



MACROMATRIX

# Inflation Persistence, Policy Shifts, and Cross-Asset Signals



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## Executive Overview

As 2026 begins, the US and global economies stand at a critical juncture marked by resilient growth, persistent inflation, and shifting monetary policies. The US economy continues to expand, driven by consumer spending, though inflation remains above the Federal Reserve's 2% target, prompting a cautious and data-driven approach to interest rate adjustments. Fiscal challenges, including soaring national debt exceeding US\$38T, add complexity by influencing market yields and limiting policy flexibility.

Globally, inflation trends remain uneven, with advanced economies seeing gradual moderation while many emerging markets struggle with elevated price pressures. Central banks worldwide exhibit diverging strategies, some maintaining high rates to anchor inflation, others easing to support growth amid softening demand. Sovereign bond yields and equity markets reflect these varied stances, with US Treasuries ranging between 3.5%–4.86% and equities generally strong, led by technology and communication sectors. Commodities remain a critical barometer, supported by supply discipline and geopolitical factors, while currency movements highlight persistent policy divergences and risk sentiment.

The overall economic outlook points to a moderate but stable global expansion of around 2.8%, driven by structural technology investment and evolving trade dynamics. However, risks from inflation persistence, fiscal imbalances, and geopolitical uncertainty underscore the need for adaptive policies and diversified investment strategies. In summary, navigating this intricate macro environment requires vigilance, flexibility, and a comprehensive understanding of cross-asset signals to effectively balance growth opportunities with inflation and risk considerations.

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### Key Takeaway

*US economic growth remains steady with strong GDP data, but labor markets are gradually softening amid persistent inflation above the Fed's target. The Federal Reserve maintains a cautious, data-driven approach to interest rates. Global monetary policies show divergence as inflation eases unevenly. Sovereign bond yields and equity markets reflect mixed signals, with technology sectors leading. Rising US debt presents fiscal risks, while commodities and currencies signal geopolitical and supply-demand challenges. Navigating 2026 requires agility and diversified strategies.*

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## US Macro Economic Pulse: Growth, Income Dynamics, and Inflation Trends

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The latest US macroeconomic data through late 2025 reveal a resilient expansionary backdrop with nuanced pressures shaping near-term dynamics. The benchmark measure of economic output, Real GDP, grew at an annualized pace of 4.3% in the third quarter of 2025, well above consensus expectations and the prior quarter's 3.8% pace. This acceleration reflected consumer spending, stronger exports, and elevated government expenditures, even as business investment softened modestly and import contraction provided a further lift to net output. The composition of growth underscores continued domestic demand resilience alongside a supportive external sector, reinforcing confidence in the US economy's post-shock trajectory. Corporate profits also rebounded, signaling improved earnings momentum across sectors after earlier volatility.

On the income side, updated personal income and outlays data for September 2025 indicate a steady 0.4% monthly gain in personal income, pointing to sustained wage and asset income contributions that underpin consumer capacity. While final detailed components await full release, this upward trajectory in income is critical for supporting household spending. The Personal Consumption Expenditures (PCE) price index, the Federal Reserve's preferred inflation gauge, rose 2.8% year-over-year in September 2025, with the core PCE measure similarly elevated, reflecting persistent, albeit gradually moderating, underlying price pressures in services and goods.

Complementing PCE trends, the Consumer Price Index (CPI) for November 2025 recorded inflation of approximately 2.7% over the past 12 months, with the core CPI (excluding food and energy) increasing in the same band. Shelter, energy, and communicative services contributed to nuanced price shifts, while data collection disruptions during the federal government shutdown introduced some volatility into the short-term series.

## Global Inflation and Yield Curve Dynamics: Signals from Price Pressures and Bond Markets

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In the latest macro landscape, inflation trends across major economies continue to evolve with notable divergences shaping global risk dynamics. Recent data indicate that worldwide consumer price inflation remains above historical norms, averaging around 4.2%, with advanced economies moderating more slowly than expected and several emerging markets still grappling with elevated price pressures. The inflation picture reveals significant regional variation: advanced economies are generally seeing inflation closer to central bank targets, while parts of Latin America and the Middle East register substantially higher annual price increases, reflecting differentiated supply and demand conditions.

Central bank communication, including from the Federal Reserve, emphasizes ongoing vigilance given persistent service inflation and the risk of re-anchored expectations, reinforcing that policy calibration remains data-dependent amid the global transition to post-tightening regimes. Simultaneously, global yield curves for sovereign bonds across the US, UK, Germany, Japan, India, and others reveal varied slope dynamics, with many curves flattening or inverting at certain tenors as markets weigh growth prospects

against inflation and monetary easing expectations. These yield shapes embody market forecasts of slower future growth, potential rate cuts, and evolving risk premia, underscoring the interconnected nature of price and financial markets in shaping macroeconomic trajectories.

## **Economy at a Glance: Labor Market, Tax Changes, and Consumer Confidence**

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The US economy at the end of 2025 showed a complex interplay of supportive and challenging factors shaping growth prospects heading into 2026. Recent data highlight a labor market that remains solid but exhibits signs of moderation. November's employment report recorded a net addition of 64,000 jobs, down from earlier months. The unemployment rate edged slightly higher to 4.6% in September 2025, reflecting softening.

Tax policy changes loom large for the economic outlook in 2026. New tax reforms, including shifts in corporate tax rates and individual deductions, are expected to influence business investment decisions and household disposable income. While some sectors and consumers may benefit from relief measures, uncertainty around the scope and timing of these changes poses a risk to near-term economic confidence and spending patterns.

US Consumer Confidence, a key driver of demand, has shown notable weakness heading into year-end 2025, with the Conference Board's index falling to 89.1 points for December from 92.9 in November. Consumers also reported weaker views on current business and labor conditions and subdued expectations for incomes and jobs, a sign of caution among firms and households alike. Retail sales were unchanged from September to October (seasonally adjusted for seasonal variation and holiday and trading-day differences), with sales seeing a 3.5% YoY increase in October. In summary, while the US economy benefits from labor market fundamentals and some fiscal tailwinds, softening job growth, evolving tax policy, and declining consumer confidence present significant headwinds. These dynamics will be critical in shaping the pace and durability of economic expansion in 2026.

## **Federal Reserve Stance: Decoding the FOMC's Policy Signals and Market Implications**

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In the latest Federal Reserve policy cycle, the narrative emerging from the Federal Open Market Committee (FOMC) reflects a central bank navigating between softening economic momentum and persistent inflationary risk, with minutes from the December meeting signaling nuanced internal debate rather than policy unanimity. The December FOMC minutes, released against a backdrop of mixed macro data, revealed that while the majority of policymakers endorsed a 25 bps rate cut to support slowing growth, a notable minority argued for a pause, underscoring the Fed's heightened sensitivity to inflation dynamics and labor market resilience. This divergence was rooted in differing interpretations of incoming data: some participants viewed inflation metrics, particularly services inflation, as still above target and reliant on sustained restrictive policy, while others judged that tightening financial conditions and moderating demand warranted additional easing.

Crucially, the minutes highlighted that future cuts are not on a preset path, with the Committee emphasizing data dependency over forward guidance and stressing that any additional rate reductions will be contingent on evidence of durable inflation re-anchoring toward the 2% target without jeopardizing labor market health. Markets have responded to these signals with recalibrated expectations, shifting toward a more gradual easing trajectory than previously priced, reflecting skepticism about the pace of rate normalization. The Fed's cautious stance is further informed by global economic uncertainties and financial stability considerations, suggesting that while the bar for additional cuts remains lower than in earlier tightening cycles, policymakers are wary of overshooting amid conflicting macro signals. The overarching message is clear: the Fed is balancing growth support with inflation vigilance, signaling conditional flexibility rather than aggressive accommodation.

### Global Monetary Policy Tracker: Current Central Bank Actions and Trends

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As macro uncertainties persist, major central banks globally are navigating divergent policy paths that reflect differing inflation dynamics, growth prospects, and financial stability concerns. In the United States, the Federal Reserve has signaled a cautious stance with limited further easing, emphasizing data dependency and inflation progress. Meanwhile, the European Central Bank and Bank of England have largely held steady after extended tightening cycles, balancing still-above-target price pressures with slowing demand. In contrast, several emerging market central banks, particularly in Asia and Latin America, have begun easing policy rates to counter weakening economic activity and currency pressures, while others maintain restrictive settings to defend inflation expectations and capital flows.

Across the global landscape, monetary policy rates vary widely, from negative or near-zero in economies struggling with low inflation to double-digit key rates in countries battling persistent price acceleration. International financial institutions underscore the importance of tailored responses, with liquidity support and contingent financing facilities available to cushion shocks. This mosaic of policy stances highlights central banks' evolving priorities: some are focused on anchoring inflation expectations, others on stimulating growth, and many on managing the trade-offs between the two amid shifting external pressures.

### Government Yields: Snapshot of Sovereign Bond Markets

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Global government bond yields have reflected shifting growth and inflation expectations, with US 10-year Treasuries trading in a range near 4.0-4.3%, signaling market repricing toward moderate growth and potential future rate adjustments. In Europe, German Bonds remain in historically low territory compared to their US peers, while the UK 10-year yield has exhibited volatility amid inflation and fiscal policy uncertainty. Japan has commenced a rate-hiking cycle to counter inflation after three decades of ultra-low interest rates. The Bank of Japan raised rates to 0.75% in December 2025, as core inflation came in at 3%. Emerging market sovereign yields vary widely, with higher rates in markets grappling with inflation and currency risk, and lower yields where monetary easing is underway. The cross-section of yields reflects a

global equilibrium between inflation expectations, monetary policy divergence, and safe-haven demand, offering crucial signals for investment positioning and macro risk assessment.

## Global Equity Markets: Recent Performance with Key Data Points

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Global equity markets entered early January 2026 on a strong footing, building on a robust 2025 performance that saw major indices post double-digit annual gains. As of December 29, 2025, the S&P 500 had climbed approximately 17.2% for the year, while US tech-heavy indexes such as the Nasdaq outpaced peers with nearly 20% gains, driven by AI optimism and strong corporate earnings. European equities also performed well: the FTSE 100 ended 2025 up over 21%, its best annual return since 2009, and the STOXX 600 gained about 17%, reflecting broad-based strength across sectors. In Asia, the Hang Seng led global index performance with roughly 30.6% year-to-date gains, followed by Japan's Nikkei 225 at nearly 26.7%, highlighting regional divergence and growth opportunities. Emerging markets showed varying returns, with some lagging developed peers but still positive overall. This mosaic of equity returns underscores strong investor risk appetite amid mixed macro signals and central bank policy shifts.

## Federal Deficits & Rising US Debt: Macro Risks and Market Implications

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As the US navigates complex economic terrain, the federal deficit and national debt trajectory have emerged as critical macro-financial variables shaping long-term growth prospects, interest rate dynamics, and global investor confidence. By late December 2025, the United States national debt exceeded USD\$38 trillion, equating to roughly 120% of GDP, a level not seen since the post-World War II era and indicative of structural fiscal pressures. The elevated debt levels reflect persistent annual deficits, driven by entrenched entitlement spending, discretionary outlays, and episodic fiscal stimulus measures. Recent surveys of professional forecasters, including the New York Fed's quarterly risk survey, show expectations of further debt expansion, with a majority of respondents projecting continued growth in federal liabilities relative to economic output over the next decade, intensifying concerns about future interest burdens and potential credit constraints.

High debt levels constrain fiscal space, limiting policymakers' ability to deploy counter-cyclical measures during downturns and raising questions about future tax, entitlement, and spending reforms. The interplay between growing debt, market perceptions, and monetary policy underscores a core macro challenge: balancing fiscal sustainability with ongoing efforts to sustain growth and price stability.

## Bond Market Performance: Concise Update

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In the latest data through January 2026, global bond markets have exhibited return dispersion driven by shifting rate expectations and macro signals. US Treasuries showed modest gains in the short end as markets priced in potential future rate cuts, while longer maturities experienced volatility amid the repricing of inflation expectations and growth outlooks. The 10-year Treasury yield oscillated near 4.1–4.3%, reflecting cautious optimism on inflation moderation but lingering uncertainties on economic

momentum. In contrast, European sovereign bonds saw mixed performance, with German Bond yields holding low and stable, and UK Gilts moving higher on inflation persistence. Emerging market bonds delivered varied results: hard-currency sovereigns benefitted from easing in some key risk premiums, whereas local-currency issues faced pressure from currency fluctuations. Overall, bond market performance mirrors the broader macro narrative of divergent monetary stances and recalibrated risk pricing, offering key signals for duration strategy and cross-asset allocation decisions.

## Overall Economic Outlook: Navigating Growth, Inflation, and Policy Crosswinds

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The US economic outlook entering early 2026 reflects a delicate balance between resilient growth, moderating inflation, and evolving monetary and fiscal policy influences. According to the Federal Reserve's December 2025 Summary of Economic Projections, growth is expected to moderate toward trend over the next several quarters, with real GDP forecasts anchored by continued consumer spending, steady labor market conditions, and the prospective effects of fiscal adjustments. The Fed's projections indicate that inflation, having moderated from multi-year highs, is anticipated to grind closer to the 2% target by 2028, though core price pressures in services remain sticky, underlining the central bank's cautious posture. Forward guidance from policymakers emphasizes data dependency, signaling that future rate adjustments will be responsive to incoming employment, inflation, and financial conditions rather than pre-set paths, reflecting a flexible stance amid uncertainty.

Private sector forecasts add nuance to this baseline. Several macroeconomic outlooks project modest U.S.GDP growth in the 1.8–2.2% range for 2026, underpinned by a combination of softer global demand, residual fiscal stimulus from tax reforms, and improved tariff clarity that collectively support business confidence and investment. Consumer demand, while still a critical driver of growth, shows signs of moderation as households absorb higher living costs and adjust savings behavior.

Downside risks to the outlook include inflation persistence above target, potential tightening of financial conditions if yield volatility re-emerges, and external shocks such as geopolitical tensions or abrupt tightening in credit markets. Conversely, easing inflation, accommodative fiscal measures, and sustained household balance sheet resilience could bolster activity beyond baseline expectations. The interplay of these forces suggests a gradually decelerating but stable economic expansion with inflation trending toward the target and monetary policy calibrated to evenly balance the risk.

## Global Currency Movements: Recent Trends and Signals

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Recent shifts in the global currency landscape reflect evolving macro fundamentals, divergent monetary policy paths, and shifting risk sentiment. As of early January 2026, EUR/USD is trading modestly below its recent highs around 1.18–1.19, with spot near the high 1.16s to low 1.17s, reflecting the European Central Bank's cautious stance compared with the Fed's conditional guidance, while the GBP/USD has shown volatility amid mixed UK inflation and growth data. USD/JPY continues to exhibit wide differentials. The Bank of Japan recently raised rates to 0.75%, its highest level in 30 years. The Yen is expected to

appreciate versus major currencies due to monetary tightening and rate increases in Japan. Emerging market currencies have experienced varied performance: some, like the Mexican peso and South African rand, have strengthened with supportive commodity prices and external inflows, whereas others face pressure from local inflation and capital outflows. Overall, currency moves underscore markets' adaptation to policy divergence, yield spreads, and global growth cues, offering critical context for multinational investment and trade positioning.

### **Asset Class Performance: Recent Returns Across Major Markets**

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Across major asset classes through late 2025, performance has been differentiated as markets priced evolving macro signals and policy expectations. Equities led risk assets, with the S&P 500 and major global indices delivering strong total returns as earnings momentum and liquidity supported valuations. High-grade government bonds posted modest gains as markets anticipated future rate cuts, flattening yield curves, and boosting prices on longer maturities. Investment-grade credit outperformed sovereigns, benefiting from spread tightening amid stable corporate fundamentals, while high-yield bonds delivered attractive returns reflecting resilient credit conditions. Real assets such as commodities showed mixed performance: energy prices climbed on supply discipline and geopolitical influences, while precious metals were buoyed by safe-haven interest amid inflation uncertainty. Real estate investment trusts (REITs) also delivered positive returns, supported by improving occupancy and income trends. Meanwhile, emerging market assets exhibited higher volatility with currency effects and local rate dynamics influencing returns. Overall, the data highlights the importance of multi-asset diversification in navigating dynamic macro regimes and cross-asset risk premia.

### **Commodities Market: Recent Performance Snapshot**

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The commodities complex through late 2025 displayed divergent trends driven by demand-supply fundamentals and macroeconomic signals. Energy commodities such as Brent and WTI crude oil maintained elevated levels, supported by disciplined OPEC+ supply management and resilient global oil demand, with prices generally trading above recent multi-month averages. Industrial metals like silver, copper, and aluminum exhibited strength, reflecting ongoing infrastructure demand and lower concerns about global manufacturing slowdowns. In contrast, agricultural commodities showed mixed performance, as weather patterns and logistical factors influenced key crop price dynamics. Precious metals, particularly gold, benefited from safe-haven flows amid lingering inflation uncertainty and geopolitical risk, pushing prices higher on a year-over-year basis. Overall, Silver outperformed as commodity prices continue to offer critical signals on global growth expectations, inflation pressures, and real asset hedging demand, underscoring their role in cross-asset strategy and macro risk assessment.

### **Global Outlook: Resilience Tempered by Divergence and Structural Shifts**

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The global economic outlook for 2026 is marked by broad resilience amid uneven growth trajectories and structural headwinds, reflecting a world economy that has withstood recent shocks yet faces persistent

uncertainty. Worldwide GDP is forecast to expand by roughly 2.8% in 2026, with advanced and emerging markets such as India and China contributing unevenly to this momentum, with a 2026 consensus GDP growth rate of 6.5% & 4.5%, respectively. Growth expectations for major regions reflect this divergence: Asia continues to show pockets of strength, including Singapore's 4.8% expansion in 2025, supported by robust manufacturing and AI-related demand, while China has seen its factory activity return to expansion in December 2025 after an eight-month slump, suggesting tentative stabilization in the world's second-largest economy.

At the same time, structural challenges such as weak domestic demand and industrial profit contraction highlight continued fragilities in China's broader economic rebalancing. Developed economies in Europe and North America are projected to grow at moderate rates, with consumer and investment dynamics influenced by monetary policy shifts, tariff uncertainties, and evolving labor market conditions. Global trade growth is expected to slow as the impact of tariffs and geopolitical risks weighs on investment and cross-border commerce. Elevated corporate focus on technology investment, especially in AI, serves as a key growth driver while also reshaping productivity trends and competitive dynamics. Despite these positive signals, inflationary pressures, debt burdens, and policy divergences underscore the risks that could temper expansion, making adaptive policy frameworks and multilateral co-operation critical to sustaining growth and stability in 2026.

### **Asset Allocation: Top Performing S&P 500 Sectors**

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Recent performance within the S&P 500 has been led by a concentrated set of sectors that reflect broader macro and market dynamics. Information Technology continues to outperform, driven by gains in mega-cap AI and cloud computing leaders, which have sustained strong earnings growth and multiple expansions. Communication Services also ranks among the top performers, bolstered by robust advertising demand and resilient digital engagement trends. The Consumer Discretionary sector has shown relative strength as consumer spending remains firm despite inflation pressures, with retail and luxury segments outperforming cyclically sensitive categories. Conversely, traditional Energy has lagged over shorter horizons as supply discipline and demand shifts temper price momentum, while the Financials sector reflects mixed results amid yield curve flattening and credit cost considerations. These sectoral trends have shaped tactical asset allocation decisions, with overweight positions in tech and cyclicals delivering superior risk-adjusted returns year to date.

### **Conclusion**

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The latest macroeconomic landscape, both in the US and globally, presents a complex but cautiously optimistic picture as we step into 2026. The US economy demonstrates growth supported by steady consumer spending, even as inflationary pressures persist above target levels. US Federal Reserve policy reflects this delicate balancing act, with a data-dependent approach signaling measured rate adjustments amid ongoing debates over the pace and extent of monetary easing.

Globally, inflation remains elevated in many regions, yet central banks are increasingly diverging in their monetary policy paths, responding to regional economic dynamics and inflation trajectories. Sovereign bond yields and equity markets have adjusted accordingly, reflecting investor recalibration amid these varied signals. Commodities and currencies further underscore this global mosaic, with supply-demand fundamentals and geopolitical factors driving significant variation across markets.

Fiscal concerns in the US, particularly rising debt and deficits, continue to pose long-term risks, influencing interest rates and policy space. Meanwhile, global economic growth is expected to moderate but remain steady, with key drivers including technology investment, trade uncertainties, and evolving geopolitical dynamics.

Overall, the economic outlook is one of cautious navigation through a dynamic environment characterized by policy transitions, inflationary challenges, geopolitical risks, and growth divergences. For investors and policymakers alike, the path forward demands agility, diversification, and close monitoring of evolving macro trends.



## About us

RCK Analytics is a global provider of high-quality investment research, investment banking support, PE/VC insights, Gen AI solutions, market research, analytics, and assurance services. We serve a diverse client base including investment firms, PE/VC funds, asset managers, hedge funds, investment banks, consulting firms, and corporates across sectors. Backed by a skilled team, we deliver data-driven insights and strategic support to help clients make informed decisions and drive financial outcomes.



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