

Market Pulse 14 Brief

Author: Aditya Dhanraj

Full Report: <https://financialmarketmonitor.github.io/market-pulses/mp14/market-pulse-14.html>

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From mid-2025 through early 2026, global markets transitioned from post-tightening uncertainty into a late-cycle expansion defined by resilient growth, cooling labor markets, uneven disinflation, and increasing policy differentiation. U.S. equities advanced strongly, with the S&P 500 up 15.86%, Nasdaq 18.82%, Dow 13.55%, and Russell 2000 17.11% YoY, supported by easing financial conditions, AI-driven capex, and broadening participation beyond mega-cap leadership. Domestically, growth remained durable despite higher tariffs and slowing hiring: consumer spending held up, real wages continued to outpace inflation, and unemployment drifted into the mid-4% range without a surge in layoffs, signaling late-cycle normalization rather than recession. Inflation cooled unevenly toward the upper-2% range by year-end, offset by sticky services prices and tariff pass-through, prompting the Federal Reserve to pursue a cautious risk-management approach, deliver limited easing, and end quantitative tightening while prioritizing balance-sheet stability. Housing remained the clearest pocket of weakness amid affordability constraints, while credit markets stayed constructive with tight spreads and strong issuance, and long-duration bonds remained range-bound due to fiscal and term-premium concerns. Globally, Europe moved from stagnation toward fragile stabilization, led by tentative improvements in manufacturing sentiment, particularly in Germany, though services inflation, fiscal constraints, and uneven country-level growth capped upside. Japan emerged as a key inflection point, with persistent inflation and rising yields driving further policy normalization and FX sensitivity, while China remained in a managed stabilization regime, supported by exports and AI optimism but constrained by deflationary pressures, leverage controls, and weak domestic demand. Early 2026 reinforced these dynamics, with rotation toward small-caps and value, improving inflation data, and cooling but intact labor markets. Earnings broadly confirmed resilience across financials and AI-exposed sectors, while cyclicals lagged, and M&A activity re-accelerated selectively, highlighted by Boston Scientific's \$14.5B acquisition of Penumbra. Looking ahead, 2026 remains constructive but late-cycle, with returns increasingly driven by selectivity, valuation discipline, and rotation rather than broad multiple expansion.