



Washington Monument, Mount Vernon Place, Baltimore Maryland

WEEK OF DECEMBER 15, 2025

Market Navigator

U.S. equities were mixed. Growth stocks came under pressure, dragging down the Nasdaq Composite and S&P 500. Conversely, as investors sought value opportunities, the Dow Jones Industrial Average and the small-cap Russell 2000 rallied. After last week's Federal Open Market Committee (FOMC) meeting, interest rates were reduced 25 basis points (bps), as expected.

Quick Hits

1. **Beyond the headlines:** What do FOMC policy dissents mean for the path forward?
2. **Report releases:** The big news was the 25 bps rate cut, though the timing of future rate cuts is unclear.
3. **Financial market data:** Growth stocks came under pressure as investors sought value. The intermediate portion of the Treasury yield curve sold off.
4. **Looking ahead:** We expect to see several important reports that were delayed because of the government shutdown.



Beyond the Headlines: What Do FOMC Policy Dissents Mean for the Path Forward?

Last week, the Federal Reserve's (Fed's) FOMC reduced interest rates, marking the third consecutive meeting that rates were reduced 25 bps. The central bank has now cut rates six times this cycle, with a nine-month pause in the middle. The rationale behind the decision continued to be weakness in the employment market.

For the first time since 1988, however, three Fed governors on the committee dissented. One favored a 50 bps reduction and two advocated no change to policy.

Hawkish Tone for 2026?

These disagreements did not affect the meeting outcome, and the 25 bps cut was in line with market expectations. That discord, however, could affect the path forward in 2026. FOMC projections continue to show one rate cut next year. At the same time, the official post-meeting statement reinserted what the market refers to as "pause language," with the Fed referring to the "extent and timing" of additional adjustments. Chair Jerome Powell also indicated that the bar for another cut is higher. Together, these indications seem to be setting a hawkish tone for next year.

Concern about further rate reductions has arisen because the two areas of the Fed's dual mandate—employment and inflation—have been moving in opposite directions. Employment has weakened; in his news conference, Powell said the Fed believes jobs data is weaker than has been

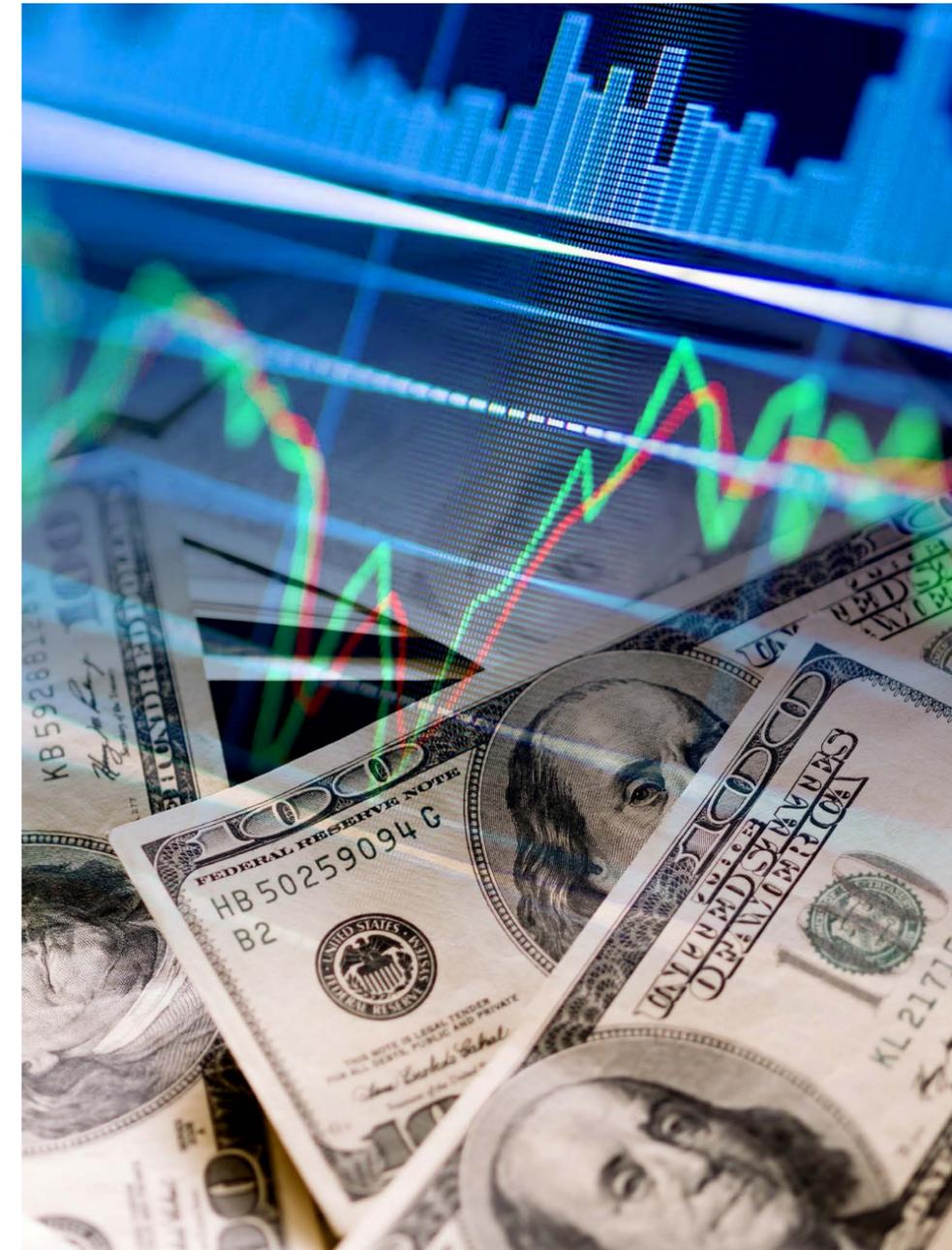
reported to date. At the same time, inflation data has increased because of the impact of tariffs. That may limit the Fed's ability to reduce rates aggressively if employment continues to deteriorate for fear of increasing inflation further.

Further Room for Easing

Powell's comments after the meeting, however, were anything but hawkish. He said the current rate is at the high end of a neutral range, which implies that there is room for further easing. And, in the Fed's forward projections, 2026 GDP growth was revised higher, from 1.8 percent to 2.3 percent. (This is a significant increase, though part of it is due to playing catch-up after the government shutdown.) Although there was no change to the unemployment rate, inflation expectations were lowered for 2026. It's anticipated that inflation will reach the Fed's 2 percent target near the end of 2027. This is certainly a positive outlook for that side of the dual mandate.

Despite the dissent and uncertainty, the market focused on the dovish side of the outlook, the weak employment market, and improving inflation. The stock market rallied on Wednesday and Thursday, with the S&P 500, Dow Jones, and Russell 2000 each setting record highs. With technology coming under increased scrutiny, investors seem to be positioning their portfolios for stronger economic growth in 2026, and market breadth is broadening.

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Report Releases: December 8–12, 2025

- FOMC Rate Decision** December (Wednesday) The FOMC lowered the range for the federal funds rate 25 bps after its December meeting. This marks three consecutive FOMC meetings resulting in interest rate cuts, signaling continued central banker concern with the health of the labor market.
- Expected/prior federal funds rate upper limit: 3.75%/4.00%
 - Actual federal funds rate upper limit: 3.75%



>> The Takeaway

- The FOMC's decision to cut rates 25 bps aligned with market expectations as the Fed continued to express concern about the health of the labor market. Three FOMC members, however, dissented with the decision. Currently, the central bank expects to cut rates only once in 2026. (Market expectations before the meeting were for three to four cuts.)

Financial Market Data

Equity

Stocks were decidedly mixed. The Nasdaq fell 1.6 percent, and the S&P 500 dipped less than 1 percent after reaching a record high on Thursday. The Dow Jones and the small-cap Russell 2000 each rose more than 1 percent. Cyclical and value stocks outperformed, with materials, financials, industrials, and consumer staples sectors leading the way. Growth sectors such as communication services and technology came under pressure.

| Index | Week-to-Date | Month-to-Date | Year-to-Date | 12-Month |
|-----------------------|--------------|---------------|--------------|----------|
| S&P 500 | -0.61% | -0.26% | 17.49% | 14.26% |
| Nasdaq Composite | -1.61% | -0.69% | 20.90% | 17.35% |
| DJIA | 1.10% | 1.72% | 15.84% | 12.25% |
| MSCI EAFE | 0.85% | 1.63% | 30.26% | 26.09% |
| MSCI Emerging Markets | 0.44% | 1.87% | 32.81% | 28.48% |
| Russell 2000 | 1.21% | 2.10% | 15.84% | 9.53% |

Source: Bloomberg, as of December 12, 2025

Fixed Income

The Treasury market was also mixed. The yield curve steepened after the FOMC meeting and Powell's post-meeting news conference. Yields on the 10-year rose 5 bps, closing at 4.184 percent. Stronger economic projections from the Fed and division within the committee were interpreted as hawkish by investors.

| Index | Month-to-Date | Year-to-Date | 12-Month |
|-------------------|---------------|--------------|----------|
| U.S. Broad Market | -0.20% | -0.68% | 6.73% |
| U.S. Treasury | -0.17% | -0.78% | 5.83% |
| U.S. Mortgages | -0.19% | -0.47% | 7.84% |
| Municipal Bond | -0.04% | -0.16% | 3.99% |

Source: Bloomberg, as of December 12, 2025

>> The Takeaway

- Equities were mixed; investors rotated out of growth stocks and into more value-oriented areas of the market. AI companies continued to come under scrutiny.
- Intermediate-term Treasury yields moved higher after the FOMC meeting. Committee dissent and the updated dot plot led investors to conclude there may be fewer interest rate reductions than anticipated in 2026.

Looking Ahead

This week will be busy as the government continues to catch up on reports that were delayed during the recent shutdown.

- Economic reports will be in focus, with employment data for October and November, retail sales data for October, the November Consumer Price Index, and existing home sales data expected.
- Also, three Fed governors are expected to speak.



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convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. One basis point (bp) is equal to 1/100th of 1 percent, or 0.01 percent.

Authored by the Investment Research team at Commonwealth Financial Network®

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