



Market analysis | December 15, 2025

At a glance

Consumers kept spending and labor conditions stayed steady, while markets rotated away from parts of technology and toward more economically sensitive areas amid shifting central-bank signals.

Number of the week

31.7%

The 2025 return for the S&P 500's Communication Services sector through December 12.

Term of the week

Communication Services sector: This sector includes social media companies, internet search firms, video game makers, telecom providers and streaming media. Companies in this sector include Netflix, Facebook parent Meta, Google parent Alphabet, AT&T and Verizon.

High-frequency indicators still point to healthy consumer demand, though the spending mix hints at some strain. Weekly Redbook Research Inc. data show retail sales up 5.7% year-over-year through December 6. Discount store sales rose 6.0%, while department store sales slipped 0.2%, a pattern consistent with consumers remaining engaged but increasingly value conscious. Service spending also appears firm: OpenTable reported restaurant reservations up 7% year-over-year.

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Global economy

Quick take: Labor market data point to cooler momentum without clear stress, and consumer activity remains supportive. Overseas, manufacturing improved in Germany and Japan, while conditions elsewhere look mixed.

- **U.S. labor indicators continue to soften, but they have not deteriorated meaningfully.** The October Job Openings and Labor Turnover Survey (JOLTS) report shows job openings increased, even as layoffs moved slightly higher to 1.2% of workers. That level remains consistent with prior periods of stable labor markets. Importantly, hires exceeded total separations — including layoffs, quits and retirements — by nearly 100,000, which suggests private employers still added payrolls overall. This week's jobs report should provide another check on the trend, including payroll gains and November unemployment data. Federal employment could be a swing factor, given the earlier deferred resignation program tied to the Department of Government Efficiency (DOGE) reportedly drew roughly 100,000 resignations at the end of September.
- **High-frequency indicators still point to healthy consumer demand,** though the spending mix hints at some strain. Weekly Redbook Research Inc. data show retail sales up 5.7% year-over-year through December 6. Discount store sales rose 6.0%, while department store sales slipped 0.2%, a pattern consistent with consumers remaining engaged but increasingly value conscious. Service spending also appears firm: OpenTable reported restaurant reservations up 7% year-over-year. Tuesday's official October retail sales release will be important, with economists looking for a 0.5% month-over-month increase excluding autos and gas.
- **Global industrial activity remains uneven.** Germany and Japan reported year-over-year industrial production gains in October — 0.8% and 1.6%, respectively — both stronger than expected. In contrast, production has slowed over the past year in other developed economies, including the United Kingdom and Italy. Purchasing manager surveys scheduled for this week should add detail on whether manufacturing is stabilizing or simply bouncing from low levels.

Equity markets

Quick take: Equities finished mixed as investors trimmed parts of tech tied to artificial intelligence (AI) optimism while favoring cyclically sensitive areas.

- **Equity performance diverged across regions and styles last week,** with technology carrying most of the downside. The S&P 500 fell 0.3%, while the Russell 2000, MSCI EAFE and MSCI Emerging Markets indices gained roughly 0.4% to 1.2%. Sector breadth remained positive, eight of 11 S&P 500 sectors advanced, but Information Technology and Communication Services declined. Post-earnings weakness in Oracle and Broadcom helped drive the pullback, reflecting investor skepticism about AI spending durability after a strong run. With the Federal Reserve (Fed) cutting rates by 0.25% and economic data holding firm, the market's price action looked like a near-term rotation away from concentrated AI beneficiaries and toward more economically sensitive exposures.
- **Year-to-date gains remain strong and unusually broad,** reinforcing the idea that leadership extends beyond a narrow group of mega-cap companies. As of Friday, MSCI EAFE (30.3%) and MSCI Emerging Markets (32.8%) outpaced the S&P 500 (17.5%) and Russell 2000 (15.8%). All 11 S&P 500 sectors show positive returns, with Communication Services (31.7%), Information Technology (23.2%) leading. Several traditionally defensive or rate-sensitive groups — including Consumer Staples, Energy, Materials and Real Estate — remain under 10% year-to-date, underscoring how leadership has rotated over the course of the year.
- **Earnings expectations continue to support the market's valuation, even as multiples look extended.** Consensus forecasts call for S&P 500 earnings to grow 10.9% in 2025 and 13.6% in 2026. The index trades near 25.1 times 2025 estimates, above the five-year average of 19.8. Elevated valuations can persist, particularly given the index's tech-heavy composition, but they also raise sensitivity to disappointments in growth, margins or interest rates.
- **A clearer picture of holiday spending should emerge closer to year-end.** Costco noted global traffic growth slowed modestly to 3.1% year-over-year from 3.7% in the prior quarter. Retailers' comments emphasize consumers prioritize quality, value and novelty, while tariff uncertainty added noise to near-term sales patterns. Looking into 2026, the growth narrative appears to broaden: Areas of appeal include technology and communication services (AI infrastructure buildout), utilities (ramping electricity demand), banks (deregulation) and healthcare (AI-driven operational and clinical improvements).

Bond markets

Quick take: Rising Treasury yields pressured most bond prices last week, even after the Fed's quarter-point cut, as policymakers signaled patience on the next steps. Higher-quality bonds held up reasonably, while select floating-rate and higher-yielding segments offered diversification and income.

- **Treasury yields increased last week, weighing on bond prices across many sectors.** The Federal Reserve cut rates by 0.25% as expected, but the vote revealed meaningful disagreement: Nine members supported the cut, one preferred a larger 0.50% move and two favored no change. Updated projections point to stronger growth and lower inflation in 2026 compared with September, and the median committee member now expects one cut next year, while investors continue to price closer to two. Chairman Jerome Powell emphasized that the path ahead depends on incoming data and suggested policy has moved closer to neutral, implying a higher bar for additional near-term cuts. He also noted that core-goods inflation could peak in the first quarter due to tariff impacts, with easing expected later in 2026. Separately, the Fed stopped shrinking its balance sheet on December 1 and plans to buy short-term Treasury bills to maintain ample reserves and keep short-term rates aligned with policy.
- **Most bond segments declined as higher Treasury yields flowed through to corporate and municipal pricing,** though highly rated collateralized loan obligations (CLOs) delivered slightly positive returns. CLOs hold baskets of floating-rate loans that adjust as yields change, which can reduce price sensitivity when rates move higher. Highly rated portions also include structural protections that direct losses to subordinate layers first, helping shield senior bonds from credit losses. Overall, high-quality fixed income exposures have generated solid returns this year and continue to play an important role as ballast in diversified portfolios — particularly during risk-off periods.
- **Investors can improve long-run return potential by pairing high-quality bonds with selective higher-yielding exposures,** while recognizing the added volatility and credit risk such allocations can introduce. Areas such as non-agency mortgages and other structured credit instruments currently offer yields in the 6%-8% range, supported by collateral and credit fundamentals. For investors in higher tax brackets, high-yield municipal bonds can offer compelling tax-equivalent yields around 9%, which can enhance after-tax income.

Real assets

Quick take: Real estate investment trusts (REITs) slipped modestly last week as healthcare and data center segments pulled back, while most other property types advanced. Commodities declined — led by natural gas — while precious metals rose and global infrastructure eked out gains and remained a year-to-date leader.

- **REIT prices fell 0.5% last week, with healthcare and data center REITs declining 6.0% and 2.6%, respectively.** Healthcare REITs faced pressure throughout the week, including one large healthcare REIT down 8.6%, though that move followed a substantial year-to-date rally, with the group up 32%. Data center REITs also weakened after Oracle reported delays in certain data center completions to 2028 from 2027, which raised questions about timing and monetization for AI-related infrastructure buildouts. Offsetting those declines, several other property types advanced: Telecommunication REITs rose 1.4%, self-storage gained 1.6%, and industrial properties increased 1.9%.
- **A sharp drop in natural gas prices led broad commodity exposures 2.8% lower last week.** Natural gas declined 22% on warmer-weather forecasts, while oil prices also fell amid concerns about excess supply. The International Energy Agency's December report projected surplus oil supply into next year, reinforcing the downward pressure. Copper slipped, as well, but remains up more than 30% year-to-date. Precious metals gained, supported by the Fed's rate cut; lower rates can reduce the relative appeal of income-generating alternatives, which often benefits assets like gold and silver that do not produce cash flow.
- **Global infrastructure rose 0.1% for the week.** Gains in U.S. industrial companies and a slightly weaker dollar helped offset declines in U.S. utilities and North American energy infrastructure. Year-to-date, global infrastructure has gained nearly 21%, outperforming REITs and most equity categories.

What we're watching this week

- **U.S. employment reports (Bureau of Labor Statistics):** October and November payroll gains, plus November unemployment data are key for confirming whether labor market cooling stays orderly.
- **Federal employment trends:** Watch for changes tied to the deferred resignation program and any downstream effects on headline job counts.
- **U.S. retail sales (Census Bureau):** October retail sales, including the expected 0.5% increase excluding autos and gas are important for gauging consumer momentum and the mix between essentials and discretionary spending.
- **Global purchasing manager releases:** Purchasing manager surveys across major economies will help assess whether Germany and Japan's production improvement broadens to other developed markets.
- **Central bank decisions:** Meetings from the Bank of England, European Central Bank and Bank of Japan will provide focus on policy signals, inflation language and how policymakers frame growth risks.
- **Rates and yield sensitivity:** Watch for the market reaction to the Fed's "measured" policy stance — particularly any move in Treasury yields that could affect both bond prices and equity valuation multiples.

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