



MACROMATRIX

Slowing Momentum, AI Concentration, and Shrinking Policy Space



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Executive Overview

The latest period delivered unmistakable evidence of U.S. and global economic deceleration amid rising policy uncertainty. The defining U.S. development was November's ADP private payroll report, which showed a surprise decline of 32,000 jobs—the first contraction since March 2023 and a sharp reversal from October's revised gain of 47,000. Small businesses shed 120,000 positions, underscoring the increasingly K-shaped nature of the recovery. This labor-market signal, compounded by the 43-day government shutdown that delayed official data releases, heightened fears of a sharper slowdown and pushed market-implied odds of a December Federal Reserve rate cut to roughly 86%, targeting a federal-funds range of 3.50%–3.75%. Simultaneously, the Fed ended quantitative tightening on December 1, concluding a \$2.4 trillion balance-sheet reduction and re-injecting liquidity into the system.

Despite broad macro softening, artificial intelligence remained the dominant growth engine. AI-related capital expenditures exceeded \$405 billion in 2025, accounting for roughly half of inflation-adjusted GDP growth and powering a 29% year-to-date rally in the technology sector. Corporate fundamentals remained supportive, with Q3 S&P 500 earnings rising 13.4% year-over-year and more than 85% of companies beating estimates, though tariff uncertainty muted equity upside and widened credit spreads.

Globally, policy divergence widened. The ECB held rates steady, the Bank of Japan signaled a December hike toward 0.75% amid yen weakness near 155/USD, and IMF outstanding credit climbed to \$161 billion, highlighting mounting pressure on emerging economies. U.S. Treasury yields rose sharply, gold reached repeated record highs, and commodities delivered mixed performance amid ample oil supply.

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Key Takeaway

The period crystallized a resilient yet increasingly fragile outlook. AI investment and corporate profits continue to provide support, but weakening labor markets, a \$38.4 trillion U.S. debt burden, rising trade frictions, and early signs of consumer retrenchment tilt risks toward slower 1.9%–2.2% growth and inflation remaining sticky in the 2.5%–3.0% range in 2026. For policymakers and investors alike, diversification, balance-sheet quality, vigilance against stagflationary pressures are becoming increasingly paramount.

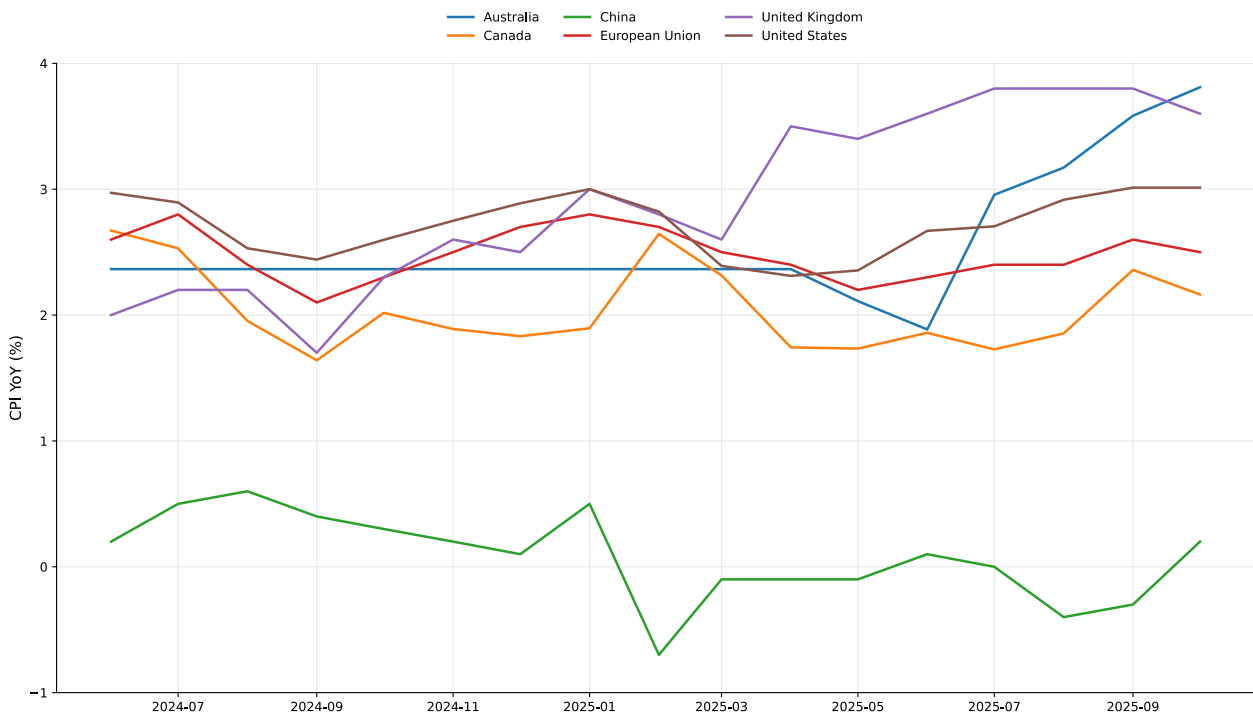
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U.S. Macroeconomic Indicators: Labor Cracks Emerge Beneath the Surface

The U.S. economy entered the final stretch of 2025 showing unmistakable signs of cooling, particularly within the labor market. November’s ADP National Employment Report served as a notable inflection point, revealing a contraction of 32,000 private-sector jobs—the first monthly decline in nearly two years. This outcome substantially missed consensus expectations and reversed the modest hiring momentum seen earlier in the autumn. Crucially, job losses were highly concentrated among small businesses, which are typically the most sensitive to changes in credit conditions, labor costs, and demand expectations. Larger firms continued to add jobs modestly, reinforcing the narrative of a bifurcated—and increasingly K-shaped—recovery.

Sectoral distribution further underscored the slowdown. Manufacturing, professional and business services, construction, and information technology all recorded net job losses, reflecting both cyclical pressures and structural adjustments related to automation and cost discipline. The only meaningful offset came from education and health services, sectors traditionally insulated from late-cycle dynamics but insufficient to offset broader weakness. Meanwhile, wage growth for job stayers eased to 4.4% year-over-year, signaling some disinflationary progress but also heralding weaker real income growth for households.

Figure 1: Inflation Across Major Economies



Source: Data sourced from Yahoo! Finance as on December 08, 2025. ^GSPC – S&P 500 Index (US Large Cap), DJIA – Dow Jones Industrial Average (US Industrials), ^IXIC – NASDAQ Composite Index (US Tech), ^RUT – Russell 2000 Index (US Small Cap), ^FTSE – FTSE 100 Index (UK Large Cap), ^STOXX50E – EURO STOXX 50 (Eurozone Equities), ^N225 – Nikkei 225 Index (Japan Equities), VEMAX – Vanguard Emerging Markets Stock Index Fund (Emerging Markets Equities).

Policymaker visibility was further impaired by the 43-day government shutdown, which delayed official Bureau of Labor Statistics releases and forced market participants to rely on partial indicators. Preliminary estimates suggest unemployment hovered near 4.4%, the highest level in four years, while nonfarm payroll growth moderated sharply. Inflation data remained sticky: headline CPI increased 3.0% year-over-year, with core measures remaining elevated due

to shelter costs and tariff-related price pressures. Although PCE inflation has eased relative to 2022 peaks, it remains uncomfortably above the Fed's 2% target.

Broader household stress indicators continue to deteriorate. Credit-card delinquencies climbed above 12%, subprime auto loan arrears reached multi-decade highs, and commercial real estate delinquencies surged past 11%. These trends suggest that labor-market softness is increasingly feeding through to balance sheets and consumption behavior. While the economy has not entered recession, the cushion provided by excess savings and asset-price appreciation is thinning—particularly for middle- and lower-income households that lack exposure to equity-market gains.

AI-Driven Growth: A Powerful Engine, Narrowly Distributed

By late 2025, U.S. growth dynamics had evolved into a starkly bifurcated structure. Headline GDP growth remained robust—nearly 4% annualized in Q3—but this strength was overwhelmingly driven by artificial intelligence–related capital expenditure. Investments in data centers, high-performance computing, software, and semiconductor capacity consistently exceeded expectations, lifting aggregate output while masking stagnation in more traditional segments of the economy. Without AI-related spending, private nonresidential investment has been broadly flat for several years.

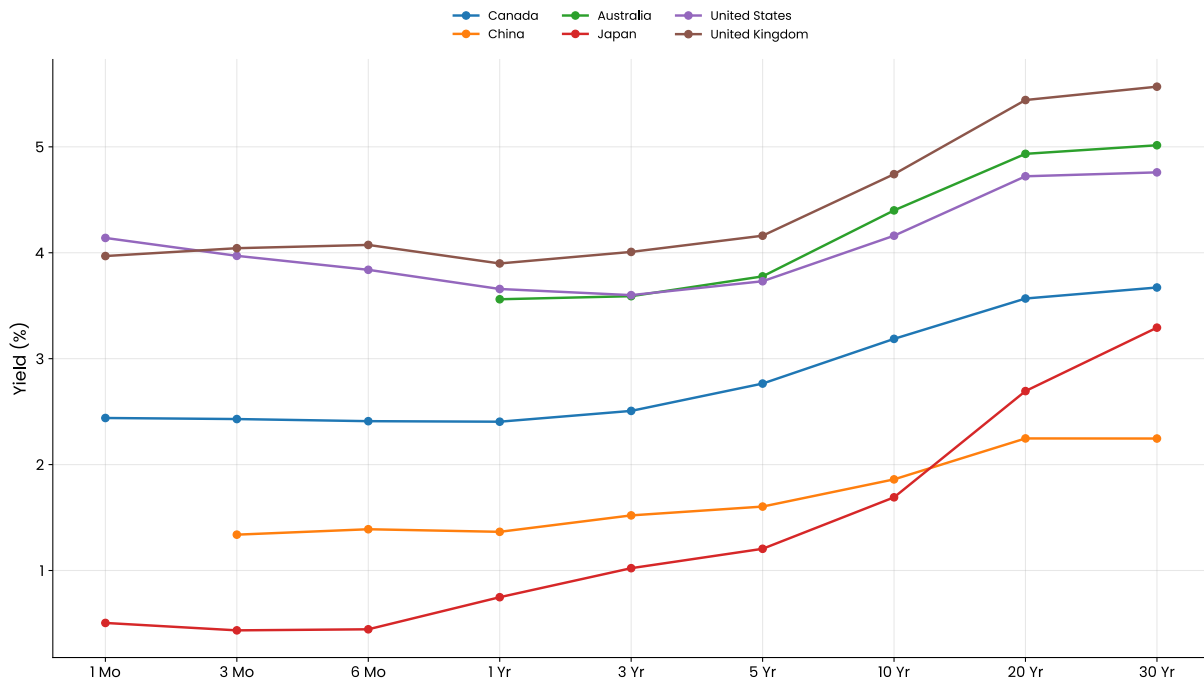
This concentration has fueled extraordinary performance in equity markets, particularly among large-cap technology firms. The S&P 500 technology sector rose more than 29% year-to-date, significantly outperforming the broader index. Mega-cap companies increasingly command valuation and growth premiums reminiscent of late-cycle phases in prior market cycles. While earnings growth has validated some of this optimism—particularly in software, cloud infrastructure, and semiconductors—the sustainability of returns hinges on the eventual translation of capital intensity into widespread productivity gains.

Yet evidence of economy-wide productivity improvement remains limited. AI-driven efficiency gains are largely confined to high-skill and capital-intensive industries, providing minimal offset to job displacement in logistics, retail, and administrative functions. This imbalance exacerbates income inequality and reinforces the uneven consumption pattern observed across income cohorts. Regional disparities mirror this trend, with technology hubs thriving while labor-intensive regions struggle to regain momentum.

Dependence on AI also introduces new macro risks. A slowdown or pullback in hyperscale investment—even a modest one—could materially dent growth and corporate profitability. Historical analogs suggest that periods of extreme capital concentration often precede heightened volatility. While today's AI cycle differs fundamentally from past technology booms, the macro system's increasing reliance on a single growth vector leaves it vulnerable to shocks in policy, financing conditions, or technological adoption curves.

Federal Reserve Policy: Liquidity Returns, Constraints Remain

The Federal Reserve's late-2025 policy posture reflects a narrowing corridor of viable choices. After maintaining restrictive rates for much of the year, the Fed initiated a second consecutive rate cut at its October meeting, bringing the federal funds target range to 3.75%–4.00%. Minutes from that meeting revealed growing internal debate, underscoring uncertainty around the appropriate balance between labor-market support and inflation containment.

Figure 2: Yield Curves of Major Global Economies


Source: Data sourced from Yahoo! Finance on December 08, 2025.

The more consequential shift, however, came with the end of quantitative tightening on December 1. After shrinking its balance sheet by \$2.4 trillion—the longest QT episode in history—the Fed pivoted toward maintaining ample reserves through reinvestment. This move injected fresh liquidity into money markets, easing funding stress but raising questions about the signaling effect at a time when inflation remains above target. Short-term repo operations surged, reflecting increased bank demand for reserves amid balance-sheet constraints.

Markets have interpreted this shift as a tacit acknowledgment that financial conditions had tightened enough to threaten underlying stability. Futures pricing now implies further rate cuts in 2026, but the Fed remains constrained by sticky services inflation and tariff-driven cost pressures. Unlike earlier easing cycles, policymakers lack the flexibility to act aggressively without risking renewed inflation momentum. As a result, monetary policy is increasingly asymmetric: capable of cushioning downside risks but less effective at engineering a renewed acceleration in growth. This reality heightens sensitivity to fiscal policy, trade dynamics, and external shocks—factors largely outside the Fed’s direct control.

Global Monetary Policy and IMF Stress Signals

Global central banks entered late 2025 navigating increasingly divergent paths. The European Central Bank opted to hold rates steady despite weakening momentum, citing fragile confidence and the need to anchor inflation expectations. However, forward-looking indicators—including contracting services PMIs and ongoing weakness in property and industrial activity—suggest that Europe may be approaching a renewed downturn absent policy stimulus.

In contrast, the Bank of Japan took tentative steps toward normalization, signaling a potential December rate hike toward 0.75%. This move reflects rising wage pressures and persistent inflation, but it also exposes the fragility of

Japan's fiscal and financial architecture. Yen weakness near 155 per dollar underscores the difficulty of exiting decades of ultra-loose policy without destabilizing currency and bond markets.

Meanwhile, emerging markets face mounting pressure. IMF outstanding credit rose to approximately \$161 billion, highlighting persistent vulnerabilities linked to higher global rates, dollar dominance, and trade fragmentation. While IMF disbursements have moderated relative to pandemic-era peaks, borrowing costs for many developing economies remain elevated, constraining growth and amplifying political risk.

Collectively, these dynamics underscore a global system increasingly characterized by fragmentation rather than coordination—raising the likelihood that localized shocks propagate unevenly but forcefully across regions.

Treasury Yields and Duration Risk in a Supply-Heavy World

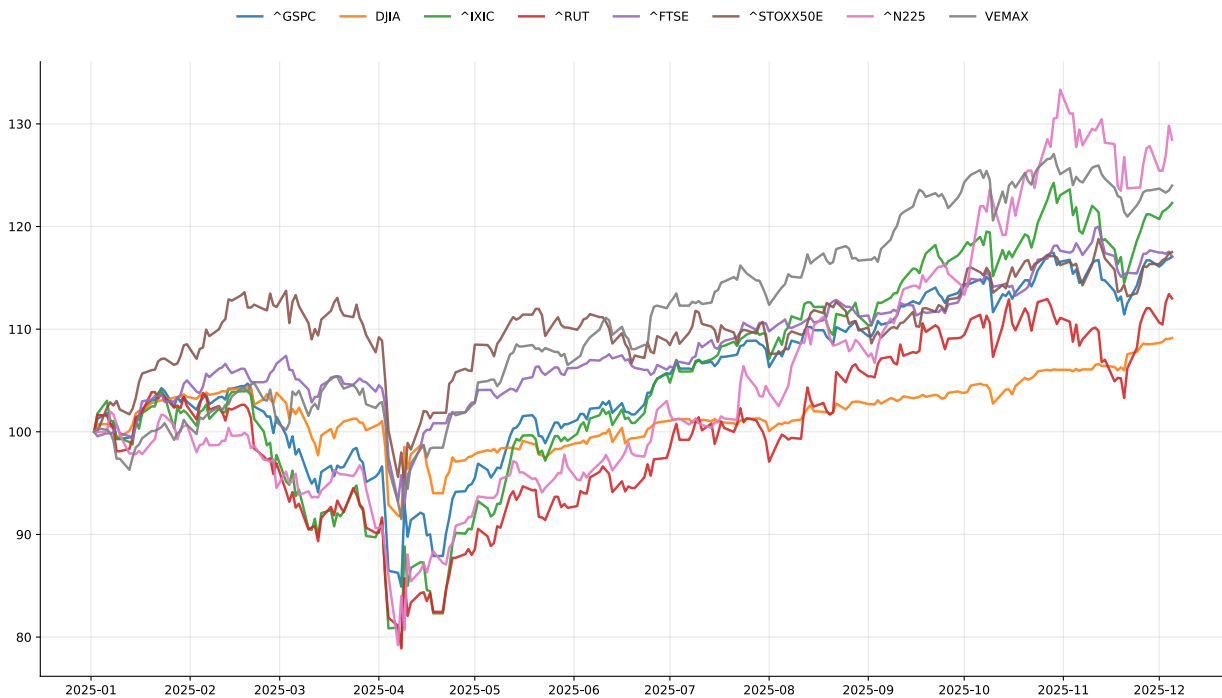
U.S. Treasury yields became increasingly volatile toward year-end, reflecting both cyclical uncertainty and structural supply pressures. The 10-year yield rose above 4.0%, while long-dated maturities approached multi-decade highs. The yield-curve steepening reflects growing concern around fiscal sustainability and the rising term premium associated with persistent deficits and heavy issuance.

Over a two-year horizon, bond investors experienced modest income returns offset by capital losses, particularly in long-duration assets. Corporate credit performed better, supported by strong earnings and limited defaults, though spreads now sit near cycle lows and offer limited protection against macro downside.

Looking ahead, yields are likely to remain range-bound but volatile, with upside risks tied to fiscal slippage and downside risk limited by inflation persistence. For asset allocators, this reinforces a preference for shorter-duration exposure and selective credit rather than broad duration bets.

Equity Markets: U.S. Exceptionalism Meets Concentration Risk

Global equity markets over the past two years have been dominated by U.S. outperformance, driven largely by AI-related sectors. The S&P 500's cumulative gains far exceeded those of European and Asian indices, reflecting superior earnings momentum and capital deployment. However, this performance has come at the cost of heightened concentration, with a small group of mega-cap firms accounting for a disproportionate share of returns.

Figure 3: Major Global Markets (YTD) – Nikkei 225 Emerging as the Top Performer


Source: Data sourced from Yahoo! Finance as on December 08, 2025. ^GSPC – S&P 500 Index (US Large Cap), DJIA – Dow Jones Industrial Average (US Industrials), ^IXIC – NASDAQ Composite Index (US Tech), ^RUT – Russell 2000 Index (US Small Cap), ^FTSE – FTSE 100 Index (UK Large Cap), ^STOXX50E – EURO STOXX 50 (Eurozone Equities), ^N225 – Nikkei 225 Index (Japan Equities), VEMAX – Vanguard Emerging Markets Stock Index Fund.

Outside the U.S., equity markets struggled with structural headwinds. Europe faced energy constraints, fiscal rigidity, and trade disruptions, while China’s equity markets remained weighed down by persistent property weakness and subdued consumer demand. Emerging markets delivered mixed results, with India standing out amid widespread underperformance elsewhere. The implication for investors is clear: while equity returns remain attractive, diversification has become increasingly important as concentration risk rises and valuation support narrows.

Fiscal Dynamics: Debt, Deficits, and the Shadow of Fiscal Dominance

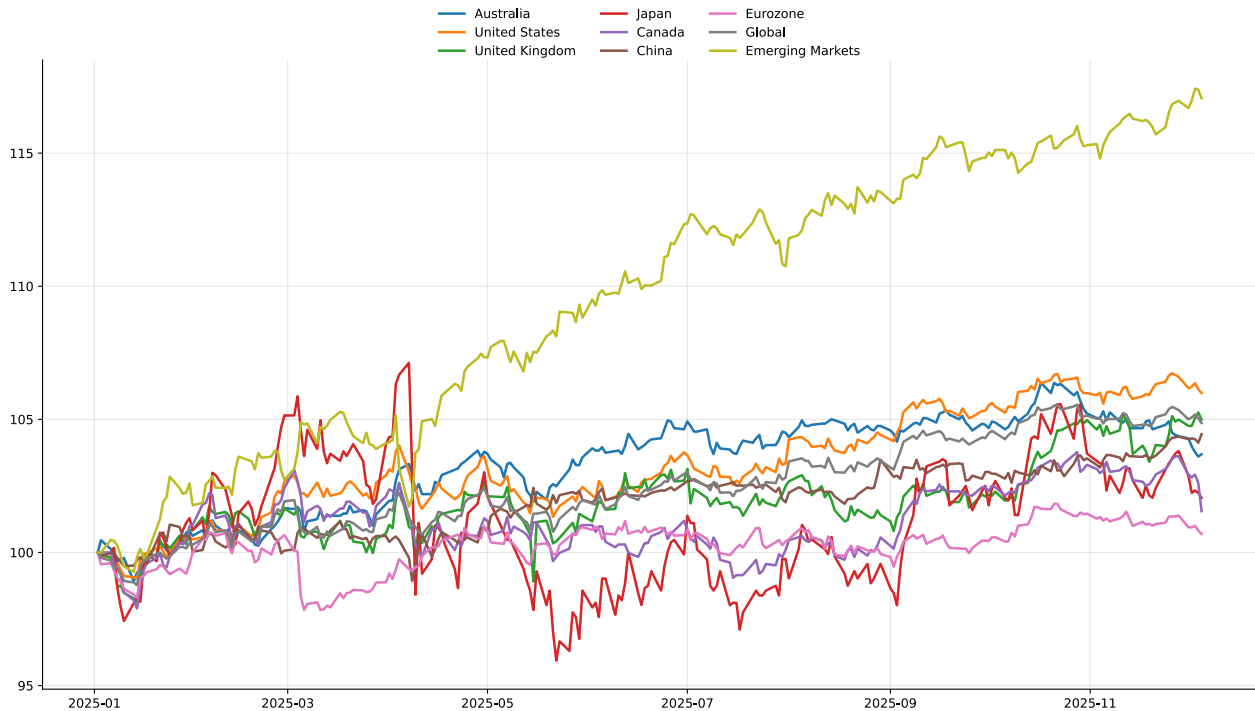
U.S. fiscal metrics deteriorated further in late 2025, with national debt surpassing \$38 trillion and interest costs approaching \$1 trillion annually. Deficits persist well above historical norms despite the absence of recession, reflecting structural entitlement pressures and limited political appetite for consolidation.

This trajectory raises the risk of fiscal dominance; wherein monetary policy becomes constrained by the need to accommodate debt servicing. Rising issuance places upward pressure on yields and limits the effectiveness of rate cuts in stimulating activity. Absent meaningful reform, fiscal dynamics will continue to act as a structural drag on long-term growth and a source of market volatility.

Global Fixed Income: Income Returns Mask Structural Headwinds. Global bond markets stabilized in 2025 as rate hikes peaked and selective easing began. Income returns improved materially relative to prior years, but duration risk remained elevated amid supply pressures and policy uncertainty. Investment-grade credit benefited from strong balance sheets, while high-yield markets showed resilience supported by income rather than price appreciation. Emerging-

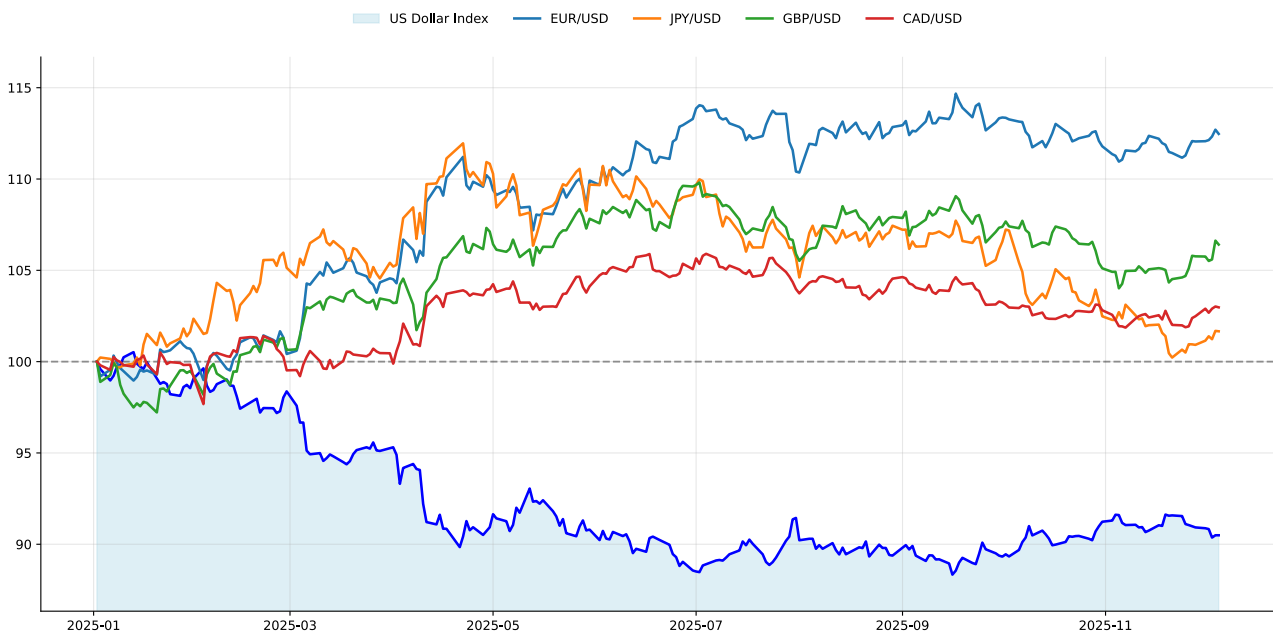
market debt staged a modest recovery, though vulnerability remains tied to dollar strength and trade fragmentation. Overall, fixed income has regained relevance in portfolios—but as a source of carry rather than capital appreciation.

Figure 4: Emerging Market Bonds Continue to Significantly Outshine Other Major Economies on a YTD basis



Source: Data sourced from Yahoo! Finance as on December 08, 2025. Australia – iShares Core Composite Bond ETF (GOVT.AX), United States – iShares U.S. Treasury Bond ETF (GOVT), United Kingdom – iShares UK Gilts ETF (IGLT.L), Japan – Daiwa ETF-TOPIX Mid Small (2621.T), Canada – iShares Canadian Government Bond Index ETF (XGB.TO), China – VanEck China Bond ETF (CBON), Eurozone – iShares Global Government Bond EUR Hedged ETF (XGLE.L), Global – Vanguard Total World Bond ETF (BNDW), Emerging Markets – VanEck J.P. Morgan EM Local Currency Bond ETF (EMLC)

2026 Outlook: Slower Growth, Persistent Inflation. Consensus expectations for 2026 point toward subtrend growth in the 1.9%–2.2% range, with inflation easing only gradually. AI investment remains a critical offset, but labor-market cooling and trade-related uncertainty present downside risks. Inflation is unlikely to return cleanly to target, particularly if shelter costs and tariffs remain elevated. As a result, policy posture is expected to remain cautiously accommodative rather than aggressively stimulative.

Figure 5: Major Global Currencies Continue to Appreciate Against the U.S. Dollar


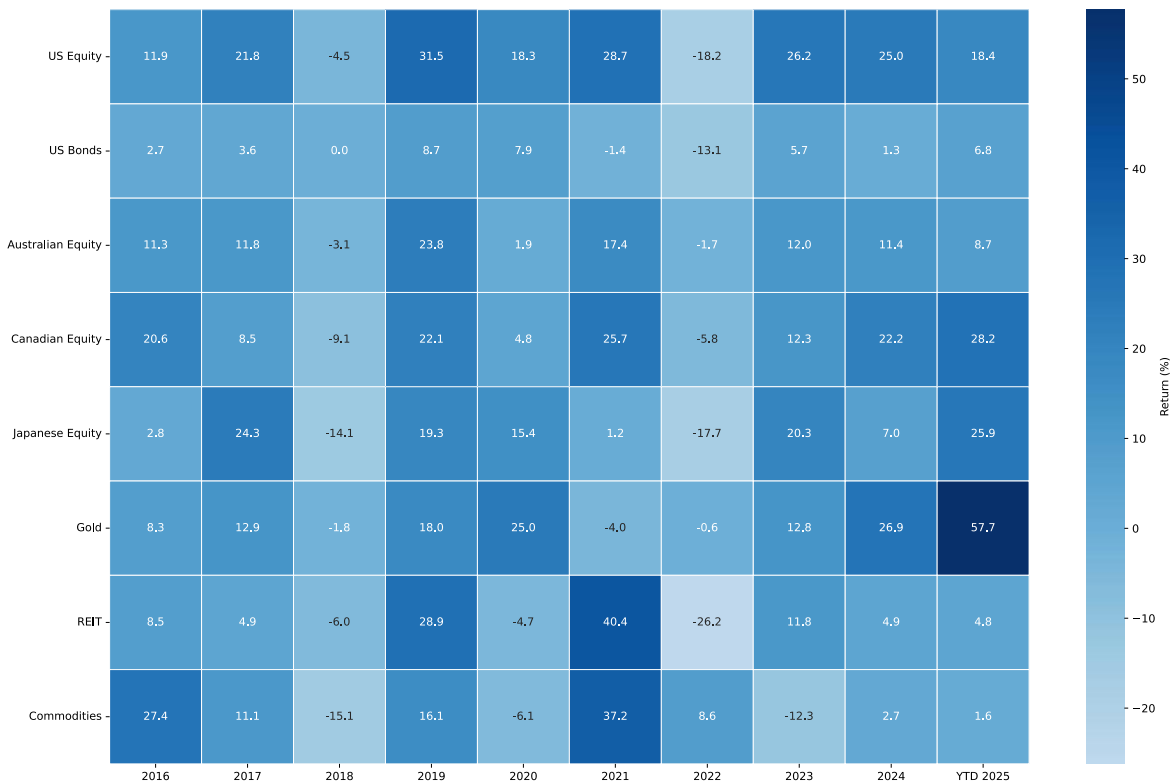
Source: Data sourced from Yahoo! Finance as on December 08, 2025.

Asset-Class Performance and Portfolio Implications. Across asset classes, equities continued to dominate returns, bonds stabilized on income, and alternatives delivered mixed outcomes. Gold emerged as a standout hedge, reflecting fiscal uncertainty and geopolitical stress. Looking ahead, portfolios benefit from diversification across income-generating assets, selective equity exposure, and real assets positioned to hedge macro volatility.

Global FX: Dollar Resilience in a Fragmented World. The U.S. dollar maintained relative strength over the past two years, supported by yield differentials and superior growth prospects. The yen remained under pressure despite BOJ normalization signals, while the euro struggled amid weak activity and fiscal stress. Emerging-market currencies remained volatile, reflecting sensitivity to dollar liquidity and capital flows. FX markets are likely to remain range-bound but reactive to policy divergence and geopolitical risk.

Commodities: Gold's Signal, Energy's Ceiling. Gold's surge to record highs underscores deep macro uncertainty, while oil markets remain capped by supply abundance despite geopolitical risk. Industrial metals lagged amid uneven global demand. Commodities remain tactical rather than cyclical allocations, with gold retaining strategic importance.

Figure 6: Global Asset Class Performance – Gold Emerged as the Costliest



Source: Data sourced from Yahoo! Finance as on December 08, 2025. US Equity – Vanguard 500 Index Fund (VFIAX), US Bonds – Vanguard Total Bond Market Index Fund (VBTLX), Australian Equity – Vanguard Australian Shares Index ETF (VAS.AX), Canadian Equity – Vanguard FTSE Canada All Cap Index ETF (VCN.TO), Japanese Equity – iShares MSCI Japan ETF (EWJ), Gold – iShares Gold Trust (IAU), REIT – Vanguard Real Estate Index Fund (VGSLX), Commodities – S&P-GSCI Commodity Index Future (GD=F)

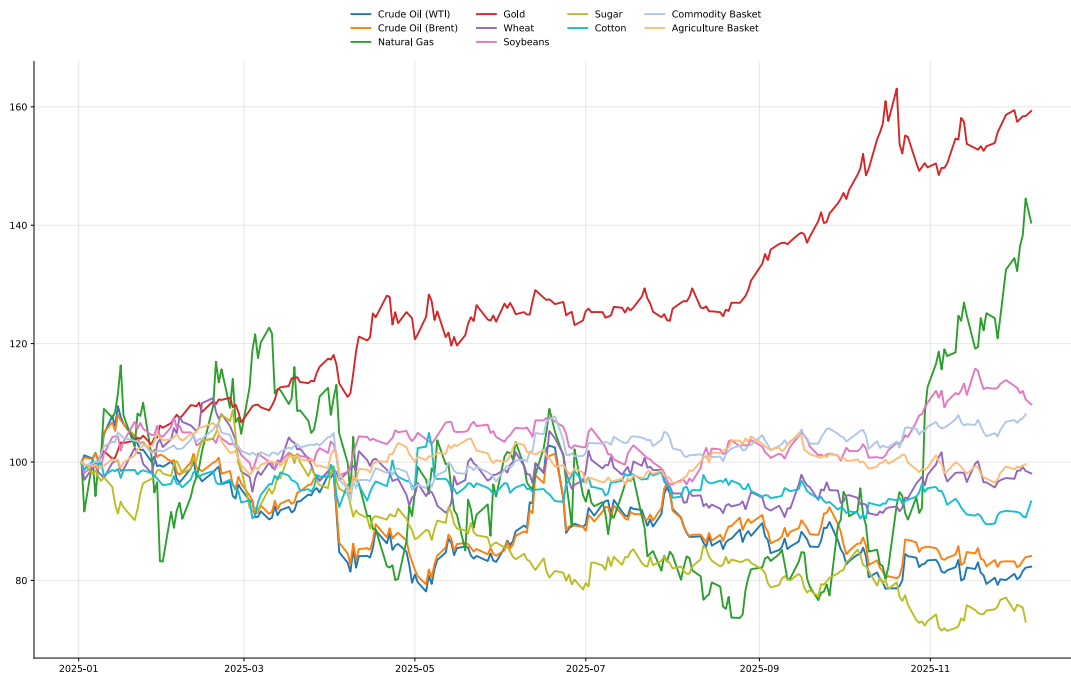
Global Risks: Fragmentation Becomes the Baseline. China’s slowdown, trade conflicts, and geopolitical flashpoints continue to weigh on the global outlook. Supply chains remain vulnerable, and financial conditions remain uneven across regions. These risks argue for caution rather than outright pessimism.

Sector Allocation: Winners Narrow, Laggards Widen. Technology and utilities dominated performance, while consumer- and rate-sensitive sectors lagged. Sector dispersion remains wide, emphasizing the importance of selectivity.

Forward View: Resilience on a Narrow Foundation

The global economy remains afloat, but its foundations are increasingly narrow. Labor-market softness, extreme capital concentration in AI, and shrinking policy flexibility define the late-2025 landscape. A soft landing remains possible—but the margin for error is thin. Investors should emphasize quality, balance-sheet strength, and optionality as volatility risks rise.

Figure 7: Gold Continues its Upward Run, Amid Natural Gas Registering Vertical Trajectory



Source: Data sourced from Yahoo! Finance as on December 08, 2025. Crude Oil (WTI) – NYMEX WTI Crude Oil Futures (CL=F), Crude Oil (Brent) – ICE Brent Crude Oil Futures (BZ=F), Natural Gas – NYMEX Natural Gas Futures (NG=F), Gold – COMEX Gold Futures (GC=F), Wheat – CBOT, Wheat Futures (ZW=F), Corn – CBOT Corn Futures (ZC=F), Soybeans – CBOT Soybean Futures (ZS=F), Coffee – ICE Coffee C Futures (KC=F), Sugar – ICE Sugar No.11 Futures (SB=F), Cotton – ICE Cotton No.2 Futures (CT=F), Commodity Basket – Invesco DB Commodity Index Tracking Fund (DBC), Agriculture Basket – Invesco DB Agriculture Fund (DBA).

Figure 8: Five of Ten S&P 500 Sectors Registered a Double-Digit Positive Performance, Led by Technology



Source: Data sourced from Yahoo! Finance as on December 08, 2025



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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