Week in review and ahead (vol.50)

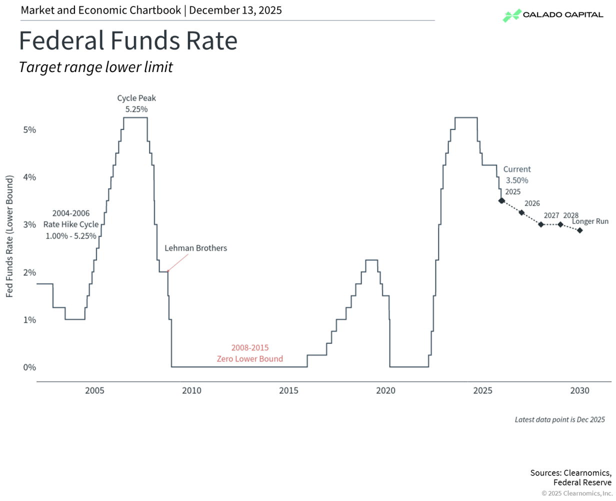
Claudio Calado | Managing Partner

December 13, 2025

The Federal Reserve delivered the anticipated rate cut and surprised markets by announcing an earlier-than-expected launch of quantitative easing—initiating the purchase of Treasury bills next week to keep repo reserves aligned with the Fed funds target. Despite this, equity markets were mixed. Earnings from key AI-linked companies, including Oracle and Broadcom, reignited concerns over inflated valuations in the sector, weighing heavily on technology stocks.

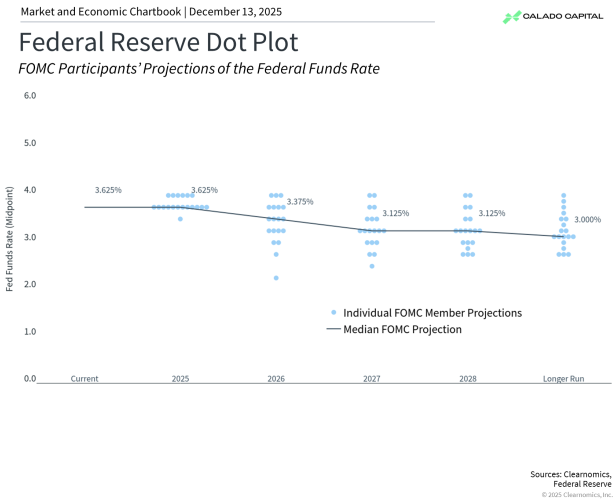
The markets in the US ended the week mixed, with the Dow Jones posting gains of 1.1% for the week, while the S&P500 and Nasdaq Composite posted losses of -0.6% and -1.6%, respectively, on the week dragged down by tech. Within the S&P, telecom and tech drove the decline for the week with losses of -3.2% and -2.3%, respectively.

Markets internationally saw moderate losses on the week, with the exception for Germany and Japan, both advancing by 0.7% for the week. Germany’s gains were supported by solid domestic (economic) data and sector rotation into cyclical/value stocks while Japanese equities rose selective sector strength and constructive positioning ahead of the BoJ decision.



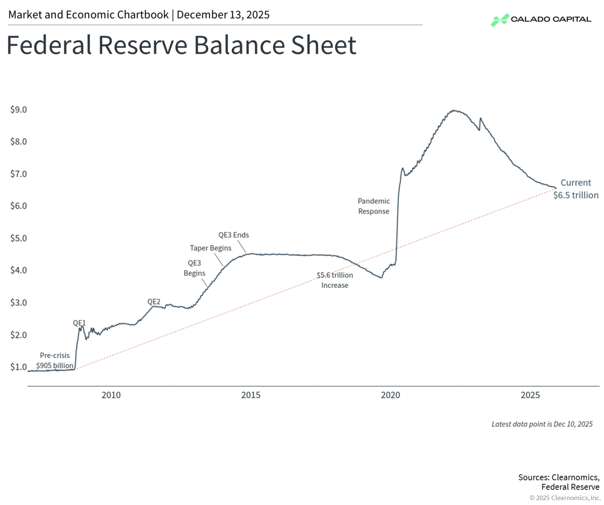
With markets squarely focused on the Fed's FOMC meeting, Tuesday's (delayed) economic data for job openings in October surprised with 7.7M, sequentially higher, and well above expectations of 7.2M. This added to some questioning the downside risks in the labor market as the Fed balances the risks of unemployment and inflation, its two mandates.

Despite the stronger labor signal, the Fed proceeded with the anticipated rate cut and signaled that policy rates may remain at current levels for some time as the Fed (currently) projects only one cut in 2026 and 2027 per the "Dot Plot" released last week. Chair Powell acknowledged ongoing data gaps but reassured them that the twelve regional Federal Reserve districts provide sufficient insights to guide risk assessments.



Beyond the rate cut, markets were caught off guard by the Fed's decision to begin purchasing Treasury bills, and moving towards some level of quantitative easing, sparking an initial rally in the markets. However, gains in the S&P500 and Nasdaq Composite proved short-lived as Oracle's disappointing earnings reignited scrutiny of AI-driven valuations amidst increased debt levels to fund the AI build-out, dragging tech lower. Broadcom's results on Thursday offered a brief reprieve with a revenue and earnings beat, but commentary by its CEO on margin compression quickly erased those gains and triggered further selling on Friday. As such, the S&P500, which had just set a new closing high on Thursday, declined for the week.

Thursday's initial jobless claims for the week ended December 7th came in at 236K, reversing the prior week's strong 192K reading and exceeding expectations, while continuing claims dropped below 1.9M, to 1.84M, the lowest since April 2025 — both adding to the mixed signals on labor market conditions. Next week's delayed November jobs report should provide further clarity on underlying trends.



In addition to November’s jobs report, next week brings several delayed economic releases. October retail sales are scheduled to be reported on Tuesday together with housing starts, while November’s CPI report is on Thursday. Besides, markets will have an opportunity to hear from a number of FOMC and Fed members as they discuss and comment on the recent Fed decision, including members that dissented from voting for the rate cut.

Finally, the AI trade will undoubtfully take center stage following the selloff last week as few companies are scheduled to report on their respective quarters, including Micron and Jabil, which could offer some positives for the AI trade.

If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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