Summary

Economic data last week included improved consumer inflation readings (albeit tainted due to a missing month), a stronger than expected employment situation report (also colored by the shutdown's lack of data), and gains in retail sales, existing home sales, and consumer sentiment. These were offset by a pullback in manufacturing and services PMI data.

Equities were mixed last week by segment in both the U.S. and internationally. Bonds saw gains, as interest rates fell back along with slower inflation results. Commodities were also mixed, with strength in metals specifically and weakness in energy.

Economic Notes

(-/0) The preliminary **S&P Global US manufacturing PMI** index for December fell by -0.4 of a point to 51.8, remaining in contraction, but slightly below the 52.1 level expected. Under the hood, the composition was mixed, with output falling by over a point to 53, staying in expansion, while new orders fell by -2 points, and inching back just under a 50 neutral level. Employment improved by a fraction of a point to over 52, which was a positive, while input and output prices each fell a bit but remained solidly expansionary. The preliminary **S&P Global US services PMI index** for December fell by -1.2 points to 52.9, relative to the expectation of little change to 54.0. Underlying components were generally weak, with new business and employment each falling several points, although they remained in expansion. In contrast to manufacturing, input and output prices rose several points, becoming more expansionary. Commentary from S&P noted that the "recent economic growth spurt is losing momentum," with signs of weakness being "broad-based" highlighted by a "near-stalling" of work inflows into services and the first fall in factory orders in over a year. It was mentioned that firms have "also lost some confidence" in the future outlook and have restricted some hiring during the month. A key concern remains "rising costs" that are "widely blamed on tariffs." The S&P series has been faring a bit more positively than the ISM version, particularly for manufacturing.

(-) The **Empire manufacturing index** for December fell by a dramatic -22.6 points to -3.9, back into contractionary territory, and below the 10.0 level expected. This dropped the index back into sub-0 contractionary territory. The underlying components were mixed, as new orders fell by -16 points back to a neutral 0, as did shipments by -23 points to -6. Employment ticked higher by almost a point to 7. Prices paid fell back as well, by -11 points to 38, albeit still high. On the more positive side, business expectations 6 months-ahead rose by 17 points to 36, the highest level all year. This index continues to be more volatile, pointing to now more-frequent back and forth monthly readings, which offer less longer-term trend value.

(0/+) **Retail sales** were unchanged on a headline basis for October, falling just under expectations for a 0.1% rise. Headline segments were mixed, and included declines of -1% for gasoline stations and building materials, and nearly -2% for motor vehicle sales (likely due to the expiration of a tax credit for EVs). Removing those, core retail sales fared much better, up 0.8%, double the growth expected. By segment, this was led by 2% gains in furniture, sporting goods, and non-store/internet retail; these were not quite offset by declines of a half-percent in health/personal care and food/drinking places. Over the past year, total retail sales were up 3.5%, which is positive real growth after inflation.

(+) The **Consumer Price Index** rose 0.2% for October/November on both a headline level and core (ex-food and energy) basis, which equates to about a 0.1% rise per month, if looked at normally. This report included a strange combined 2-month period caused by data lapses during the government shutdown, and still included a fair number of gaps in the flow of data over the past few months, including more reliable figures for shelter. For the 2-month period, energy prices rose 1.1%, while food only gained 0.1%. Other stronger areas included household furnishings/operations, communication, and personal care; on the other hand, lower prices were seen in lodging, recreation, and apparel.

Year-over-year ending in November, headline CPI decelerated from by -0.3% to 2.7%, while the pace of core CPI ex-food and energy fell by -0.4% to 2.6%. For the year, energy gained 4%, largely due to crude oil derivatives fuel oil and natural gas, each up around 10%. Food prices were up just short of 3%. On the core side, increases were led by shelter (3%), medical care (3%), household furnishings/operations (5%), recreation (2%), and used cars/trucks (4%). In the special calculation categories, "All items less food, shelter, and energy" was up 2.3% for the trailing year, which is promising, in that level of CPI being roughly equivalent to a 2.0% Core PCE reading when adjusted for the composition of each. This most recent CPI report was definitely odd enough to draw some skepticism about its usefulness this time, especially since holiday sales tend to pull down retail prices. But, it was celebrated by financial markets due to signs of inflation slowing and at least not ticking back up.

(+) **Existing home sales** for November rose by 0.5% to a seasonally-adjusted annualized pace of 4.13 mil., below the 1.2% increase expected and the 1.5% gain of the prior month. Sales rose nearly 1% for single-family, but fell nearly -3% for condos/co-ops. Regionally, the Northeast led with a 4% sale gain, while Midwest sales fell by -2%. Year-over-year, existing home sales turned into a decline of -1.0%. Interestingly, the largest declines for the year occurred in the most affordable parts of the market, with the $0-100k price segment seeing a -14% drop in sales, with only homes over $1 mil. seeing a gain for the year, with buyers there less price-sensitive. The median existing home sales price was unchanged for the month at $409,200, which corresponded to a 1.2% rise year-over-year, staying within the general 1-2% seen most of this year. Unsold inventory fell by -5.9% for the month, bringing months' supply to 4.2. Per the NAR, improvement in recent months has been helped by lower mortgage rates (around 6.3%, the lowest point in a few years), although "inventory growth is beginning to stall," and it appears that with "distressed property sales at historic lows and housing wealth at an all-time high, homeowners are in no rush to list their properties during the winter months."

(x) The December **NAHB/Wells Fargo Housing Market Index** of homebuilder sentiment showed a rise of one point to 39, remaining in negative territory (relative to a neutral level of 50). Under the hood, present sales conditions rose a point to 42 (the largest weight in the headline index), sales expectations for the next six months rose a point to 52, while prospective buyer traffic was unchanged at a low 26 level. For the month, 40% of builders cut prices, which was noted as the second month of such a high level since the early pandemic, with an average price reduction of 5%. About 67% of builders used sales incentives, which was the highest reading in the post-Covid period. The industry remains challenged by high mortgage interest rates.

(+) The final **Univ. of Michigan index of consumer sentiment** for December showed a month-over-month rise of 3.7% to 52.9, which included a -1% drop in assessments of current conditions and mostly a 7% improvement in future expectations. It seemed that sentiment improved among lower-income consumers more than higher-income, which had changed little. However, nearly two-thirds of consumers expect unemployment to continue rising over the next year. The year-over-year comparisons were still bleak, with the headline index down -29% over that span. Inflation expectations for the coming year fell by -0.3% to 4.2%. For the next 5 years, they fell by -0.2% to 3.2%. Although both were higher than readings a year ago, they're down sizably from 2025 peak levels.

(-) **Initial jobless claims** for the Dec. 13 ending week fell by -13k to 224k, just under the 225k median forecast. Continuing claims for the Dec. 6 week rose by 67k to 1.897 mil., but under the 1.938 mil. expected by consensus. No large outliers occurred, with initial claims staying within their recent range, while continuing claims appeared to be at least partially driven by Thanksgiving seasonal distortions, which can be common and dramatic this time of year.

(+/0) The (late and unusual) employment situation report for November came in a bit stronger than expected for last month, which was a positive for labor markets, although revisions and combinations with earlier results reduced the positivity. The federal government shutdown a few weeks ago and slow reopening for data has jumbled some of the monthly figures. Overall, financial markets would have likely preferred a weaker report, which would have supported more Fed rate cuts sooner next year. Aside from the unique challenges of the shut-off of data flow during the government shutdown, immigration enforcement has altered the labor force size somewhat dramatically in certain sectors, which affects employment rates.

Nonfarm payrolls for November rose by 64k, above expectations of 50k. This was coupled with a -105k decline for the very-belated October report and revisions to for the September (-11k to 108k) and August (-4k to 22k) reports. On net, per the BLS, payrolls have changed little in either direction since April. November results showed job gains in health care (46k) and construction (28k), while federal government jobs continued to decline (-6k for Nov. and a sharp -162k in Oct., which included those leaving payrolls after accepting a deferred resignation offer), as well as transportation/warehousing (-9k) and durable goods manufacturing (-6k). The **unemployment rate** ticked up by just over a tenth, with rounded results pushing that up to 4.6%, due to an increase in the size of the underlying labor force (despite tighter immigration). The U-6 underemployment rate ticked up by 0.7% to 8.7%, which was due to a rise in private-sector part-time work for economic reasons. **Average hourly earnings** rose by 0.1% in November, below the 0.3% expected, after rising by 0.4% for October. Year-over-year, earnings rose by 3.5%, down a few tenths from the prior month. **Average weekly hours** ticked up by 0.1 to 34.3 hours.

Market Notes

Period ending 12/19/2025	1 Week %	YTD %
DJIA	-0.64	15.09
S&P 500	0.13	17.66
NASDAQ	0.49	21.46
Russell 2000	-0.83	14.89
MSCI-EAFE	0.20	29.73
MSCI-EM	-1.52	30.09
Bloomberg U.S. Aggregate	0.34	7.09

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2024	4.37	4.25	4.38	4.58	4.78
12/12/2025	3.63	3.52	3.75	4.19	4.85
12/19/2025	3.62	3.48	3.70	4.16	4.82

U.S. stocks ended the week mixed, with the S&P 500 and Nasdaq up slightly, while the Dow Jones large cap index and Russell 2000 small cap index down, all based on composition. By sector, conditions were mixed, with gains in consumer discretionary (Tesla and Starbucks) and technology (Nvidia and Microsoft) leading the way, while energy stocks fell about -3% in keeping with weaker pricing for crude oil and natural gas, along with high supplies. Real estate fell about a percent.

Foreign stocks saw gains, outperforming the U.S., despite the headwind of a stronger U.S. dollar. The U.K. saw a gain of several percent, while Europe and Japan saw mixed results, as did emerging markets. U.K. stocks were boosted by a Bank of England rate cut of a quarter-point to 3.75%, as inflation there has continued to decline, although the voting margin was a close 5-4. (BOE meetings are much more dissent-oriented than the U.S. FOMC, where disagreement is normally hashed out internally, as opposed to public votes. At least until recently.) European equities were inspired by decent signs of growth along with the ECB noting that policy is “in a good place,” but would remain data-dependent. Going in the opposite policy direction, the Bank of Japan raised their policy interest rate by a quarter-percent from 0.50% to 0.75% (in a unanimous vote), the highest level in 30 years, as economic growth and inflation conditions continue to normalize from their sluggish levels of recent years.

Bonds gained as interest rates pulled back a bit across the U.S. Treasury yield curve, with inflation results coming in a bit softer than expected. U.S. government and investment-grade corporates performed similarly, and outgained high yield and floating rate bank loans. Foreign bonds in developed market local terms were down due to the rising dollar, while EM USD bonds fared positively.

Commodities were mixed for the week, with gains in industrial metals (copper and aluminum, as the latter saw supply impacts from tariffs) and precious metals offset by falling prices in energy and agriculture. Crude oil prices fell over a percent last week to $57/barrel, as markets continued to look wellsupplied, causing some reductions in long-term price estimates. Natural gas prices fell back nearly -4%, and around -20% over the past month.

Have a good week and Happy Holidays.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.

REDSTONE
CAPITAL MANAGEMENT

Kevin Canterbury – Managing Director

kevin@redstonecapitalmanagement.com Direct: 480 685 2931