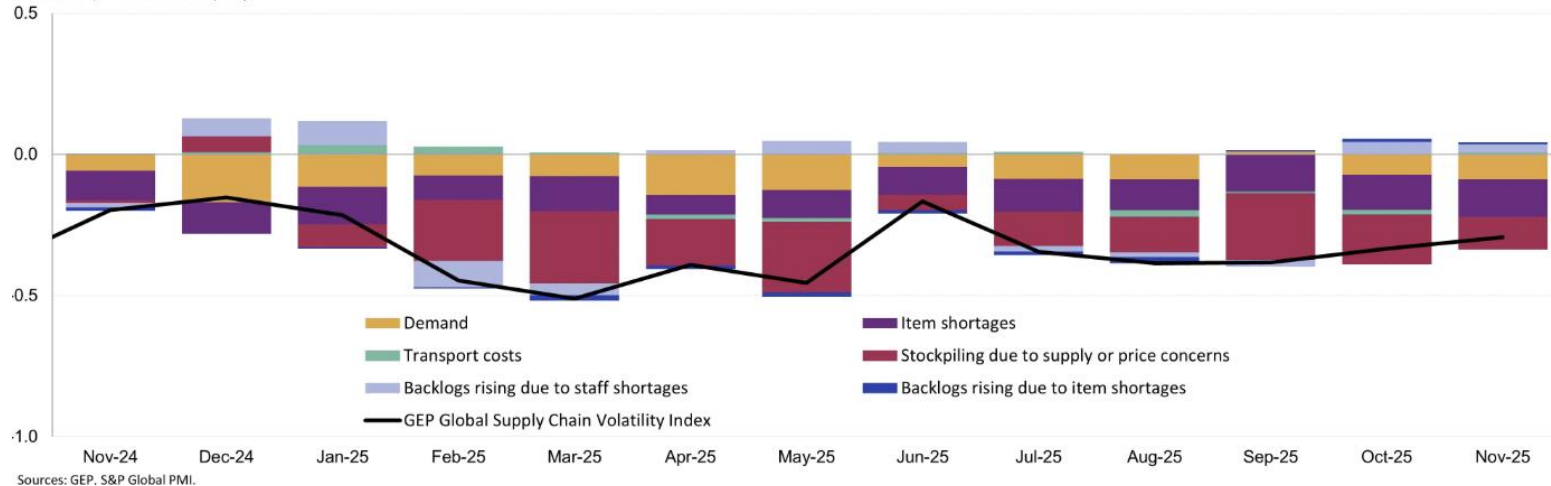
Actual Last Three Months and Planned Next Three Months
January 1986 to November 2025
(Seasonally Adjusted)



Global Supply Chain Volatility Index – 11-2025

GEP Global Supply Chain Volatility Index

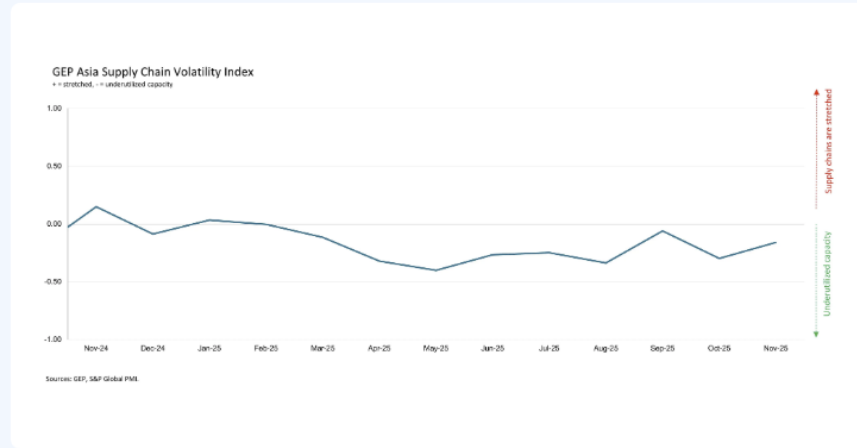
+ = stretched, - = underutilized capacity



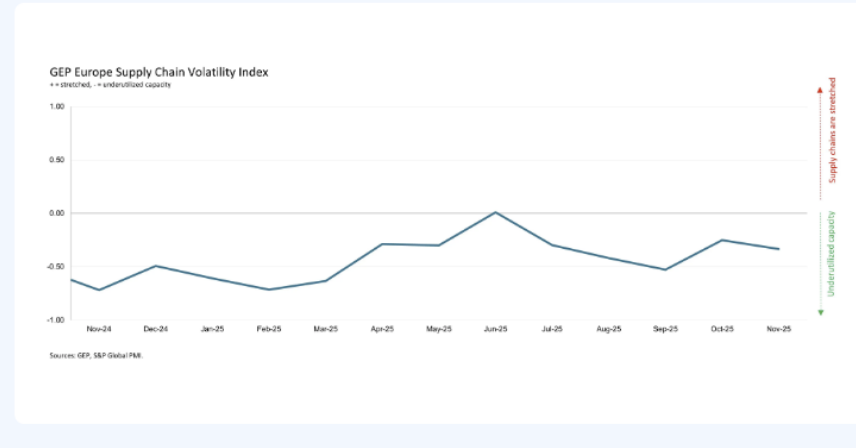
- The headline index came in at -0.29, signaling another month of slack capacity across global suppliers. The sharpest pullback occurred in North America, where the regional index fell, driven by a contraction in input demand as manufacturers cut orders ahead of the new year. Asia continued to report underutilized supply chains, as firms held back on purchasing, driven largely by a further pullback in Chinese factory buying amid soft global demand. However, there were pockets of strength across the region, particularly among the ASEAN nations. Across Europe and the U.K., spare capacity ticked higher as demand fragility persisted. Factories in Germany and France once again displayed a reticence to expand purchasing, instead opting to make more aggressive cutbacks. With excess capacity firmly in place globally, the data suggest companies will face limited purchasing cost pressures in the months ahead, excluding tariff-related effects. Shortages remain minimal, stockpiling activity low, and manufacturing backlogs largely flat, highlighting a supply landscape still characterized by slack rather than strain.

Supply Chain By Region – 11-2025

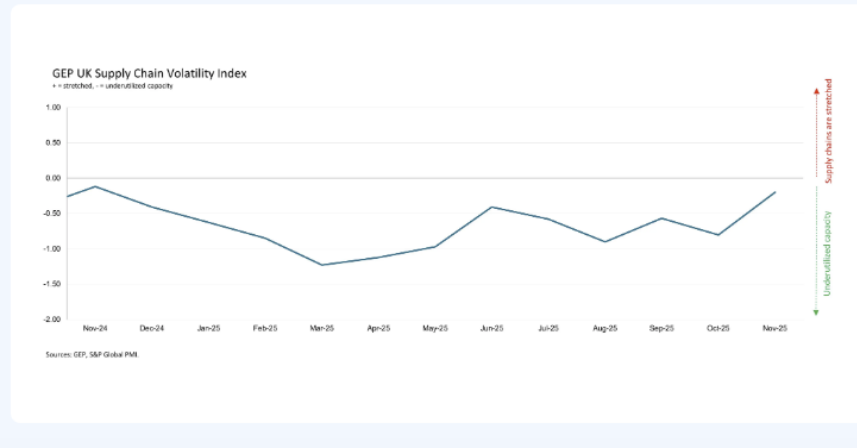
Asia: Another month of weak demand as Chinese factory purchasing slows



Europe: Manufacturing pipelines remain subdued amid low purchasing



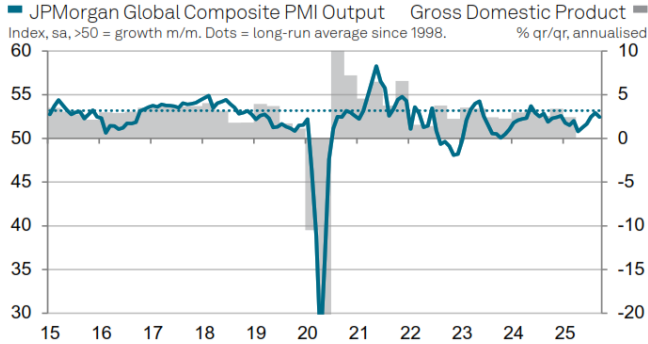
U.K.: Factory activity shows signs of stabilizing



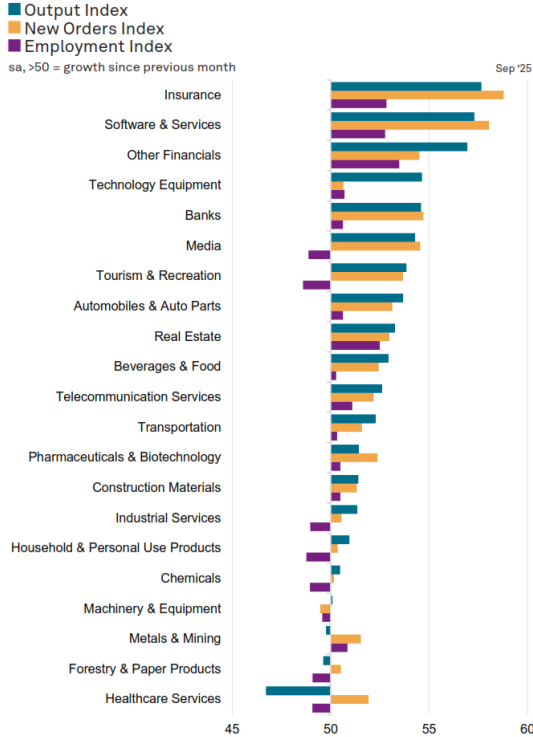
North America: Manufacturers report a sharper pullback in input demand



Global PMI September 2025



Sources: J.P.Morgan, S&P Global PMI. ©2025 S&P Global.



Source: S&P Global PMI.

The September data from across the world signaled a slight loss of growth impetus across the manufacturing and services sectors. The mild economic upturn was also insufficient to create meaningful job creation, with employment levels unchanged compared to the prior survey month. The Global Composite Index posted 52.4 in September, down from August's 14-month high of 52.9. The global service sector continued to outperform its manufacturing counterpart in September, although rates of output expansion eased in both categories. The Services Business Activity Index posted 52.8, compared to 50.8 for the Manufacturing Output Index.

S&P Global Sector PMI data shows 18 of the 21 monitored sectors recorded output growth. Two of the three sectors to buck the wider trend of expansion, namely Forestry & Paper Products and Metal & Mining, were based in the broader Basic Materials category. The rates of contraction were only fractional. Healthcare Services registered the sharpest decline of the 21 monitored sectors and was the one that was the most marked in three years. As a result, the broader Healthcare category ranked at the bottom for the third time in four months.

Demand strength was more broad-based in September, with 20 of the 21 monitored sectors recording positive order inflows, the most in over three-and-a-half years. Where a drop in orders was recorded - in the Machinery & Equipment sector - the rate of contraction was only slight overall. On the jobs front, there were signs of hesitancy around hiring decisions as monthly changes to employment levels, up or down, were often only modest. Other Financials – which includes consumer financial services, specialty financials, and investment services - recorded the sharpest rise in headcounts, while Tourism & Recreation signaled the most aggressive cuts.

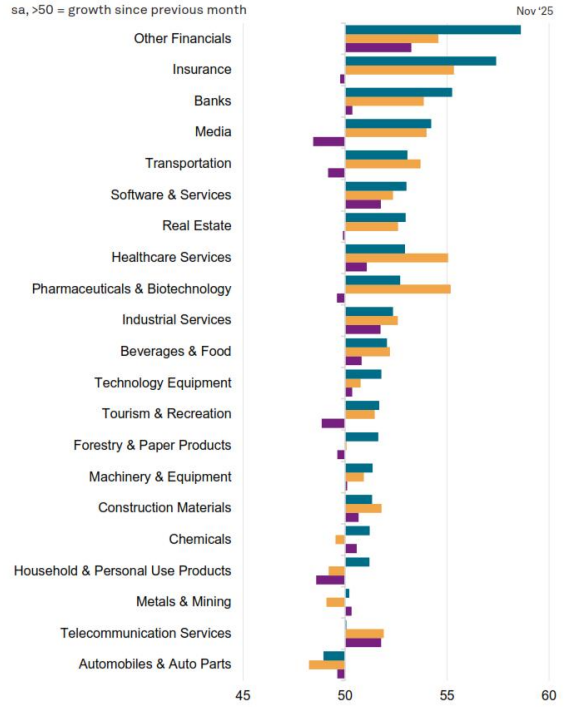
Global PMI November 2025 by Sector

S&P **Global** Sector PMI

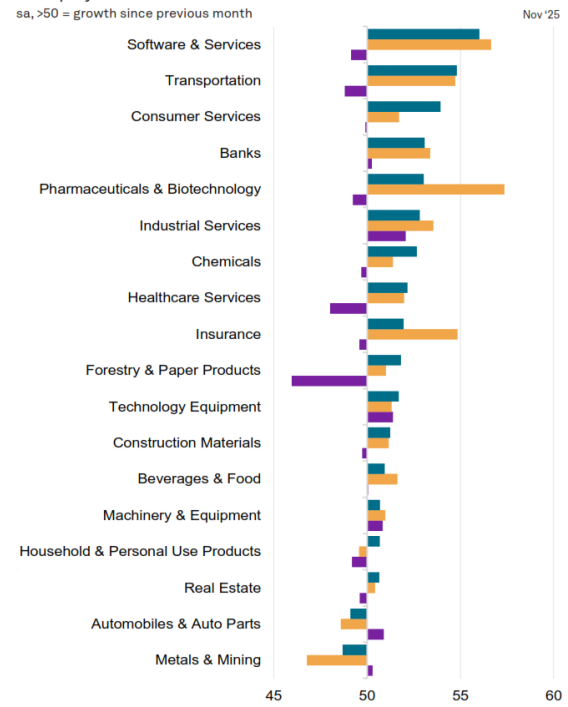
S&P Global **Asia** Sector PMI

S&P Global **Europe** Sector PMI

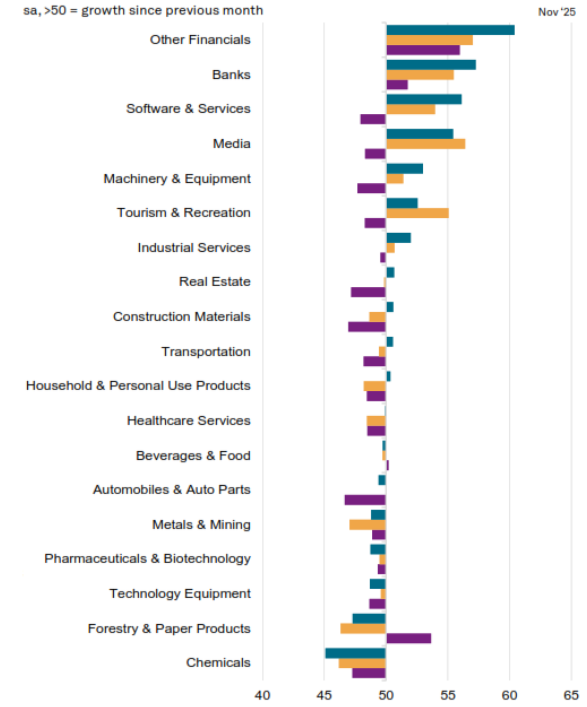
■ Output Index
 ■ New Orders Index
 ■ Employment Index
 sa, >50 = growth since previous month



■ Output Index
 ■ New Orders Index
 ■ Employment Index
 sa, >50 = growth since previous month



■ Output Index
 ■ New Orders Index
 ■ Employment Index
 sa, >50 = growth since previous month



Source: S&P Global PMI.

Source: S&P Global PMI.

S&P Global US PMI Still Shows Strength 11-2025

S&P Global US Manufacturing PMI

Index, sa, >50 = improvement m/m



Data were collected 12-25 November 2025.

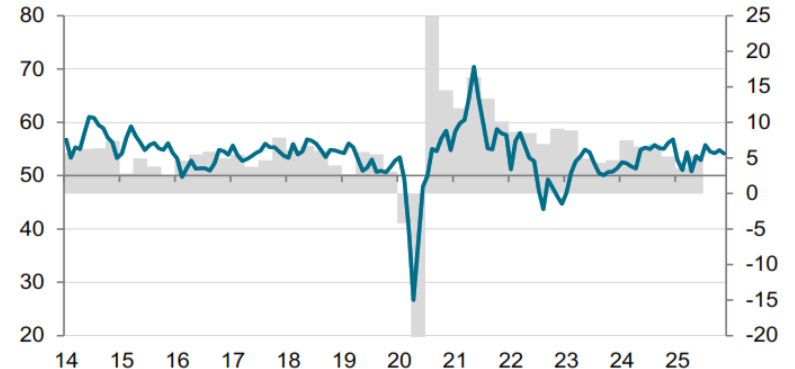
Source: S&P Global PMI. ©2025 S&P Global.

- The latest S&P Global Sector PMI data showed nearly all 21 monitored sectors in growth territory in November, with only Automobiles & Auto Parts recording a drop in output. The renewed drop in production volumes at automakers ended a five-month run of growth and coincided with a fresh drop in orders that was also the most marked of the 21 sectors. This sector was one of four to register falls in their order book volumes, all of which were manufacturing. However, in all cases, the rates of contraction were only modest overall. At the broad sector level, growth was again dominated by the Financials category. This time, only Real Estate came outside of the top four best performing sectors (with respect to activity) in November. Other Financials - which includes both Financial and Investment Services - was the frontrunner in November, both in terms of activity and employment growth. Meanwhile, the Insurance sector just outpaced Other Financials in terms of new business expansion.

S&P Global US Services Business Activity Private Services Gross Output

Index, sa, >50 = growth m/m

Annualized % qr/qr



Data were collected 12-26 November 2025.

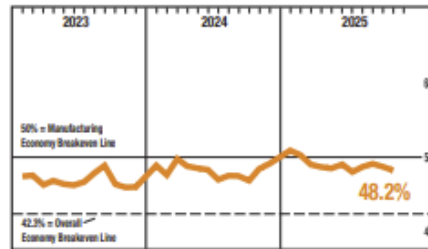
Sources: S&P Global PMI, Bureau of Economic Analysis via S&P Global Market Intelligence. © 2025 S&P Global.

The U.S. private sector services economy continued to expand at a solid pace in November, despite growth softening to a five-month low, according to the latest PMI survey data from S&P Global. Activity was supported by the firmest rise in new work of 2025 so far, whilst confidence in the outlook strengthened following the end of the government shutdown and amid expectations of improved economic growth in the year ahead. Firms also took on additional staff to a stronger degree amid some evidence of capacity pressures, but with reports of higher labor costs and tariffs continuing to push up prices in general, input cost inflation accelerated to a six-month high. Activity was supported in November by another increase in new business volumes, which increased to the strongest degree since last December. There were reports of more favorable market conditions and stronger underlying demand for services. Export trade also improved, although growth was marginal and lagged noticeably behind overall new work. Panelists reported that international trade continued to be hampered by political instability and general economic uncertainty.

ISM Report on Business 11-2025 – PMI (50% + is expansion)

MANUFACTURING PMI® at 48.2%

The U.S. manufacturing sector contracted in November for the ninth consecutive month after two months of expansion preceded by 26 months of contraction. The Manufacturing PMI® registered 48.2 percent in November, a 0.5-percentage point decrease compared to the 48.7 percent recorded in October. Of the five subindexes that directly factor into the Manufacturing PMI®, one is in expansion territory, the same number as in October. The Production Index returned to expansion, gaining 3.2 percentage points.



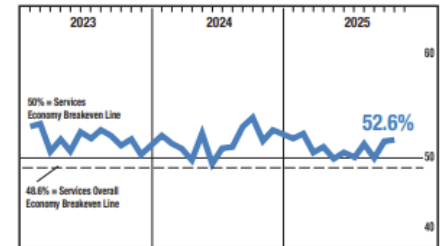
Manufacturing at a Glance

INDEX	Nov Index	Oct Index	% Point Change	Direction	Rate of Change	Trend* (months)
Manufacturing PMI®	48.2	48.7	-0.5	Contracting	Faster	9
New Orders	47.4	49.4	-2.0	Contracting	Faster	3
Production	51.4	48.2	+3.2	Growing	From Contracting	1
Employment	44.0	46.0	-2.0	Contracting	Faster	10
Supplier Deliveries	49.3	54.2	-4.9	Faster	From Slower	1
Inventories	48.9	45.8	+3.1	Contracting	Slower	7
Customers' Inventories	44.7	43.9	+0.8	Too Low	Slower	14
Prices	58.5	58.0	+0.5	Increasing	Faster	14
Backlog of Orders	44.0	47.9	-3.9	Contracting	Faster	38
New Export Orders	46.2	44.5	+1.7	Contracting	Slower	9
Imports	48.9	45.4	+3.5	Contracting	Slower	8
Overall Economy				Growing	Slower	67
Manufacturing Sector				Contracting	Faster	9

*Number of months moving in current direction. ISM® Manufacturing PMI® Report data has been seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.

SERVICES PMI® at 52.6%

In November, the Services PMI® registered 52.6 percent, a 0.2-percentage point increase compared to the October reading of 52.4 percent. A reading above 50 percent indicates the services sector economy is generally expanding; below 50 percent indicates it is generally contracting.



Services at a Glance

INDEX	Nov Index	Oct Index	% Point Change	Direction	Rate of Change	Trend* (months)
Services PMI®	52.6	52.4	+0.2	Growing	Faster	2
Business Activity	54.5	54.3	+0.2	Growing	Faster	2
New Orders	52.9	56.2	-3.3	Growing	Slower	6
Employment	48.9	48.2	+0.7	Contracting	Slower	6
Supplier Deliveries	54.1	50.8	+3.3	Slowing	Faster	12
Inventories	53.4	49.5	+3.9	Growing	From Contracting	1
Prices	65.4	70.0	-4.6	Increasing	Slower	102
Backlog of Orders	49.1	40.8	+8.3	Contracting	Slower	9
New Export Orders	48.7	47.8	+0.9	Contracting	Slower	5
Imports	48.9	43.7	+5.2	Contracting	Slower	3
Inventory Sentiment	54.8	55.5	-0.7	Too High	Slower	31
Overall Economy				Growing	Faster	66
Services Sector				Growing	Faster	2

*Number of months moving in current direction. ISM® Services PMI® Report data has been seasonally adjusted for the Business Activity, New Orders, Employment and Prices indexes.

Manufacturing Activities Continue to be Mixed – 12-2025



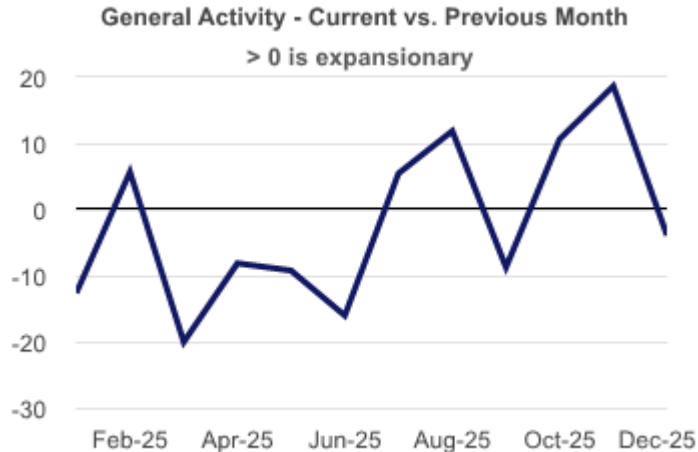
The California Composite Index rose to 57.3 in the fourth quarter, up from 55.4 in the third. Expectations have been on a modest upward march since bottoming out following the “Liberation Day” tariff announcement in April; still, the reading remains low compared with last year’s levels. While the postponement of higher tariffs has lifted expectations of higher growth in the last quarter of the year, the uncertainty created by policy changes, price hikes, and increasingly cautious customers continue to weigh on purchasing managers’ minds.



Manufacturing inched higher in December among Tenth District factories, according to the Kansas City Fed’s Manufacturing Survey. The headline composite index slipped from 8 in November to 1 in December. The production index plunged to -3 from 18, and the volume of new orders index ticked up from -2 to 0, on net. Employment was mixed. The number of employees index declined from 11 in November to -4 in December, while the average employee workweek index rose to 5 from 1. Price growth accelerated, with the prices paid for raw materials index rising from 36 in November to 40 in December.

Manufacturing Activities Continue to be Mixed – 12-2025

N.Y. Empire State Manufacturing Survey



After a couple of strong months, manufacturers in New York reported a modest slowdown in December. The top-line general business conditions index **dropped** more than 20 points to -3.9, driven by demand-side indicators that are no longer moving in the right direction. Although the headline narrative is negative, components generally tell a promising story, with the pace of **price gains slowing** somewhat, **labor demand still solid**, and expected demand closing 2025 with its **highest** reading of the year.

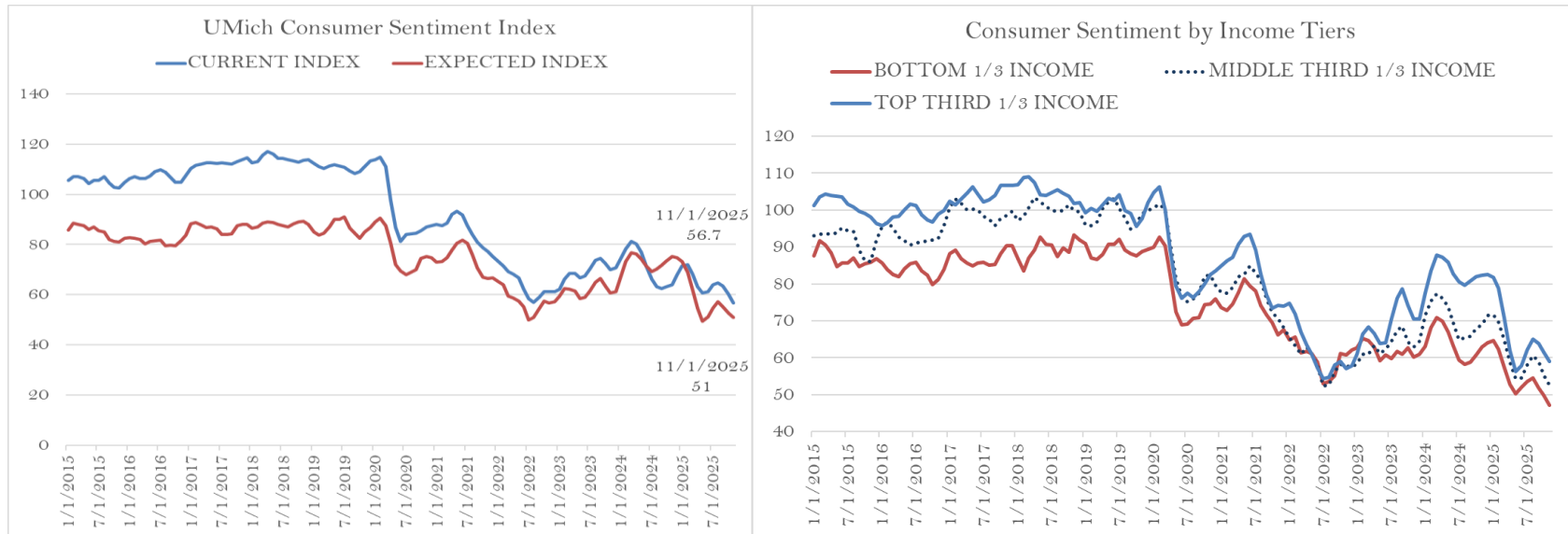
Richmond Fed Manufacturing Index



In the Fed's Fifth District, manufacturing **improved slightly** in December, but it has remained firmly in **contractionary territory** for 10 straight months. The details showed some improvement. Demand rebounded, with the **new orders index rising** from -22 in November to -8, and shipments also rebounded. The **employment index similarly increased** but remained in contraction.

After increasing in November, the **prices paid index stabilized** in December. Meanwhile, the **prices received index rose** notably. After a series of delays and a few deals, many of the Trump Administration's threatened tariffs have begun to take effect, raising the cost of imports. **This has begun to flow into higher costs for businesses and consumers.**

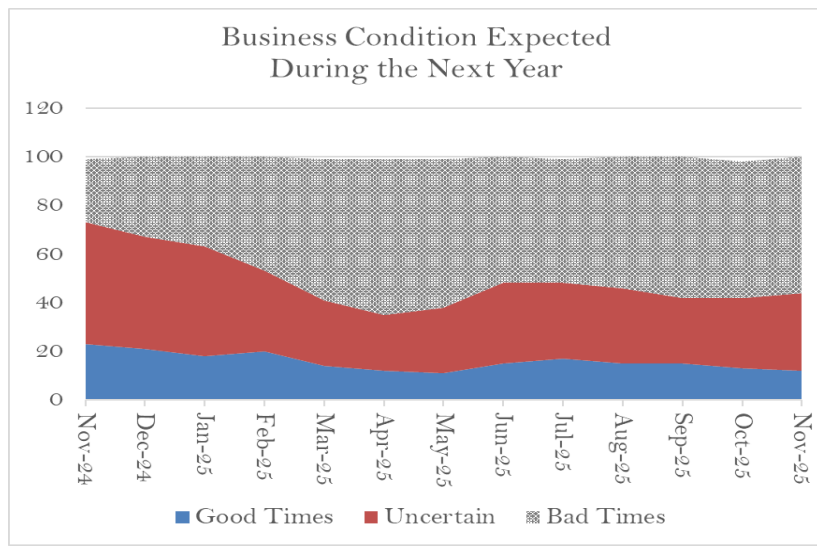
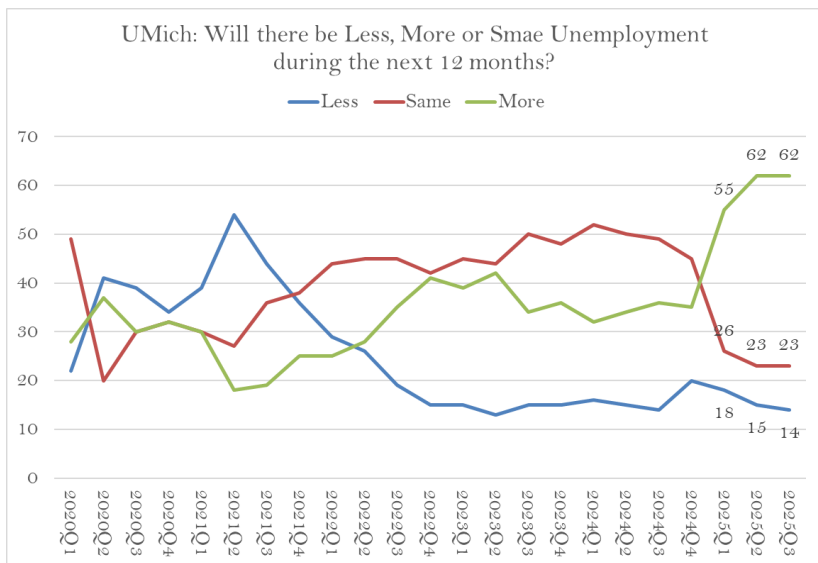
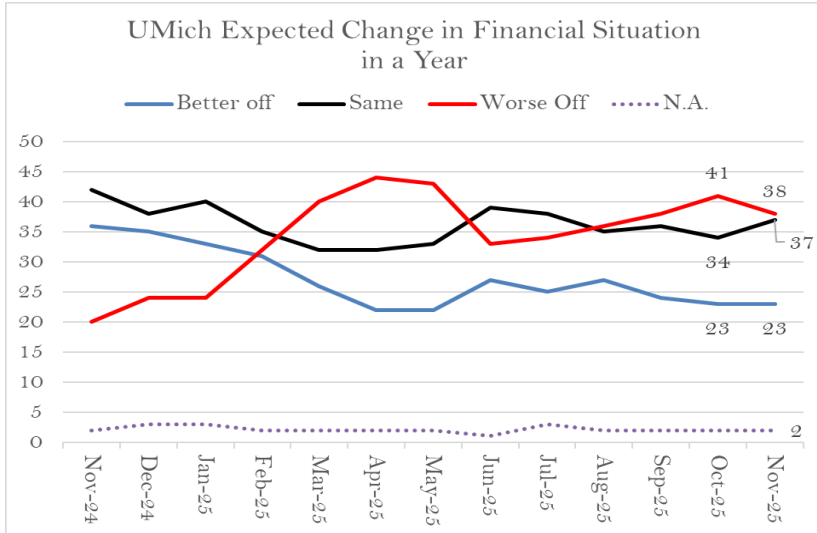
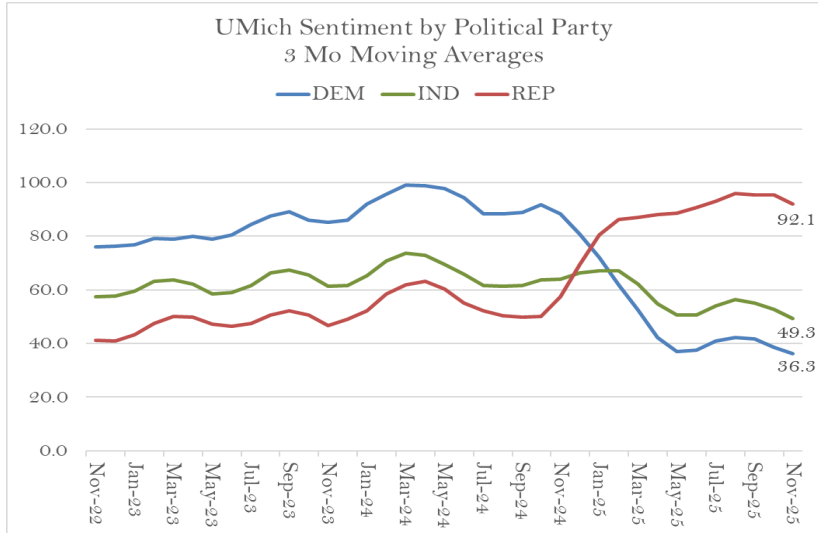
UMich Consumer Sentiment – 11-2025



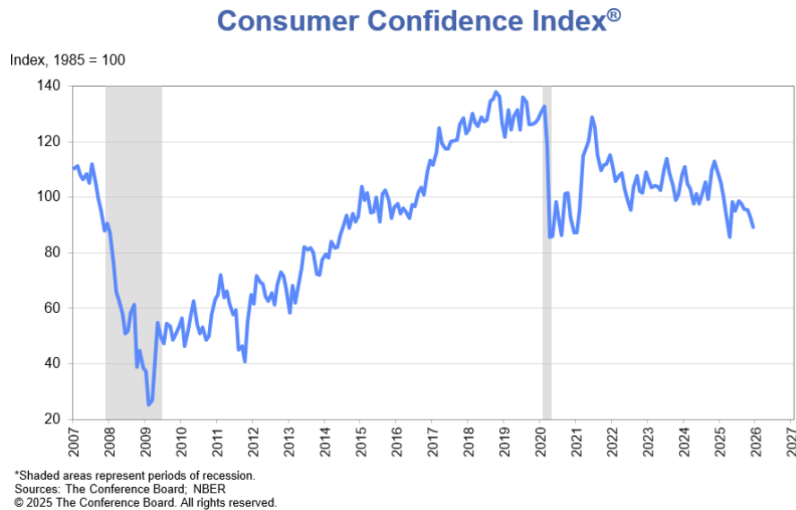
Source UMich and Philip Chao https://www.economy.com/economicview/indicator/usa_csent/University-of-Michigan-Consumer-Sentiment-Survey

- There are many reasons for consumers' unhappiness. Inflation is inching higher, pushing the prices of many goods to levels that consumers already find uncomfortable. The federal government shutdown added to the already extreme uncertainty. The labor market is weakening, with job openings scarce. There is little for consumers to like at present other than the strength of the stock market and stable-to-falling gas prices. Inflation expectations remain elevated.
- And there are even more weights on confidence. Lending standards are tight. Low housing affordability and mortgage rates that are higher than the lows recorded coming out of the pandemic are both negative. Political uncertainty extends beyond the government shutdown. Conflicts overseas rarely seem to drop out of the headlines for long.
- This measure of confidence is so low that increases seem likely. Historically, it has taken an extremely severe recession to generate this level of angst. Key questions include the trajectory of domestic and retaliatory tariffs, as well as developments in the Middle East, Ukraine, and other overseas regions. Among the important factors to watch in determining the path of confidence are gas prices, broader inflation rates, interest rates, the stock market, the labor market, financial system stability, and events in Washington.

UMich Consumer Survey – 11-2025



Conference Board – Consumer Confidence - 12-2025



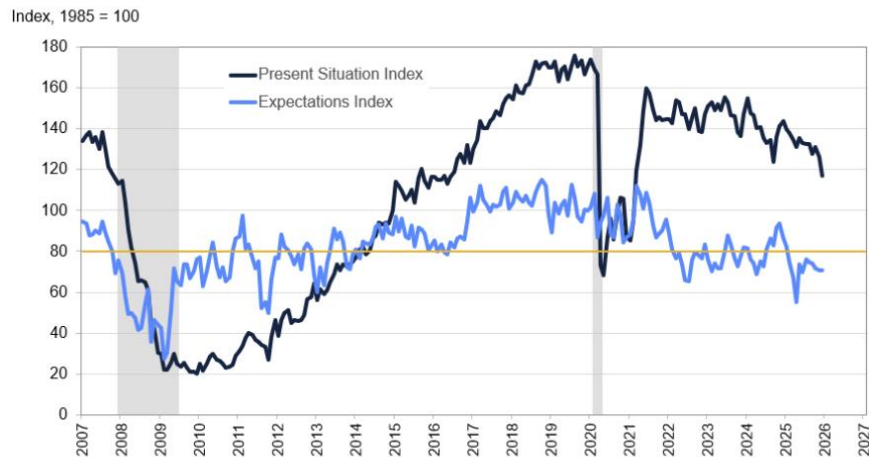
The Conference Board Consumer Confidence Index declined by 3.8 points in December to 89.1 (1985=100), from 92.9 in November. This includes an upward revision to November's reading, as responses collected after the end of the federal government shutdown (which spanned October 1 to November 12) were more positive than those collected during the impasse. The Present Situation Index—based on consumers' assessments of current business and labor market conditions—plummeted by 9.5 points to 116.8 in December. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—held steady at 70.7. The Expectations Index has now tracked under 80 for 11 consecutive months, the threshold below which the gauge signals recession ahead. The cutoff for preliminary results was December 16, 2025.

The Present Situation Index **declined** as net views on current business conditions were negative for the first time since September 2024, a month that included a labor market scare and deadly hurricanes. Perceptions of employment conditions **edged lower** as the labor market differential, i.e. the share of consumers saying jobs are 'plentiful' minus the share saying jobs are 'hard to get', continued to lag. Two of the three Expectations Index components **dipped** in December. November's nosedive in expectations for **business conditions** six months from now mostly reversed in December but **remained negative**. Expectations for labor market conditions were **gloomier**, and the outlook for household incomes was **less positive**.

Among demographic groups, on a six-month moving average basis, **confidence dipped** among all age groups in December, although consumers under 35 continued to be more confident than consumers age 35 and older. There were few generational differences, as confidence among all generations trended downward in the month, with only the Silent Generation becoming more hopeful. Millennials and Gen Z remained the most optimistic of all generations surveyed. By income, confidence on a six-month moving average basis fell for nearly all brackets, except for those earning less than \$15K and more than \$125K. Still, consumers earning less than \$15K remained the least optimistic among all income groups. Confidence continued to fall in December among all political affiliations (Democrats, Republicans, and Independents).

Conference Board – Consumer Confidence 12-2025

Present Situation and Expectations Index



*Shaded areas represent periods of recession.
Sources: The Conference Board; NBER
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Present Situation

- Consumers' assessments of current business conditions turned mildly pessimistic in December.
 - 18.7% of consumers said business conditions were "good," down from 21.0% in November.
 - 19.1% said business conditions were "bad," up from 15.8%.
- Consumers' views of the labor market were also weaker in December.
- 26.7% of consumers said jobs were "plentiful," down from 28.2% in November.
 - 20.8% of consumers said jobs were "hard to get," up from 20.1%.

Expectations 6-Months Hence

- Consumers were moderately less pessimistic about future business conditions in December.
- 18.0% of consumers expected business conditions to improve, down from 18.1% in November.
- However, 21.8% expected business conditions to worsen, down from 25.8%.

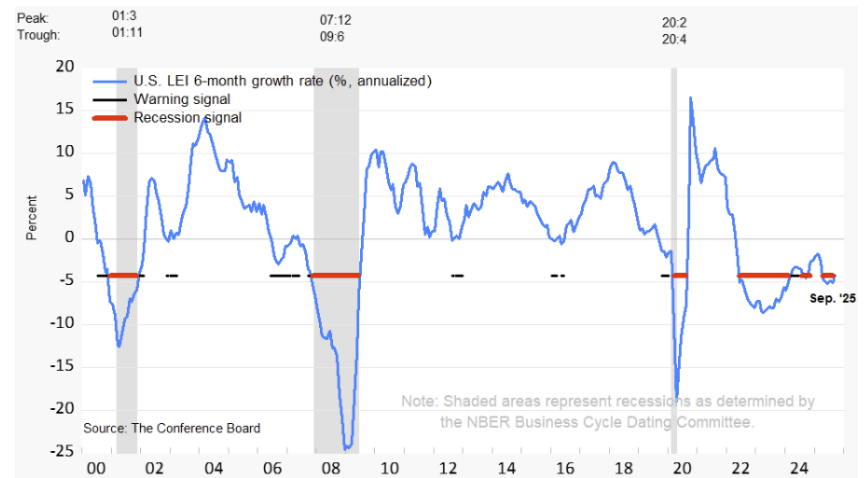
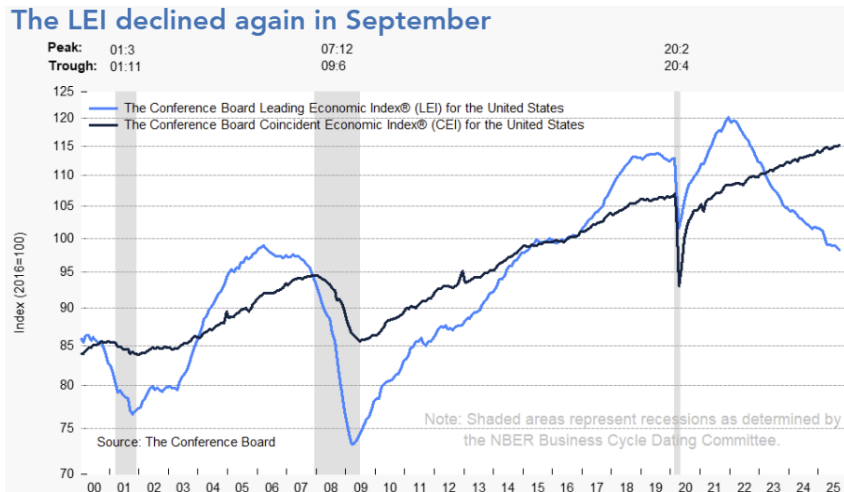
Consumers were, on net, a bit more worried about the labor market outlook in December.

- 16.5% of consumers expected more jobs to be available, unchanged from November.
- 27.4% anticipated fewer jobs, up from 26.8%.

Consumers' outlook for their income prospects was slightly less positive in December.

- 18.4% of consumers expected their incomes to increase, up from 17.6% in November.
- Meanwhile, 14.7% expected their incomes to decrease, up from 12.5%.

Conference Board Leading Indicators 09-2025 (Updated 12-25)



- The Leading Economic Index (LEI) for the U.S. declined by 0.3% in September 2025 to 98.3 (2016=100), after also declining by 0.3% in August. Overall, the LEI fell by 2.1% over the six months between March and September 2025, a faster rate of decline than its 1.3% contraction over the

Weakening expectations from consumers and businesses led the overall contraction in the Index. Subindexes that contributed negatively to the LEI were consumer expectations and ISM New Orders Index, followed by manufacturers' new orders of consumer goods & materials, initial claims for unemployment insurance (inverted), and the yield curve. However, stock prices, the Leading Credit Index, and manufacturers' new orders of nondefense capital goods (excl. aircraft) did contribute positively to the Index. The LEI suggests slowing economic activity at the end of 2025 and into early 2026, with GDP weakening after strong mid-year consumer spending and Q4 disruptions amid the federal government shutdown. Overall, **growth remains fragile and uneven** as businesses adjust to tariff changes and softer consumer momentum. The Conference Board expects GDP to expand by 1.8% in 2025, before falling to 1.5% in 2026.

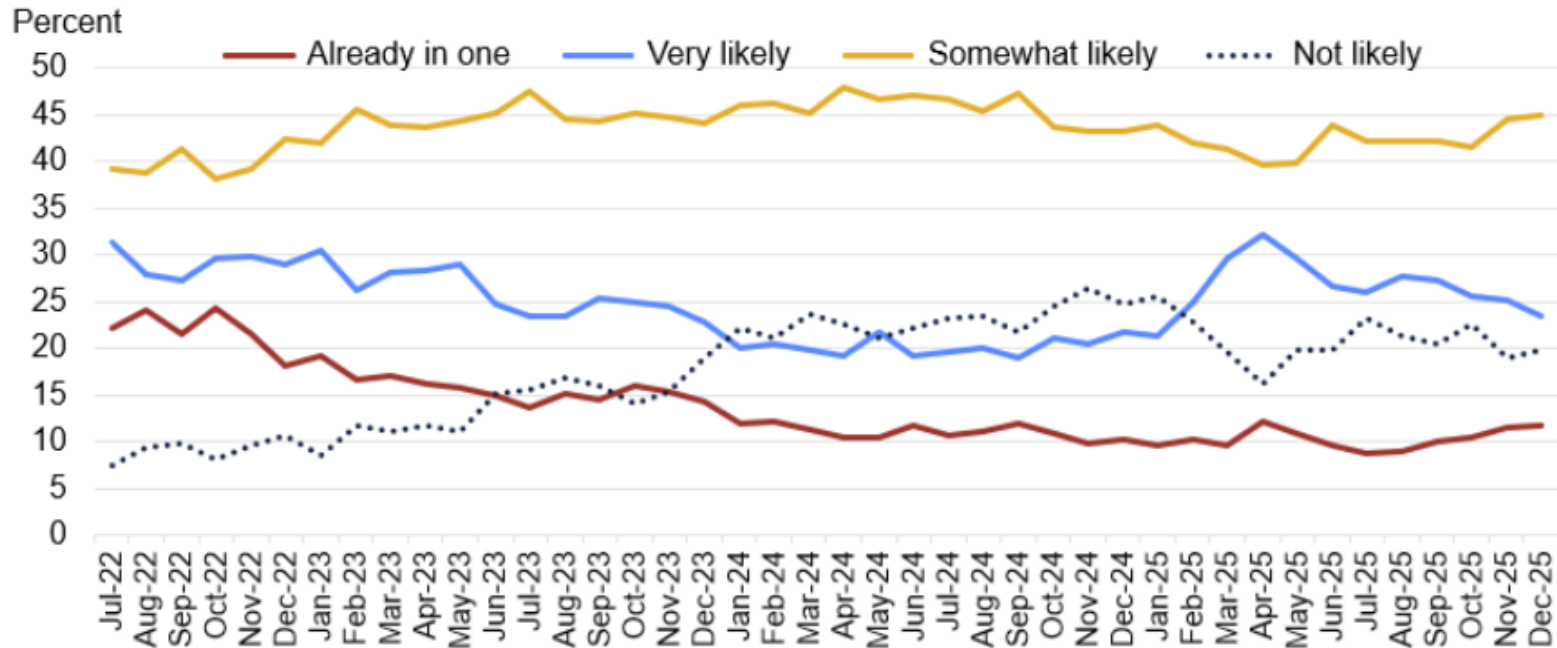
The Conference Board Leading Economic Index® and Component Contributions (Percent)

	Sep. '25	6 months ending in Sep. '25
Financial Components		
Leading Credit Index™**	0.05	0.37
S&P 500® Stock Index	0.11	0.60
Interest Rate Spread, 10-year T-bonds less Fed Funds	-0.01	0.00
Non-Financial Components		
Avg. Consumer Expectations for Business Conditions	-0.21	-1.36
ISM® New Orders Index	-0.14	-0.92
Building Permits, Private Housing	0.00	-0.32
Average Weekly Hours, Mfg.	0.00	-0.06
Manufacturers' New Orders, Nondefense Capital Goods excl. aircraft**	0.03	0.02
Manufacturers' New Orders, Consumer Goods & Materials**	-0.04	-0.07
Average Weekly Initial Claims, Unemp. Insurance*	-0.02	-0.08

Source: The Conference Board
* Inverted series; a negative change in this component makes a positive contribution.
** Statistical Imputation
LEI change might not equal sum of its contributors due to application of trend adjustment factor

Conference Board: Recession Survey, 12-2025

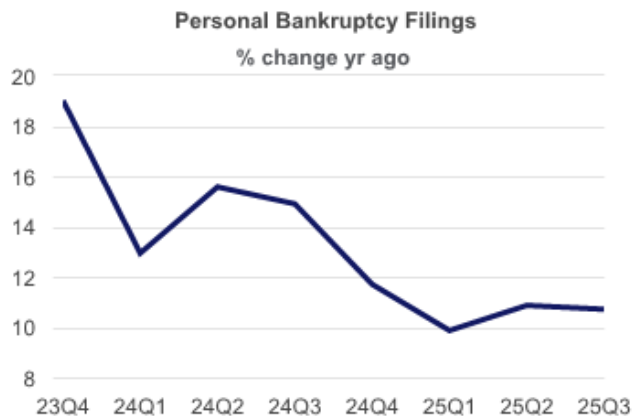
Perceived likelihood of a US recession over the next 12 months



Source: The Conference Board, Consumer Confidence Survey®

- The share of consumers believing a U.S. recession over the next 12 months is “not likely” edged up to about one-fifth of respondents, and those saying recession is “very likely” continued to recede. Still, the largest share of consumers—those anticipating that recession is “somewhat likely”—grew again, and the small percentage stating that the U.S. is “already in one” crept higher. (These measures are not included in calculating the Consumer Confidence Index.) The contradictory results can be explained because a K-shaped economy shows different economic tiers have very different responses.

Bankruptcy Filings – Low but pressure is building

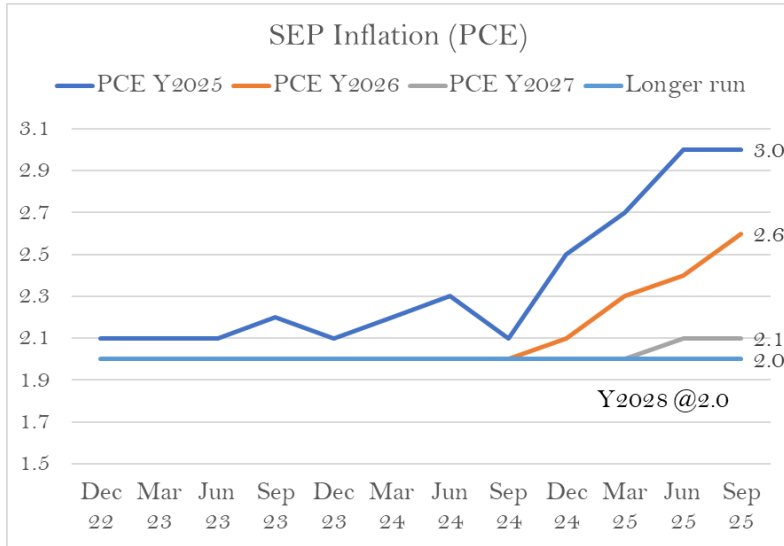


Bankruptcy filings, % change yr ago, 3-mo ending, NSA								
	25Q3	25Q2	25Q1	24Q4	24Q3	24Q2	24Q1	23Q4
Total personal	10.7	10.9	9.9	11.7	14.9	15.6	12.9	19.0
Chapter 7	14.1	16.0	13.8	18.2	20.6	19.1	16.8	23.1
Chapter 11	24.0	23.7	63.3	28.6	30.1	9.6	-21.0	13.8
Chapter 13	5.6	2.9	4.1	2.8	7.2	10.5	7.9	13.9
Total business	18.3	-4.6	3.3	6.5	14.5	37.8	34.6	53.2
Chapter 7	15.7	10.3	13.1	17.2	17.7	32.6	27.2	39.0
Chapter 11	26.5	-18.9	-5.5	-7.1	15.0	36.6	42.5	84.7
Chapter 13	3.2	-26.9	-19.0	-13.4	-5.7	52.8	35.7	32.9

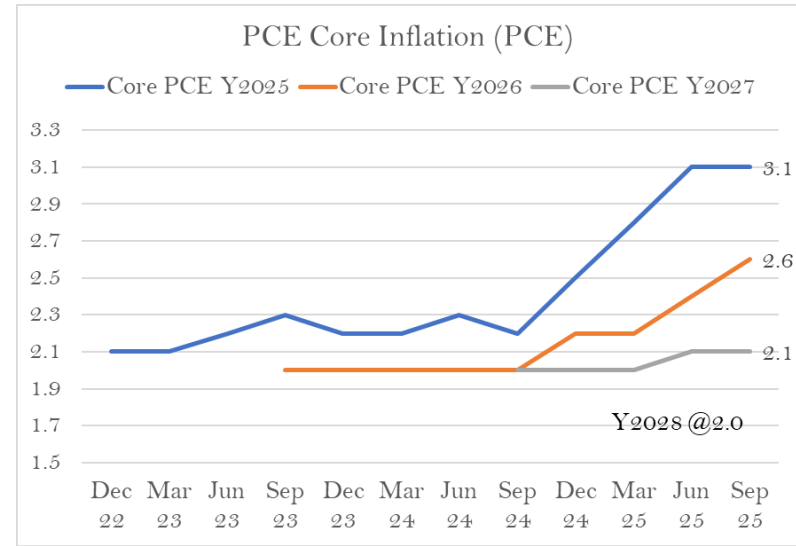
Bankruptcy filings remain low, but the trend is **unfavorable** as household finances are under pressure on many fronts, including high and rising prices, dramatically reduced job availability, and slowing growth in wage income. Historically, the third quarter is a transition quarter for non-business filings. The upward push from the prior year's holiday spending is fading, and consumers are starting to prepare for the coming holidays. But summer vacations and back-to-school spending can weigh on household finances. The upward trend in filings, after adjusting for seasonal movements, highlights that the impact of past interest rate increases is only hitting consumer finances with a lag and that Federal Reserve rate cuts have, at best, only slowed the process. Over 80% of consumer debt has fixed rates, and the share was even higher at the start of the rate increases in early 2022. Finances are also under pressure from the increased level of prices created by high inflation over the past few years, which is reaccelerating at present because of **increased tariffs**. Mitigating factors for consumers include high wealth and still-growing real incomes. However, stresses are growing, so the question for the outlook is not whether filings will increase further, but by how much and how fast.

There is a **significant delay** from when households begin to face strained finances and when credit problems become severe and lengthy enough to push large numbers of consumers into bankruptcy. Households usually do not file for bankruptcy until forced to by collection efforts. That will generally not happen until the loans go into default, usually following many months of nonpayment. Since most student loan forbearance was in place until October 2023, student loan delinquencies were not reported to credit bureaus until October 2024 or later. And no other collection efforts were likely until recently, so the consequences for nonpayment of student loans have only become material to consumers very recently. In total, the clock may recently have started ticking for many of the households that are suffering financially because of high inflation or other difficulties. This suggests that the outlook is poor.

Summary of Economic Projections – Inflation



Source: Federal Reserve 2025 09, Nexus338

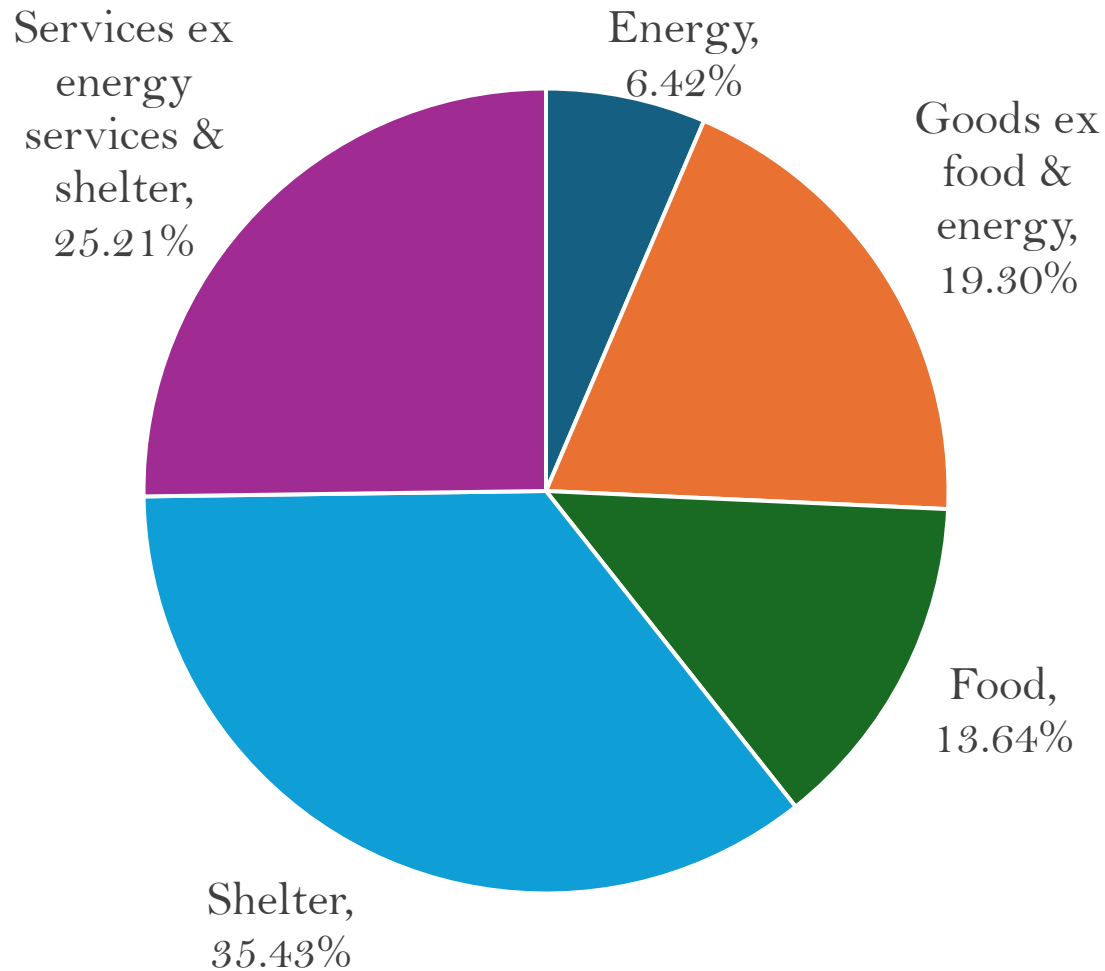


Source: Federal Reserve 2025 09, Nexus338

In the latest SEP, the average member expects Personal Consumption Expenditure (PCE) inflation to move UP for 2025 and 2026. This suggests that, although the Fed believes the current policy remains restrictive, inflation projections for 2025, 2026, and 2027 moved a bit higher. The big challenge is that a lot of front loading of imported goods occurred prior to the imposition of tariffs and the desires by corporations to hold off on fully passing on tariffs to the consumers are causing data distortion. The FOMC is waiting to see if the hard data in the next couple of months will show any sign of price increases before making a rate decision.

- At the same time, projections for Core PCE (ex-food and energy) inflation also moved higher for 2025, from 2.8% to 3.1%. PCE is projected to return to the 2% target in 2028.
- These updated dot plots for inflation suggest that the Fed will likely remain cautious and move at a cautious pace, even under tremendous political pressure to cut rates from the White House. Thus far, hard data suggests some slowing in the economy and the labor market may be a bit less robust, but inflation remains a distance away from its 2% target. It is the distance away from the neutral point for both mandates (price stability and full employment) that will be closely scrutinized.

CPI Basket & Component Contributions (11-2025)



CPI (s.a.) Changes from Preceding Months

Note: The Oct and Nov 2025 data values are not available due to the 2025 lapse in appropriations.

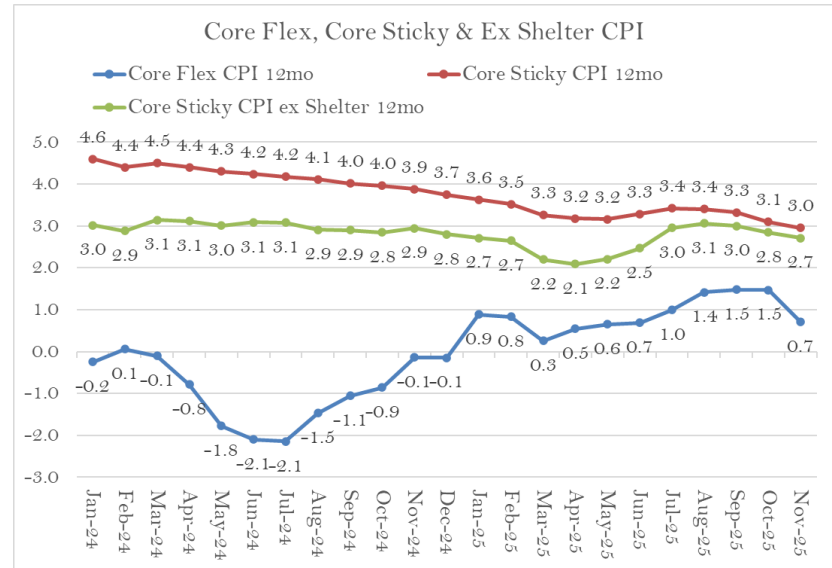
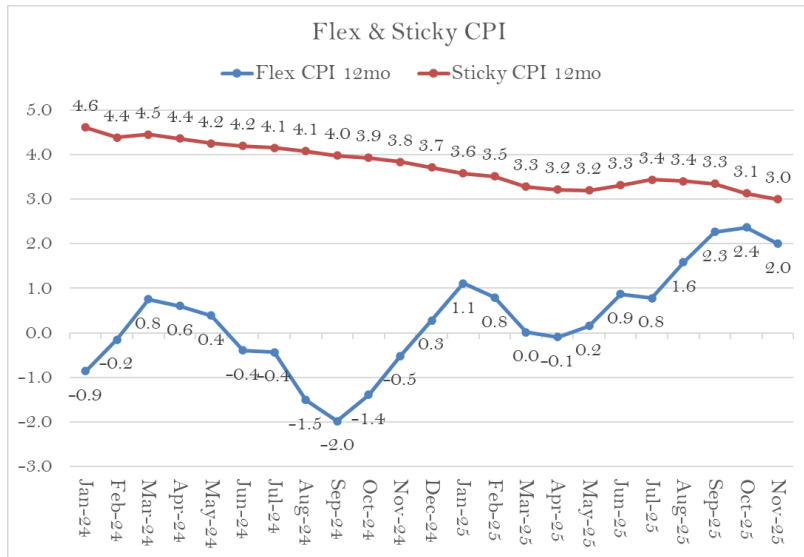
	Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average											Un- adjusted 12-mons Ended
	Seasonally adjusted changes from preceding month											
	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov. 2025	
All items	0.5	0.2	-0.1	0.1	0.3	0.2	0.4	0.3	-	-		2.7
Food	0.4	0.2	0.4	0.3	0.3	0	0.5	0.2	-	-		2.6
Food at home	0.5	0	0.5	0.3	0.3	-0.1	0.6	0.3	-	-		1.9
Food away from home(1)	0.2	0.4	0.4	0.3	0.4	0.3	0.3	0.1	-	-		3.7
Energy	1.1	0.2	-2.4	-1	0.9	-1.1	0.7	1.5	-	-		4.2
Energy commodities	1.9	-0.9	-6.1	-2.4	1	-1.9	1.7	3.8	-	-		1.2
Gasoline (all types)	1.8	-1	-6.3	-2.6	1	-2.2	1.9	4.1	-2.1	3		0.9
Fuel oil	6.2	0.8	-4.2	0.9	1.3	1.8	-0.3	0.6	-	-		11.3
Energy services	0.3	1.4	1.6	0.4	0.9	-0.3	-0.2	-0.7	-	-		7.4
Electricity	0	1	0.9	0.9	1	-0.1	0.2	-0.5	-	-		6.9
Utility (piped) gas service	1.8	2.5	3.6	-1	0.5	-0.9	-1.6	-1.2	-	-		9.1
All items less food and energy	0.4	0.2	0.1	0.1	0.2	0.3	0.3	0.2	-	-		2.6
Commodities less food and energy commodities	0.3	0.2	-0.1	0	0.2	0.2	0.3	0.2	-	-		1.4
New vehicles	0	-0.1	0.1	-0.3	-0.3	0	0.3	0.2	0.1	0.2		0.6
Used cars and trucks	2.2	0.9	-0.7	-0.5	-0.7	0.5	1	-0.4	0.7	0.3		3.6
Apparel	-1.4	0.6	0.4	-0.4	0.4	0.1	0.5	0.7	-	-		0.2
Medical care commodities(1)	1.2	0.1	-1.1	0.6	0.1	0.1	-0.3	-0.1	-	-		1.1
Services less energy services	0.5	0.3	0.1	0.2	0.3	0.4	0.3	0.2	-	-		3.0
Shelter	0.4	0.3	0.2	0.3	0.2	0.2	0.4	0.2	-	-		3.0
Transportation services	1.8	-0.8	-1.4	-0.2	0.2	0.8	1	0.3	-	-		1.7
Medical care services	0	0.3	0.5	0.2	0.6	0.8	-0.1	0.3	-	-		3.3
Footnotes												
(1) Not seasonally adjusted.												

CPI by Categories

Selective Special Aggregate Index	Unadjusted % Change 12 mo ending	
	Sep-25	Nov-25
All items less food	3.0	2.7
All items less shelter	2.7	2.6
All items less food and shelter	2.6	2.5
All items less energy	3.0	2.6
All items less medical care	3.6	2.7
Services less medical care services	3.6	3.2
Fuels and utilities	5.8	6.5
Medical care	3.3	2.9
Food and beverages	3.0	2.6
New and used motor vehicles	1.7	1.2

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2 percent on a seasonally adjusted basis over the 2 months from September 2025 to November 2025. The all items CPI index rose 2.7 percent for the 12 months ending November, after rising 3.0 percent over the 12 months ending September. The all items less food and energy Core CPI index rose 2.6 percent over the last 12 months. The energy index increased 4.2 percent for the 12 months ending November. The food index increased 2.6 percent over the last year.

CPI – Flex and Sticky 11-2025



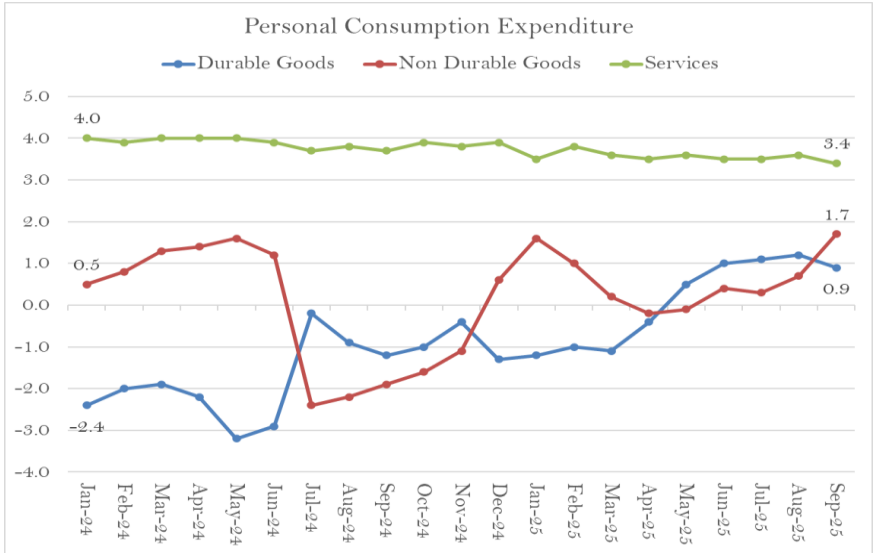
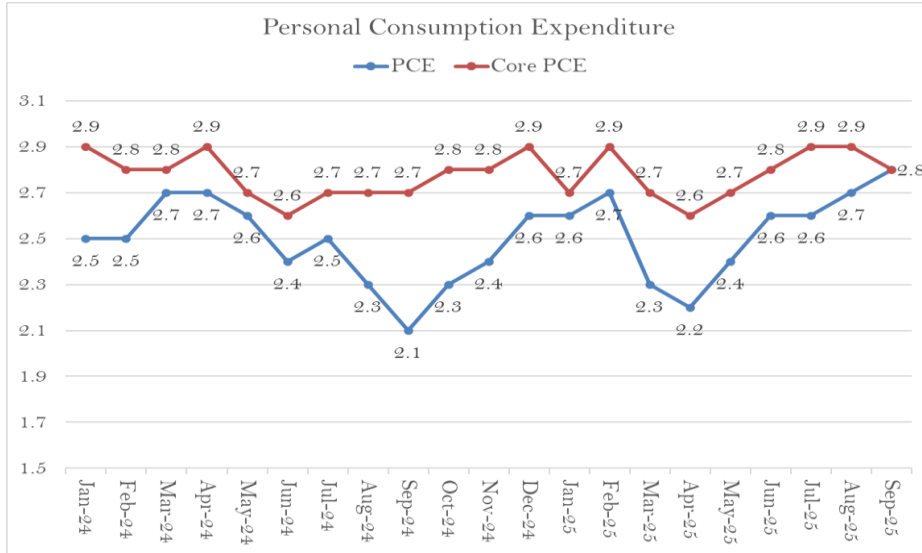
Source: <https://www.atlantafed.org/research/inflationproject/stickyprice>, Philip Chao

- The Atlanta Fed divides the published components of the monthly CPI (45 categories derived from the raw price data) into their “sticky-price” and “flexible-price” aggregates¹.
- The evidence indicates that the flexible-price measure is much more responsive to changes in the economic environment while the sticky-price variant appears to be more forward looking. Sticky price setters understand that it will be costly to change prices; as such, they will want their price decisions to account for inflation over the periods between their infrequent price changes.
- Flex and sticky are further divided into core and non-core. Core excludes energy and food prices. Historically, flexible price and flexible core price CPI have shown much more volatility than the alternative sticky-price and sticky core price measures.

- The Atlanta Fed's sticky-price consumer price index (CPI)—a weighted basket of items that change price relatively slowly—rose 1.1 percent (on an annualized basis) in November. On a year-over-year basis, the series is up 3.0 percent. On a core basis (excluding food and energy), the sticky-price index rose 0.9 percent (annualized) in November, and its 12-month percent change was 3.0 percent. The flexible cut of the CPI—a weighted basket of items that change price relatively frequently—increased 1.1 percent (annualized) in November, and on a year-over-year basis, the series is up 2.0 percent.
- Note: The US Bureau of Labor Statistics (BLS) did not release CPI data for October 2025 due to a lapse in appropriations. For that reason, Sticky CPI rates for October 2025 are calculated based on an interpolated index data from September 2025 and November 2025. In conclusion, “core” inflation is persistently above the Fed’s 2% target rate. With the imposition of tariffs against all trading nations, there remains an upside bias to inflation, especially core inflation, into 2026.

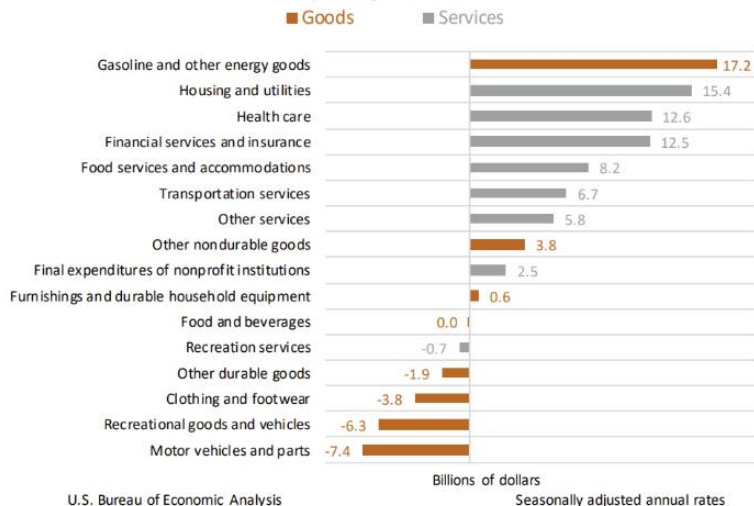
¹ <https://www.atlantafed.org/-/media/documents/research/inflationproject/stickyprice/sticky-price-cpi-supplemental-reading.pdf>

PCE & Core PCE – 09-2025



Changes in Monthly Consumer Spending, September 2025

Consumer Spending Increased \$65.1 Billion



Due to the government shutdown, the latest available Personal Income & Outlay report is through September 2025. Personal Consumption expenditure is the preferred index for the Fed to track inflation and the Core PCE is the inflation gauge that the Fed is targeting at 2%. PCE has been moving higher since April this year at 2.2% and now is at 2.8% which matches the core PCE in September. Clearly, inflation remains a concern. The Durable, Non-Durable, and Service components offer some additional information. Since April 2025, Durable Goods has been the primary driver to inflation while nondurable goods have just begun to show a decrease in September. Tariffs are likely the primary contributor to goods inflation in general. Depending on how more tariffs will be passed on to consumers, inflation may remain sticky or even increase. Services, on the other hand, has been slowly coming down and helped to keep PCE and PCE Core in check.

Trimmed Mean PCE Inflation – 09-2025

The Trimmed Mean PCE inflation rate over the 12 months ending in September was 2.7 percent. According to the BEA, the overall PCE inflation rate was 2.8 percent on a 12-month basis, and the inflation rate for PCE excluding food and energy was 2.8 percent on a 12-month basis. The tables below present data on the Trimmed Mean PCE inflation rate and, for comparison, overall PCE inflation and the inflation rate for PCE excluding food and energy. The tables give annualized one-month, six-month and 12-month inflation rates.

One-month PCE inflation, annual rate

	25-Apr	25-May	25-Jun	25-Jul	25-Aug	25-Sep
PCE	2.0	2.2	3.5	2.0	3.1	3.3
PCE ex F&E	2.3	2.8	3.2	2.9	2.7	2.4
Trimmed mean	2.7	2.0	3.6	1.7	3.2	1.9

Six-month PCE inflation, annual rate

	25-Apr	25-May	25-Jun	25-Jul	25-Aug	25-Sep
PCE	2.7	2.8	2.8	2.5	2.2	2.7
PCE ex F&E	2.7	3.0	3.1	3.0	2.5	2.7
Trimmed mean	2.7	2.7	2.8	2.6	2.6	2.5

12-month PCE inflation

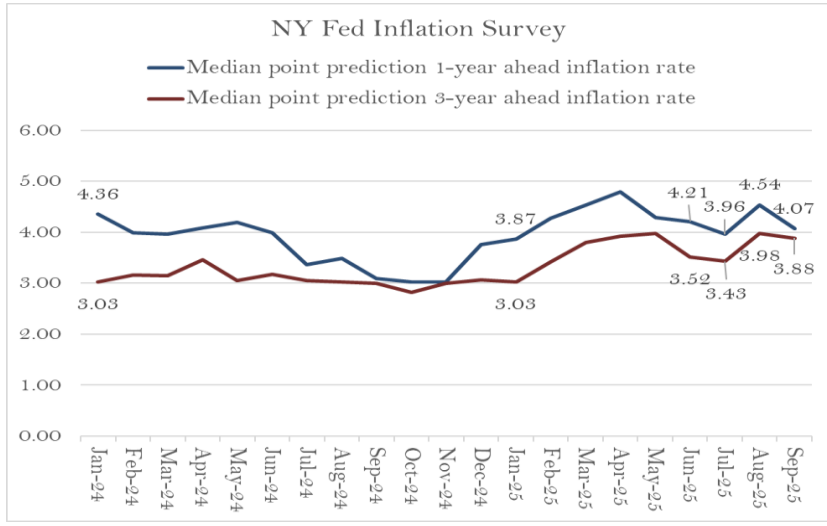
	25-Apr	25-May	25-Jun	25-Jul	25-Aug	25-Sep
PCE	2.3	2.5	2.6	2.6	2.7	2.8
PCE ex F&E	2.6	2.8	2.8	2.9	2.9	2.8
Trimmed mean	2.6	2.6	2.7	2.7	2.8	2.7

- Components included and excluded from this month's Trimmed Mean

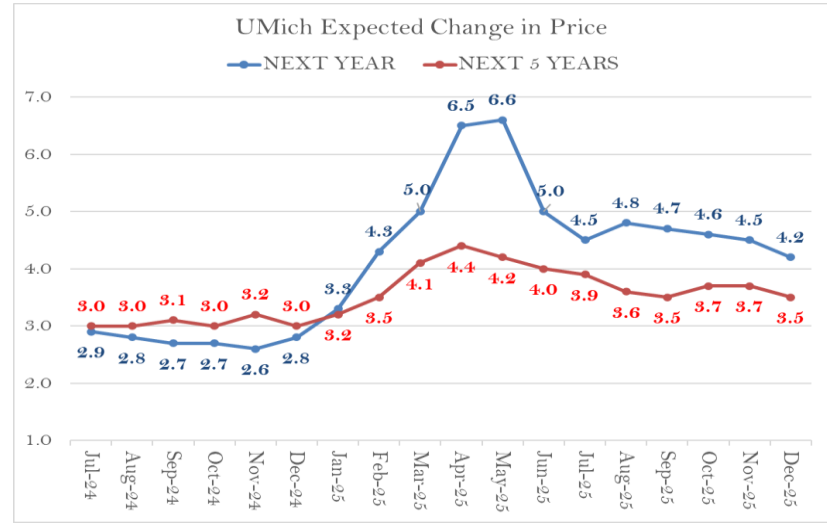
¹ <https://www.dallasfed.org/~media/documents/research/papers/2005/wp0506.pdf>

Source: <https://www.dallasfed.org/research/pce#current>

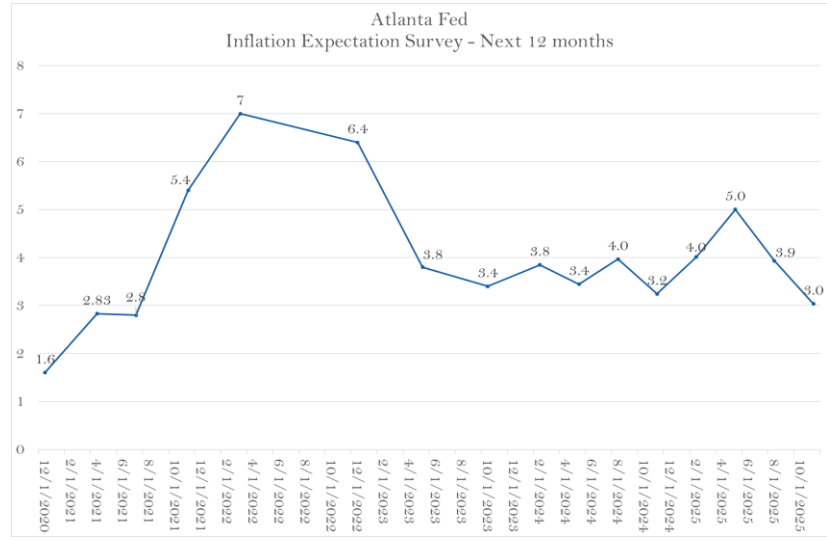
Survey-Based Inflation Expectation – Not reaching 2% target



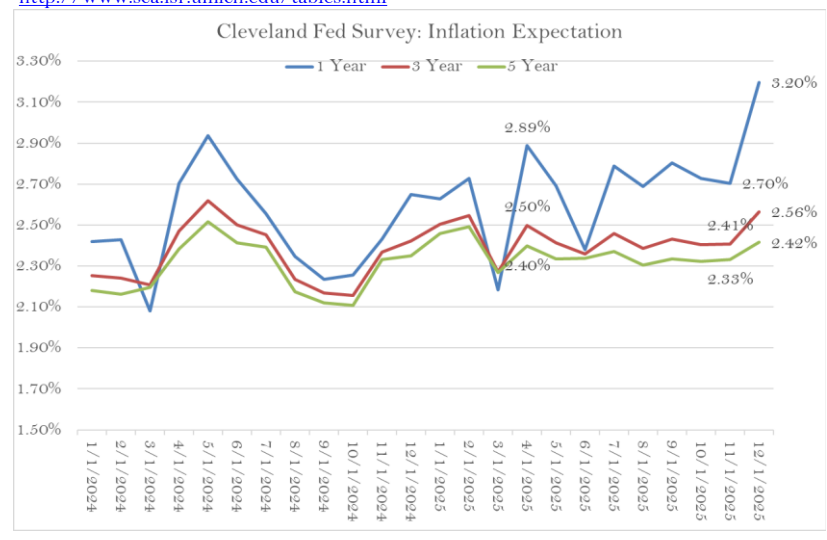
Source: New York Fed, Philip Chao
<https://www.newyorkfed.org/microeconomics/sce#/infexp-1>



Source: University of Michigan, Philip Chao
<http://www.sca.isr.umich.edu/tables.html>

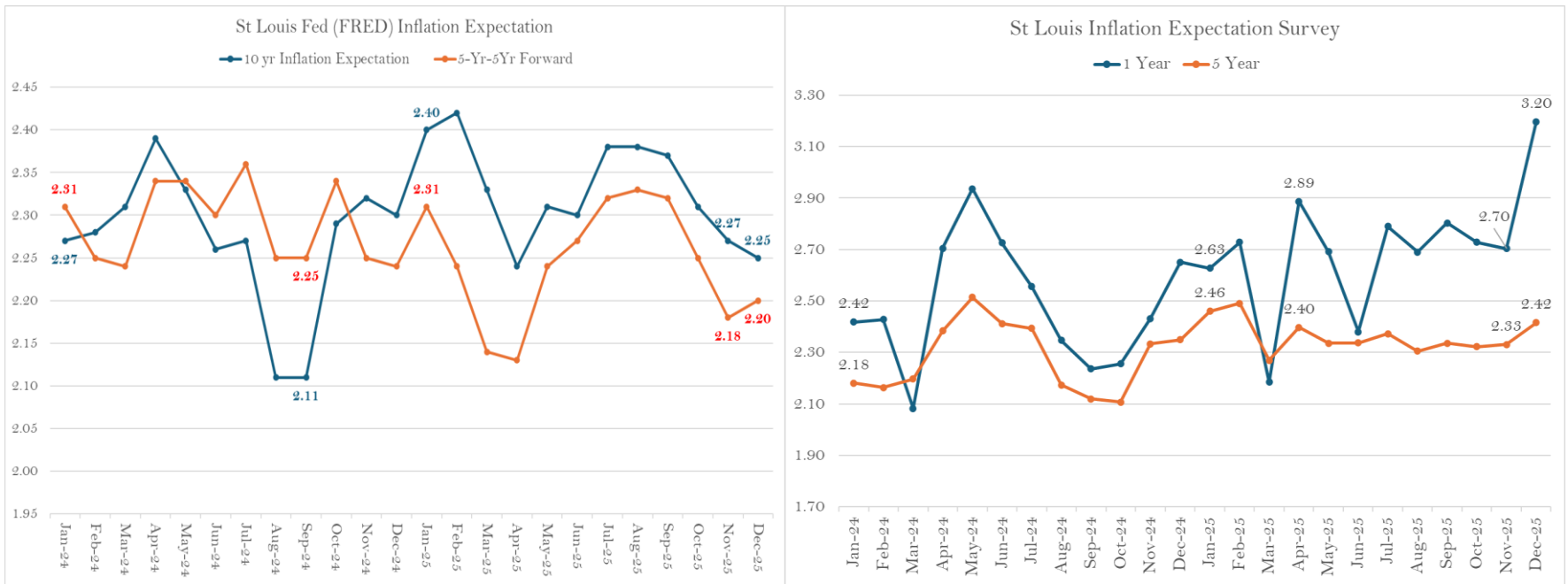


Source: Atlanta Fed, Philip Chao
<https://www.atlantafed.org/research/inflationproject/bic>



Source: Cleveland Fed, Philip Chao
https://www.clevelandfed.org/-/media/files/webcharts/inflationexpectations/inflation-expectations.xlsx?sc_lang=en

Market-Based Inflation Expectation – 12-2025



Although inflation expectations for 5- and 10-years forward have trended down, they are not reaching the Fed target of 2%. In the case of St. Louis Fed’s survey results, the 1-year inflation expectation has spiked up to 3.2% from 3.63% at the beginning of this year.

Global Inflation & Central Bank Rates

Inflation Rates

Country	Last	Previous	Reference
Argentina	31.4	31.3	November-25
Australia	3.8	3.6	October-25
Brazil	4.5	4.7	November-25
Canada	2.2	2.2	November-25
China	0.7	0.2	November-25
Euro Area	2.1	2.1	November-25
France	0.9	0.9	November-25
Germany	2.3	2.3	November-25
India	0.7	0.3	November-25
Indonesia	2.7	2.9	November-25
Italy	1.1	1.2	November-25
Japan	2.9	3.0	November-25
Mexico	3.8	3.6	November-25
Netherlands	2.9	3.1	November-25
Russia	6.6	7.7	November-25
Saudi Arabia	1.9	2.2	November-25
Singapore	1.2	1.2	November-25
South Africa	3.5	3.6	November-25
South Korea	2.4	2.4	November-25
Spain	3.0	3.1	November-25
Switzerland	0.0	0.1	November-25
Turkey	31.1	32.9	November-25
United Kingdom	3.2	3.6	November-25
United States	2.7	3.0	November-25

Central Bank Rates

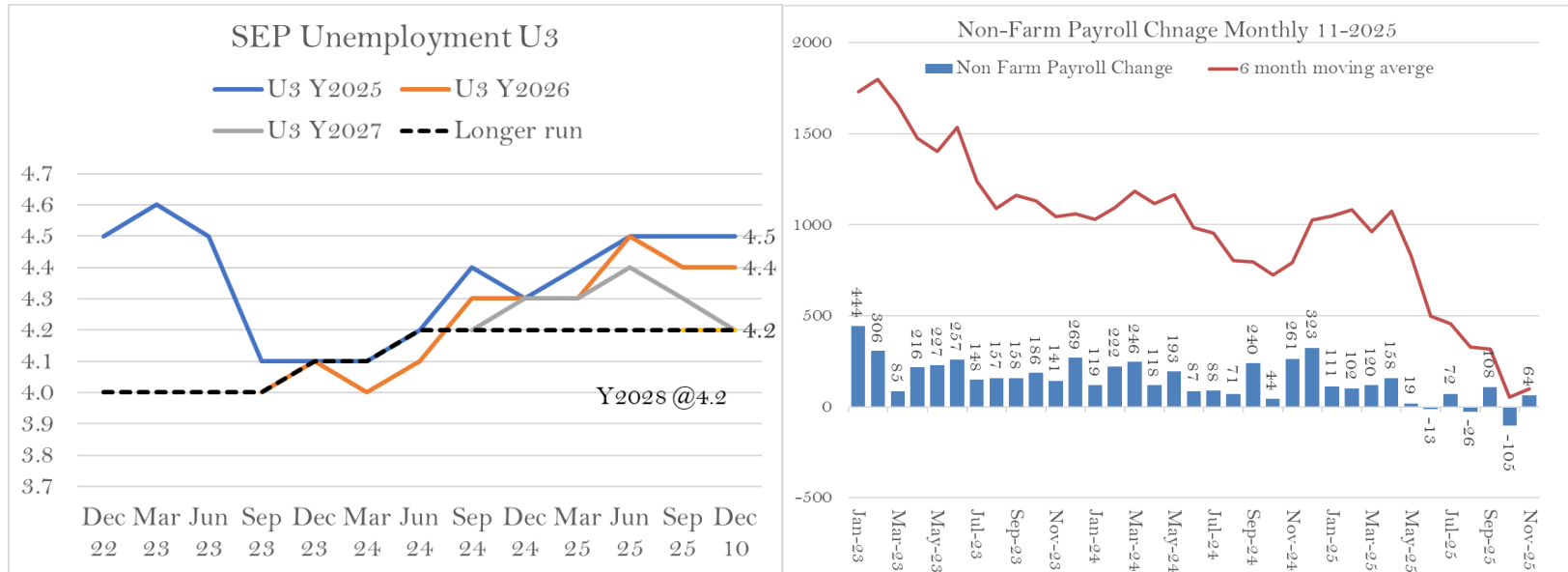
Country/Region	Rate	Previous	Hike/Cut	Change
Australian Central Bank	3.60%	3.85%	Cut	August-25
Brazilian Central Bank	15.00%	14.75%	Hike	June-25
Canadian Central Bank	2.25%	2.50%	Cut	October-25
Chilean Central Bank	4.75%	5.00%	Cut	July-25
Chinese Central Bank	3.00%	3.10%	Cut	May-25
Czech Central Bank	3.50%	3.75%	Cut	May-25
Danish Central Bank	1.75%	2.00%	Cut	June-25
European Central Bank	2.15%	2.40%	Cut	June-25
Hungarian Central Bank	6.50%	6.75%	Cut	September-24
Indian Central Bank	5.25%	6.00%	Cut	December-25
Israeli Central Bank	4.50%	4.75%	Cut	January-24
Japanese Central Bank	0.75%	0.50%	Hike	December-25
Mexican Central Bank	7.00%	7.25%	Cut	December-25
New Zealand Central Bank	2.25%	2.50%	Cut	November-25
Norwegian Central Bank	4.00%	4.25%	Cut	September-25
Polish Central Bank	4.00%	4.25%	Cut	December-25
Russian Central Bank	16.50%	17.00%	Cut	October-25
Saudi Arabian Central Bank	4.75%	5.00%	Cut	September-25
South African Central Bank	7.00%	7.25%	Cut	July-25
South Korean Central Bank	2.50%	2.75%	Cut	May-25
Swedish Central Bank	1.75%	2.00%	Cut	September-25
Swiss Central Bank	0.00%	0.25%	Cut	June-25
Turkish Central Bank	38.00%	40.50%	Cut	October-25
United Kingdom Central Bank	3.75%	4.00%	Cut	December-25
United States Central Bank	3.75%	4.00%	Cut	December-25

<https://www.global-rates.com/en/interest-rates/central-banks>

<https://www.cbrates.com/>

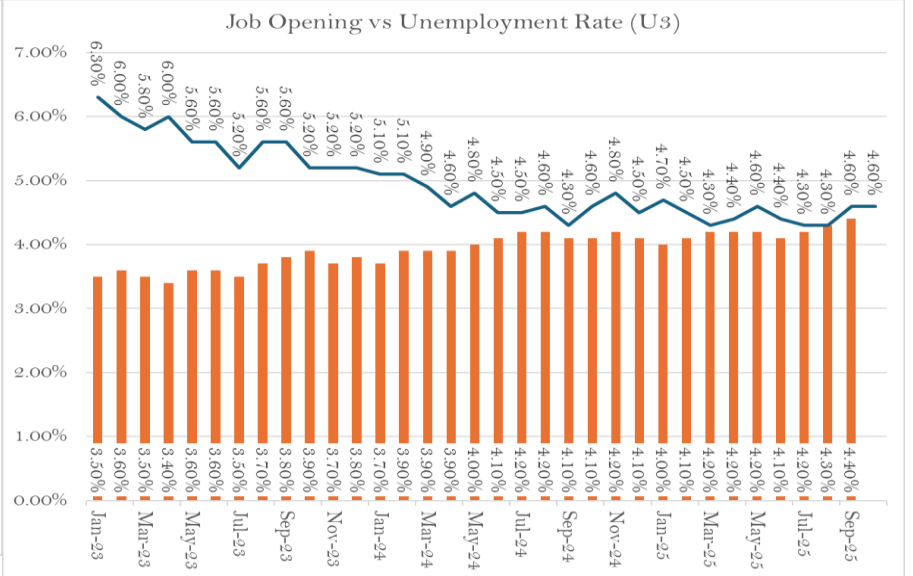
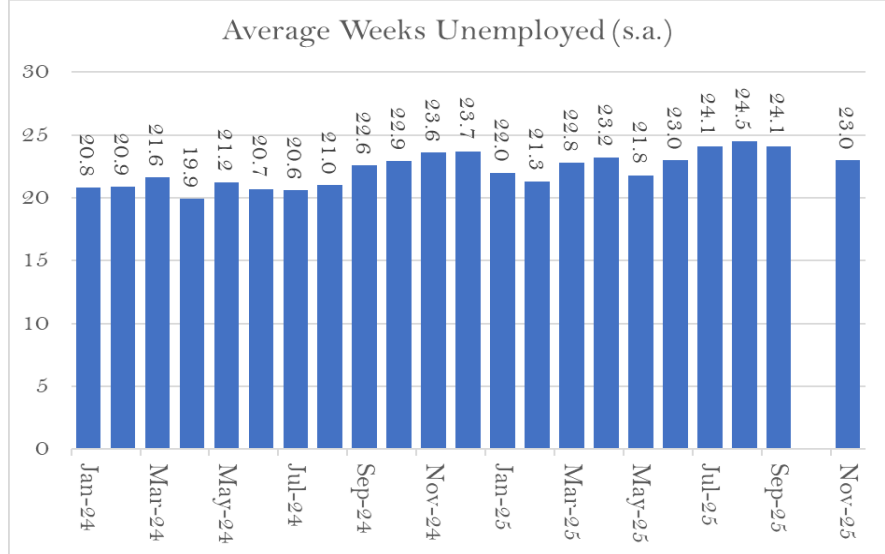
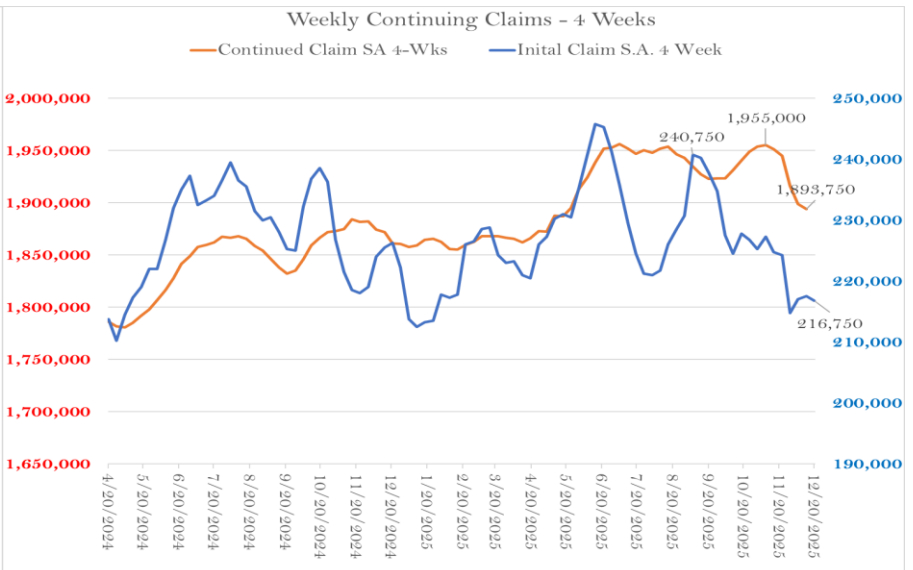
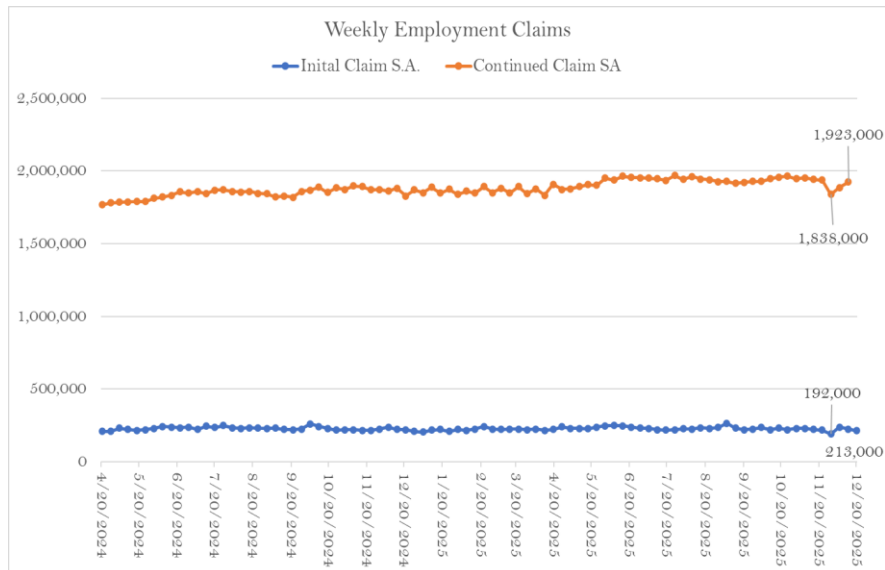
<https://tradingeconomics.com/country-list/inflation-rate>

Summary of Economic Projections – Unemployment 11-2025



Total nonfarm payroll employment changed little in November (+64,000) and has shown little net change since April. In November, the unemployment rate, at 4.6 percent, was little changed from September. Employment rose in healthcare and construction in November, while federal government continued to lose jobs. But the overall labor market continues weakening with volatility and uncertainty. In November, average hourly earnings for all employees on private nonfarm payrolls edged up by 5 cents, or 0.1 percent, to \$36.86. Over the past 12 months, average hourly earnings have increased by 3.5 percent. In November, average hourly earnings of private-sector production and nonsupervisory employees rose by 11 cents, or 0.3 percent, to \$31.76.

Labor Market Data

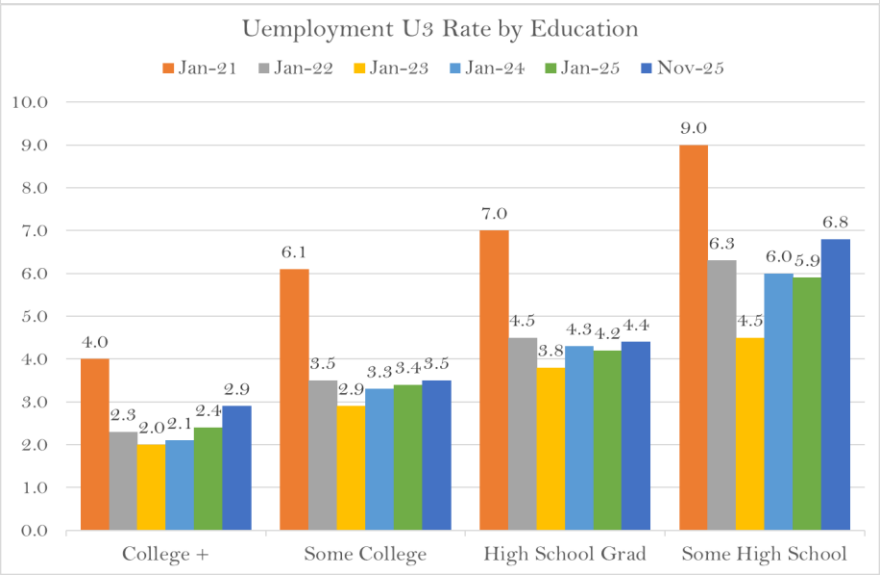
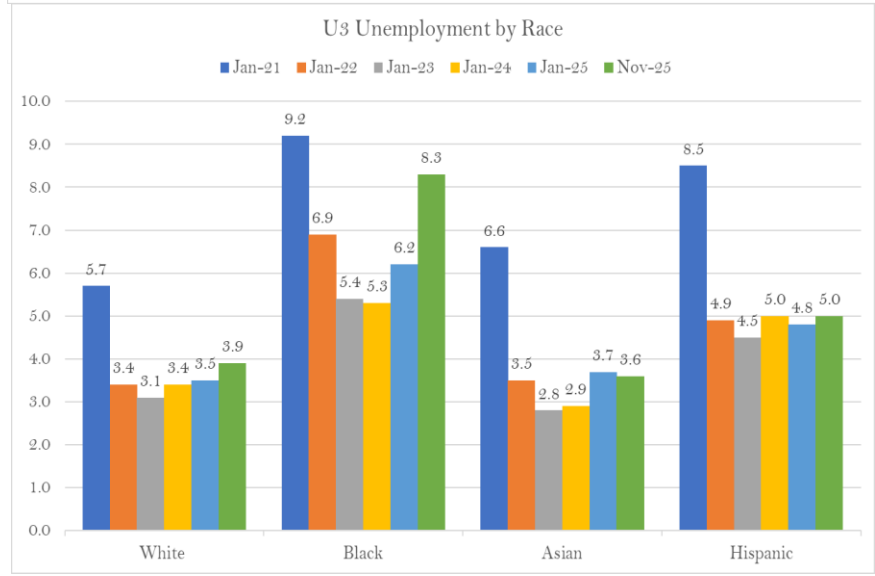
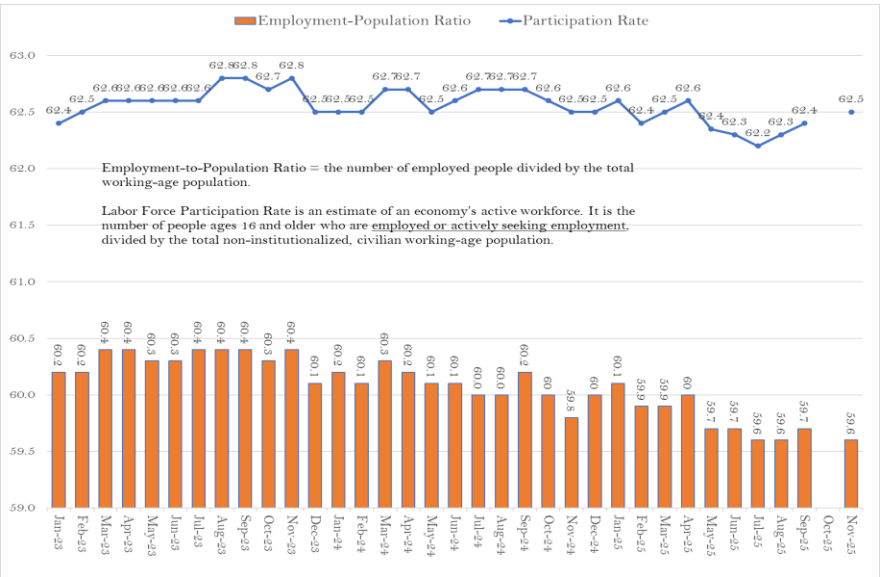
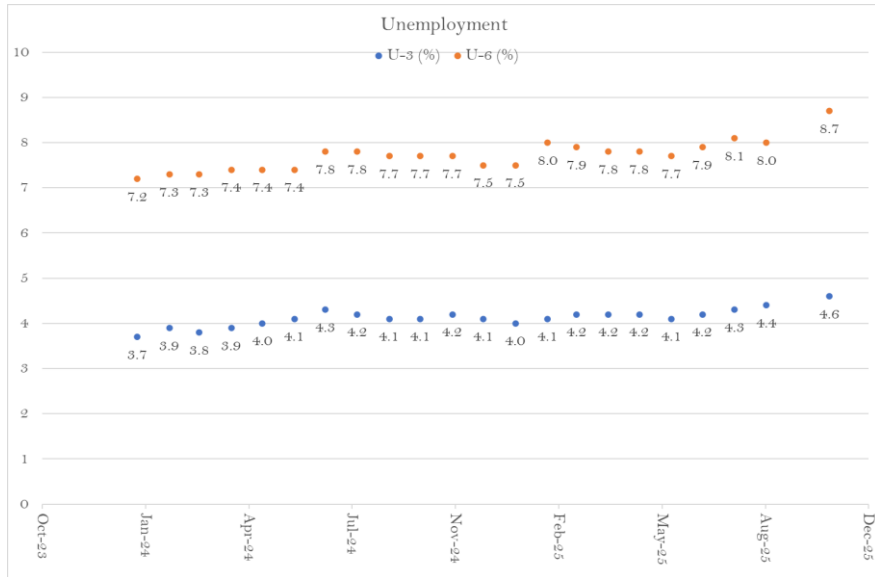


Source: BLS, Philip Chao

<https://www.bls.gov/news.release/empsit.toc.htm>

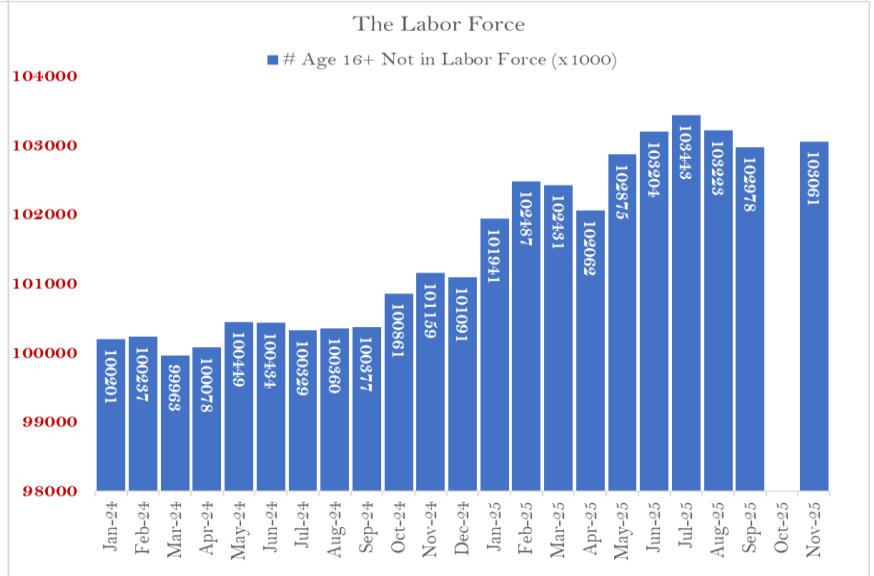
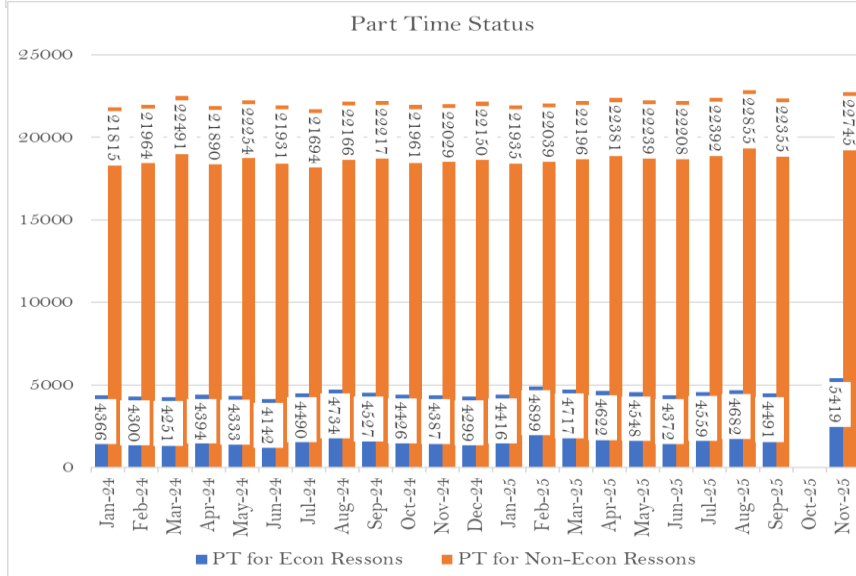
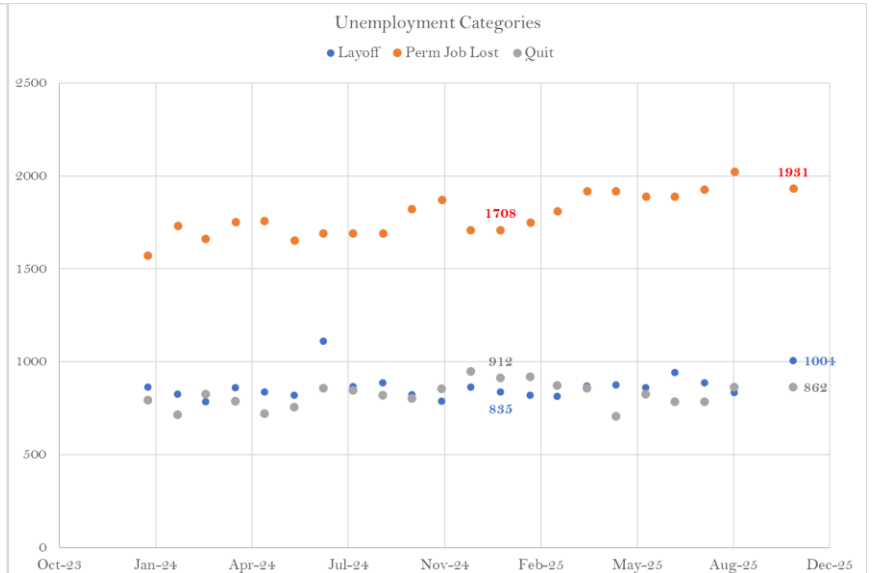
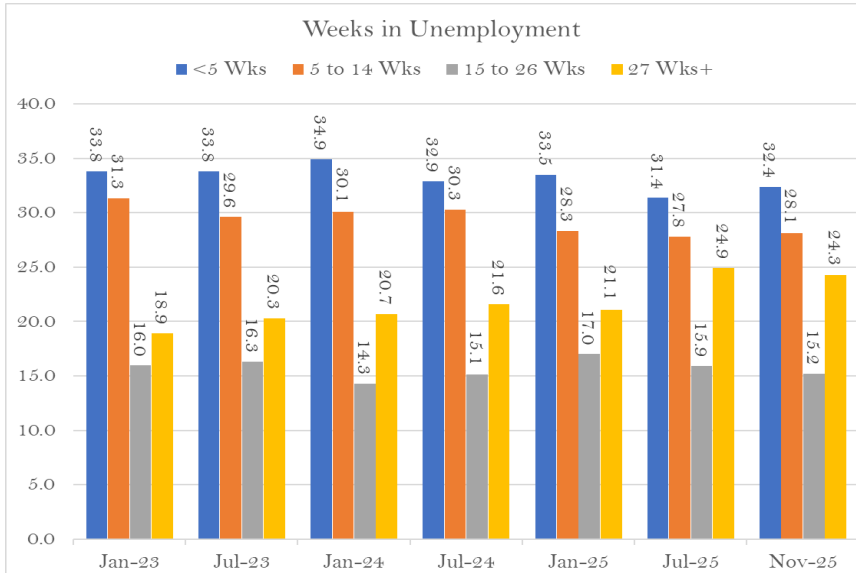
<https://www.bls.gov/charts/job-openings-and-labor-turnover/unemp-per-job-opening.htm>

More Employment Data – 11-2025



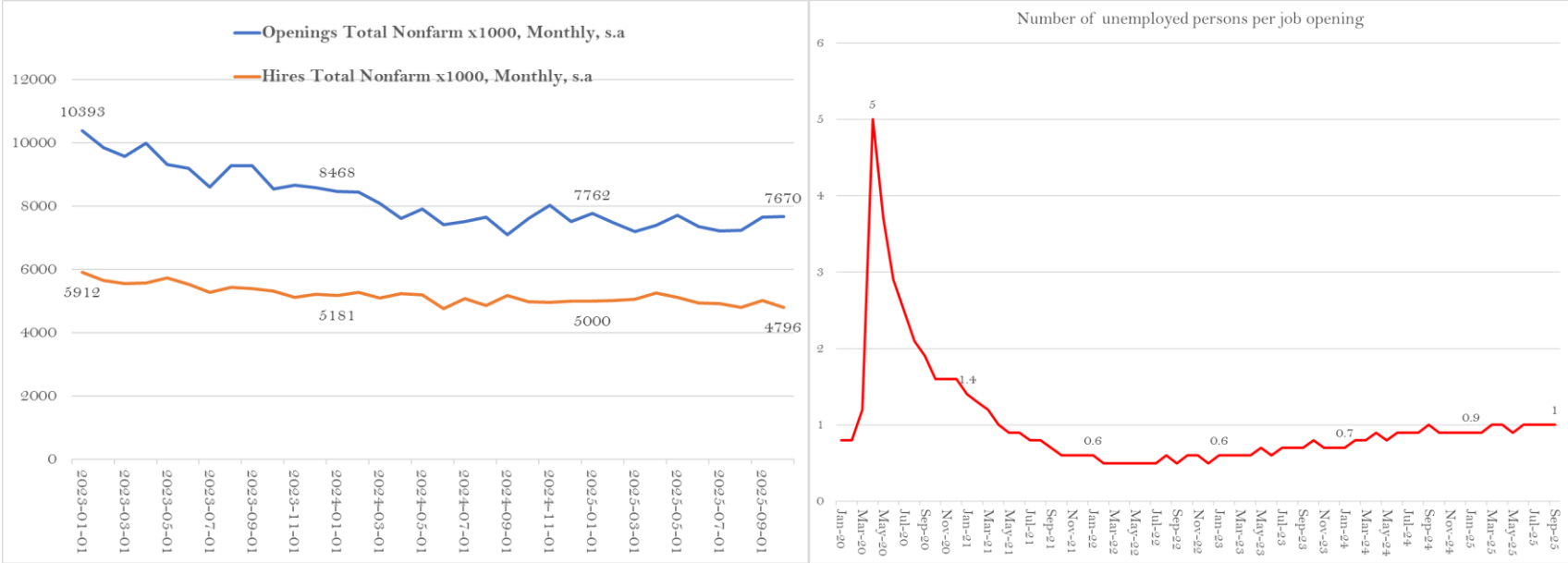
Source: BLS & Philip Chao

Unemployment Data – 11-2025



Source: BLS & Philip Chao

Job Opening and Hires 11-2025



Despite a historically low headline unemployment rate, a broad set of BLS and Federal Reserve indicators, including underemployment, hiring momentum, quits, hours worked, job diffusion, and temporary employment, point to a labor market that is weakening beneath the surface, with declining worker bargaining power and increasingly defensive employer behavior.

NFIB: Small Business Economic Trends - The Labor Market

ACTUAL EMPLOYMENT CHANGES

Net Percent ("Increase" Minus "Decrease") in the Last Three Months
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	9	13	8	-12	-16	-16	-11	-12	-6	-2	-2	-5
2021	0	-3	-2	1	-5	-2	-6	-8	-1	-2	-1	1
2022	-1	1	-2	-2	-4	-2	-4	-8	-4	-2	-3	1
2023	2	4	2	-2	-4	-2	-2	-4	-2	-3	-2	-2
2024	0	-1	-2	0	-2	-5	-3	-6	-4	-3	-1	-3
2025	1	-3	-1	1	-2	-8	-2	-5	-3	-4	-3	

Employment down for 10 months

QUALIFIED APPLICANTS FOR JOB OPENINGS

Percent Few or No Qualified Applicants

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	49	52	47	41	37	43	44	46	50	48	47	48
2021	46	51	51	54	57	56	57	60	62	58	56	57
2022	55	57	55	55	61	60	57	57	57	55	54	51
2023	52	54	53	55	55	54	56	54	57	55	50	49
2024	49	51	48	51	51	51	49	56	52	46	48	49
2025	47	48	47	47	48	50	48	43	50	49	50	

Hard to find qualified workers

JOB OPENINGS

Percent With Positions Not Able to Fill Right Now
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	37	38	35	24	23	32	30	33	36	33	34	32
2021	33	40	42	44	48	46	49	50	51	49	48	49
2022	47	48	47	47	51	50	49	49	46	46	44	41
2023	45	47	43	45	44	42	42	40	43	43	40	40
2024	39	37	37	40	42	37	38	40	34	35	36	35
2025	35	38	40	34	34	36	33	32	32	32	33	

HIRING PLANS

Net Percent ("Increase" Minus "Decrease") in the Next Three Months
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	19	21	9	1	8	16	18	21	23	18	21	17
2021	17	18	22	21	27	28	27	32	26	26	25	28
2022	26	19	20	20	26	19	20	21	23	20	18	17
2023	19	17	15	17	19	15	17	17	18	17	18	16
2024	14	12	11	12	15	15	15	13	15	15	18	19
2025	18	15	12	13	12	13	14	15	16	15	19	

Source: <https://www.nfib.com/wp-content/uploads/2025/12/NFIB-SBET-Report-November-2025.pdf>

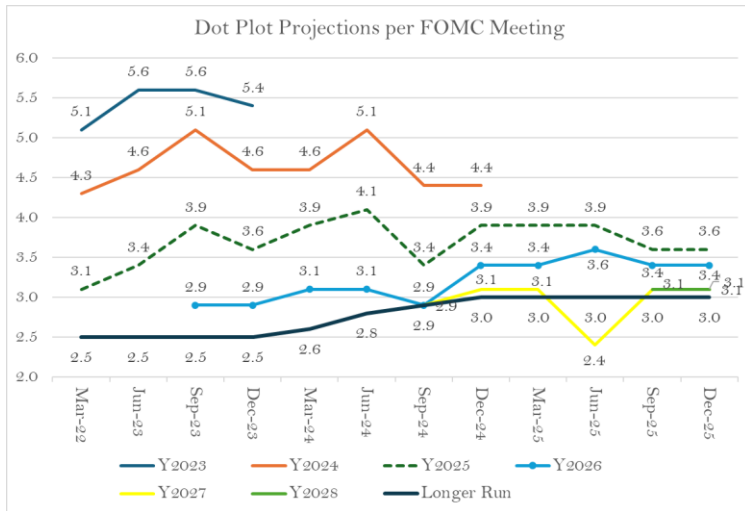
JOLTS – Monthly change by Sector, October 2025 (preliminary)

Category (x1000)	Job openings			Hires			Total separations		
	Sep-25	Oct-25	Change	Sep-25	Oct-25	Change	Sep-25	Oct-25	Change
Total	7,658	7,670	12	5,367	5,149	-218	5,264	5,050	-214
Total private	6,871	6,894	23	5,021	4,796	-225	4,898	4,708	-190
Mining and logging	23	20	-3	18	20	2	20	19	-1
Construction	231	213	-18	355	313	-42	340	266	-74
Manufacturing	385	410	25	320	306	-14	327	329	2
Durable goods	256	280	24	188	187	-1	191	191	0
Nondurable goods	129	130	1	132	119	-13	136	138	2
Trade, transportation, and utilities	1,124	1,363	239	956	970	14	904	968	64
Wholesale trade	153	205	52	126	121	-5	122	137	15
Retail trade	620	762	142	576	571	-5	516	571	55
Transportation, warehousing, and utilities	352	396	44	254	278	24	266	259	-7
Information	203	173	-30	76	72	-4	81	102	21
Financial activities	449	359	-90	219	207	-12	219	183	-36
Finance and insurance	293	224	-69	156	144	-12	155	126	-29
Real estate and rental and leasing	156	135	-21	62	64	2	64	57	-7
Professional and business services	1,502	1,388	-114	1,030	951	-79	1,122	1,052	-70
Private education and health services	1,512	1,558	46	915	819	-96	828	718	-110
Private educational services	138	134	-4	89	87	-2	91	92	1
Health care and social assistance	1,375	1,424	49	826	731	-95	737	626	-111
Leisure and hospitality	1,181	1,159	-22	957	905	-52	887	908	21
Arts, entertainment, and recreation	162	173	11	169	164	-5	133	161	28
Accommodation and food services	1,019	986	-33	788	741	-47	754	747	-7
Other services	260	252	-8	174	232	58	170	163	-7
Government	787	775	-12	346	353	7	365	342	-23
Federal	114	89	-25	23	22	-1	80	46	-34
State and local	673	686	13	323	331	8	285	296	11
State and local education	262	251	-11	164	171	7	141	138	-3
State and local, excluding education	411	435	24	159	160	1	145	158	13

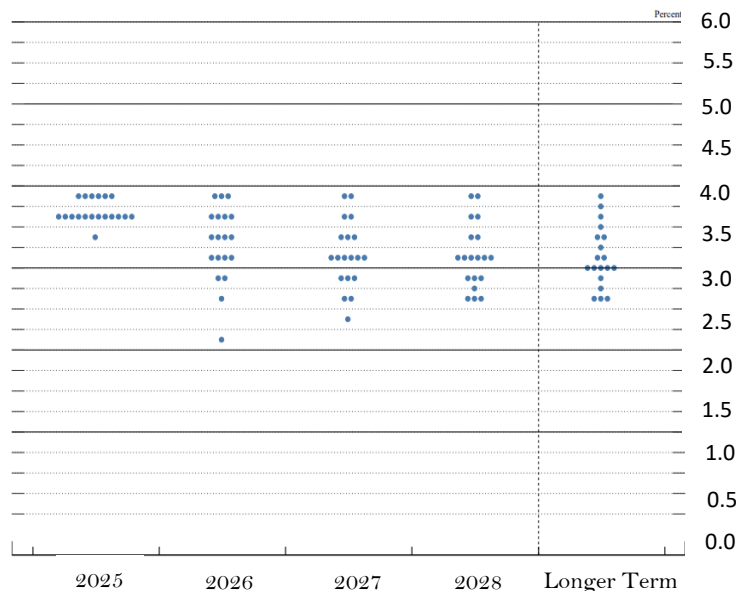
<https://www.bls.gov/news.release/jolts.a.htm>

Source: BLS, Philip Chao 2025 10

Summary of Economic Projections (SEP) – Fed Fund Rate



Source: FOMC 2025 12, Nexus338



- The median (among all FOMC members) rate projection for 2026 is at 3.4%. Fed Funds rate is now a 3-1/2% to 3-3/4%. This suggests that, under the current FOMC makeup, one rate cut is projected – a range from 3-1/4% to 3-1/2% - by the end of 2026.
- The prolonged government shutdown in 2025 delayed much of the vital economic data the Fed relies on in making monetary policy decisions. As we return to normality, hard government data will offer better clarity. The excellent 3rd quarter first estimate GDP of 4.3%, following a 3.8% 2nd quarter, is an initial sign of a good economy (on an aggregate basis). Census Bureau’s monthly retail sales report for October shows sales were up 0.1 percent from September 2025, and up 3.4 percent from last year. Non-store retailers were up 9.0 percent from last year, while food service and drinking places were up 4.1 percent from October 2024. This is another indicator of average consumer strength in the economy.
- The December dot plot shows 4 members each projecting 3.75%, 3.5% and 3.25% with the other seven members projecting even higher or lower rates. This suggests there is no real consensus as to where the rates would end at this time.
- This dot chart is based on incoming data and each regional bank survey. Investors should not solely rely on these dots as the definitive destination of the FOMC for any year. Each member makes his/her best estimate based on respective regional economics and survey data to forecast rate policy. Nonetheless, the dot plot offers a window into what members are expecting currently. This is also why data and economic condition will continue to influence rate trajectory.
- Be cautious that one is not overly reliant on the dot plot, especially in today’s highly uncertain economic and geopolitical environment. These dots will continue to adjust.
- Good odds of maintaining a soft-landing remain intact: no recession expected.

Chair Powell 12-10-2025 Press Conference

- The unemployment rate remained relatively low through August. Job gains have slowed significantly since earlier in the year. There are primarily two reasons for the weakening labor market, and they're both on the supply side. First is the declining labor force participation, which is a cyclical phenomenon. Second is declining immigration, which is just a big policy change that actually began in the last administration and is accelerating. In addition, labor demand has declined, and so the unemployment rate has gone down, meaning that demand for workers has gone down a little more than supply, though labor demand has clearly softened as well. Available evidence suggests that both layoffs and hiring remain low and that both households' perceptions of job availability and firms' perceptions of hiring difficulty continue to decline. In this less dynamic and somewhat softer labor market, the downside risks to employment appear to have risen in recent months.
- Inflation has eased significantly from its highs in mid-2022 but remains somewhat elevated relative to the 2 percent longer-run goal. September's Consumer Price Index suggests that total PCE prices rose 2.8 percent over the 12 months and core PCE prices rose 2.8 percent as well. These readings are higher than earlier in the year as inflation for goods has picked up. In contrast, disinflation appears to be continuing for services. Near-term measures of inflation expectations have moved up, on balance, over the course of this year on news about tariffs, as reflected in both market- and survey-based measures. Beyond the next year or so, however, most measures of longer-term expectations remain consistent with the 2 percent inflation goal. Higher tariffs are pushing up prices in some categories of goods, resulting in higher overall inflation. A reasonable base case is that the effects on inflation will be relatively short-lived - a one-time shift in the price level. But it is also possible that the inflationary effects could instead be more persistent, and that is a risk to be assessed and managed.
- In the near term, risks to inflation are tilted to the upside and risks to employment to the downside. There is no risk-free path for policy as the Fed navigates this tension between the employment and inflation goals. The Fed's framework calls for a balanced approach in promoting both sides of the dual mandate. Today's situation is where the risks are to the upside for inflation and to the downside for employment. The Fed has one tool, so it can't address both of those at once. The Committee will continue to determine the appropriate stance of monetary policy based on the incoming data, the evolving outlook, and the balance of risks. The economy continues to face two-sided risks.

Market Interest Rate Expectation – 2025 Q3 vs Q4

10-01-2025 Meeting Rate Probabilities												
Meeting	125- 150bp	150- 175bp	175- 200bp	200- 225bp	225- 250bp	250- 275bp	275- 300bp	300- 325bp	325- 350bp	350- 375bp	375- 400bp	400- 425bp
Oct-26				0.60%	3.90%	13.60%	26.90%	30.40%	18.70%	5.40%	0.40%	
Sep-26				0.20%	2.70%	11.70%	26.20%	31.90%	20.70%	6.10%	0.50%	
Jul-26					0.80%	6.60%	22.10%	34.60%	26.50%	8.70%	0.70%	
Jun-26						2.70%	16.90%	35.60%	32.10%	11.70%	1.00%	
Apr-26							4.80%	26.20%	42.80%	23.80%	2.30%	
Mar-26								19.40%	46.90%	30.60%	3.10%	
Jan-26									39.50%	54.50%	6.00%	
Dec-25										89.20%	10.80%	0.10%
Oct-25											99.40%	0.60%

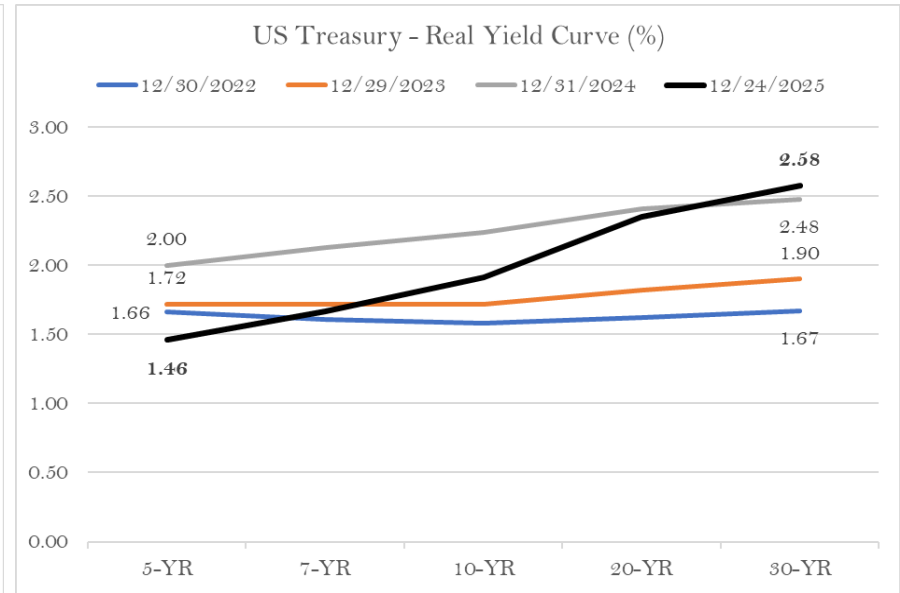
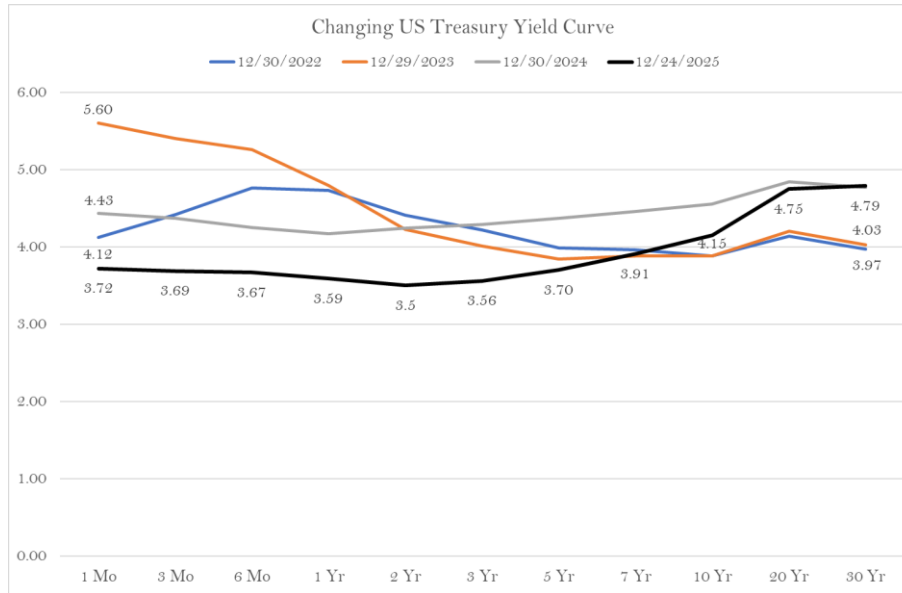
12-26-2025 Meeting Rate Probabilities											
Meeting	125- 150bp	150- 175bp	175- 200bp	200- 225bp	225- 250bp	250- 275bp	275- 300bp	300- 325bp	325- 350bp	350- 375bp	375- 400bp
Jan-27			0.10%	0.60%	3.50%	12.10%	25.40%	31.40%	20.90%	5.90%	0.10%
Dec-26			0.10%	0.60%	3.50%	12.30%	25.70%	31.60%	20.70%	5.50%	0.00%
Oct-26				0.30%	2.40%	10.30%	24.50%	33.00%	23.00%	6.40%	0.00%
Sep-26				0.10%	1.40%	8.00%	22.70%	34.30%	25.90%	7.60%	0.00%
Jul-26					0.30%	3.50%	26.40%	34.80%	33.40%	11.60%	0.00%
Jun-26						0.90%	9.60%	32.30%	40.60%	16.60%	0.00%
Apr-26							1.70%	16.30%	45.90%	36.10%	0.00%
Mar-26								7.70%	45.60%	46.70%	0.00%
Jan-26									17.70%	82.30%	0.00%



Source: CME, Philip Chao

- The total number of projected rate cuts is 2 for 2026 (March and July) or a total of 50bp, after 3 cuts or 75bp total in 2025.

Yield Curve – still a process of returning to normal



- December 10 is the third 25bp rate cut in 2025.
- Jay Powell’s chairmanship will terminate in May 2026, and it is widely expected that the next Chairman will be named in January 2026 with a pro-Administration lower interest rate stance.
- Based on the December 10th FOMC meeting readout, it suggests that a majority of the current FOMC members do not favor an aggressive rate cut approach based on the current economic trend and it is not a forgone conclusion that the new Fed Chair will be successful in cutting rates aggressively in 2026 and 2027.
- The yield curve is increasingly positive as the front-end rates lowered and the back-end rates have moved up at the same time as shown. This may be caused by the market anticipating more debt to be issued as persistently higher inflation.
- But the real (inflation adjusted) yield curve is now positive.

Capital vs Labor

- Capital versus labor is the core economic divide. The current K-shaped economy is not simply a temporary post-pandemic distortion; it is a structural divide between capital and labor. Economic gains increasingly accrue to asset owners, equities, businesses, real estate, and intellectual property. Those who rely primarily on wages face slower income growth and greater volatility. This dynamic is not new, but it has intensified as policy, demographics, and globalization have favored capital formation and asset preservation over broad labor bargaining power. As a result, aggregate indicators such as GDP growth and consumption can appear resilient even as median household outcomes lag.
- AI is an accelerant of the capital-labor divide by acting as capital in its purest form: scalable, reusable, and capable of substituting for labor at near-zero marginal cost. Its primary economic impact today is not the displacement of physical or lower-income labor, but the compression of middle, white-collar roles that depend on coordination, routine analysis, and process execution. By raising output per decision-maker while reducing the need for layered staffing, AI increases returns to asset owners rather than to the man-at-work. Unlike prior technology cycles that eventually broadened labor absorption, AI risks weaken the traditional link between productivity gains and wage growth, reinforcing capital's share of income.
- It is also unusual that inflation, deflation, and regime-agnostic conditions favor capital rather than labor. This capital-labor framework also explains why the upper arm of the K economy benefits across both inflationary and deflationary regimes. In deflationary, technology-driven environments, margins expand and asset values rise as costs fall faster than prices. In inflationary environments, assets reprice, nominal revenues grow, and capital income adjusts more quickly than wages. Labor, by contrast, is exposed in both regimes. Wages lag productivity in deflationary periods and lose purchasing power during inflationary ones. The result is a regime-agnostic advantage for asset owners and a persistent headwind for labor, suggesting that, without broader access to ownership or structural policy change, the capital-labor divide will continue to define economic outcomes.

More to come...

- We are experiencing a period of calm in the tariff storm. There is nothing stopping President Trump from upping the existing tariff rates with our trading partners since tariffs are used both as a trade and a political or geopolitical bargaining chip. As such, there is always a sense of uncertainty and unease.
- Tariff costs have not disappeared; they were temporarily hidden in margins, supply-chain complexity, and delayed corporate decisions. Corporate earnings remained stable because firms entered this period with unusually strong margins, resilient upper-income demand, and extensive cost-control levers, but those levers are being quickly exhausted. As tariffs persist and cost pressures accumulate, the path of least resistance for corporate America is not endlessly absorbing costs or sharply raising consumer prices—it is cutting labor costs and accelerating AI substitution wherever feasible.
- The recent stability is fragile because it depends on margin defense rather than healthy demand. If the eventual pass-through hits consumers while companies simultaneously cut labor costs (including AI-driven substitution), the system can tip into weaker consumption, lower volumes, broader layoffs, and then rising unemployment. This is the classic late-cycle feedback loop.
- When layoffs do accelerate, they will not hit uniformly across the economy. They will concentrate in the same lower-leg sectors that already lack pricing power and bargaining leverage. Meanwhile, high-skill roles tied to AI deployment, engineering, data, cloud infrastructure, and corporate strategy remain protected or even in demand. This combination further exaggerates the K-shaped economy where corporate profits stay strong, equity markets stay supported, high-income employment remains resilient, and lower-income job security deteriorates.
- In the last three Fed meetings, the dual mandate has shifted from “inflation vigilance” toward “labor market stabilization” in anticipation of eventual layoffs from initial reduction of overtime, capping wages, and hiring freezes. If the impacts of tariffs continue to put pressure on corporate America, a rise in layoff and reduction of hours are natural outcomes even if an economic recession is not likely.

Diversification is Increasingly Harder to Achieve

A potential correction in AI-related assets tend to focus narrowly on equity valuations, yet the equally consequential transmission mechanisms lie beneath the surface, where capital structures, financing practices, and market plumbing amplify stress across asset classes. One of the channels runs through the investment-grade credit market. The largest AI and AI-adjacent firms are now among the most prolific issuers of high-quality corporate debt, meaning their bonds are being invested in pension portfolios, insurance balance sheets, and general core fixed-income allocations. As equity valuations weaken, leverage ratios deteriorate and forward cash-flow assumptions come under pressure, prompting spread widening, negative rating outlooks, and forced portfolio adjustments by mandate-constrained investors. In effect, segments of the bond market increasingly function as a delayed equity proxy, undermining the long-held assumption that investment-grade credit provides diversification during equity drawdown periods.

Private markets introduce a second, more asynchronous but equally destabilizing pathway. Valuations in private equity, venture capital, and private credit tied to AI and energy infrastructure typically adjust with a lag relative to public markets. When public multiples compress, private net asset values often remain artificially stable, creating a temporary illusion of insulation. That stability tends to break suddenly as exit markets reprice, fundraising slows, and capital calls persist while distributions fall. The result is a nonlinear adjustment process in which stress accumulates quietly before emerging abruptly, often coinciding with broader market tightening rather than offsetting it. Another transmission mechanism operates through collateral and leverage. Highly valued AI equities are increasingly used as collateral in securities-backed lending, total return swaps, and prime brokerage margin accounts. A sharp decline in these assets can therefore trigger margin calls and collateral shortfalls, forcing investors to liquidate positions across unrelated assets to meet funding requirements. What begins as a valuation reset in a concentrated segment of the equity market can quickly cascade into broad-based deleveraging, spreading volatility far beyond the technology sector.

Diversification is Increasingly Harder to Achieve

Commodity markets represent another underappreciated linkage. Recent strength in copper, rare earth elements, and certain precious metals has been driven in large part by expectations surrounding sustained AI infrastructure build-out. Should capital expenditure plans be delayed or scaled back following an AI valuation correction, commodity demand assumptions would reset, pressuring mining equities, commodity-linked credit, and the currencies of resource-exporting economies. This channel connects a technology-led market correction to global trade dynamics and emerging-market financial conditions.

Index construction further amplifies these effects. AI-centric firms now dominate capitalization-weighted U.S. and global equity benchmarks, meaning passive flows mechanically concentrate both inflows and outflows in the same set of securities. In a downturn, redemptions force synchronized selling across regions and asset pools, importing volatility into international portfolios and limiting the ability of active managers to de-risk without incurring significant tracking errors. The mechanics of indexation thus reinforce correlation precisely when diversification is most needed.

The real economy provides a slower but reinforcing feedback loop. AI leaders are among the largest sources of capital expenditure and high-income employment. A sustained valuation correction can lead to deferred infrastructure investment, slower hiring, or outright job losses in upper-income cohorts, with downstream effects on commercial real estate, professional services, and local tax bases. These real-economy adjustments ultimately feed back into earnings expectations and credit quality well beyond the technology sector.

Taken together, these channels suggest that the principal risk is not an isolated correction in AI equities, but a synchronized repricing across assets that are commonly assumed to be independent. Traditional diversification—across stocks and bonds, public and private markets, or growth assets and real assets—offers diminishing downside protection when capital, credit, commodities, and labor are all responding to the same underlying narrative. In this cycle, elevated correlation is not a transient market condition but a structural consequence of how AI has reorganized capital allocation across the global financial system.

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