



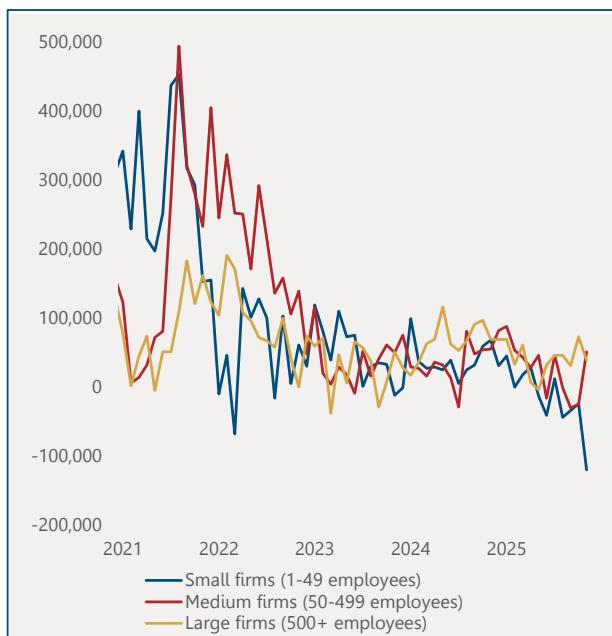
December 2025

Market Review



The Hiring Divide

ADP Monthly Private Payrolls by Firm Size



A divergence in private-sector payroll growth has emerged in recent months, with small businesses cutting workers while larger employers continue to add jobs. ADP data showed that firms with fewer than 50 employees shed 120,000 positions in November, far outpacing declines in other categories.

By contrast, medium-sized and large firms added 51,000 and 39,000 jobs, respectively, consistent with the chart's depiction of steadier payroll gains among bigger employers. These firms generally have stronger balance sheets, broader pricing power, and more resilient supply chains, allowing them to better manage shifting costs and demand.

Hiring has also become increasingly "choppy," according to ADP chief economist Nela Richardson, as small firms react quickly to cautious consumers, persistent inflation, and a cooling labor market. Their heightened sensitivity to economic signals makes them more prone to early workforce reductions during periods of uncertainty. Compounding the divergence, rapid tariff changes have created significant uncertainty around input costs and global supply chains—especially for manufacturers and service providers.

The 2026 Policy Rate Debate

Fed Funds Rate and 2026 Year-End Expectations



The Federal Open Market Committee (FOMC) lowered its benchmark policy rate by 25 basis points on December to a target range of 3.50% to 3.75%. The move was widely expected but notable for the degree of internal disagreement it revealed. The decision marked the most divided FOMC vote since before the pandemic, with three formal dissents and only four regional Fed presidents in support of a rate cut.

Updated economic projections showed modestly stronger growth expectations, with a median GDP forecast at 1.7% in 2025 and 2.3% in 2026, while unemployment is expected to remain near 4.5%. Inflation is projected to ease gradually but not return to the Fed's 2% target until 2028. Chair Powell stressed that policy is now near neutral and that \$40 billion of Treasury bill purchases are intended to maintain an ample supply of bank reserves.

Markets interpreted Powell's tone as slightly dovish. Fed funds futures continue to price additional easing beyond the Fed's own projections, with investors expecting at least one more cut by the end of 2026.

Mag 7 Divergence

November Performance



After a strong run through the first ten months of 2025, the stock market paused in November as the S&P 500 posted a modest 0.2% gain for the month. Strong third quarter earnings and growing expectations for a December Fed rate cut helped the index overcome a volatile stretch, including a 5.0% pullback from its October highs, to extend its winning streak to seven months.

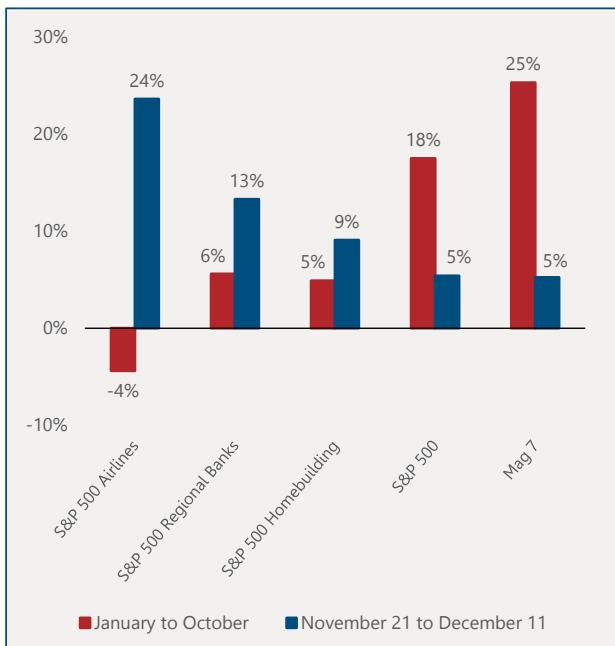
The pullback was largely driven by concerns about elevated valuations in AI stocks and their growing data center spending. The technology sector declined 4.3% in the month, weighing on overall index performance. Shares of NVIDIA (NVDA) declined over 12% in November despite the company's better-than-expected earnings report. NVDA shares came under pressure after reports that Google's custom built TPU semiconductor may offer a competitive alternative to NVIDIA's GPUs for AI computing.

Strength in other parts of the market helped offset the technology sector weakness. Defensive sectors like health care and consumer staples led the rotation out of technology names. The health care sector surged 9.3% for its best month in over a year, while consumer staples gained 4.0%.

Source: Morningstar. Past Performance does not guarantee future results.

Rotation into Market Laggards

2025 Performance



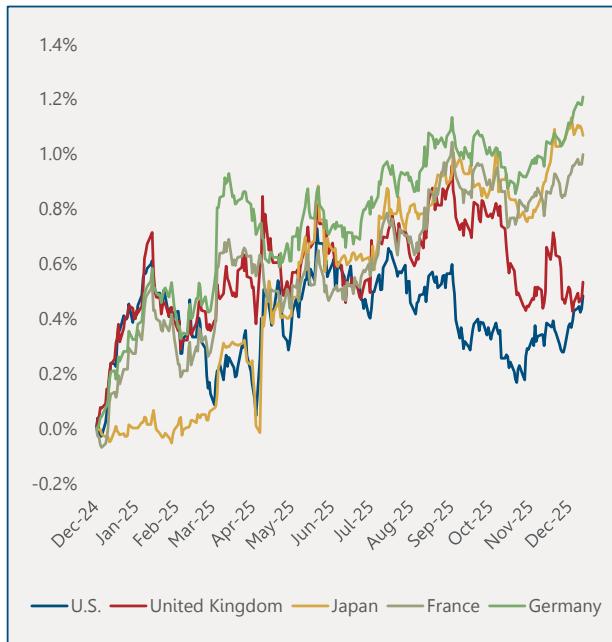
A notable shift in market leadership took shape in November, as investors rotated out of mega cap technology names. With the AI trade taking a breather, investors' attention turned to areas of the market that had lagged this year. Value stocks outperformed growth and smaller cap companies outperformed large cap stocks in November. The equal weight S&P 500 rose 1.9% in the month, beating the cap weighted index by the widest margin since March.

This market rotation was most evident during the rally off the November 20 low. Economically sensitive industries like airlines, regional banks, homebuilding, hotels, and small cap stocks led the rebound with gains near 10% or more through early December. This shift in leadership suggests improved optimism in the economic outlook led investors back into cyclical areas that had underperformed earlier in the year, particularly those more sensitive to interest rates and domestic growth.

Notably, only two of the Magnificent Seven stocks, Alphabet (GOOGL) and NVIDIA (NVDA), remain ahead of the S&P 500 this year, underscoring how leadership has moved away from the narrow group that previously drove the market.

Source: Morningstar. Past Performance does not guarantee future results.

Long-Term Government Bond Yields Trend Higher
Change in 30-Year Government Bond Yields



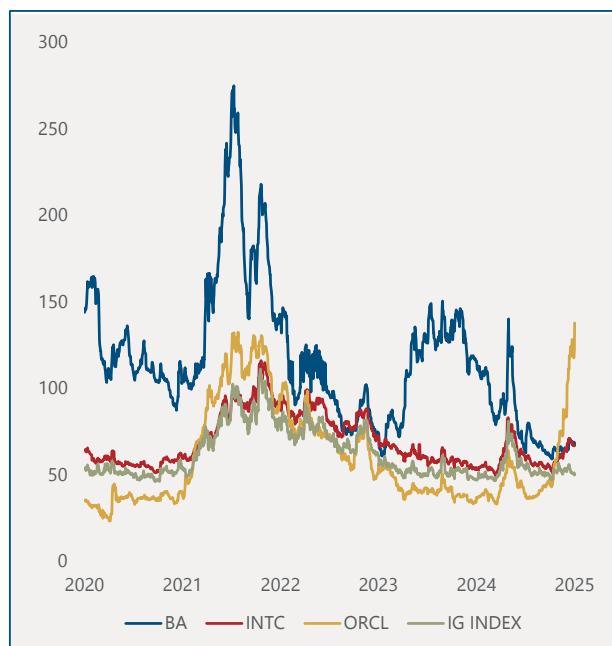
Source: Bloomberg. Past Performance does not guarantee future results.

As shown in the accompanying chart, the rise in 30-year government bond yields during 2025 has been a broad-based global development, reflecting investor concerns about rising public debt, widening fiscal deficits, and firmer long-term inflation expectations.

Over the past several months, a notable divergence has emerged: yields in Germany, France, and Japan have continued to climb, while U.S. and U.K. long-term yields have edged lower. This split likely reflects softer growth and inflation data in the U.S. and U.K., which have reduced expectations for how high policy rates must remain, alongside renewed demand for Treasuries and gilts as safe-haven assets.

In contrast, Germany, France, and Japan face mounting structural spending needs tied to defense, industrial policy, and economic resilience initiatives. Expectations for heavier sovereign issuance have pushed their long-term borrowing costs higher. Taken together, these trends suggest bond markets are adjusting to a world of higher structural deficits, with pockets of divergence driven by differing economic trajectories and fiscal outlooks across major economies.

AI Investment and Credit Volatility
5-Year Credit Default Swaps (basis points)



Source: Bloomberg. IG INDEX = Markit CDX North America IG CDS Index

Oracle's (ORCL) credit-default swaps (the cost of insuring against a bond default) have widened meaningfully over the past three months, reflecting investor concern about rising leverage and aggressive capital spending tied to its AI and data-center expansion. Credit rating agencies Moody's and S&P have maintained ORCL's investment-grade ratings but have placed the company on a negative outlook, underscoring near-term pressure on free cash flow and balance sheet metrics.

These concerns—and current CDS pricing—may be overstated relative to prior episodes of investment-grade stress. ORCL's management has reiterated its commitment to maintaining investment-grade ratings and expects to borrow far less than headline capex figures suggest, with a large contracted backlog converting into revenue and cash flow over time.

As shown in the accompanying chart, Boeing's CDS spike during 2020–2021 reflected existential operational disruptions and severe cash burn, while Intel's (INTC) CDS widening followed years of competitive erosion and margin pressure. By comparison, ORCL's widening appears driven more by front-loaded investment than by deterioration in its core business, suggesting a different—and potentially more temporary—change to its credit risk profile.

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