



## Market analysis | December 1, 2025

### At a glance

Investors improved their expectations for a Federal Reserve interest rate cut at next week's meeting, lifting bond and equity prices last week. Moderating U.S. inflation and a stable labor market support investor sentiment.

### Number of the week

# 2.6%

The increase in the Producer Price Index in September compared to a year earlier, down from 2.9% in August.

### Term of the week

**Producer Price Index (PPI)** – A family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with the Consumer Price Index, which measures price change from the purchaser's perspective.

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## Global economy

**Quick take:** Labor markets remain steady with low layoffs, but hiring is slow. Economic surveys show weakness, yet hard data including retail sales beat forecasts. The Producer Price Index (PPI) slowed in September and the Bureau of Economic Analysis (BEA) will release the Federal Reserve's (Fed) preferred inflation measure, personal consumption expenditures, this week.

- **Employers continue to limit layoffs, but hiring remains sluggish.** According to Advanced Data Processing, private payrolls fell by an average of 13,500 over the past four weeks. Initial jobless claims stayed low and steady, with 224,000 weekly filings through November 21, matching previous years' stable labor markets. However, the rise in continuing jobless claims signals that job seekers face challenges finding new positions.
- **Regional Federal Reserve bank surveys from Philadelphia, Richmond, and Dallas indicate slower service and manufacturing activity in November.** Meanwhile, the Conference Board reports consumer confidence dropped to its lowest since April. Despite these weak survey results, hard data tells a brighter story: Durable goods orders (excluding transportation) and non-defense capital goods orders (excluding aircraft) both increased in September. Retail sales rose 0.1% in September, excluding auto and gas purchases, surpassing economists' expectations.
- **The Producer Price Index, a measure of inflation, slowed to 2.6% year-over-year in September (excluding food and energy),** down from 2.9% in August. This trend suggests producers are raising prices at a slower pace than forecasted, which may help limit tariff impacts on consumers. Economists expect consumer inflation to remain steady at around 2.9% in 2026.
- **Investors are watching government spending worldwide.** The Congressional Budget Office (CBO) projects the U.S. budget deficit will stay elevated but stable over the next decade. The deficit reached 5.9% of gross domestic product (GDP) in the 12 months through October, and the CBO expects new tariff revenue to offset spending from the recent "One Big Beautiful Bill." In the United Kingdom, the Office for Budget Responsibility forecasted the budget deficit will fall from 4.5% of GDP to 1.9% by 2030, following Treasury chief Rachel Reeves' announcement of higher taxes on high-value properties and a freeze on inflation adjustments for income tax brackets.

## Equity markets

**Quick take:** Equity markets showed mixed results in November, with strong year-to-date gains and upbeat earnings. Analysts remain optimistic for 2025–2026, but elevated valuations and shifting consumer trends warrant close attention. Stable inflation, falling interest rates and rising earnings trends continue to support valuations and drive risk-on positioning.

- **Price volatility increased in November.** Equities delivered mixed results: The developed market MSCI EAFE, S&P 500, and small company Russell 2000 indices gained 0.7%, 0.3% and 1.0%, respectively, while the MSCI Emerging Markets Index declined 2.4%. Eight of 11 S&P 500 sectors advanced, with Healthcare (9.3%) and Communication Services (6.4%) pacing monthly gains, while Information Technology and Consumer Discretionary retreated 4.3% and 2.4%, respectively.
- **International markets continue to lead broad-based year-to-date gains.** As of November's close, MSCI EAFE (28.2%) and MSCI Emerging Markets (30.4%) surged, outpacing the S&P 500 (17.8%) and Russell 2000 (13.5%). All 10 S&P 500 sectors are higher for the year, signaling underlying economic strength. The Communication Services (34.9%), Information Technology (24.4%) and Utilities (22.3%) sectors are at the forefront, while Consumer Discretionary, Consumer Staples, Energy, Materials and Real Estate have lagged, each returning less than 10%.  
**Third quarter results exceeded expectations.** Robust revenue and earnings growth supported valuations and lifted stock prices. Companies maintained strong cloud and capital spending, and earnings calls highlighted artificial intelligence's role in boosting margins, engagement and development speed while reducing costs. Meanwhile, consumer spending remained resilient, though lower-income consumers showed restraint with smaller purchases and slower restaurant traffic.
- **Early holiday shopping trends are inconclusive so far.** The National Retail Federation expects retail sales to rise 3.7%–4.2% year-over-year from November through December. Most headline growth likely reflects price increases rather than higher unit volumes. Online sales on Thanksgiving Day grew 5.3%–6.0% year-over-year, and Black Friday has evolved into a multi-day process.
- **Analysts maintain a positive earnings outlook for 2025 and 2026,** projecting S&P 500 earnings growth of 10.8% and 13.5%, respectively, according to Bloomberg, FactSet and S&P Cap IQ. The index trades at 25.2 times 2025 estimates, well above the five-year average of 19.8. Elevated valuations may persist, given the S&P 500's tech-heavy composition.

## Bond markets

**Quick take:** Decreasing Treasury yields and strong credit demand supported favorable returns across the bond market last week. Interest rates reflect a strong probability that the Federal Reserve will cut rates at its next meeting on December 10. Investors remain attentive to leadership changes at the Fed.

- **The Fed's Beige Book highlights improving manufacturing activity, though overall economic conditions remain steady.** The Beige Book is a collection of economic anecdotes the Fed collects from businesses eight times a year. Businesses report that consumer spending among wealthier groups is strong, even as recent government shutdowns soften broader purchases. Despite layoff headlines, companies are maintaining headcount by using hiring freezes and attrition, rather than resorting to layoffs. Fed officials increasingly support cutting interest rates to bolster the labor market, and current market pricing reflects expectations for a rate cut in December.
- **Last week, Treasury Secretary Scott Bessent indicated President Trump could soon announce his pick for the next Fed chair,** with Jerome Powell's term ending in May. Speculation centers on Kevin Hassett, Director of the White House National Economic Council. While Fed decisions require a majority vote, the chair typically shapes the direction of monetary policy.
- **The Fed and Office of the Comptroller of the Currency approved new rules easing banks' leverage requirements.** These changes allow banks to hold less capital against losses, which could encourage them to increase Treasury holdings. As a result, banks may act more efficiently as intermediaries in the Treasury market, reducing trading friction and helping stabilize prices during market turbulence.
- **Corporate and municipal bonds continue to show solid fundamentals.** Corporate issuers generally manage their debt loads well and generate enough cash flow to service obligations. Most states maintain healthy cash balances, supporting municipal bonds. Over the past four weeks, funds investing in high-quality corporate and municipal bonds have attracted strong inflows, signaling robust investor demand.
- **Corporate defaults remain stable, reinforcing strong company fundamentals.** Moody's reported that 3.3% of high-yield bonds defaulted over the past year, down from 4.0% at the start of the year. Leveraged loan defaults, while higher than bond defaults, have also slowed — from 7.5% at the beginning of the year to 5.9% in October.

## Real assets

**Quick take:** Real estate investment trusts (REITs) and global infrastructure rallied last week, alongside major equity markets. Broad commodity exposures rose, despite an oil surplus, with increases in gold, silver and copper prices.

- **Positive economic growth and healthy REIT fundamentals promote publicly traded real estate gains.** The U.S. economy is on track to grow at a steady 1.9% inflation-adjusted rate in 2026. This momentum boosts tenants' ability to pay rent and reinforces healthy fundamentals across industrial, retail, residential and health care properties. Net operating income continues to rise, and vacancies remain stable. Although office real estate faces multi-decade high vacancies, most broad REIT portfolios keep office exposure limited.
- **Lower U.S. Treasury yields drove global infrastructure gains last week.** Utilities, transportation, midstream energy and communication companies provide essential services and steady income. Their cash flows often adjust upward, helping portfolios guard against inflation.
- **Commodity prices advanced last week despite oil price swings.** Broad commodity exposures moved higher, even as oil prices fluctuated due to peace talks between Russia and Ukraine. A potential peace deal could increase global oil supply if sanctions ease, with the International Energy Agency forecasting a surplus of 4 million barrels per day in 2026. Despite falling oil prices, precious metals like gold and silver delivered strong returns, offering a hedge against geopolitical uncertainty.

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