December 6, 2025

CJ's Weekly Market Memo

As we head into the final weeks of 2025, the market continues to demonstrate remarkable resilience, with the S&P 500 hovering near record highs and expectations firmly set for a Fed rate cut at next week's December 9-10 FOMC meeting. Long-time readers know that I am always more positive about my market outlook when technical and fundamental conditions agree, and right now, we're seeing encouraging alignment on both fronts. Let me walk you through what I'm seeing across the economic landscape, the technical picture, and what it all means for the months ahead.

The Economy: Solid Fundamentals Supporting Continued Growth

The economic backdrop remains supportive for equity markets, with several encouraging developments that deserve attention. Inflation pressures continue to ease, with several key indicators pointing toward a favorable trend. Gasoline prices have dropped below $3 per gallon for the first time since May 2021, providing meaningful relief to consumers. The national average now sits at $2.98, marking the lowest level at this time of year since 2020. Perhaps more importantly, gasoline prices have been down on a year-over-year basis consistently since June—nearly eighteen months where consumers can say prices are lower than a year ago. This sustained decline helps keep inflation expectations well anchored. The commodity landscape also looks benign. The ISM surveys showed that in November, only six more commodities were reported as rising in price than falling—bringing the three-month average down to 10.0, the lowest reading since January. Historical patterns suggest this typically precedes lower CPI readings in the months ahead. Beyond consumer prices, the housing market tells another important part of the economic story. In September the housing market continues to show softness, with home prices declining month-over-month across all twenty cities tracked by the Case-Shiller index. While this may concern some, I view it as a necessary adjustment that should eventually support affordability and renewed housing market activity. Sunbelt markets like Phoenix, Tampa, Las Vegas, and San Diego are seeing the most pronounced corrections, with prices down 4% or more on an annualized basis. Where the data gets more interesting—and frankly more confusing—is in the employment picture. The labor market presents a mixed picture. Weekly jobless claims plunged to their lowest level since September 2022—just 184,000 claims, the lowest reading since 1969 outside of that period. Some of this was likely calendar-related noise around Thanksgiving, but even stripping out California's volatile data, the numbers remain strong. Continuing claims have also fallen below their 5% year-over-year trend line in recent weeks. However, the ADP employment report showed surprising weakness, with a 32,000 decline in November jobs—the fourth negative reading in the last six months. Particularly concerning is that job losses have come predominantly from small firms with fewer than 50 employees. This mixed labor picture helps explain the Fed's current posture and the market's expectations. The Fed is widely expected to cut rates by 25 basis points at next week's meeting, with Fed Funds futures pricing in a 95% probability. What's noteworthy is the journey we took to get here. Just two weeks ago, those odds had dropped to 34% as Fed officials talked down expectations. This created considerable whipsaw in markets, with major indices going from overbought to oversold and back to overbought—driven almost entirely by Fed speakers rather than any fundamental change in the economy. As Treasury Secretary nominee Scott Bessent aptly noted, it's time for the Fed to "move back into the background like it used to do, calm things down, and work for the American people." Looking ahead, the market expects gradual easing through 2026, with additional cuts priced in by April, July, and next September. Consumer spending remains resilient, supported by the lowest household debt burden in over forty years. Corporate balance sheets are healthy, and while the pace of hiring has slowed, we're not seeing the kind of deterioration that typically precedes recession. With that fundamental backdrop established, let's turn to what the market itself is telling us.

Current Market Technical Conditions: Breaking Through Resistance

The technical picture has been eventful, to say the least. From a technical perspective, the period from October 28 through December 5 saw the S&P 500 fall 5%, then rally 5%—a lot of noise signifying nothing. This round trip demonstrated extreme swings in sentiment, much of it related to shifting expectations about whether the Fed would cut rates this month. The weakest sectors on the way down (Communication Services, Technology, Consumer Discretionary) generally became the best performers on the way up, with some notable exceptions. Health Care and Energy—two sectors that underperformed for most of the year—rallied during both periods. Meanwhile, Utilities fell during both legs. Both the S&P 500 and Nasdaq broke their uptrend lines from the October highs during this volatile period and now need to set new highs to reestablish clear uptrends. The good news is that both indices have successfully tested those broken trendlines in "kiss-back" patterns, a constructive technical development. The Russell 2000 has been even stronger, making new highs and signaling healthy market rotation away from mega-cap stocks and toward broader participation. The internal health of the market looks equally encouraging. The VIX dropped below 16 this week, lower than any level during the October rally, suggesting volatility markets aren't pricing in increased uncertainty heading into year-end. Sentiment has improved notably as well, with the AAII bull-bear spread rising to +13.5 this week—the first six-month high in that reading in over 100 weeks, a new record. While the current reading isn't particularly elevated in absolute terms, the fact that we went so long without a six-month high is remarkable. Historically, when the bull-bear spread breaks out of such extended periods, forward returns have been quite favorable. The semiconductors continue to lead the market higher—acting as the "transports of the 21st century." Since the November 20 lows, the Philadelphia Semiconductor Index has rallied over 15%, with every single component higher. The relative strength of the SOX versus the S&P 500 just hit a new high on Friday. What's most impressive is that Nvidia, the largest stock in both the SOX and the S&P 500, has essentially been flat during this period, up just 0.7%. Proving the market can, in fact, rally without Nvidia leading the way. Beyond these price-based indicators, there's another powerful tailwind worth noting. I'm also encouraged by the behavior of Bespoke's "three-headed monster"—crude oil, the 10-year Treasury yield, and the US Dollar Index. When all three are rising, they present significant headwinds for the market. When all three are falling or near 52-week lows, they're effectively laying down the red carpet for the bulls. Currently, all three sit near the bottom of their 52-week ranges. The average level of these three assets relative to their 52-week ranges stands at just 12.7%—in the lowest decile of all historical readings since 1984. Following similar setups in the past, the S&P 500 has averaged gains of 11% over the following six months and 17% over the following year, with positive returns occurring nearly 90% of the time. The strength isn't just in indices and indicators—it's showing up in real economy sectors as well. Several economically sensitive equity baskets I track have broken out to new highs. US auto manufacturers are at 52-week highs, used auto-related stocks are rebounding strongly, and consumer lending stocks have broken out of their downtrends. These aren't the patterns you'd expect to see if the economy were on the verge of falling apart. So where does all this lead us?

Prognostication: Optimistic for Year-End and Early 2026

When I synthesize the fundamental and technical evidence, the message is clear: conditions remain favorable for equity investors. The combination of easing inflation pressures, Fed rate cuts, solid corporate earnings growth (forecasted at 11% for 2025 and 10% for 2026), and supportive technical conditions provides a favorable backdrop for equities. History suggests December tends to be back-end loaded, with the first half of the month typically flat to slightly down, followed by strength in the final ten trading days. Over the last ten years, barely more than a third of S&P 500 stocks have posted median positive returns through December 20, but from December 20 through year-end, 79% have shown median gains. This seasonal pattern, combined with the likelihood of a Fed rate cut next week, should provide support for stocks in the home stretch of 2025. It's also worth considering where we've come from to understand where we might be going. The S&P 500 has now rallied over 35% from its April lows—approximately eight months ago. Historically, such sharp rallies have been followed by more modest but still positive returns, with the index averaging gains of 5.7% over the subsequent year. The market has priced in considerable good news, which means future gains may be harder to come by, but the fundamental and technical backdrop remains supportive. For early 2026, I expect continued gradual gains, though likely at a more measured pace than we've seen in recent months. The ongoing AI investment cycle shows no signs of abating, with companies across sectors investing heavily in infrastructure and applications. While sentiment toward AI has become quite positive—which can be contrarian bearish—the lack of AI-related IPOs and the breadth of the semiconductor rally suggest the trend still has room to run. That said, I'm not wearing rose-colored glasses. Risks remain, of course. Employment growth is slowing, lower-income consumers face more pressure than their higher-income counterparts, and the residential housing market remains weak. The trillion-dollar stock club has become increasingly bifurcated, so as some of those giants falter, it will impact market-cap weighted indices. Valuations are elevated, with the S&P 500 trading at premium multiples that require strong earnings growth to justify. But here's what matters most to me: when I weigh all the evidence—technical indicators aligning with fundamental strength, inflation pressures easing, the Fed shifting to an accommodative stance, and broad market participation improving—I find reasons for optimism heading into 2026. The alignment of technical and fundamental conditions that I find most reassuring is clearly present today. And that's when I'm most confident in my outlook. As always, remain disciplined, stay diversified, and remember that markets climb a wall of worry.

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Capital Ideas

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