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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

December 15 2025

"The best way to keep one's word is not to give it." Gen Napoleon Bonaparte

MARKETS

Macro Recap: The U.S. Federal Reserve delivered its third consecutive quarter-point rate cut, in line with market expectations. Nine voting members supported the reduction, while two preferred to keep rates unchanged and one advocated for a deeper half-point cut. This divergence added uncertainty about the pace of future easing in 2026. The move was widely described as a "hawkish cut," as the Fed signaled that additional rate reductions would likely be gradual. Chair Jerome Powell emphasized a meeting-by-meeting approach and noted that the Fed funds rate now sits within a broad range of estimates for its neutral level. The combination of a rate cut and cautious forward guidance created a dovish tilt that helped lift cyclical, domestic-focused, and financial stocks.

In commodities, U.S. crude futures fell more than 4% for the week, closing near $57.40 on Friday, the lowest level since mid-October, amid renewed concerns about a global supply glut. Oil prices are now down roughly 9% year-to-date. While gold's rally has captured headlines in 2025, silver has posted even more dramatic gains. Spot silver briefly touched $65 per ounce, a record high, before settling around $62 on Friday afternoon. At that level, silver is up an astonishing 115% year-to-date.

Equity Recap: The stock market ended the week with mixed results, influenced by the Federal Reserve's latest policy decision, commentary from Chair Powell, and sharp swings in technology and AI-related stocks. The S&P 500 declined 0.6% for the week, while the Dow Jones Industrial Average gained 1.1%, reflecting strength in more traditional sectors. In contrast, the Nasdaq Composite fell 1.6%, underscoring weakness in growth-heavy and tech names. Smaller-cap benchmarks continued to show relative strength, with the Russell 2000 advancing 1.2% and the S&P Mid Cap 400 rising 0.9% over the week.

Bond/Rate Recap: The 10-year U.S. Treasury yield edged up by 2 basis points to 4.16%, while the 2-year yield declined by 6 basis points to 3.50%, steepening the curve to 66 basis points between the two maturities. After three rate cuts in 2025, the bond market is now pricing in greater uncertainty about the path of monetary policy in 2026. As of Friday afternoon, futures markets implied roughly a 70% probability that the Federal Reserve will implement at least two quarter-point cuts next year, according to CME FedWatch. The probability of just a single cut stood at 23%, while the odds of no cut were about 7%.

Week Ahead: A monthly labor market report scheduled for release on Tuesday will be an unusual one, as the recent government shutdown delayed its publication by 11 days. The report will include jobs data for both October and November, providing a broader view of employment trends. However, the unemployment rate will only reflect November figures because the household survey data used to calculate the jobless rate was not collected in October.

INDICES

	Dec 8 Open	Dec 12 Close	Weekly Change	Dec 31 2024	YTD Change
DJIA	47,955	48,458	1.0%	42,544	13.9%
S&P 500	6,870	6,827	-0.6%	5,882	16.1%
NASDAQ	23,578	23,195	-1.6%	19,311	20.1%
Russell 2000	2,521	2,551	1.2%	2,230	14.4%
KBW Bank Indx	159.0	164.7	3.6%	127.5	29.2%
Bitcoin	$90,056	$89,487	-0.6%	$93,714	-4.5%
Oil (WTI)	$60.08	$57.32	-4.6%	$71.72	-20.1%
Gold	$4,198	$4,339	3.4%	$2,625	65.3%
Prime	7.00	6.75	-0.25	7.50	-0.75
Effective Fed Funds	3.89	3.64	-0.25	4.33	-0.69
3m Tbill	3.69	3.61	-0.09	4.31	-0.70
2yr UST	3.56	3.50	-0.07	4.24	-0.74
10yr UST	4.14	4.16	0.03	4.57	-0.41
2-10yr UST Spread	57	66	9	33	34
2y AAA Muni/10y UST	69.3%	70.0%	0.7%	66.5%	3.5%
10y AAA Muni/10y UST	66.4%	65.5%	-0.9%	68.4%	-2.9%
5yr Inflation Forecast	2.35	2.33	-0.02	2.42	-0.09

Week Ahead

- **Monday:** No major reports
- **Tuesday:** Jobs/unemployment*, Retail sales, Business inventories, Housing starts, Industrial prod
- **Wednesday:** No major reports
- **Thursday:** CPI*, Weekly unemployment
- **Friday:** U of M Consumer sentiment, Existing home sales

***Could be delayed or canceled**

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