Week in review and ahead (vol.51)

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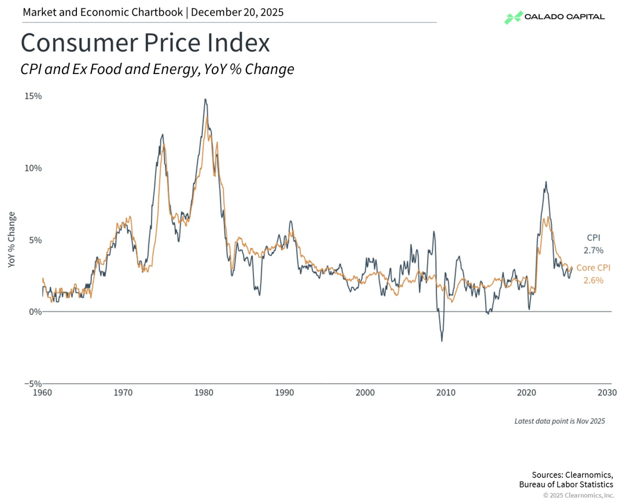
December 21, 2025

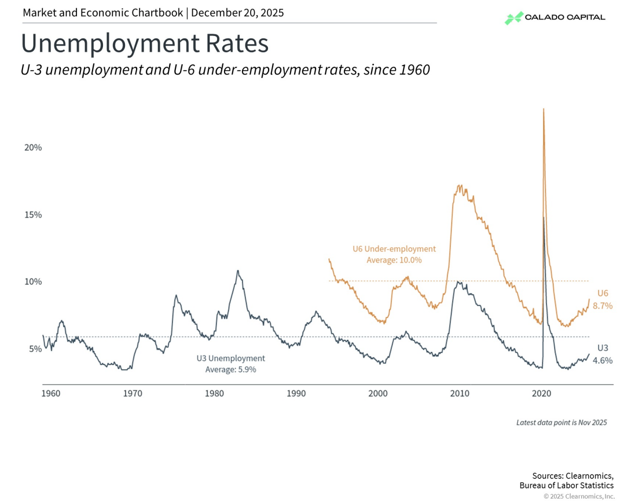
Markets ended the week mixed, narrowly avoiding losses thanks to strong rallies on Thursday and Friday, driven by a delayed November inflation report that came in softer than expected. Core CPI surprised to the downside at 2.6% year-over-year, well below the anticipated 3.0%, though the absence of October and early November data heavily influenced the reading. Still, signs of easing inflation across several categories, coupled with news of an imminent TikTok deal, fueled Friday's surge—led by AI-related names and the broader technology sector. As a result, the S&P 500 and Nasdaq Composite posted weekly gains of 0.1% and 0.5%, respectively, while the Russell 2000 and Dow Jones Industrial Average declined by 1.0% and 0.7%.

Global markets reflected a similar divergence. UK, French, and German equities advanced 2.6%, 1.0%, and 0.4%, respectively, buoyed by the Bank of England's decision to cut its benchmark rate by 25 basis points to 3.75%. In contrast, major Asian markets retreated, led by Japan's Nikkei, following the Bank of Japan's rate hike of 0.25% to 0.75%—its highest level since the late 1990s. Meanwhile, the European Central Bank held rates steady, as widely expected, reinforcing stability across the Eurozone.



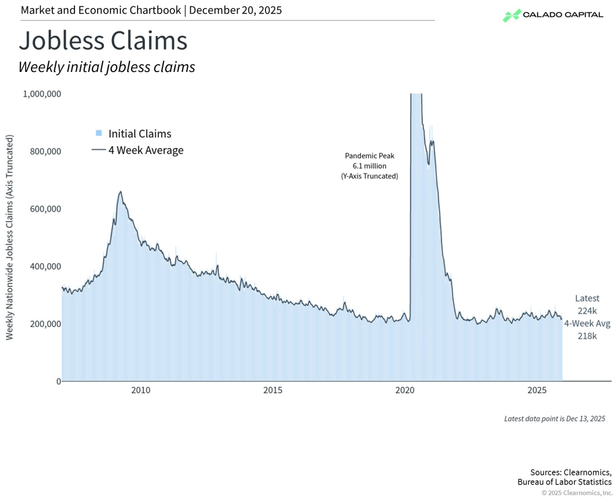
The week opened in a fashion similar to the prior one, with investor sentiment marked by caution. Early-session gains quickly faded as hesitation and renewed concerns triggered midday sell-offs, leaving major indices in the red through Wednesday. On Tuesday, the delayed November non-farm payroll report surprised markets with 64,000 jobs added—well above the expected 45,000, though still down sequentially. The reaction was muted, as the unemployment rate ticked higher to 4.6%, surpassing forecasts of 4.5% and the previous 4.4%, reaching levels not seen since September 2021. Meanwhile, hourly wages continued to outpace inflation at 3.5% year-over-year, albeit slightly below expectations and the prior 3.6% gain.

The delayed October retail sales report painted a mixed picture: headline sales were flat month-over-month, falling short of expectations, while core retail sales (excluding autos) rose 0.4%, beating both forecasts and the prior 0.2% increase—signaling that U.S. consumer spending remains resilient despite broader economic uncertainty.



In an unconventional move, POTUS addressed the nation in prime time on Wednesday, seeking to reaffirm his economic agenda and counter mounting negative sentiment—particularly as voters remain unsettled by persistently high prices for essentials such as food and energy. While the brief remarks offered little new policy detail, the announcement of a symbolic “warrior dividend” of $1,776 for members of the armed forces ahead of the nation’s 250th anniversary drew attention. The reiteration of fiscal benefits tied to the OBBB initiative helped lift futures Wednesday evening, setting the stage for improved sentiment.

That optimism was reinforced Thursday by a softer November CPI report, which spurred a market rebound that erased much of the week’s earlier losses. Although the absence of October data skewed the inflation reading, investors welcomed signs of improvement across several categories. Adding to the positive tone, initial jobless claims eased to 224k from 237k the prior week, aligning with expectations and keeping the four-week average at 218k—well below its historical norm, underscoring continued labor market resilience.



Last week marked the final full trading week of the year. The coming week will be shortened by the Christmas holiday, followed by a truncated final week as markets close for New Year celebrations. With lighter volumes ahead, attention will turn to Tuesday's release of the delayed Q3 2025 GDP report and October's durable goods orders. Historically, markets tend to perform well during this festive stretch—a seasonal upswing often referred to as the "Santa Claus rally.

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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