CALADO CAPITAL

Week in review and ahead (vol.02-26)

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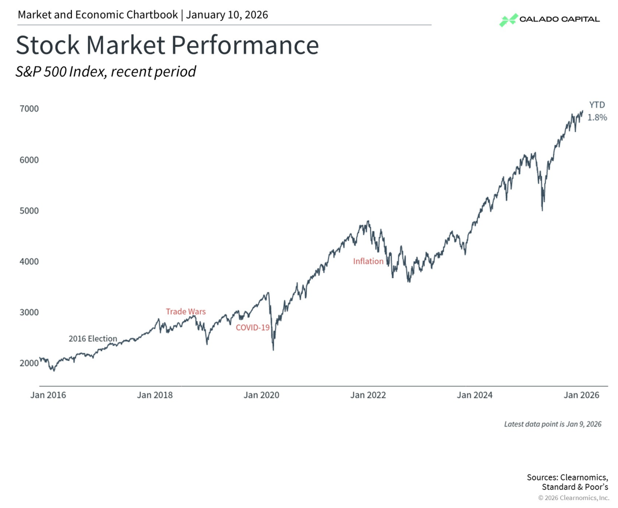
The first full trading week started positively, notwithstanding the events that unfolded the previous weekend in Venezuela as escalation concerns going into the week did not materialize. A mixed non-farm payroll report (‘NFP’) for December, however, surprising with a lower unemployment rate, helped carry momentum into the close of the week with all major US indices closing the week with strong gains and all but the Nasdaq closing at all-time highs.

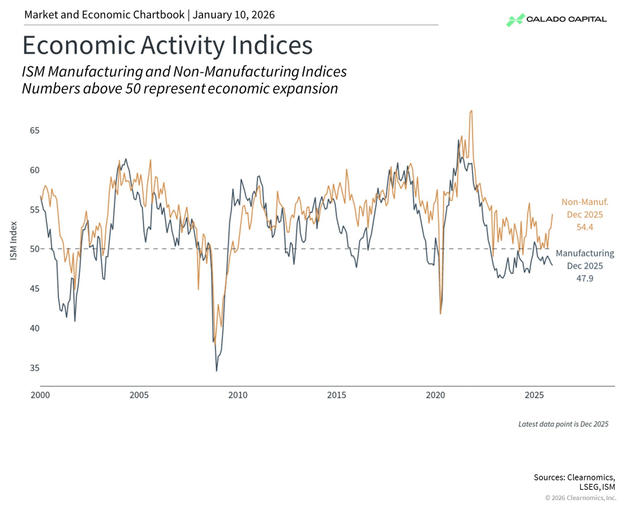
For the week the Dow Jones, Russell-2000, and S&P500 gained 2.3%, 4.6%, and 1.6%, respectively, all closing at all-time highs with the S&P500 about 35-points off the historic 7,000 point mark (and 10-points below the intraday high). The Nasdaq gained 1.9%, closing about 350 points off its all-time high, as the tech trade displayed some pricing volatility throughout the week compared to other sectors and small caps, notwithstanding a number of announcements by several tech companies during the Consumer Electronics Show (‘CES’) in Las Vegas this past week. In fact, within the S&P500, the tech sector’s performance for the week was flat while all other sectors advanced, except for the utilities sector, which declined by -1.6% on the week.

Internationally, markets saw strong gains during the first full trading week as well, except for Hong Kong and India’s equity markets that declined -0.4% and -2.6%, respectively. Markets in China and Japan saw strong gains with both markets advancing by more than 3% for the week, despite macroeconomic concerns in China, and escalating Sino-Japanese business relations. The Hang Seng gained 3.8% fueled by AI IPO’s while the Nikkei index advanced 3.2% on the week. In Europe, major markets closed the week with strong gains led by Germany’s DAX that gained nearly 3%.



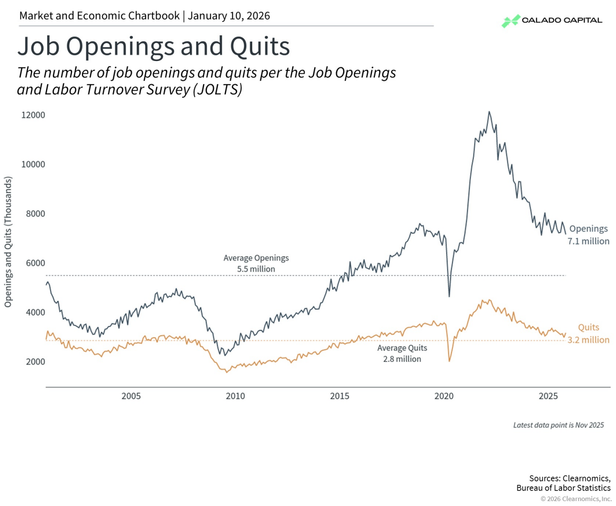
Last week was headlined by geopolitical concerns and developments surrounding Venezuela but also protests in Iran that lead to gains in oil prices, despite the prospect of sanctioned Venezuelan oil coming to market and expanding supply. In addition, a series of macroeconomic reports with implications on monetary policy, along with fiscal policy announcements by POTUS, moved markets. In business news, the CES garnered the market's attention highlighting agentic AI and robotic integration, or thematically underscoring "AI Everywhere & Physical AI."

The state of the US economy continues split, with services solidly in expansionary territory while manufacturing continues in a prolonged contraction. The ISM manufacturing sector reading for December was 47.9%, sequentially lower, and below estimates of 48.3%, contracting for the 10th consecutive month and the lowest since October'24. Prices paid continue to rise at 55.8%, the same level as the previous month, and by doing so for the 15th consecutive month, while employment continues to contract within the manufacturing sector with a reading of 44.9% for the month, likely due to strong productivity growth in the sector. The sole positive for the manufacturing sector was that new orders edged higher, remaining in contraction, however, with a reading of 47.7%. On the other hand, the ISM service sector of 54.4% for December was well ahead of estimates of 52.3%, and sequentially higher, as the service sector continues solidly in expansionary territory. Prices paid, however, continue elevated and directionally increasing at a reading of 64.3% but slowing sequentially from 65.4%. Employment in services saw a meaningful improvement of 3.1%-points, elevating to expansion with a reading of 52% in December from contracting previously. As with the manufacturing sector, new orders for services were strong with reading of 57.9% and the best since September'24, continuing in expansionary trend now in its 7th month.

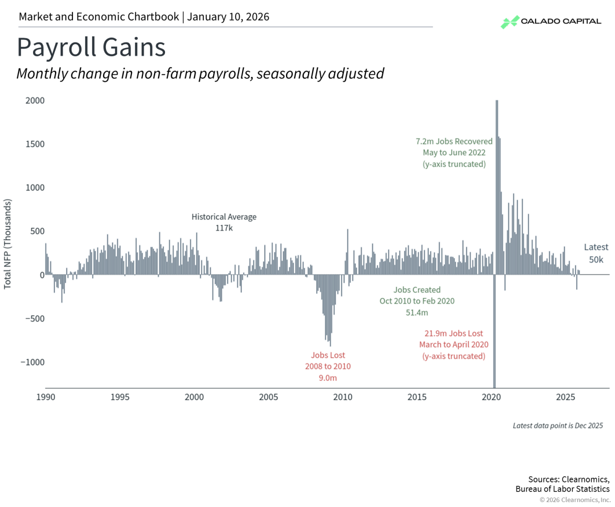


The labor market data continues to point to a certain malaise and weakness in the market, supporting the narrative of a low hire, low fire economy despite robust growth of the US economy. Reports of increased labor productivity (i.e., output per hour) for Q3'25 of 4.9% for non-farm businesses (and 3.3% for manufacturing) substantially supports that narrative, with the Q3'25 rate more than double the long-term rate of 2.1% (from 1947 through Q3'25). Accordingly, labor unit costs declined by -1.9% for Q3'25. The Atlanta Fed, based on updated macroeconomic datapoints, has materially increased its estimates for US Q4'25 GDP to 5.4% (from 2.7% just a few days prior to release of the data) and which follows a strong (first) estimate of Q3’25 GDP of 4.3%.

Job openings in November disappointed with 7.15M, sequentially lower (from a revised 7.45M) and well below expectations of 7.6M for the month. However, the job opening rate of 4.3% remained nominally unchanged as did the rate of hires and separations (including quits and layoffs and discharges), both at 3.2%, for the month of November. Initial weekly jobless claims continued stable and well below the historical mean (of approximately 361K), with claims for the week ended January 3rd of 208K compared to estimates of 210K but up sequentially (from 199K). The low claims, not unusual for the holiday season, continue to drive down the 4-week average which through the aforementioned week came in at 211K, sequentially lower (from 219K). Similarly, continuing claims came in at 1.914M in line with expectations.

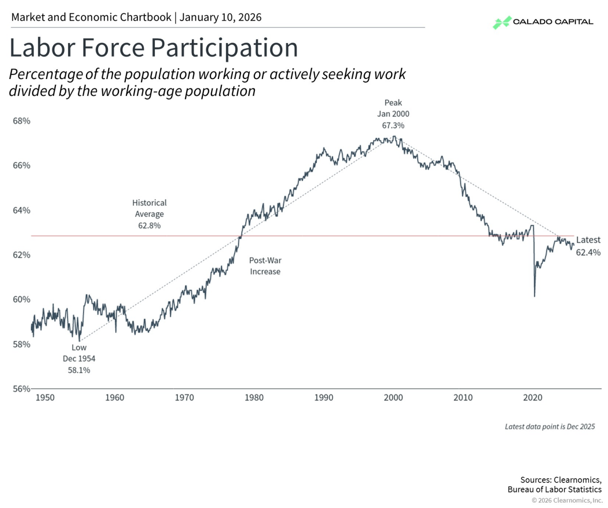


The non-farm payroll (‘NFP’) report for December highlighted that the labor market remained subdued. NFP jobs created were 50K, the weakest level since October’25, lower sequentially (from a revised 56K in November) and well off expectations for 73K. However, the unemployment rate improved to 4.4% in December, better than expectations of 4.5%. Furthermore, the unemployment rate, which had been ticking up since June’25, was revised downward for November to 4.5% (from 4.6%). Similarly positive, the closely watched, broader, U6 unemployment rate, which includes discouraged workers and those working part-time for economic reasons improved to 8.4% in December, lower sequentially (from 8.7%).



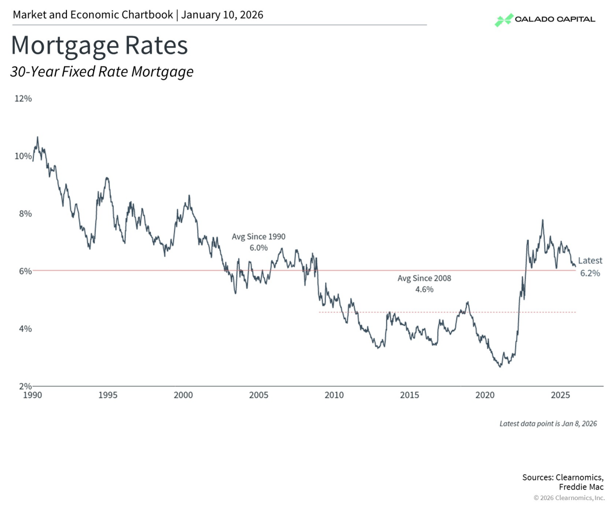
The decline in the unemployment rate(s) were driven by a general decline in reported labor participation for December. This should give the Fed some pause to consider its next monetary policy move as it meets later in January. The continuing uptick in the unemployment rate previously has been the main concern for the Fed (and many economists) as numerous historic trends show that unemployment rates that initiate an upward trend to rise rather rapidly shortly after and that generally coincides with the onset of a recession. Accordingly, the Fed did pivot towards prioritizing its full employment mandate, but it may be hesitant to make additional interest rate cuts in the near future as unemployment rate(s) improved, while inflation levels remain well off their target of 2%. The December NFP report may therefore have the Fed reassess its dual mandate and likely support to leave rates at the current levels Accordingly, probability of a Fed cut later in January dropped to near zero.

Regardless, the Fed has turned to quantitative easing effective December, with recent figures indicating that the Fed has been increasing its balance sheet since then and acting decisively in the Repo market that has been cause of concern during the later part of last year. Besides monetary policy implications, another positive from the NFP report were the hourly wages that came in line with expectations growing 0.3% MoM, and 3.6% YoY, both sequentially higher (from 0.2% MoM and 3.6% YoY) and alleviating some concerns on stalled wage growth (as compared to inflation) impacting consumption.



Outside of geopolitical and macroeconomics, markets looked with some level of anticipation to the US supreme court ('SCOTUS') tariff decision which ultimately was not provided and may be delayed further. In addition, POTUS made a number of wide ranging announcements with immediate market implications, none less than his announcement that he instructed Freddie Mae and Freddie Mac to purchase about $200 billion of mortgage bonds. Despite a number of interest rate cuts by the Fed, the long end of the yield curve which influences interest rates on traditional mortgages greatly, have remained relatively unchanged with the spread of short-term and long-term yields actually widening as of late.

The day after POTUS announcement, the 30-year mortgage rate dropped below 6% for the first time in nearly three (3) years, however, closing above 6% for the week. It remains to be seen if the initial move in rates persists and provides a boost to a very anemic housing market as of late, however, POTUS does have the ability to expand purchases beyond the initial $200B as Congress approval is not required. Considering the Fed's quantitative easing, the purchase of mortgage bonds certainly adds significant liquidity to markets in a time when the US economy appears to be in a boom, all the while labor or job creation appears not to materialize, likely risking contributing further to the K-shaped economy that appears to have crystalized in the US, meaning that the divergence may may widen further.



Next week will likely to be as busy as the first week was that likely will move markets. From a macro perspective, release of December CPI will be highly awaited to assert inflation levels as the economy appears to run hot. In addition, the delayed PPI report for November is scheduled to be released right after the CPI data. Besides inflation data, the delayed retails sales for November are scheduled in addition to a number of FOMC members publicly scheduled appearances that markets will follow before the upcoming FOMC meeting at the end of January.

Finally, markets will look to SCOTUS for a possible tariff decision and focus on the bank's earnings that officially kick off the corporate earnings season. With market valuations rather elevated, domestically, and internationally, corporate earnings this season (and subsequent periods) are viewed key to underpin the bull market, which began in October'22 and is now in its fourth (4) year.

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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