



# Charts and Smarts®

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# After the Gold Rush

## Hyperscaler Average Pairwise Correlations (11/30/22–11/25/25)

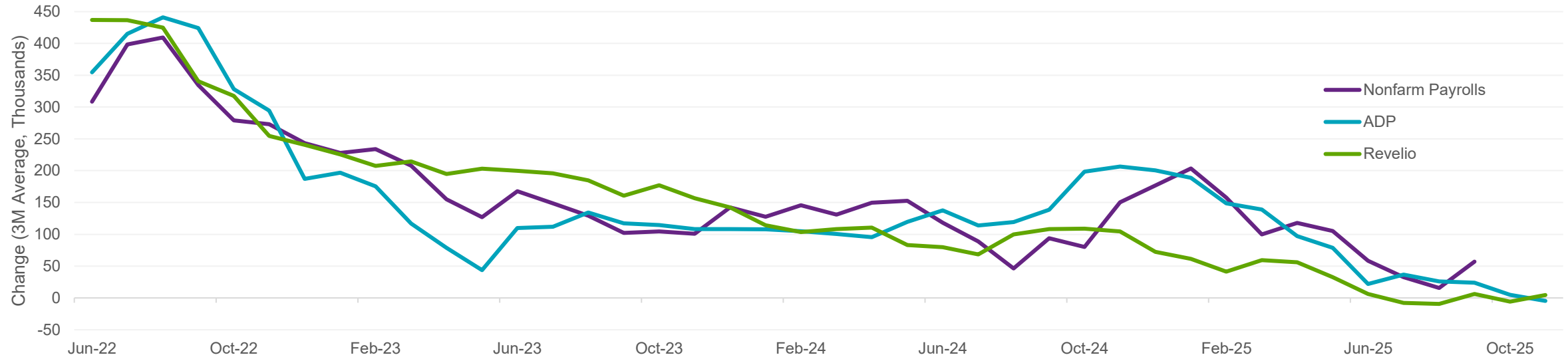


Amidst all the rising skepticism around the durability of the AI trade, an emerging trend is taking hold. While concerns around circular financing and lack of clarity around potential ROIs linger, the narrative and AI trade itself appears to be moving into a new phase. No longer is the AI complex trading as a single monolith, rather investors are beginning to be more discerning in picking out winners and losers. Investors are now attempting to parse out leadership and laggards along the cutting edge of AI, and there's perhaps no better evidence of this than the sharp divergence in performance for Google and the firms in its orbit from the OpenAI complex. Google has firmly taken hold of AI leadership, particularly in the wake of the launch of its Gemini 3 model. As a result, average correlations across the hyperscalers has pushed down to their lowest levels since the initial launch of ChatGPT as the group no longer trades in relative lockstep. Competition is fierce and the greatest risk remains being left behind. There's little question as to whether the massive AI investment from the hyperscalers will continue into 2026 – it will. The question is which firms will emerge victorious in the market's eyes and, if the past is any guide, the path ahead is likely to be bumpy as the hyperscalers vie for pole position and the market's focus oscillates between emphasizing potential rewards and discounting risks. This shift is already well underway and has important implications for investors. Gone are the days of AI names moving up in unison, and that means dispersion is only likely to grow between perceived winners and losers, which could prove to be a headwind for the Magnificent 7 as a group as those winners and losers pull in opposite directions. The real winners could prove to be the recipients of that massive CapEx spend, helping to broaden participation in the tech space outside of the AI darlings and megacaps. The market exists to frustrate the greatest number of investors and a market that sees the AI trade go nowhere as adjacent names gain leadership, despite resilience in AI investment, would certainly fit the bill.

Source: Portfolio Analysis & Consulting, Bloomberg. The average pairwise correlation is the average correlation between every possible pair of the five hyperscalers, Alphabet, Meta, Amazon, Microsoft and Oracle.

# Hey Hey, My My

## ADP vs Nonfarm Payrolls (6/30/22–11/30/25)

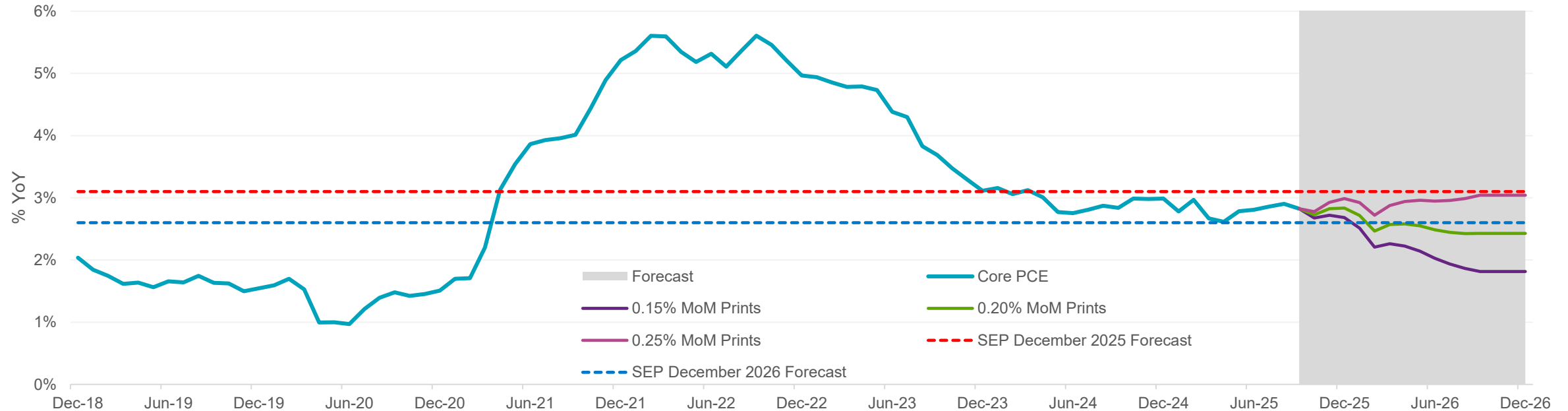


The data is slowly starting to trickle in after the government shutdown-induced data vacuum, but what is being released remains severely delayed, distorted and incomplete. While government statistics agencies are releasing data where available, there are gaps in the data that won't be filled thanks to the inability to collect surveys during the appropriate reference period. These gaps are particularly problematic for both sides of the Fed's dual mandate as both the October jobs report and CPI will be skipped thanks to these survey lapses. In the case of the employment data, while the November payrolls print scheduled for December 16 will include establishment survey data, data for the household survey, which is the source data for the unemployment rate, was unable to be collected. And while some nonsurvey-based price indices for October will be published with the November CPI release on December 18, the Bureau of Labor statistics will not be releasing headline or core figures for the month of October. The data vacuum continues despite statistical agencies' best efforts to catch up. That said, as we've stressed repeatedly over the past few months, macro is a mosaic, and the rest of that mosaic continues to confirm what we already knew entering the shutdown: the pattern of linear cooling in the labor market continues. While there is indeed no alternate for official government statistics, and we're certainly at the top of the list of those who would point out the faults of private sector labor market reads, such as the ADP data, the fact remains that these series tend to follow the same trend as the nonfarm payrolls data. And those trends are certainly not our friend at the moment, particularly for that emerging consensus discounting a reflationary impulse into 2026. We'll have to wait until the new year to get a clean read on labor market trends in the official statistics but, for now, the data we do have suggests that risks remain very clearly skewed to the downside as there's little evidence to suggest a reversal of that linear cooling trend.

Source: Portfolio Analysis & Consulting. FactSet. As of 11/12/25.

# Tell Me Why

## Potential Core PCE Inflation Trajectories (12/31/18–12/31/26E)

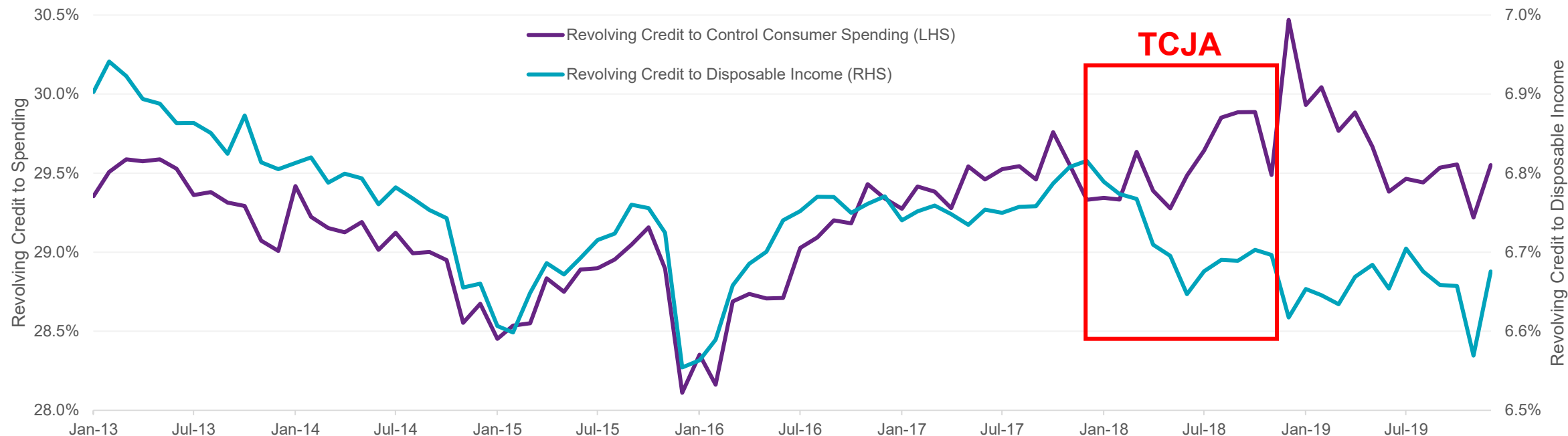


As for the price side of the Fed’s dual mandate, it increasingly appears that both the Fed - and even many market participants - may be overly hawkish on the inflation outlook. “Sticky” certainly is the hot term with respect to the inflation outlook into 2026, but just how sticky is it? Despite tariff fears, core CPI has printed in line or below expectations every month since January as tariff-induced inflation has been smaller than feared. While the inventory front-loading efforts of US business suggests there could be some incremental passthrough in coming months, it remains hard to see where a persistent inflationary impulse comes from. Shelter costs are set to continue, placing meaningful downside on inflation throughout 2026, and falling labor costs are likely to ignite a renewed disinflationary impulse in supercore services. And to the extent that more tariff passthrough is in store for goods, it’s more likely to translate to a hit to real incomes than prompt broad upside price pressures. Core PCE looks likely to undershoot the Fed’s latest 2025 year-end estimate and, given the pipeline of disinflation that remains in store from shelter, and the potential for broadening disinflation throughout services, the 2026 year-end estimate may be too high as well. At this point, monetary policy decisions are all about the distribution of risks. Labor markets continue to face nonlinear risks skewed firmly to the downside, while upside inflation risks are more linear in nature and are likely to continue fading as the tariff impulse fades and labor slack continues to build. It’s far easier to see how unemployment continues drifting higher than it is to see how a persistent inflationary impulse takes root. The hawks may have stolen the spotlight in the closing months of 2025, but the data continues to favor the doves as we look into 2026.

Source: Portfolio Analysis & Consulting, Bloomberg. As of 9/30/25. PCE represent personal consumption expenditures deflator.

# Down By the River

## Consumer Credit (1/31/13–12/31/19)

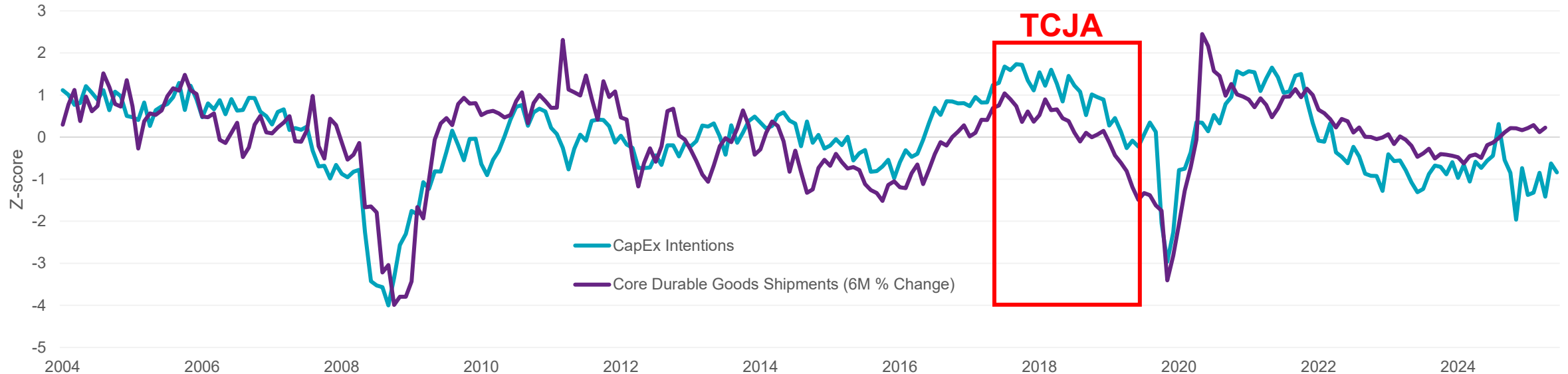


It's not just the hawks that have stolen the spotlight in the closing days of 2025. Consensus is steadily growing around the narrative that a reflationary impulse is set to take hold in 2026 on the back of fading policy uncertainty, deregulation, delayed effects of monetary easing and, most importantly, a consumption rebound fueled by a bumper tax refund year. While refunds are indeed set to surge, thanks to the retroactive tax policy enacted by the One Big Beautiful Bill Act, providing a boost to after tax incomes even larger than the gains from the Tax Cuts and Jobs Act, it's less clear that it translates to a meaningful boost to consumption. While the TCJA cuts were not retroactive and, instead, filtered into after-tax incomes via reduced withholding, there was little evidence of boost to consumption in 2018. Instead, consumption moderated through 2018 even before the late-year growth scare selloff triggered a retrenchment in December as the saving rate increased. The scale and retroactive nature of this year's tax cuts will likely translate to some incremental spending, but lower-income consumers are likely to be somewhat more inclined to save or pay down debt as their confidence remains shaky, particularly with respect to labor market conditions. And the consumption impulse is likely to be further hampered by the regressive nature of the cuts, which sees upper income earners with lower marginal propensity to consume those tax savings benefiting far more than the lower leg of the so-called "K." In short, tax policy changes certainly won't hurt whether they're spent or saved, but the growth impulse is likely to be smaller than expected.

Source: Portfolio Analysis & Consulting. Bloomberg. TCJA represents Tax Cuts and Jobs Act.

# Expecting to Fly

## Regional Fed PMI Composite CapEx Intentions (6/30/04–9/30/25)



Personal income tax cuts aren't the only source of optimism with respect to the emerging reflation narrative. Corporate tax changes are prompting optimism that 2026 will bring a renewed impulse from non-AI CapEx. The One Big Beautiful Bill Act also brought with it the permanent restoration of 100% bonus depreciation and the option of immediate full expensing of research and development (R&D) expenditures. While this has been championed as another potential source for a renewed growth impulse, the consensus may be overly sanguine on the impact of these tax changes. The permanent changes are certainly welcome for businesses, but the net changes aren't as impactful as it may seem at the surface. First, the bonus depreciation rate is rising materially, but not from zero, where it was schedule to be by 2027, but rather from the phase-down rate of 40% for tax year 2025. And full R&D expensing is a choice, not a requirement, that brings with it incremental administrative complexity. But more important than the nuance of the tax law changes is the fact that tax policy is not the sole driver of CapEx spending. Indeed, in 2018 when these provisions first took effect under the Tax Cuts and Jobs Act, CapEx intentions and core durable goods shipments rolled over in unison for the entirety of 2018 and 2019 as a slowing growth outlook outweighed the tax benefits, with respect to CapEx decisions. While the growth bulls would argue that compressing policy volatility will support a renewed surge in CapEx intentions, the tax law changes have been anticipated since the election and signed into law for half a year while the market has expected, and indeed seen, declining policy volatility for most of the latter half of the year. And yet CapEx plans and hiring intentions remain in the basement. You can make tax laws more supportive of business investment, but you can't make business invest if the ROI isn't there. Don't hold your breath for a durable, tax-cut-fueled reflationary impulse.

Source: Portfolio Analysis & Consulting. Bloomberg. Regional Fed PMI composite is an average of CapEx plans from Richmond, Dallas, Empire, Philadelphia, and Kansas City regional Fed surveys. TCJA represents Tax Cuts and Jobs Act. ROI represents return on investment.

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