# *Marketline December 2025*

### *Stocks*

For the second month in a row, our domestic markets saw technology stocks decline while a wider universe of stocks including healthcare, communications services, and metals performed well. The Dow rose almost 1%, while the S&P was flat and the Nasdaq sank 0.5%. Overseas, returns were better: Canadian stocks rose 1.2%, Europe was up about 2.2%, and Mexico managed a 0.9% increase. We addressed the broadening interest in a larger variety of stocks last month: in a sense (considering markets other than our own), strong international stock returns this year have provided more evidence of expanding participation, embracing ever more sectors and industries as a counterpoint to the past few years' obsession with technology.

If we back up to consider the year as a whole, we find that forecasts issued in the spring of the year did not come to pass. Economists and strategists expected a recession, higher inflation, and declining stock markets; instead, growth accelerated, inflation drifted down, and stocks logged a strong year. Much of the economic growth we've seen has been underpinned by construction and orders related to artificial intelligence, but infrastructure improvements as a result of the passage of the Bipartisan Infrastructure Bill passed in 2021 are also in play. This was a $1.2 trillion bill with a long tail – it will support construction for years. On the inflation front, gasoline, housing prices, and some segments of the food complex declined in price while services – less affected by tariffs – have maintained an upward trajectory. Globally, inflation is expected to settle around 4.2% for the year, quite a bit higher than in the US. Large cap stocks notched a total return in the 17% to 18% area for 2025 – far better than most were expecting - and yet another reminder that forecasting stock returns is unproductive.

Looking forward to 2026, a number of salutary factors are in place – a tax regime that rewards US companies for research and development and expansion of production; direct tax benefits for families and individuals in the form of higher standard and enhanced SALT deductions; the lower trading value of the US dollar on currency markets; and the launch of another round of quantitative easing by the Fed (see below). While it's difficult to predict markets, these tailwinds give us reason for optimism – tempered by the fact that markets have been rising strongly for years, bringing valuations up to historically high levels.

### *Bonds:*

Last month we wrote: "… the Fed has wandered off the reservation in its overactive use of its balance sheet… during the Great Recession – when foreclosures wracked the real estate sector – the Fed bought bonds hand over fist… we call this Quantitative Easing (QE), and it's become a fixture in our economy."

Well, guess what. QE is back – sort of. The Fed announced that it's planning to reinvest the maturing proceeds of the bonds on its balance sheet, rather than letting the bonds run off. This means the Fed's balance sheet will decline either far less slowly or not at all, in support of decreasing the cost of our federal deficits and keeping rates as low as possible.

A rampant debate around the Fed's independence was sparked when Trump indicated he wanted to fire Powell to install a Fed chief more willing to cut interest rates. Whether this move back to QE was in consideration of politics or in consideration of banks and their imperatives is difficult to discern. But it's clear that more QE is not in service of either of the Fed's mandates – employment and price stability. The Fed hasn't been "independent" for at least a decade.

What does this mean for investors? In one way, continual Fed support is a good thing, because it means plenty of liquidity buffering stock prices, and low interest rates at least in short maturities where consumer debt like credit card and car loans are priced. But in the long run, this behavior delays a reckoning that's long overdue around our federal deficits.

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