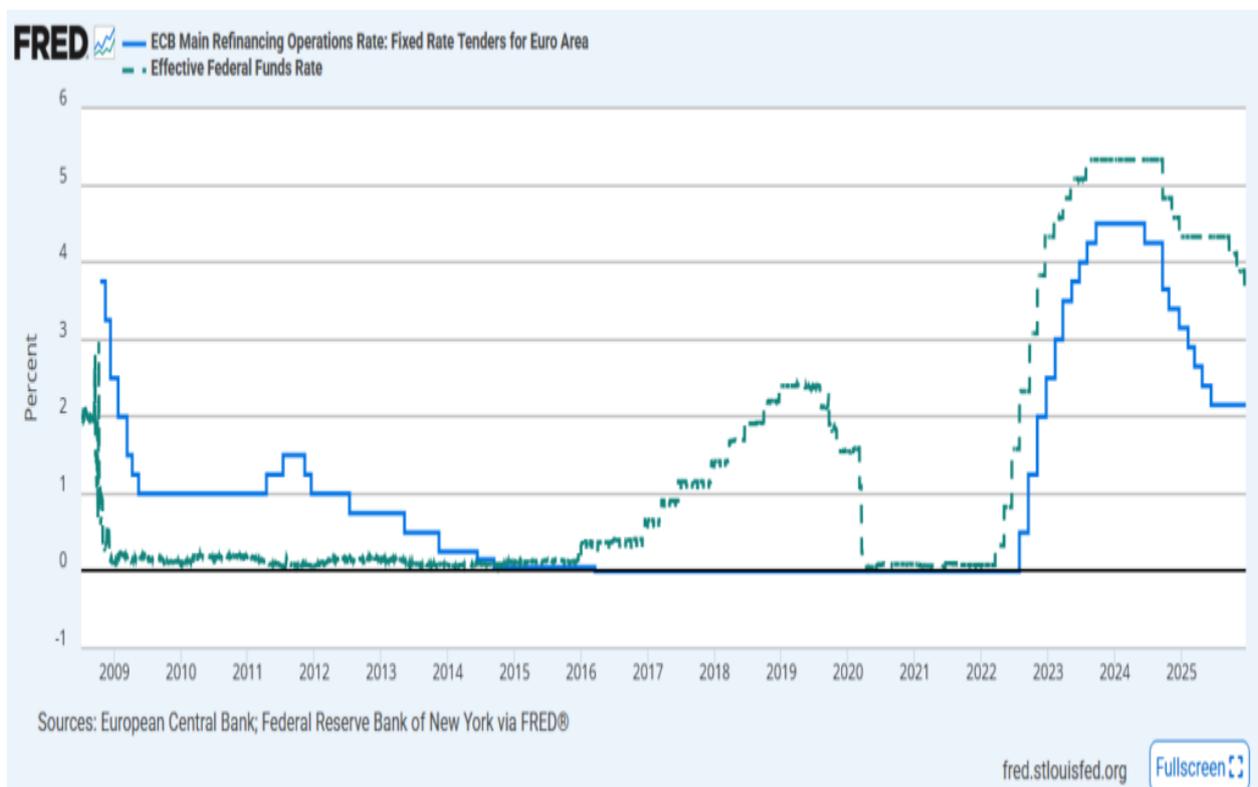


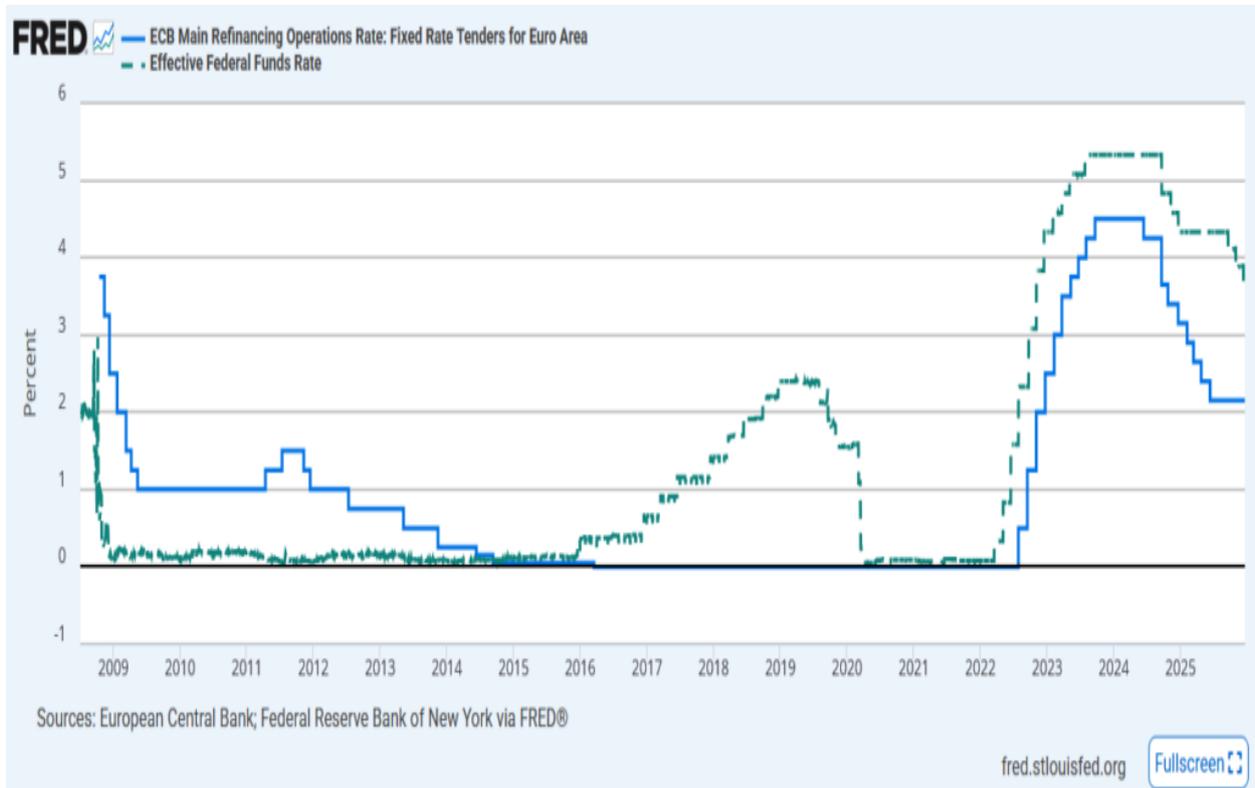
The ECB Changes Tone: Will The Fed Follow?

Inflation in the European Union is nearing 2%, expected to dip below it in 2026 and 2027 and then settle at its 2% target thereafter. The ECB's President Lagarde and other ECB members have recently stated that they are comfortable with the central bank's current interest rate level. The markets are taking the ECB's public posture as a signal that the 2% in rate cuts over the last two years is likely over.

Why should American investors care? The simple answer is that ECB and Fed policies are often closely aligned because of the interconnectedness of monetary policy, global economic and inflation trends, and financial stability. Interest rate and monetary policy divergences arise when regional growth, fiscal dynamics, and/or financial stress differ between economic regions. However, while gaps do occur, sustained policy gaps are rare because large interest-rate differentials can destabilize currencies and alter capital flows. Simply put, changes in currency exchange rates due to interest rate differentials bring the economies and interest rates back into balance. Thus ECB and Fed policy rates are most often aligned.

Therefore, if the ECB is truly done cutting rates, the Fed may not be that far behind. If the Fed were to continue cutting, the dollar could weaken further, which might force the ECB to resume policy easing. As shown in the graph below, there is a good relationship between the European Central Bank's (ECB) overnight borrowing rate and the Federal Reserve's Fed Funds rate.





What To Watch Today

Earnings

- *No earnings releases today*

Economy

Tuesday December 23 2025		Actual	Previous	Consensus	Forecast		
08:30 AM	US	Durable Goods Orders MoM OCT	0.5%	-1.5%	-0.9%		
08:30 AM	US	GDP Growth Rate QoQ 2nd Est Q3	3.8%	3.2%	3.2%		
08:30 AM	US	Corporate Profits QoQ Prel Q3	0.2%		1.0%		
08:30 AM	US	Durable Goods Orders Ex Transp MoM OCT	0.6%	0.3%	0.1%		
08:30 AM	US	GDP Price Index QoQ 2nd Est Q3	2.1%	2.7%	2.5%		
08:30 AM	US	Core PCE Prices QoQ 2nd Est Q3	2.6%	2.9%	2.8%		
08:30 AM	US	Durable Goods Orders ex Defense MoM OCT	0.1%		-0.8%		
08:30 AM	US	GDP Sales QoQ 2nd Est Q3	7.5%		7.4%		
08:30 AM	US	Non Defense Goods Orders Ex Air OCT	0.9%		-0.1%		
08:30 AM	US	PCE Prices QoQ 2nd Est Q3	2.1%	2.9%	2.3%		
08:30 AM	US	Real Consumer Spending QoQ 2nd Est Q3	2.5%		2.2%		
08:55 AM	US	Redbook YoY DEC/20	6.2%				
09:15 AM	US	Industrial Production MoM NOV			0.0%		
09:15 AM	US	Industrial Production MoM OCT		0.1%	0.1%	-0.1%	
09:15 AM	US	Capacity Utilization OCT		75.9%	75.9%	76.0%	
09:15 AM	US	Capacity Utilization NOV				75.8%	
09:15 AM	US	Industrial Production YoY NOV				1.0%	
09:15 AM	US	Industrial Production YoY OCT		1.6%		1.1%	
09:15 AM	US	Manufacturing Production MoM OCT		0%		-0.2%	

Tuesday December 23 2025			Actual	Previous	Consensus	Forecast	
08:30 AM	US	Durable Goods Orders MoM OCT		0.5%	-1.5%	-0.9%	
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09:15 AM	US	Industrial Production YoY OCT		1.6%		1.1%	
09:15 AM	US	Manufacturing Production MoM OCT		0%		-0.2%	
09:15 AM	US	Manufacturing Production MoM NOV				-0.1%	
09:15 AM	US	Manufacturing Production YoY NOV				0.9%	
09:15 AM	US	Manufacturing Production YoY OCT		1.5%		1.0%	
10:00 AM	US	CB Consumer Confidence DEC		88.7	92	89	
10:00 AM	US	Richmond Fed Manufacturing Index DEC		-15	-7	-4	
10:00 AM	US	Richmond Fed Manufacturing Shipments Index DEC		-14		-3	
10:00 AM	US	Richmond Fed Services Revenues Index DEC		-4		1	

Market Trading Update

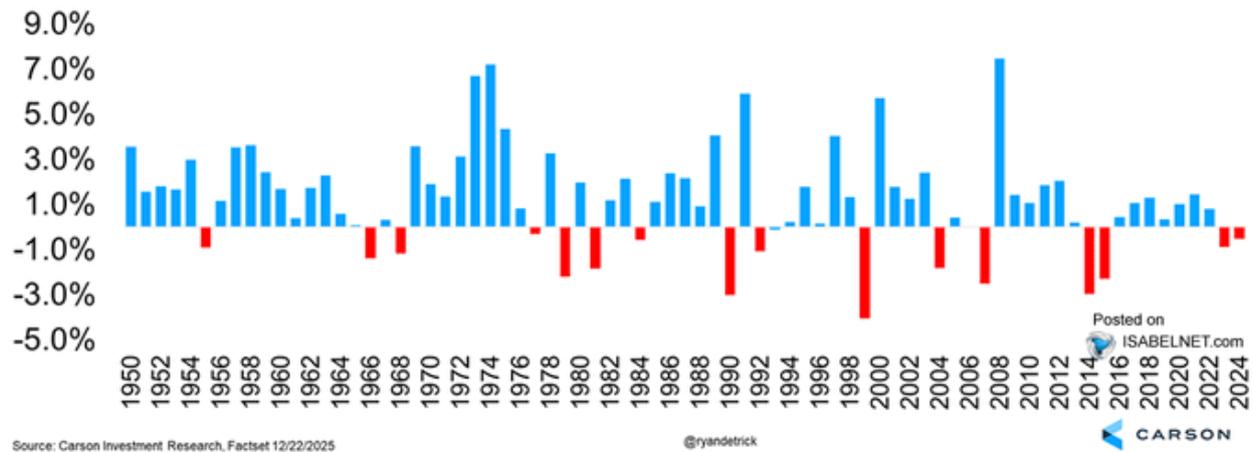
Yesterday, we reviewed the technical backdrop of the market as we enter the low-volume holiday trading period. Of note, over the weekend, I read several articles discussing how the recent market performance was evidence that *?Santa Claus would fail to visit Broad & Wall.?* While nothing is guaranteed, I found the articles interesting in that the *?Santa Claus?* rally has not even started yet. The official start date (*the last five trading days of December*) is December 24th (*albeit it is only a half day*) and continues through the second trading day of January.

It is worth noting that in both 2023 and 2024, the *?Santa Rally?* failed to materialize, but certainly did not live up to its forecast of a poor return year. It has been anything but over the last two years. Nonetheless, given that Santa failed to visit in the previous two years, it ups the odds he will arrive on time this year. As shown, going back to 1950, there have never been three consecutive *?no shows?* by the man in red.

Death, Taxes, And Santa Doesn't Miss Three Years In A Row
S&P 500 During Santa Claus Rally (1950 - Current)

9.0%

Death, Taxes, And Santa Doesn't Miss Three Years In A Row S&P 500 During Santa Claus Rally (1950 - Current)



Nonetheless, 2025 could be the *first* triple no-show on record. As such, investors should remain focused on the risk they are taking. This brings up one other important point to consider: don't chase last year's performers. One of the biggest mistakes that investors make is assuming that what worked last year will work next year. As the **Callan Period Table of Investment Returns** shows, that is rarely the case. What was at the top of the performance heap for a year or two tends to revert towards the bottom, and vice versa.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Emerging Market Equity	34.00%	42.12%	39.38%	5.24%	78.51%	26.85%	7.84%	27.73%	38.82%	15.02%	1.38%	21.31%	37.28%	1.87%	31.49%	19.96%	28.71%	1.46%	26.29%	25.02%
Real Estate	15.35%	32.17%	12.44%	4.39%	58.21%	19.63%	4.98%	18.23%	32.39%	13.69%	0.55%	17.13%	24.21%	0.01%	25.52%	18.40%	26.09%	-11.19%	17.94%	11.54%
Developed ex-U.S. Equity	14.47%	25.71%	11.03%	2.06%	37.13%	18.88%	4.36%	16.41%	21.02%	5.97%	0.05%	11.96%	21.83%	-2.08%	22.49%	18.31%	14.82%	-13.01%	16.93%	8.19%
Large Cap Equity	4.91%	18.37%	6.97%	-26.16%	33.67%	15.12%	2.11%	16.35%	7.44%	4.89%	-0.79%	11.19%	14.65%	-2.15%	21.91%	10.11%	12.62%	-14.29%	13.44%	7.50%
Small Cap Equity	4.55%	15.79%	5.49%	-33.79%	27.17%	15.06%	0.10%	16.00%	3.67%	2.45%	-3.04%	4.06%	10.51%	-4.38%	18.44%	7.59%	5.28%	-18.11%	9.83%	5.25%
Cash Equivalent	3.07%	11.85%	5.00%	-37.00%	26.47%	8.95%	-4.18%	15.81%	0.07%	0.03%	-4.41%	2.75%	10.36%	-5.63%	14.32%	7.51%	0.05%	-18.70%	9.67%	4.70%
High Yield	2.74%	8.16%	1.87%	-43.56%	7.53%	6.54%	-6.46%	4.21%	-2.02%	-2.19%	-4.47%	2.65%	7.50%	-11.01%	8.72%	7.11%	-1.54%	-20.09%	5.72%	1.25%
U.S. Fixed Income	2.43%	4.85%	-1.57%	-48.21%	5.93%	4.95%	-12.21%	4.09%	-2.60%	-3.09%	-6.02%	1.49%	3.54%	-14.09%	5.09%	0.67%	-2.54%	-20.44%	5.53%	0.94%
Global ex-U.S. Fixed	-8.65%	4.33%	-7.39%	-53.33%	0.21%	0.13%	-18.42%	0.11%	-3.08%	-4.32%	-14.92%	0.33%	0.86%	-14.57%	2.28%	-9.04%	-7.05%	-25.10%	5.01%	-4.22%

The Callan Periodic Table of Investment Returns conveys the strong **case for diversification** across asset classes (stocks vs. bonds), capitalizations (large vs. small), and equity markets (U.S. vs. global ex-U.S.). The Table highlights the uncertainty inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between

A printable copy of The Callan Periodic Table of Investment Returns is available on our website at callan.com/periodic-table/.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Emerging Market Equity 34.00%	Real Estate 42.12%	Emerging Market Equity 39.38%	U.S. Fixed Income 5.24%	Emerging Market Equity 78.51%	Small Cap Equity 26.85%	U.S. Fixed Income 7.84%	Real Estate 27.73%	Small Cap Equity 38.82%	Real Estate 15.02%	Large Cap Equity 1.38%	Small Cap Equity 21.31%	Emerging Market Equity 37.28%	Cash Equivalent 1.87%	Large Cap Equity 31.49%	Small Cap Equity 19.96%	Large Cap Equity 28.71%	Cash Equivalent 1.46%	Large Cap Equity 26.29%	Large Cap Equity 25.02%
Real Estate 15.35%	Emerging Market Equity 32.17%	Developed ex-U.S. Equity 12.44%	Global ex-U.S. Fixed 4.39%	High Yield 58.21%	Real Estate 19.63%	High Yield 4.98%	Emerging Market Equity 18.23%	Large Cap Equity 32.39%	Large Cap Equity 13.69%	U.S. Fixed Income 0.55%	High Yield 17.13%	Developed ex-U.S. Equity 24.21%	U.S. Fixed Income 0.01%	Small Cap Equity 25.52%	Large Cap Equity 18.40%	Real Estate 26.09%	High Yield -11.19%	Developed ex-U.S. Equity 17.94%	Small Cap Equity 11.54%
Developed ex-U.S. Equity 14.47%	Developed ex-U.S. Equity 25.71%	Global ex-U.S. Fixed 11.03%	Cash Equivalent 2.06%	Real Estate 37.13%	Emerging Market Equity 18.88%	Global ex-U.S. Fixed 4.36%	Developed ex-U.S. Equity 16.41%	Developed ex-U.S. Equity 21.02%	U.S. Fixed Income 5.97%	Cash Equivalent 0.05%	Large Cap Equity 11.96%	Large Cap Equity 21.83%	High Yield -2.08%	Developed ex-U.S. Equity 22.49%	Emerging Market Equity 18.31%	Small Cap Equity 14.82%	U.S. Fixed Income -13.01%	Small Cap Equity 16.93%	High Yield 8.19%
Large Cap Equity 4.91%	Small Cap Equity 18.37%	U.S. Fixed Income 6.97%	High Yield -26.16%	Developed ex-U.S. Equity 33.67%	High Yield 15.12%	Large Cap Equity 2.11%	Small Cap Equity 16.35%	High Yield 7.44%	Small Cap Equity 4.89%	Real Estate -0.79%	Emerging Market Equity 11.19%	Small Cap Equity 14.65%	Global ex-U.S. Fixed -2.15%	Real Estate 21.91%	Global ex-U.S. Fixed 10.11%	Developed ex-U.S. Equity 12.62%	Developed ex-U.S. Equity -14.29%	High Yield 13.44%	Emerging Market Equity 7.50%
Small Cap Equity 4.55%	Large Cap Equity 15.79%	Large Cap Equity 5.49%	Small Cap Equity -33.79%	Small Cap Equity 27.17%	Large Cap Equity 15.06%	Cash Equivalent 0.10%	Large Cap Equity 16.00%	Real Estate 3.67%	High Yield 2.45%	Developed ex-U.S. Equity -3.04%	Real Estate 4.06%	Global ex-U.S. Equity 10.51%	Large Cap Equity -4.38%	Emerging Market Equity 18.44%	Developed ex-U.S. Equity 7.59%	High Yield 5.28%	Large Cap Equity -18.11%	Emerging Market Equity 9.83%	Cash Equivalent 5.25%
Cash Equivalent 3.07%	High Yield 11.85%	Cash Equivalent 5.00%	Large Cap Equity -37.00%	Large Cap Equity 26.47%	Developed ex-U.S. Equity 8.95%	Small Cap Equity -4.18%	High Yield 15.81%	Cash Equivalent 0.07%	Cash Equivalent 0.03%	Small Cap Equity -4.41%	Developed ex-U.S. Equity 2.75%	Real Estate 10.36%	Real Estate -5.63%	High Yield 14.32%	U.S. Fixed Income 7.51%	Cash Equivalent 0.05%	Global ex-U.S. Fixed -18.70%	Real Estate 9.67%	Developed ex-U.S. Equity 4.70%
High Yield 2.74%	Global ex-U.S. Fixed 8.16%	High Yield 1.87%	Developed ex-U.S. Equity -43.56%	Global ex-U.S. Fixed 7.53%	U.S. Fixed Income 6.54%	Real Estate -6.46%	U.S. Fixed Income 4.21%	U.S. Fixed Income -2.02%	Emerging Market Equity -2.19%	High Yield -4.47%	U.S. Fixed Income 2.65%	High Yield 7.50%	Small Cap Equity -11.01%	U.S. Fixed Income 8.72%	High Yield 7.11%	U.S. Fixed Income -1.54%	Emerging Market Equity -20.09%	Global ex-U.S. Fixed 5.72%	U.S. Fixed Income 1.25%
U.S. Fixed Income 2.43%	Cash Equivalent 4.85%	Small Cap Equity -1.57%	Real Estate -48.21%	U.S. Fixed Income 5.93%	Global ex-U.S. Fixed 4.95%	Developed ex-U.S. Equity -12.21%	Global ex-U.S. Fixed 4.09%	Emerging Market Equity -2.60%	Global ex-U.S. Fixed -3.09%	Global ex-U.S. Fixed -6.02%	Global ex-U.S. Fixed 1.49%	U.S. Fixed Income 3.54%	Developed ex-U.S. Equity -14.09%	Global ex-U.S. Fixed 5.09%	Cash Equivalent 0.67%	Emerging Market Equity -2.54%	Small Cap Equity -20.44%	U.S. Fixed Income 5.53%	Real Estate 0.94%
Global ex-U.S. Fixed -8.65%	U.S. Fixed Income 4.33%	Real Estate -7.39%	Emerging Market Equity -53.33%	Cash Equivalent 0.21%	Cash Equivalent 0.13%	Emerging Market Equity -18.42%	Cash Equivalent 0.11%	Global ex-U.S. Fixed -3.08%	Developed ex-U.S. Equity -4.32%	Emerging Market Equity -14.92%	Cash Equivalent 0.33%	Cash Equivalent 0.86%	Emerging Market Equity -14.57%	Cash Equivalent 2.28%	Real Estate -9.04%	Global ex-U.S. Fixed -7.05%	Real Estate -25.10%	Cash Equivalent 5.01%	Global ex-U.S. Fixed -4.22%

The Callan Periodic Table of Investment Returns conveys the strong **case for diversification** across asset classes (stocks vs. bonds), capitalizations (large vs. small), and equity markets (U.S. vs. global ex-U.S.). The Table highlights the uncertainty inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between absolute and relative performance, as returns for the top-performing asset class span a wide range over the past 20 years.

A printable copy of *The Callan Periodic Table of Investment Returns* is available on our website at callan.com/periodic-table/.
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Research | Education | Dialogue

One thing to consider in your portfolio as we wrap up the year and look into next is where performance may come from. A rotation from risk to safety, growth to value, momentum to income, etc. are all considerations as 2025 comes to a close.

Trade accordingly.

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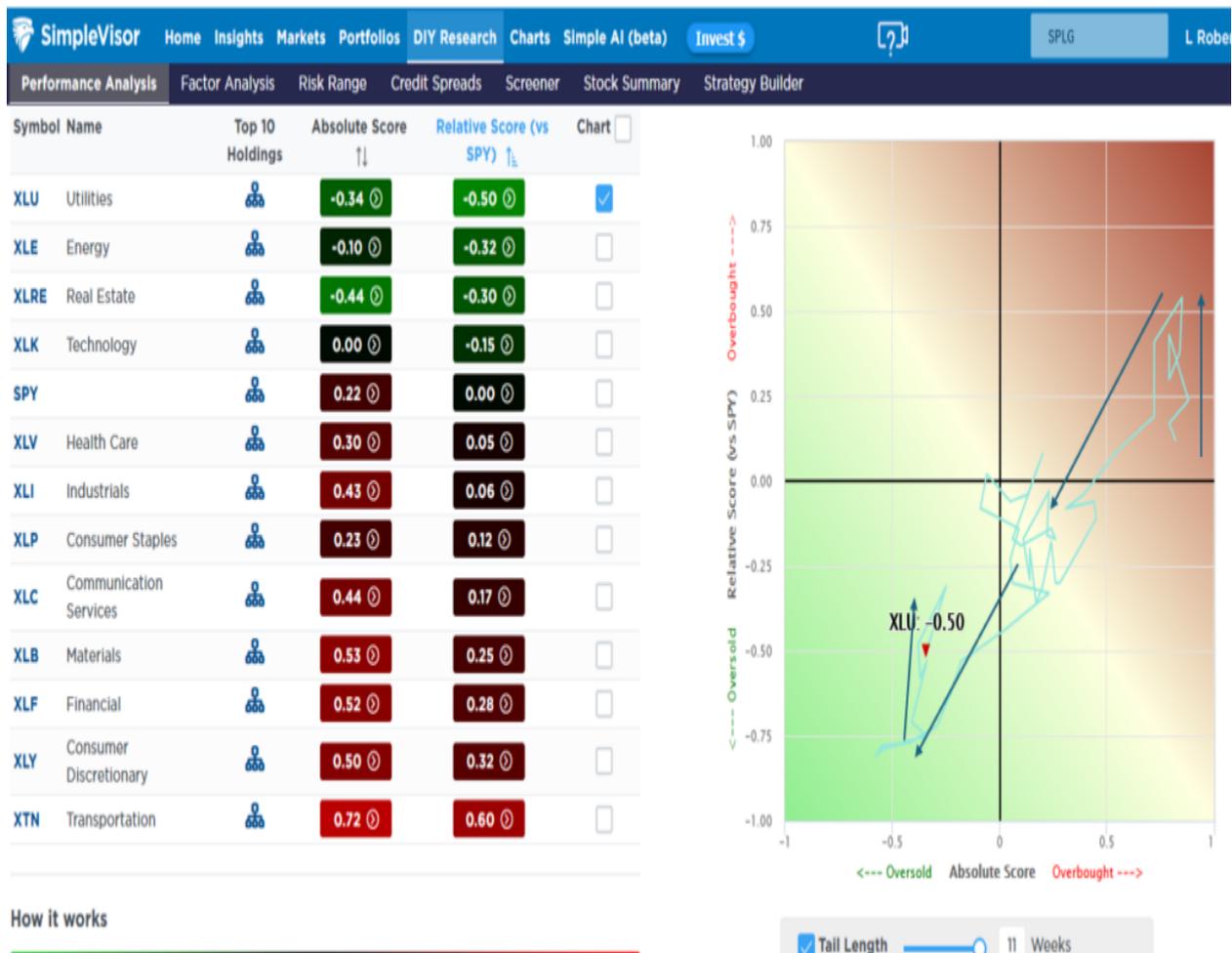
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Visualizing Rotations

On Tuesdays, we often recap our [SimpleVisor](#) absolute and relative valuations for sectors and factors. We do this to help our readers understand how various sectors and factors constantly shift from overbought to fair value to oversold. Typically, most sectors and factors follow a jagged path between these three valuation states. Today, we focus on the SimpleVisor graph charting rotations between these states.

The table on the left shows that the Utilities sector has moderately oversold absolute and relative scores. To calculate these scores, we use 13 technical indicators and a weighted scoring system based on their relative importance. The absolute score uses the sector's price and technical indicators to produce a score ranging from -1.0 to +1.0. The relative indicator uses the same technical indicators and weightings but applies them to the price ratio of the sector to the S&P 500.

The graph on the right side shows how absolute and relative scores shift over time. We use dark blue arrows to better illustrate how utilities have moved between overbought and oversold levels over the past 11 weeks. Initially, Utilities were very overbought on an absolute basis and at fair value on a relative basis. From there, the relative score rose. After peaking, both scores deteriorated until mid-December. Note that during this period of underperformance, the sector spent a few weeks noodling around at fair value in the middle of the graph. Afterward, it has become very oversold on both bases. Since then, the relative score has improved a little. We suspect it is heading toward fair value, implying it will slightly outperform the market while showing improving technicals.





2026 Market Outlook Based On Valuations

Wall Street's annual tradition is always of higher returns. To borrow a quote:

*?(Market) Predictions Are Difficult?Especially When They Are About The Future?
?�Niels Bohr*

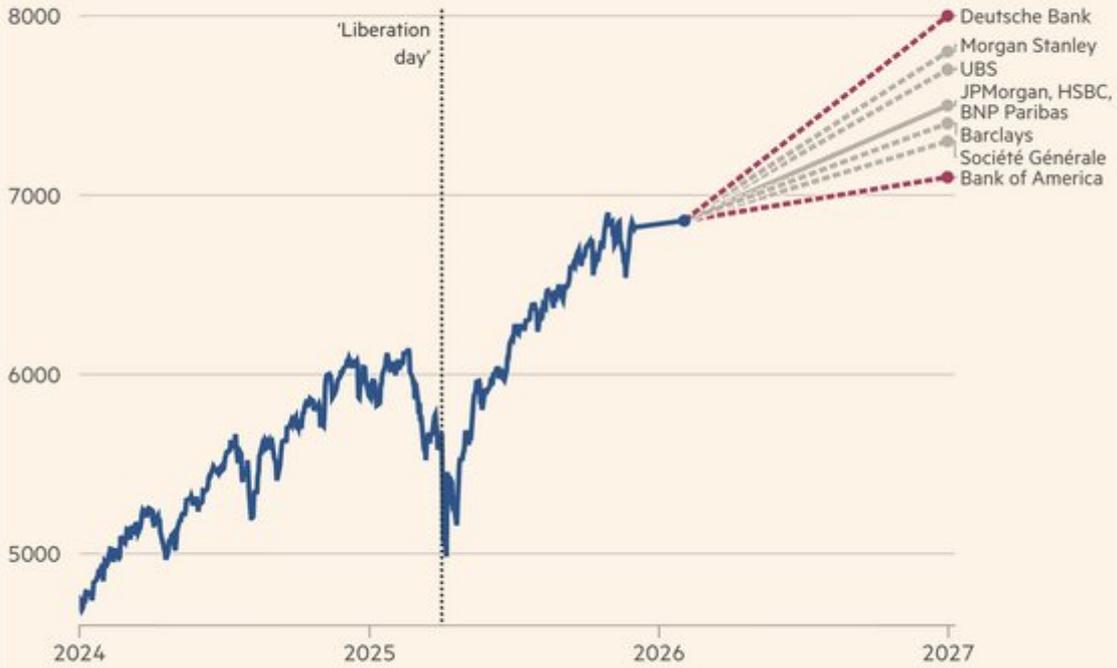
Okay, I took a little poetic license, but the point is that while we try, predicting the future is difficult at best and impossible at worst. If we could accurately predict the future, fortune tellers would win all the lotteries, psychics would be more prosperous than Elon Musk, and portfolio managers would always beat the index.

However, this is never the case, and as investors, we must rely on our data, analyze past events, filter out the current noise, and discern possible future outcomes. The biggest problem with Wall Street today and in the past is its consistent disregard for the unexpected and random events that inevitably occur, like the *?Liberation Day?* tariff event that sent the market plunging by nearly 20%. However, even when such events occur frequently, from trade wars to Brexit to Fed policy and a global pandemic, Wall Street analysts were often convinced that such things would not happen.

So what about 2026? We have some early indications of Wall Street targets for the S&P 500 index, and, as is always the case, they are primarily optimistic for the coming year. The median estimate for 2026 is for the market to rise to 7500 next year, which would be a disappointing return of just 9.3% after three years of 20% gains. However, the high estimate from Deutsche Bank suggests a 15% return, while the low estimate from BofA is just 4%. Notably, not one firm forecasts a negative return.

Wall Street expects US stocks to continue rallying in 2026

S&P 500, dashed lines indicate forecasts



Source: FactSet, Deutsche Bank, BNP Paribas, Morgan Stanley, UBS, JPMorgan, Barclays, Société Générale, HSBC, Bank of America

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Wall Street expects US stocks to continue rallying in 2026

S&P 500, dashed lines indicate forecasts



Source: FactSet, Deutsche Bank, BNP Paribas, Morgan Stanley, UBS, JPMorgan, Barclays, Société Générale, HSBC, Bank of America

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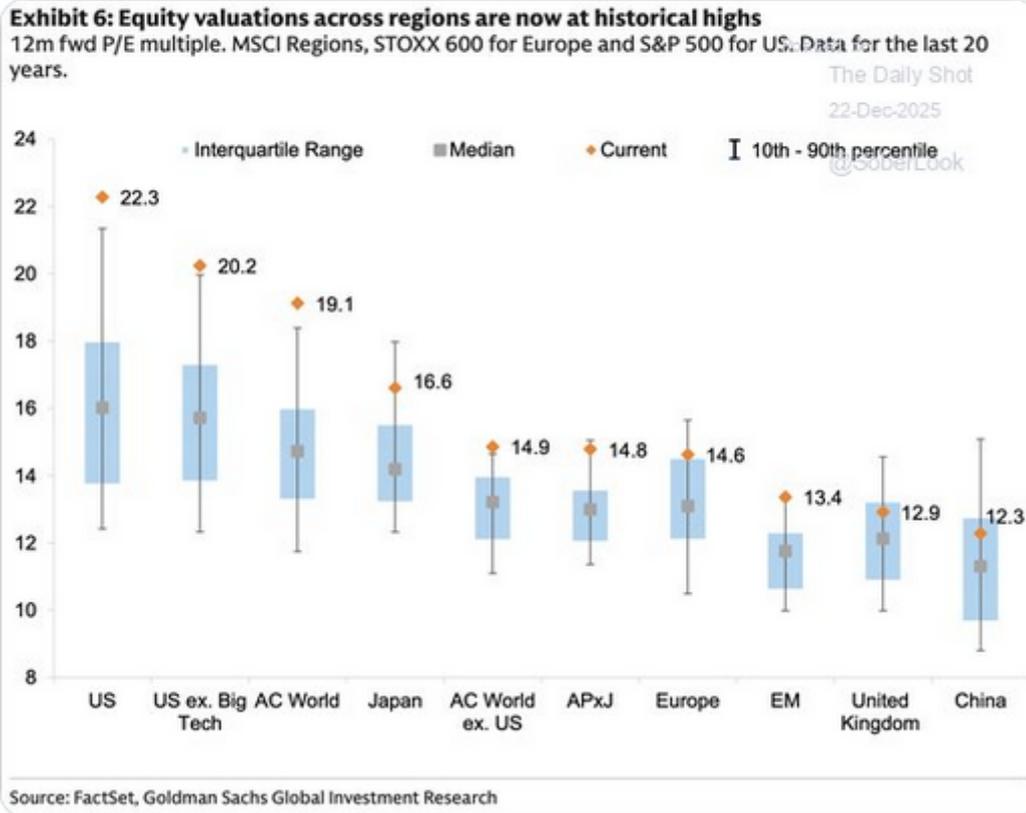
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As we have noted before, [#valuations](#) are not [#cheap](#).....anywhere.

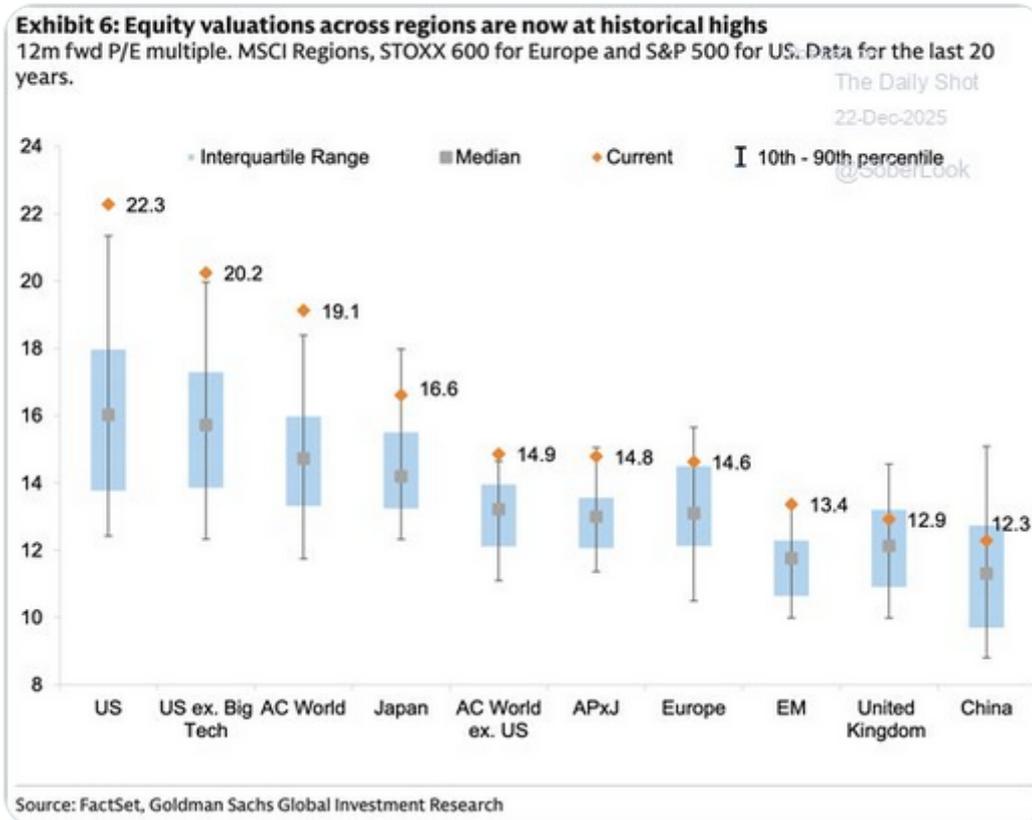




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