Weekly commentary

December 1, 2025

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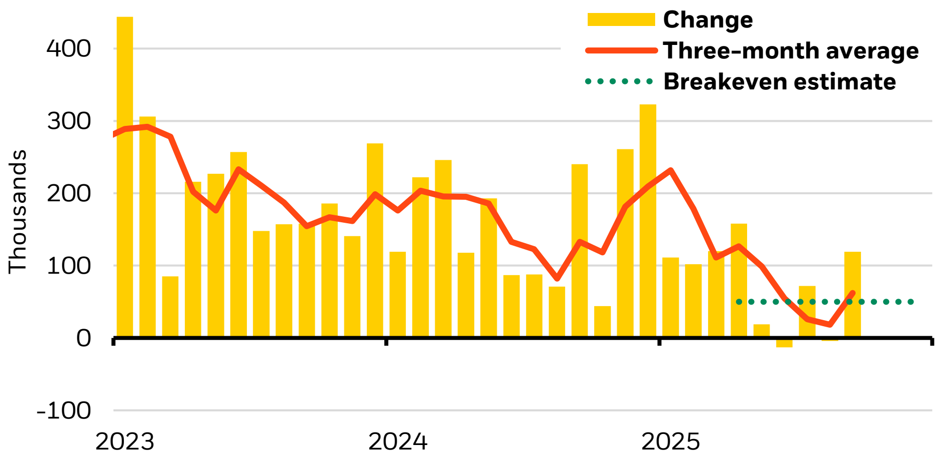
Soft labor market keeps Fed cut in play

- Recent signs of U.S. labor market softening tee up a third-straight Fed rate cut next week. We eye confirmation of this ongoing cooling in U.S. data this month.
- The S&P 500 rallied during a short trading week as the AI theme bounced back. U.S. 10-year Treasury yields fell as Fed rate cuts were priced back in.
- U.S. initial jobless claims remain key as markets await backlogged payrolls figures. Consumer sentiment is also a focus after weak retail sales data.

The Federal Reserve looks poised to cut interest rates again next week while awaiting a backlog of U.S. economic data after the government shutdown. We think this is warranted given a cooling labor market, reflected in the September payrolls and recent jobless claims data. A soft labor market allows Fed policy easing, one reason we stay pro-risk. We see a risk of revived tensions between sticky inflation and debt sustainability in the U.S. The UK shows how fiscal pressures are global.

Slower hiring

Monthly change in U.S. payrolls and breakeven estimate, 2023-2025



Forward-looking estimates may not come to pass. Source: BlackRock Investment Institute, with data from U.S. Bureau of Labor Statistics, November 2025. Note: The chart shows monthly changes in U.S. nonfarm payroll employment and the three-month moving average. The dashed green line shows our estimates of payroll growth consistent with slowing population growth and elevated migration.

The Fed has cut rates twice already this year and put a weakening labor market at the center of its decisions. The central bank worries that the labor market could weaken further, so "risk management" rate cuts were needed. The Fed has a harder time understanding the state of the economy given the data delays tied to the long government shutdown heading into next week's meeting. The September jobs report and other data show the labor market in a "no hiring, no firing" stasis. Job gains have slowed since the start of the year. See the chart. Both labor demand and supply has slowed, the latter due to a sharp slowing of migration. That has pulled down the "breakeven" level of payrolls gains that keep the unemployment rate steady. It could also explain why wage growth has also proved steady, and the unemployment rate has only risen slightly this year – and is still historically low.

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The delayed data – including both the October and November payrolls data on Dec. 16, but no October unemployment data – is likely to be noisy. The October data will include deferred federal government layoffs that will likely cause a sharp drop in overall employment that month – something the Fed would have already taken into account in earlier decisions. And this data will be released after its Dec. 10 policy decision. Markets are mostly pricing in a quarter-point cut next week. We agree and see a "no hiring, no firing" stasis giving the Fed room to keep trimming policy rates in 2026. That's different from earlier this year when the Fed was facing calls to cut rates even with the labor data appearing strong, raising policy tensions between sticky inflation and debt sustainability. The Fed now has a path to cut rates without raising questions around these policy tensions, even as inflation holds well above its 2% target. If inflation were to accelerate next year due to stronger activity or renewed hiring, those tensions could re-emerge and drive long-term bond yields higher.

Part of this tension stems from persistently large U.S. budget deficits. The opposite is happening in the UK: the government is trying to reduce its deficit and even achieve a surplus on a five-year horizon in the latest budget. The UK Chancellor delivered a positive surprise with various revenue raises boosting its so-called "fiscal headroom" – the buffer between government revenues and spending – by more than expected. This shows how the UK needed to strike a balance on market and political credibility and has done so for now, even if the tax revenue as a share of GDP is set to hit a record 38% in 2030.

We stay neutral on UK gilts as the new budget front-loaded spending and back-loaded much of the tax gains. Yet we have a relative preference for gilts on a strategic horizon of five years or longer, thanks in part to a lower neutral rate – one that neither stimulates nor hurts growth – than other developed market (DM) government bond markets. We had upgraded long-term U.S. Treasuries to neutral as the Fed resumed rate cuts but need to be nimble given the simmering policy tensions – and expect those tensions to persist. Our updated tactical views in our 2026 Global Outlook are due out tomorrow, Dec. 2.

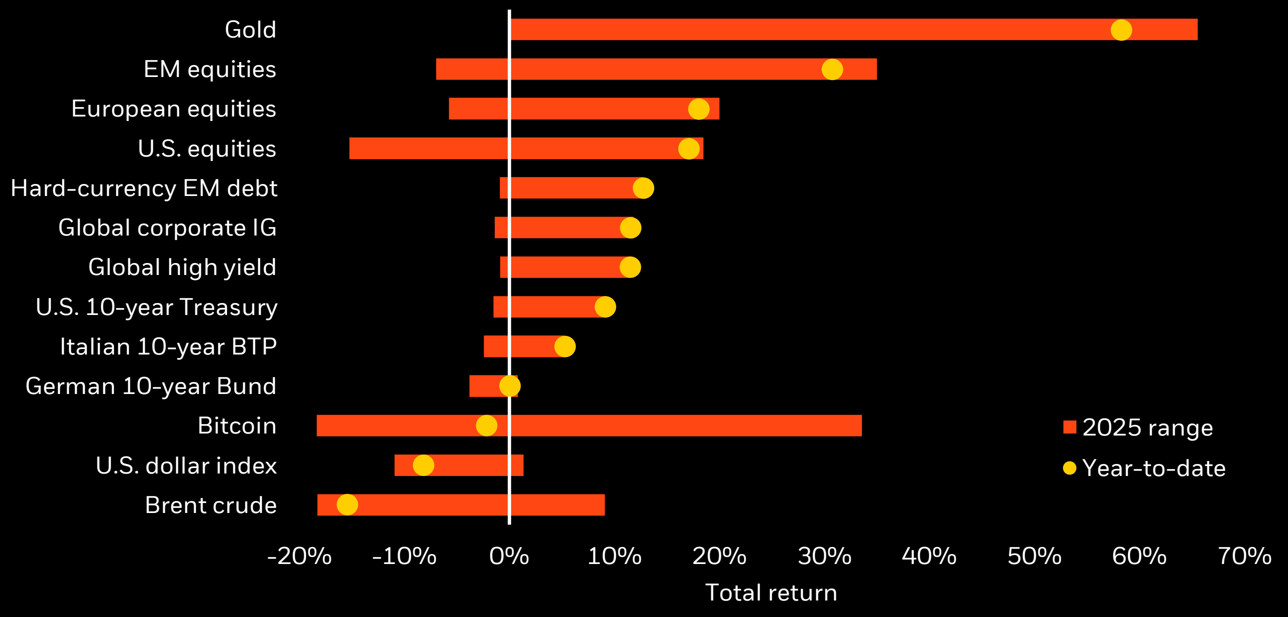
Bottom line: We think a Fed rate cut this month is in play as data keep showing the labor market cooling. That backdrop and the AI theme support our pro-risk stance. We stay neutral UK gilts but prefer them on longer horizons over other DM bonds.

Market backdrop

U.S. stocks bounced back during the holiday-shortened week, with the S&P 500 gaining almost 4% as the AI theme returned. The Nasdaq gained about 5%. That helped erase most losses for the month, apart from the Nasdaq, during which AI stocks, shares popular with retail traders and bitcoin came under pressure. Bitcoin recovered over the week but was still down about 17% on the month. U.S. 10-year Treasury yields fell back near 4.00% as Fed cuts were priced back in.

Assets in review

Selected asset performance, year-to-date return and range



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index.
Sources: BlackRock Investment Institute, with data from LSEG Datastream as of November 27, 2025. Notes: The two ends of the bars show the lowest and highest returns at any point year to date, and the dots represent current year-to-date returns. Emerging market (EM), high yield and global corporate investment grade (IG) returns are denominated in U.S. dollars, and the rest in local currencies. Indexes or prices used are: spot Brent crude, ICE U.S. Dollar Index (DXY), spot gold, spot bitcoin, MSCI Emerging Markets Index, MSCI Europe Index, LSEG Datastream 10-year benchmark government bond index (U.S., Germany and Italy), Bloomberg Global High Yield Index, J.P. Morgan EMBI Index, Bloomberg Global Corporate Index and MSCI USA Index.

Week ahead

Dec. 1	U.S. ISM manufacturing PMI	**Dec. 4**	U.S. initial jobless claims
Dec. 2	Euro area unemployment; Euro area flash inflation	**Dec. 5**	U.S. consumer sentiment

The U.S. ISM index will give a read on the health of the struggling manufacturing sector. U.S. jobless claims remain a key focus on the labor market as markets await the resumption of the U.S. payrolls data in mid-December. The University of Michigan consumer sentiment survey – which has showed much weaker sentiment relative to other surveys – may get more focus given the softer retail sales data, though for September, seen last week.

Big calls

Our highest conviction views on six- to 12-month (tactical) and over five-year (strategic) horizons, December 2025

Tactical	**Reasons**
U.S. equities	A softening labor market gives the Fed space to cut, helping ease political tensions from higher interest rates. We think rate cuts amid a notable slowing of activity without recession should support U.S. stocks and the AI theme.
Using FX to enhance income	FX hedging is now a source of income, especially when hedging euro area bonds back into U.S. dollars. For example, 10-year government bonds in France or Spain offer more income when currency hedged than U.S. investment grade credit, with yields above 5%.
Seeking alpha sources	We identify sources of risk taking to be more deliberate in earning alpha. These include the potential impact of regulatory changes on corporate earnings, spotting crowded positions where markets could snap back and opportunities to provide liquidity during periods of stress.
Strategic	**Reasons**
Infrastructure equity and private credit	We see opportunities in infrastructure equity due to attractive relative valuations and mega forces. We think private credit will earn lending share as banks retreat – and at attractive returns.
Fixed income granularity	We are overweight short-term inflation-linked bonds as U.S. tariffs could push up inflation. Within nominal bonds, we favor developed market (DM) government bonds outside the U.S. over global investment grade credit, given tight spreads.
Equity granularity	We favor emerging over developed markets yet get selective in both. Emerging markets (EM) at the cross current of mega forces – like India – offer opportunities. In DM, we like Japan as the return of inflation and corporate reforms brighten the outlook.

Note: Views are from a U.S. dollar perspective, November 2025. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular funds, strategy or security.

Tracking five mega forces

Mega forces are big, structural changes that affect investing now – and far in the future. As key drivers of the new regime of greater macroeconomic and market volatility, they change the long-term growth and inflation outlook and are poised to create big shifts in profitability across economies and sectors. This creates major opportunities – and risks – for investors. See our web hub for our research and related content on each mega force.

1. **Demographic divergence:** The world is split between aging advanced economies and younger emerging markets – with different implications.
2. **Digital disruption and artificial intelligence (AI):** Technologies are transforming how we live and work.
3. **Geopolitical fragmentation and economic competition:** Globalization is being rewired as the world splits into competing blocs.
4. **Future of finance:** A fast-evolving financial architecture is changing how households and companies use cash, borrow, transact and seek returns.
5. **Transition to a low-carbon economy:** The transition is set to spur a massive capital reallocation as energy systems are rewired.

Granular views

Six- to 12-month tactical views on selected assets vs. broad global asset classes by level of conviction, December 2025

We have lengthened our tactical investment horizon back to six to 12 months. The table below reflects this and, importantly, leaves aside the opportunity for alpha, or the potential to generate above-benchmark returns – especially at a time of heightened volatility.

Underweight | **Neutral** | **Overweight** | ● Previous view

	Asset	View	Commentary
Equities	**Developed markets**		
	United States	+1	We are overweight. Policy-driven volatility and supply-side constraints are pressuring growth, but we see AI supporting corporate earnings. U.S. valuations are backed by stronger earnings and profitability relative to other developed markets.
	Europe	Neutral	We are neutral. Greater unity and a pro-growth agenda across Europe could boost activity, yet we are watching how the bloc tackles its structural challenges before turning more optimistic. We note opportunities in financials and industries tied to defense and infrastructure spending.
	UK	Neutral	We are neutral. Political stability could improve investor sentiment. Yet an increase in the corporate tax burden could hurt profit margins near term.
	Japan	+1	We are overweight given the return of inflation and shareholder-friendly corporate reforms. We prefer unhedged exposures as the yen has tended to strengthen during bouts of market stress.
	Emerging markets	Neutral	We are neutral. Valuations and domestic policy are supportive. Yet geopolitical tensions and concerns about global growth keep us sidelined for now.
	China	Neutral	We are neutral. Trade policy uncertainty keeps us cautious, and policy stimulus is still limited. We still see structural challenges to China's growth, including an aging population.
Fixed Income	Short U.S. Treasuries	Neutral	We are neutral. We view short-term Treasuries as akin to cash in our tactical views and we remove this overweight to turn neutral long-term Treasuries.
	Long U.S. Treasuries	Neutral	We are neutral. Yields could fall further as a softening labor market gives the Fed space to cut without its independence being called into question – even if the pressures pushing up yields persist.
	Global inflation-linked bonds	Neutral	We are neutral. We see higher medium-term inflation, but cooling inflation and growth may matter more near term.
	Euro area govt bonds	Neutral	We are neutral. Yields are attractive, and term premium has risen closer to our expectations relative to U.S. Treasuries. Peripheral bond yields have converged closer to core yields.
	UK gilts	Neutral	We are neutral. Gilt yields are off their highs, but we expect more market attention on long-term yields through the government's November budget, given the difficulty it has had implementing spending cuts.
	Japanese govt bonds	-1	We are underweight. We see room for yields to rise further on Bank of Japan rate hikes and a higher global term premium.
	China govt bonds	Neutral	We are neutral. Bonds are supported by looser policy. Yet we find yields more attractive in short-term DM paper.
	U.S. agency MBS	+1	We are overweight. We find income in agency MBS compelling and prefer them to U.S. Treasuries for high-quality fixed income exposure.
	Short-term IG credit	+1	We are overweight. Short-term bonds better compensate for interest rate risk.
	Long-term IG credit	-1	We are underweight. Spreads are tight, so we prefer taking risk in equities. We favor Europe over the U.S.
	Global high yield	Neutral	We are neutral. Spreads are tight, but corporate fundamentals are solid. The total income makes it more attractive than IG.
	Asia credit	Neutral	We are neutral. We don't find valuations compelling enough to turn more positive.
	Emerging hard currency	-1	We are underweight. Spreads to U.S. Treasuries are near historical averages. Trade uncertainty has eased, but we find local currency EM debt more attractive.
	Emerging local currency	Neutral	We are neutral. Debt levels for many EMs have improved, and currencies have held up against trade uncertainty. We prefer countries with higher real interest rates.

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