# Global Markets 2025: Year in Review

## Cross-Asset, Evidence-Based, Institutional Pack

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# SECTION A — EXECUTIVE SUMMARY

**Bottom Line Up Front:** 2025 will be remembered as the year markets survived their worst tariff shock since the 1930s and delivered double-digit equity returns despite a 43-day government shutdown, a Federal Reserve pivot, and unprecedented policy uncertainty. The S&P 500 gained **+16.4%**, marking a third consecutive year of double-digit returns, CNBC Wikipedia while international markets staged their strongest outperformance versus the US since 2009. Gold delivered its best year since 1979 (+65%), USFunds CNBC the US dollar posted its worst annual decline since 2017 (-9.6%), KuCoin and oil fell nearly 20% on OPEC+ supply unwinds. Investing.com

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### The 5–10 defining market themes of 2025, ranked by impact

1. **"Liberation Day" tariff shock and V-shaped recovery** — The April 2-9 crash erased $5+ trillion in US market value in days; full recovery took just 60 days
2. **Fed's measured pivot** — Three 25bp cuts (September through December) brought Fed funds to 3.50-3.75%, Federal Reserve J.P. Morgan Asset Management with rising dissent signaling the easing cycle's end
3. **US government shutdown data blackout** — The 43-day shutdown (October 1 – November 12) CNBC ACSM created a critical economic data gap, Wikipedia forcing the Fed to cut rates "flying blind"
4. **International and EM outperformance** — MSCI ACWI ex-USA (+29.2%) and MSCI EM (+34.4%) materially outpaced the S&P 500 Shepherd Financial for the first time since 2020
5. **Precious metals supercycle acceleration** — Gold (+65%) and silver (+144%) posted their best annual returns since 1979 CNBC
6. **Bank of Japan normalization milestone** — BOJ raised rates to 0.75% (highest since 1995), TRADING ECONOMICS CNBC 10-year JGB yields hit 25-year highs at 2.09%
7. **AI concentration and Magnificent 7 bifurcation** — Only Alphabet (+65%) and Nvidia (+39%) meaningfully beat the S&P 500; Amazon (+5%) was the worst performer
8. **China deflation entrenchment** — PPI deflation extended to 32 consecutive months; Worldbank GDP deflator negative for 9 quarters

9. **Credit resilience** — HY spreads nearly doubled on Liberation Day (258→461bps) (Neuberger Berman) (European Central Bank) but snapped back within weeks
10. **Crypto regulatory clarity emerges** — GENIUS Act created first federal stablecoin framework; (Chainalysis) SEC/CFTC coordination dramatically improved

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## Biggest surprises vs. consensus entering 2025

| Consensus View (Jan 2025) | What Actually Happened |
|---|---|
| Fed to cut 100-150bps in 2025 | Only **75bps** delivered; hawkish dissent emerged |
| US equities to outperform international | International beat US by **+13 percentage points** (widest since 2009) |
| Bitcoin to rally post-halving | BTC ended **-6%** despite October ATH of $126k (CNBC) |
| China stimulus to reflate economy | Deflation persisted; PPI negative 32 consecutive months |
| Oil to hold $70-80 range | Brent collapsed to **$60.85 (-19%)** (Investing.com) on OPEC+ unwinds |
| Continued US dollar strength | DXY fell **-9.6%** — worst since 2017 (KuCoin) |
| Term premium to stay compressed | 10Y term premium surged to **0.80%** (highest since 2011) (FRED) |

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## Winners and losers across assets and regions

### Winners

- **Colombia equities**: +91% (best global performer) (CNBC)
- **Gold**: +65% (50+ new all-time highs)
- **Silver**: +144% (best since 1979) (Yahoo Finance)
- **MSCI Emerging Markets**: +34.4%
- **Hang Seng**: +30.6% (Advisor Perspectives)
- **Nikkei 225**: +24-26%
- **Copper**: +45.6% (new record highs) (USFunds)
- **Natural gas (HH)**: +36-40%

- **European banks (STOXX Europe Banks)**: +65%
- **Alphabet (GOOG)**: +65%
- **Brazilian real**: +12-15% Blackwell Global

**Losers**

- **Brent/WTI crude**: -19/-20% Investing.com
- **India (Sensex/Nifty)**: +5-6% (worst major market) Advisor Perspectives
- **Denmark equities**: -13% (worst developed market) CNBC
- **Bitcoin**: -6% (despite October ATH) USFunds
- **Amazon**: +5% (worst Magnificent 7)
- **Iron ore**: -14%
- **Corn**: -3.9% DTNPf
- **Real estate sector**: +3.6% (worst S&P sector)

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## Regime shifts identified

| Regime | Shift Description |
|---|---|
| **Growth** | US Q3 GDP printed +4.3% annualized; recession fears faded; global synchronized slowdown avoided |
| **Inflation** | US core CPI fell from 3.1% to 2.6%; "last mile" disinflation resumed; shelter inflation finally easing |
| **Rates** | Fed pivoted from "higher for longer" to measured easing; term premium regime shift (+0.80%) |
| **Volatility** | VIX spiked to 60.13 in April then compressed to 13.6 by year-end Investing.com — "spiky calm" regime |
| **Liquidity** | Fed announced $40B/month Treasury bill purchases (December) for reserve management J.P. Morgan Asset Management |
| **Geopolitics** | Trade policy replaced monetary policy as dominant market driver; Ukraine peace framework emerged |

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## 3–5 high-confidence takeaways for 2026

1. **Fed easing cycle is nearly complete** — December dot plot shows only 1 cut in 2026; policy rate

approaching neutral at 3.50% CNBC

2. **International diversification finally pays** — 2025 broke the "US exceptionalism" streak; allocators will likely increase non-US exposure
3. **Tariff policy is now a structural market factor** — Liberation Day framework creates ongoing pricing uncertainty; trade deals will drive sector rotation
4. **BOJ normalization creates global duration risk** — Japanese investors may repatriate capital as domestic yields rise; global bond supply/demand dynamics shifting
5. **Precious metals super-cycle intact** — Central bank buying, de-dollarization themes, and fiscal concerns support sustained gold demand above $4,000

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# SECTION B — GLOBAL MACRO BACKDROP (DATA-BACKED)

## Growth and inflation trends by region

### United States

GDP growth exceeded expectations despite tariff disruption. Q1 contracted -0.6% on tariff-induced import front-running, but Q2 rebounded +3.8% and Q3 surged +4.3% BEA (strongest in two years). Seeking Alpha +2 Full-year 2025 growth estimated at **~2.5%**. The labor market softened gradually, with unemployment rising from 4.1% (January) to **4.6%** (November, 4-year high). Bureau of Labor Statistics Core CPI fell from 3.1% to **2.6%** (lowest since March 2021), driven by easing shelter inflation (3.0%) CNBC though services remained sticky at 3.8%.

### Eurozone

The ECB's December projections revised 2025 growth to **1.4%** (up from 1.2%), Euronews with European Central Bank Spain (+2.5%) outperforming while Germany stagnated (+0.1%). HICP inflation averaged **2.1%** for the year, with core at 2.4%. European Central Bank Services inflation remained sticky above 3%. Germany's historic debt brake suspension for defense/infrastructure spending is expected to boost growth 0.5% by 2028. European Central Bank

### United Kingdom

The UK faced persistent stagflation concerns. GDP contracted -0.1% (August-October), the first three-month decline since December 2023. House of Commons Library Full-year growth estimated at **~1.25%**. CPI peaked at 3.8% (September) before easing to 3.2% (November). Unemployment rose to **5.1%** (highest since 2015), House of Commons Library while wage growth moderated to 4.7%. Bank of England

### Japan

Japan's deflation escape continued but growth remained subdued at **~0.5%** for 2025, held back by tariff headwinds. Core CPI stayed above 2% for nearly four years. TRADING ECONOMICS EFG International The Shunto wage increases of 5.4% for major firms signaled structural wage growth normalization. The BOJ's historic rate hikes to 0.75% marked the end of ultra-loose monetary policy. TRADING ECONOMICS FinancialContent

### China

Official GDP growth hit the **"around 5%"** target (Q1: 5.4%, Q2: 5.2%, Mercator Institute for China Stu... Q3: 4.8%), Mercator Institute for China Stu... but deflation remained the dominant theme. CPI was essentially flat year-on-year; Cepweb PPI deflation extended to **32 consecutive months** at -2.6%; Worldbank the GDP deflator was negative for **9 consecutive quarters** at -1.3%. KPMG Property prices remained down 40% from 2021 peaks in some cities.

### Key Emerging Markets

**Brazil** grew ~2.5% with BCB hiking aggressively to 15.00% (highest since 2006) on inflation concerns. TRADING ECONOMICS **India** maintained ~6.5% growth with RBI cutting 25bps in December. **Mexico** slowed to ~1.5% on manufacturing weakness. **Turkey** stabilized around 3% growth with CBRT holding at 45%.

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## Central bank policy paths and inflection points

### Federal Reserve

The Fed delivered **three 25bp cuts** in 2025, TRADING ECONOMICS +2 bringing the target range from 4.25-4.50% to **3.50-3.75%**.

| Date | Decision | Rate | Vote | Context |
|---|---|---|---|---|
| Jan 28-29 | HOLD | 4.25-4.50% | Unanimous | Inflation concerns |
| Mar 18-19 | HOLD | 4.25-4.50% | Unanimous | Tariff uncertainty |
| May 6-7 | HOLD | 4.25-4.50% | Unanimous | Labor resilient |
| June 17-18 | HOLD | 4.25-4.50% | Unanimous | Wait-and-see |
| July 29-30 | HOLD | 4.25-4.50% | Unanimous | Data dependency |
| **Sep 16-17** | **-25bp** | **4.00-4.25%** | Majority | First cut; labor concerns |
| **Oct 28-29** | **-25bp** | **3.75-4.00%** | Split | Continued easing |
| **Dec 9-10** | **-25bp** | **3.50-3.75%** | **9-3** | Hawkish cut; 3 dissents |

Powell's December statement: "*We are well positioned to wait and see how the economy evolves*" and "*We're in the high end of the range of neutral*." CNBC The December dot plot projected only **1 cut in 2026**. CNBC

### European Central Bank

The ECB completed its easing cycle with a final 25bp cut in June, bringing the deposit rate to **2.00%** where it remained through year-end (four consecutive holds). Total 2024-2025 cutting cycle: **8 cuts totaling 200bp**. House of Commons Library

### Bank of England

The BOE delivered **three 25bp cuts** in 2025 Bank of England (May, August, December), bringing Bank Rate to **3.75%**. Bank of England All votes were narrow (5-4), reflecting persistent inflation concerns.

### Bank of Japan

The BOJ's normalization accelerated dramatically. After exiting negative rates in March 2024, the BOJ PIMCO raised rates to **0.75%** in December 2025—the highest since 1995. TRADING ECONOMICS T. Rowe Price The 10-year JGB yield surged to **2.09%** (25-year high), while 30-year yields hit a record **3.43%**.

### PBoC

China's central bank cut the 7-day reverse repo to 1.4%, Mercator Institute for China Stu… reduced the 1-year LPR by 30bp to 3.15%, BBVA Research and cut RRR by 50bp releasing ~CNY 1 trillion in liquidity. Mortgage rates for first-time buyers fell to 2.6%. Mercator Institute for China Stu…

## Fiscal policy, deficits, issuance, and debt dynamics

### United States

The FY2025 budget deficit reached **$1.8 trillion**. Committee for a Responsible F… The debt ceiling was raised by $5 trillion (to $41.1 trillion) via the "Big Beautiful Bill" on July 4. Brookings Total federal debt outstanding: **~$37.4 trillion**. Congress.gov Interest payments now exceed defense spending. CBO estimates the new legislation adds $3.4 trillion to deficits over the decade. J.P. Morgan Private Bank Brookings

### Europe

Germany suspended its constitutional debt brake for defense and infrastructure spending—a historic shift expected to boost euro area GDP. France experienced political instability affecting bond markets, while Italy maintained elevated but stable debt-to-GDP ratios.

### Japan

Despite gross public debt at **~240% of GDP** (highest globally), Japan's budget deficit narrowed to 2.2% of GDP (32-year low). The BOJ's balance sheet remained at 118% of GDP. ABN AMRO

### China

Macro leverage hit a record **286.1% of GDP** in Q3. BBVA Research Net government bond financing in H1 2025 reached CNY 6.31 trillion (+CNY 3.81T YoY). Bank of China The government announced CNY 500 billion in special Treasury bonds for bank recapitalization. BBVA Research

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## Labor markets, real wages, productivity

US nonfarm payrolls weakened significantly in H2 2025, with October posting **-105,000** jobs CNN (first negative print since pandemic) and November recovering only **+64,000**. CNBC Wage growth decelerated to **+3.5% YoY** (November), the lowest since May 2021. CNBC The unemployment rate rose steadily from 4.1% (January) to **4.6%** (November), Bureau of Labor Statistics approaching Sahm Rule recession indicators. Indeed Hiring Lab Eurozone unemployment remained stable at 5.9%, Economy and Finance while UK unemployment jumped to 5.1% (highest since 2015). House of Commons Library

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## REQUIRED TABLE: Global Macro Summary 2025

| Region | GDP Trend | Inflation Trend | Policy Rate (Start→End) | Key Inflection Dates | Major Shocks |
|---|---|---|---|---|---|
| **United** | +2.5% FY; | CPI 2.7%→2.7%; | 4.25-4.50%→3.50- | Sep 17 (1st cut), | 43-day shutdown; |

| Region | GDP Trend | Inflation Trend | Policy Rate (Start→End) | Key Inflection Dates | Major Shocks |
|---|---|---|---|---|---|
| **States** | Q3 +4.3% | Core 3.1%→2.6% | 3.75% | Dec 10 (3rd cut) | Liberation Day tariffs |
| **Eurozone** | +1.4% | HICP 2.1% avg; Core 2.4% | 4.00%→2.00% | June 11 (final cut) | German debt brake suspension |
| **United Kingdom** | ~1.25% | CPI peaked 3.8%→3.2% | 4.50%→3.75% | May 7, Aug 6, Dec 17 (cuts) | Stagflation; unemployment surge |
| **Japan** | ~0.5% | CPI ~3% (above target) | 0.10%→0.75% | Dec 19 (+25bp to 0.75%) | 30-year rate highs; YCC exit |
| **China** | ~5.0% (official) | CPI ~0%; PPI -2.6% | 7-day RR 1.5%→1.4%; LPR 3.45%→3.15% | May (RRR/LPR cuts) | Deflation; property crisis |
| **Brazil** | ~2.5% | 4.8%→4.9% | 10.50%→15.00% | H1 hiking cycle | Fiscal concerns; BRL volatility |
| **India** | ~6.5% | ~5% | 6.50%→6.25% | Dec 5 (-25bp) | Monsoon variability |

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# SECTION C — CROSS-ASSET PERFORMANCE DASHBOARD

## Rates: UST Curve Performance

The Treasury curve steepened dramatically in 2025. The 2s10s spread moved from near-flat to **+71bps** positive by year-end.

| Tenor | 2024 End | 2025 End | Change (bps) | 2025 High | 2025 Low |
|---|---|---|---|---|---|
| **2-Year** | ~4.25% | 3.47% | -78 | ~4.5% (Jan) | ~3.46% (Dec) |
| **5-Year** | ~4.38% | ~3.85% | -53 | ~4.6% (Jan) | ~3.65% (Sep) |
| **10-Year** | 4.57% | 4.18% | -39 | 4.79% (Jan 13) | 4.045% (Apr) |
| **30-Year** | 4.79% | 4.84% | +5 | ~5.0% (Jan) | ~4.6% (Apr) |
| **2s10s Spread** | ~+32bp | +71bp | +39 | ~+75bp | Near 0 |

**Term premium**: The 10-year ACM term premium surged to **0.80%** on January 13—the highest level since 2011—driven by fiscal concerns, inflation uncertainty, and heavy Treasury issuance.

**Real rates**: 5-year TIPS yields fell from ~1.8% to 1.43%; 10-year breakevens widened to ~2.5%, at the high end of the 15-year range.

**Global sovereigns**: German Bunds sold off +45bps (2.39%→2.84%) on defense spending plans. UK Gilts peaked at 4.77% before settling at 4.48%. JGBs surged to 25-year highs at 2.09%.

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## Equities: Major Global Index Performance

### REQUIRED TABLE 1: Full-Year 2025 Returns

| Index | 2024 Close | 2025 Close | Return % | 2025 High | 2025 Low |
|---|---|---|---|---|---|
| **S&P 500** | 5,881.63 | 6,845.50 | **+16.4%** | 6,932.05 (Dec 24) Seeking Alpha | ~5,500 (Apr 7) |
| **NASDAQ Composite** | 19,310.79 | 23,241.99 | **+20.4%** | ~24,200 (Dec) | ~18,200 (Apr) |
| **Dow Jones** | 42,544.22 | 48,063.29 | **+13.0%** | ~49,500 (Dec) | ~38,500 (Apr) |
| **Russell 2000** | 2,230.16 | ~2,450 | **+10.8%** | 2,595.98 | 1,732.99 |
| **Euro Stoxx 50** | 4,895.98 | ~5,850 | **+18.1%** | 5,929.41 | 4,540.22 |
| **DAX** | ~19,900 | ~24,500 | **+23%** | ~25,000 | ~19,200 |
| **FTSE 100** | ~8,173 | ~9,900 | **+21.5%** | 10,122.73 | ~7,800 |
| **Nikkei 225** | ~39,895 | ~50,000 | **+25%** | 52,257 | ~35,000 |
| **Hang Seng** | ~20,060 | ~26,100 | **+30.6%** Advisor Perspectives | ~26,500 | ~17,500 |
| **Shanghai Composite** | ~3,351 | ~4,080 | **+15%** | ~4,200 | ~3,150 |
| **MSCI EM** | — | — | **+34.4%** J.P. Morgan Asset Management | — | — |
| **MSCI World** | — | — | **+21%** | — | — |

| Index | 2024 Close | 2025 Close | Return % | 2025 High | 2025 Low |
|---|---|---|---|---|---|
| **Sensex (India)** | ~78,139 | ~83,000 | **+6%** | ~86,000 | ~73,000 |

### Sector Leadership (S&P 500)

| Sector | 2025 Return | Key Drivers |
|---|---|---|
| **Financials** | +33.6% | Capital markets rebound, higher NIM, bank M&A |
| **Health Care** | +25.8% | GLP-1 drugs, biotech M&A |
| **Technology** | +24.6% | AI infrastructure, semiconductors |
| **Communication Services** | +22% | Alphabet/Meta AI, Netflix acquisition |
| **Materials** | +20.2% | Mining, metals for AI/EV infrastructure |
| **Industrials** | +19.5% | Aerospace/defense, data center construction |
| **Energy** | +16.2% | Q1 outperformance, then oil weakness |
| **Consumer Discretionary** | +14.8% | Tariff headwinds |
| **Consumer Staples** | +7.2% | Job market concerns |
| **Real Estate** | +6.5% | Office weakness, higher rates |
| **Utilities** | +3.6% | Rate sensitivity |

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## Credit: IG & HY Performance

| Category | Start 2025 (bps) | End 2025 (bps) | 2025 Tight | 2025 Wide | Notes |
|---|---|---|---|---|---|
| **US IG OAS** | ~80 | ~74-78 | ~67 (Q3) | ~120 (Apr) | Near 15-year tights |
| **US HY OAS** | ~258-285 | ~280-290 | ~256 (Feb) | **461 (Apr 2)** | Near-doubled on Liberation Day |
| **HY Default Rate** | 3.1% | 3.2-4.0% | — | — | Near historical average |

Credit spreads demonstrated remarkable resilience. HY spreads touched near all-time tights of 256bps in February (matching May 2007 and July 2021) before nearly doubling to 461bps on Liberation Day—then retracing most of the widening within weeks.

**Issuance**: IG corporate issuance +10% YoY; HY +14% YoY. September saw $57 billion in HY issuance (third strongest month on record).

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## FX: DXY and Major Pairs

| Pair | 2024 End | 2025 End | Change | 2025 High | 2025 Low |
|---|---|---|---|---|---|
| **DXY** | ~108.0 | ~98.28 | **-9.6%** | 110.18 | 96.22 |
| **EUR/USD** | 1.04 | 1.17-1.18 | **+13.7%** | ~1.19 | ~1.04 |
| **USD/JPY** | ~155 | ~155 | **~0%** | ~158 | ~140 |
| **GBP/USD** | 1.26 | 1.34-1.35 | **+7.7%** | ~1.36 | ~1.26 |
| **USD/CNH** | 7.30 | 6.97-7.04 | **-3 to -5%** | 7.43 Investing.com | 6.97 |
| **USD/MXN** | 20.5 | 18.0 | **-12%** | ~20.5 | ~17.7 |
| **USD/BRL** Exchange Rates | 6.15 | 5.27-5.43 | **-12 to -15%** | 6.40 | 5.27 |

The DXY posted its worst annual decline since 2017, driven by Fed cuts, tariff uncertainty, and structural reallocation away from USD assets. KuCoin

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## Commodities Performance

| Commodity | 2024 End | 2025 End | Return % | Key Drivers |
|---|---|---|---|---|
| **Gold** | $2,625 | $4,310+ | **+65%** | Best since 1979; 50+ ATHs; central bank buying USFunds |
| **Silver** | ~$29 | $70-72 | **+144%** CNBC | Best since 1979; industrial demand BullionVault |
| **Copper** | $8,660/ton | $12,600/ton | **+45.6%** | Record highs; AI/data center demand USFunds |

| Commodity | 2024 End | 2025 End | Return % | Key Drivers |
|---|---|---|---|---|
| **Brent Crude** | $74.96 | $60.85 | **-19%** Investing.com | OPEC+ unwind; demand concerns |
| **WTI Crude** | $71.65 | $57.42 Investing.com | **-20%** Investing.com | Longest decline streak on record |
| **Natural Gas (HH)** | $2.50 | ~$3.40-3.50 | **+36-40%** | LNG export demand |
| **Iron Ore** | $105/ton | ~$90/ton | **-14%** | China property weakness |

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## Volatility: VIX and MOVE

| Index | 2024 End | 2025 End | 2025 Avg | 2025 High (Date) | 2025 Low |
|---|---|---|---|---|---|
| **VIX** | ~17-18 | ~13.6-14.0 | ~15.3 | **60.13 (April)** | 13.38 (Dec) |
| **MOVE** | ~86 | ~60-65 | ~80-90 | ~140 (April) | ~60 (Dec) |

The VIX spiked to 60.13 during the Liberation Day crisis—the second-highest reading since the pandemic—then compressed to multi-year lows by year-end at 13.6, below the long-term average of 17.6. Investing.com

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## Crypto: BTC/ETH Performance

| Asset | 2024 End | 2025 End | Return % | 2025 High (Date) | 2025 Low | Max Drawdown |
|---|---|---|---|---|---|---|
| **Bitcoin** | $93,429 | ~$87,000-88,000 | **-6%** | $126,296 (Oct) | $76,329 (Mar) | ~30% |
| **Ethereum** | $3,360 | ~$3,000-3,200 | **-5 to -10%** | $4,955 (Aug 24) | $1,345 (Apr) | ~44% |

Bitcoin disappointed despite reaching a new all-time high of $126,296 in October. Spot ETF inflows remained strong—BlackRock IBIT attracted **$25-29B** in net inflows despite negative returns. Yahoo Finance The GENIUS Act (July 18) created the first federal regulatory framework for payment stablecoins.

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**REQUIRED TABLE 2: Risk Statistics 2025**

| Index/Asset | Realized Vol (Ann.) | Max Drawdown | Worst Month | Best Month |
|---|---|---|---|---|
| **S&P 500** | ~18% | -18.9% (Feb-Apr) | April | November |
| **NASDAQ** | ~22% | -16% | April | November |
| **Russell 2000** | ~25% | -20%+ | April | September |
| **10Y UST** | 15-18% | ~75bp selloff (Jan) | January | April |
| **Gold** | ~14% | -8% | — | Multiple |
| **Bitcoin** | ~55% | -30% | April | October |
| **VIX** | — | N/A | Spiked 60.13 Apr | 13.38 Dec |

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# SECTION D — WHAT ACTUALLY DROVE MARKETS

## Changes in macro expectations

Markets entered 2025 expecting 100-150bps of Fed cuts; they received only 75bps. The shift from "higher for longer" to "measured easing" materialized in September, driven by labor market softening (unemployment 4.1%→4.6%) rather than inflation concerns. Growth expectations improved as Q3 GDP printed +4.3%, the strongest in two years.

## Shifts in risk premia

The **term premium** regime shift was profound. The 10-year ACM term premium surged to 0.80% (highest since 2011) on January 13, FRED driven by fiscal deficit concerns ($1.8T), heavy Treasury issuance, and inflation uncertainty. This represented a fundamental repricing of duration risk.

**Equity risk premium** compressed as the S&P 500 P/E expanded despite higher real yields—justified by AI-driven earnings growth expectations. **Credit risk premium** touched generational tights before Liberation Day stress-tested resilience.

## Positioning and flows

CTA and volatility-control funds amplified the April drawdown through systematic deleveraging. Real money flows shifted dramatically toward international equities—MSCI ACWI ex-USA saw sustained inflows. Foreign investors purchased **$309 billion** in US bonds in the 12 months through July (+18% YoY), absorbing heavy Treasury supply.

### Driver map (text-based causal arrows)

```
Liberation Day Tariffs (Apr 2) → VIX spike to 60 → CTA deleveraging → Equity selloff (-12.4%)
                                                ↓
Tariff pause (Apr 9) → VIX collapse → Systematic re-risking → V-shaped recovery

Fed labor concerns → Sept rate cut → USD weakness (-9.6%) → International outperformance
                          ↓
Lower real rates → Gold surge (+65%) → Central bank buying → Safe haven demand

BOJ normalization → JGB yields to 25-year highs → Carry trade pressure → Yen volatility
                ↓
Global duration risk repricing → Term premium regime shift → Long-end underperformance
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# SECTION E — KEY 2025 EVENTS TIMELINE

## Q1 2025 (January – March)

| Date | Event | Market Reaction | Why It Mattered |
|---|---|---|---|
| Jan 20 | Trump inauguration | Stocks rallied on pro-business expectations | Set stage for tariff policies |
| Jan 24 | BOJ raises rates to 0.50% | Yen strengthened, Nikkei volatile | First BOJ hike of 2025 |
| Jan 28-29 | FOMC holds at 4.25-4.50% | Minimal reaction | Fed signaled patience |
| Feb 13 | Trump signs reciprocal tariff memo | VIX uptick | Signaled aggressive trade policy |
| Feb 19 | **S&P 500 all-time high** | Broad optimism | Became key recovery benchmark |
| Feb 20 | First wave of tariffs on Canada, China, EU, Mexico | S&P began 10% decline | Markets repriced trade war risk |
| Feb 26 | Nvidia Q4 earnings: $39.3B revenue (+78%) | AI enthusiasm | "Demand for Blackwell is amazing" |
| Mar 6 | ECB cuts 25bps to 2.50% | Euro weakened | Continued easing cycle |

| Date | Event | Market Reaction | Why It Mattered |
|---|---|---|---|
| Mar 13 | S&P 500 correction: -10.1% from peak | Defensive rotation | Pre-Liberation Day selling |
| Mar 21 | Trump announces "Liberation Day" for April 2 | Markets declined | Set up April crash |

## Q2 2025 (April – June)

| Date | Event | Market Reaction | Why It Mattered |
|---|---|---|---|
| **Apr 2** | **"LIBERATION DAY" TARIFFS** — 10% baseline + country-specific (China 54%) | **S&P futures -3%+ immediately** | **Largest tariff increase since 1930s** |
| **Apr 3** | **BLACK THURSDAY** | **S&P -4.8%, $3.1T lost** | **Biggest single-day loss since COVID** |
| Apr 4-8 | Global crash continues | S&P -12.4% (7 days); Nasdaq -21% trough | Worst week since pandemic |
| Apr 4-9 | **Bond market crisis** — 10Y surged from 3.86% to 4.5% | 30Y +54bps in 3 days | "Liz Truss moment" for US |
| Apr 7 | China retaliates: 34% tariff on US goods | Asian markets crashed | Trade war escalation |
| **Apr 9** | **TRUMP PAUSES TARIFFS** for 90 days | **S&P +9.5%** | One of largest single-day gains in history |
| Apr 17 | ECB cuts 25bps to 2.25% | Euro stable | Continued easing |
| May 8 | US-UK trade deal announced | GBP strengthened | First Liberation Day deal |
| **May 12** | **US-CHINA TRADE TRUCE** — tariffs cut to 30%/10% | **S&P major rally** | Removed worst-case scenario |
| May 13 | **S&P 500 turns positive for year** | Relief | V-shaped recovery confirmed |
| June 5 | ECB cuts 25bps to 2.00% (final cut) | Euro stable | Completed easing cycle |
| **June 27** | **S&P 500 FULL RECOVERY** — closes above Feb 19 high | Celebration | Recovery in <3 months |

## Q3 2025 (July – September)

| Date | Event | Market Reaction | Why It Mattered |
|---|---|---|---|
| July 4 | "Big Beautiful Bill" raises debt ceiling $5T | Bond yields rose | +$3.4T deficit impact over decade |
| July 9 | Liberation Day pause ends; tariffs take effect | Markets absorbed calmly | Priced in |
| July 31 | Trade deals with UK, Vietnam, Japan, S. Korea, EU | Risk-on | 8 framework agreements |
| Aug | US unemployment rises to 4.3% | Rate cut expectations rose | Labor softening |
| **Sep 16-17** | **FOMC CUTS 25bps** to 4.00-4.25% | **S&P +1.2%, bonds rallied** | **First cut of 2025** |
| Sep | Sanae Takaichi wins LDP leadership | Nikkei +4.75% to record | First female Japanese PM |

## Q4 2025 (October – December)

| Date | Event | Market Reaction | Why It Mattered |
|---|---|---|---|
| **Oct 1** | **US GOVERNMENT SHUTDOWN BEGINS** | Markets calm initially | Longest shutdown began |
| Oct 6 | Japan Nikkei hits record high | +4% | "Sanaenomics" expectations |
| Oct 21 | Sanae Takaichi elected Japan PM | Nikkei mixed | First female PM |
| Oct | **NO OCTOBER CPI OR JOBS DATA COLLECTED** | Uncertainty premium | Fed "flying blind" |
| **Oct 28-29** | **FOMC CUTS 25bps** to 3.75-4.00% | S&P rallied | Second cut |
| Oct 29 | Nasdaq all-time high: 23,958 | Tech rally | AI enthusiasm peak |
| **Nov 12** | **GOVERNMENT SHUTDOWN ENDS** (43 days) | Relief rally | Longest in US history |
| Nov 19 | Nvidia Q3 earnings: $57B revenue (+62%) | Tech rallied | "Blackwell sales off the charts" |

| Date | Event | Market Reaction | Why It Mattered |
|---|---|---|---|
| **Dec 10** | **FOMC CUTS 25bps** to 3.50-3.75% (9-3 vote) | Dow +500pts | Hawkish cut; 3 dissents |
| Dec 17 | ECB holds; raises growth forecasts | Euro stable | Fourth consecutive pause |
| Dec 18 | BOE cuts 25bps to 3.75% (5-4 vote) | GBP weakened | Hawkish cut |
| **Dec 19** | **BOJ RAISES 25bps to 0.75%** | **JGB 10Y to 2.09% (25-yr high)** | **Highest rates since 1995** |
| Dec 24 | S&P 500 all-time closing high: 6,932 | Holiday optimism | Third consecutive double-digit year |

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# SECTION F — DEEP DIVES (Key 2025 Themes)

## 1. Liberation Day: The tariff shock that didn't break markets

**Start-of-year consensus**: Trade tensions would be managed; no repeat of 2018-19 tariff war intensity.

**What actually happened**: Trump's April 2 "Liberation Day" declaration imposed 10% baseline tariffs plus country-specific rates up to 245% on China—the largest tariff increase since the Smoot-Hawley Act of 1930. The S&P 500 lost **$5+ trillion** in market value over 7 days (-12.4%).

**Data evidence**: VIX spiked to 60.13; HY spreads nearly doubled (258→461bps); 10Y Treasury yield swung from 4.5% to 4.045% and back to 4.5% within 10 days.

**Cross-asset response**: Equities crashed globally; bonds initially rallied (flight to safety) then sold off on inflation fears; gold surged; dollar weakened sharply.

**Second-order effects**: IPO market froze (Klarna, Chime halted plans); supply chain repricing began; companies accelerated nearshoring.

**Who benefited**: Gold (+65%), Japanese equities (+25%), put option holders, short sellers.

**Who suffered**: China-exposed companies (Apple, Amazon), small caps, highly leveraged credit.

**Lessons for 2026**: Trade policy is now a first-order market driver. Tariff pause/escalation cycles create volatility opportunities. Recovery speed (60 days) suggests underlying market resilience.

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## 2. AI concentration and the Magnificent 7 bifurcation

**Start-of-year consensus**: Magnificent 7 would continue to dominate; AI spending would accelerate.

**What actually happened**: Only **2 of 7** Mag 7 stocks meaningfully beat the S&P 500. Alphabet (+65%) and Nvidia (+39%) delivered, while Amazon (+5%) lagged badly. Mag 7 represents **34.4%** of S&P 500 market cap (up from 12.5% in 2016).

**Data evidence**: Nvidia became the first company to reach $5 trillion market cap; data storage companies (SanDisk +559%, Western Digital +283%) outperformed on AI infrastructure demand.

**Cross-asset response**: Tech sector +24.6% vs S&P +16.4%; QQQ outperformed SPY by ~400bps.

**Second-order effects**: Equal-weight S&P 500 (+9.3%) significantly underperformed cap-weighted (+16.4%), highlighting narrow breadth.

**Lessons for 2026**: AI is real, but picking winners requires selectivity. Infrastructure plays (storage, power) may outperform pure AI software. Market concentration remains a risk factor.

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## 3. Japan's historic normalization

**Start-of-year consensus**: BOJ would move cautiously; yen would stabilize.

**What actually happened**: BOJ raised rates to **0.75%** (highest since 1995); 10-year JGB yields hit **2.09%** (25-year high); 30-year yields reached record **3.43%**. Japan elected its first female PM (Sanae Takaichi).

**Data evidence**: Nikkei +24-26% (best major market); BOJ balance sheet contracted ¥61.2T in a fiscal quarter (QT acceleration).

**Cross-asset response**: Yen remained volatile but essentially flat vs USD despite rate hikes; European/Japanese carry trades faced unwind pressure.

**Second-order effects**: Global duration risk repriced; term premium surged globally; JGB holders faced mark-to-market losses.

**Lessons for 2026**: BOJ normalization creates ongoing global bond market pressure. Japanese capital repatriation could accelerate if domestic yields continue rising.

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## 4. International markets end the US exceptionalism streak

**Start-of-year consensus**: US would continue outperforming on AI/growth advantages.

**What actually happened**: MSCI ACWI ex-USA (+29.2%) beat the S&P 500 (+16.4%) by **13 percentage points**—the widest margin since 2009. MSCI EM (+34.4%) was the best-performing equity category.

**Data evidence**: DXY -9.6% (worst since 2017); European banks +65%; Hang Seng +30.6%; Korea KOSPI +76-101%.

**Why it happened**: Dollar weakness provided tailwind; European fiscal expansion (German debt brake suspension); China stimulus hopes; EM carry attractiveness.

**Lessons for 2026**: Currency is a major driver of relative returns. Diversification benefits returned. US concentration risk became tangible.

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### 5. Precious metals supercycle

**Start-of-year consensus**: Gold would be rangebound at $2,500-2,700; real rates would cap upside.

**What actually happened**: Gold surged **+65%** to $4,310+ (best since 1979); silver +144%; 50+ new all-time highs for gold.

**Data evidence**: Central bank gold purchases +28% QoQ in Q3; World Gold Council reported record demand.

**Drivers**: Fed rate cuts, dollar weakness, fiscal concerns, geopolitical uncertainty, de-dollarization themes.

**Lessons for 2026**: Precious metals have re-emerged as core portfolio diversifiers. Central bank buying provides structural demand floor.

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### 6. China's deflationary trap

**Start-of-year consensus**: China stimulus would reflate the economy; property stabilization expected.

**What actually happened**: PPI deflation extended to **32 consecutive months**; GDP deflator negative for **9 consecutive quarters**; CPI essentially flat.

**Data evidence**: Property prices remained down 40% from 2021 peaks; consumer confidence stagnant; youth unemployment elevated.

**Policy response**: PBoC cut LPR, RRR; government expanded consumer subsidies; property restrictions eased—all insufficient.

**Lessons for 2026**: China deflation is structural, not cyclical. Comparisons to Japan's lost decades are increasingly relevant. Property deleveraging has years to run.

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# SECTION G — RISK MANAGER'S VIEW (G-SIB STYLE)

## Top 10 risk factors that dominated 2025

1. **Trade policy uncertainty** — Liberation Day tariffs and pause-escalation cycles
2. **Fed policy path repricing** — From 150bps cut expectations to 75bps reality
3. **Government shutdown/data gaps** — 43 days without critical economic data
4. **Term premium regime shift** — 10Y term premium to 0.80% (highest since 2011)
5. **Japan normalization spillovers** — BOJ rate hikes, JGB yield surge
6. **China deflation persistence** — No policy circuit-breaker
7. **Credit spread dislocation** — HY spreads doubled in days
8. **AI concentration risk** — 2 of 7 Mag 7 stocks drove index
9. **Geopolitical escalation** — Russia-Ukraine stalemate, Middle East tensions
10. **Fiscal sustainability concerns** — $1.8T deficit, debt ceiling drama

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## Correlation and diversification breakdowns

During the April Liberation Day crisis, correlations spiked across asset classes—equities, credit, and FX moved together in risk-off fashion. Bonds initially provided diversification (10Y rallied to 4.045%) before reversing on inflation fears. Gold remained negatively correlated to equities throughout, providing genuine diversification.

**Key finding**: The 60/40 portfolio faced stress in April as bonds initially rallied then sold off; by year-end, 60/40 delivered strong returns as both legs contributed positively.

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## Tail risks that materialized vs. didn't

| Tail Risk | Status | Impact |
|---|---|---|
| Trade war escalation | **MATERIALIZED** | Liberation Day crash; V-shaped recovery |
| Government shutdown | **MATERIALIZED** | 43 days; data blackout |
| Fed policy error | **PARTIAL** | Hawkish dissent suggests near-miss |
| China property collapse | **ONGOING** | Slow-burn, not acute |

| Tail Risk | Status | Impact |
|---|---|---|
| EM currency crisis | **DID NOT** | EM FX outperformed |
| US recession | **DID NOT** | Q3 GDP +4.3% |
| Crypto blow-up | **DID NOT** | ETF infrastructure absorbed stress |
| Japan crisis | **DID NOT** | Orderly normalization |

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## Volatility clustering and stress episodes

VIX exhibited two major spikes: April (Liberation Day, peak 60.13) and October (government shutdown/Fed uncertainty, ~30). Between episodes, volatility compressed to below long-term averages (13.6 vs 17.6 median). MOVE Index followed similar pattern—spike to 140 in April, compression to 60 by year-end.

**Pattern**: 2025 was characterized by "spiky calm"—brief, intense stress episodes followed by rapid normalization.

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## Liquidity and funding observations

- Fed announced $40B/month Treasury bill purchases in December for reserve management
- Options volume hit record highs (100M+ daily contracts twice)
- 0DTE options provided significant liquidity cushion
- HY issuance remained robust ($57B in September alone)
- Foreign investor Treasury purchases +18% YoY ($309B)
- No systemic funding stress despite government shutdown

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## Key stress scenarios for 2026

| Scenario | Probability | Key Trigger | Directional Impact |
|---|---|---|---|
| **Fed policy error (overtightening)** | 20% | Inflation reaccelerates; Fed reverses cuts | S&P -15%; 10Y +75bps; USD +8% |

| Scenario | Probability | Key Trigger | Directional Impact |
|---|---|---|---|
| **Trade war 2.0** | 25% | Liberation Day deals collapse; China retaliates | S&P -10%; Gold +15%; VIX >40 |
| **Japan crisis** | 15% | JGB yield spike triggers funding stress | Global duration selloff; Yen +15% |
| **China hard landing** | 20% | Property collapse accelerates; deflation deepens | EM -20%; Commodities -15% |
| **US fiscal crisis** | 10% | Debt ceiling/downgrade; term premium surge | 30Y +100bps; USD -10% |
| **Geopolitical shock** | 15% | Ukraine escalation; Taiwan tensions | Oil +30%; VIX >50; Gold +20% |

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# SECTION H — 2026 OUTLOOK

## Base Case (55% probability)

**Macro assumptions**: US growth +2.0-2.5%; inflation 2.3-2.5%; unemployment 4.5-5.0%; Fed holds at 3.50% or cuts 1x; ECB holds; BOJ hikes to 1.0%.

**Cross-asset implications**:

- S&P 500: +8-12% (earnings growth ~10%, modest multiple expansion)
- 10Y UST: 4.0-4.5% range
- DXY: Stable to modestly lower (-3-5%)
- Gold: Consolidates $4,000-4,500
- Oil: $55-70 range (OPEC+ discipline vs demand uncertainty)

**Triggers/signposts**: Inflation prints 2.0-2.5%; unemployment stable <5.0%; trade deals hold; no government shutdown.

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## Adverse Case (30% probability)

**Macro assumptions**: US growth +0.5-1.0%; inflation 3.0-3.5% (tariff passthrough); unemployment 5.5%+; Fed forced to hike; recession in H2.

**Cross-asset implications**:

- S&P 500: -10-15%
- 10Y UST: 4.5-5.0% (term premium expands)
- DXY: +5-8% (flight to safety)
- Gold: +15-20% (recession hedge)
- Credit: HY spreads +200bps

**Triggers/signposts**: Core CPI >3.5%; tariff escalation; government shutdown redux; unemployment >5.5%.

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## Tail Case (15% probability)

**Macro assumptions**: Global recession; China hard landing; financial stability event; geopolitical shock.

**Cross-asset implications**:

- S&P 500: -25-30%
- 10Y UST: 3.0-3.5% (flight to safety dominates)
- VIX: 60+
- Gold: +30%
- EM: -30%

**Triggers/signposts**: China property systemic event; Japan funding crisis; major geopolitical escalation.

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## REQUIRED: Scenario Table with Probabilities, Triggers, and Asset Impacts

| Scenario | Probability | Key Triggers | S&P 500 | 10Y UST | DXY | Gold | HY Spreads |
|---|---|---|---|---|---|---|---|
| **Base** | 55% | Soft landing; inflation contained; Fed holds | +8-12% | 4.0-4.5% | -3-5% | Flat | Flat |
| **Adverse** | 30% | Inflation reaccelerates; tariff escalation; Fed hikes | -10-15% | 4.5-5.0% | +5-8% | +15-20% | +200bps |

| Scenario | Probability | Key Triggers | S&P 500 | 10Y UST | DXY | Gold | HY Spreads |
|---|---|---|---|---|---|---|---|
| **Tail** | 15% | Global recession; China crisis; geopolitical shock | -25-30% | 3.0-3.5% | +10% | +30% | +400bps |

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### Positioning implications

**Overweight**: International developed equities; gold; quality factor; short-duration credit **Underweight**: Long-duration Treasuries; China direct exposure; highly leveraged credit **Hedges**: VIX calls; put spreads on S&P; long JPY vs EM **Tactical**: Buy dips in tariff-related selloffs (Liberation Day pattern)

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### Hedging lessons from 2025

1. **Gold worked** — +65% with negative correlation to equities during stress
2. **Put spreads were expensive but paid** — April VIX spike rewarded convexity
3. **International diversification finally paid** — 13pp outperformance
4. **Credit resilience surprised** — HY spreads recovered quickly; staying invested was rewarded
5. **Don't fight the Fed** — Positioning for fewer cuts than consensus was correct
6. **Duration risk was real** — Long bonds underperformed; curve steepened

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## SECTION I — APPENDIX

### Full source list (grouped by category)

**Central Banks & Government**

- Federal Reserve (federalreserve.gov): FOMC statements, minutes, dot plots
- European Central Bank (ecb.europa.eu): Policy decisions, projections
- Bank of Japan (boj.or.jp): Policy statements, quarterly outlook
- Bank of England (bankofengland.co.uk): MPC minutes
- PBoC: Policy announcements
- Bureau of Economic Analysis (bea.gov): GDP data

- Bureau of Labor Statistics (bls.gov): CPI, employment data
- Treasury Department: Debt, issuance data
- CBO: Fiscal projections

**Market Data Providers**

- Bloomberg: Cross-asset prices, indices
- Reuters: News, data
- FRED (St. Louis Fed): Economic data
- ICE BofA: Credit indices
- CBOE: VIX, options data
- CME Group: Futures data
- MSCI: Index data
- S&P Global: Index data, default rates

**Research & Analysis**

- J.P. Morgan Asset Management
- T. Rowe Price
- Fidelity
- Charles Schwab
- Goldman Sachs Research
- Moody's, Fitch, S&P (credit ratings)

**News Sources**

- CNBC, Bloomberg News, Reuters, Financial Times, Wall Street Journal

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## Glossary of key terms

| Term | Definition |
| --- | --- |
| **Liberation Day** | April 2, 2025 tariff announcement |

| Term | Definition |
| --- | --- |
| **MOVE Index** | Merrill Option Volatility Estimate (rates volatility) |
| **ACM Term Premium** | Adrian-Crump-Moench model of Treasury term premium |
| **OAS** | Option-Adjusted Spread (credit) |
| **DXY** | US Dollar Index (basket vs 6 major currencies) |
| **Mag 7** | Magnificent Seven (AAPL, MSFT, GOOG, AMZN, NVDA, META, TSLA) |
| **YCC** | Yield Curve Control (BOJ policy) |
| **QT** | Quantitative Tightening |
| **Sahm Rule** | Recession indicator (0.5pp rise in unemployment) |

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## "Top charts we would include" (titles + purpose)

1. **S&P 500 2025 Path with Liberation Day Overlay** — Shows V-shaped recovery timeline
2. **VIX vs MOVE 2025** — Cross-asset volatility correlation
3. **10Y Term Premium Time Series** — Regime shift visualization
4. **Mag 7 Individual Returns vs S&P 500** — Concentration/divergence
5. **DXY vs Gold 2025** — Inverse correlation during Fed pivot
6. **HY Spreads April Spike and Recovery** — Credit resilience
7. **International vs US Relative Performance** — End of US exceptionalism
8. **Fed Funds Path: January Expectations vs Actual** — Policy repricing
9. **Japan 10Y JGB Yield History** — 25-year high context
10. **Central Bank Policy Rate Dashboard** — Global coordination/divergence

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*Document prepared as of January 7, 2026. Data reflects full-year 2025 where available; estimates marked where final data pending. This document is for informational purposes and does not constitute investment advice.*