



# The Way We See It

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**Issue 48**

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## *Will the Santa rally finish merrily?*

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A brief update report which serves to review the recent market development and to offer our outlook for the rest of the year and beyond.

### **Review of Developments**

#### **- Global Economies**

The latest GDP-Now estimate from the Federal Reserve Bank of Atlanta suggests that the US economy is expanding at a robust annualised pace of 3.9% in Q3 and 4% quarter-to-date in Q4, based on partial data. These projections stand notably above those of major investment banks. The momentum reflects resilient household consumption, a rebound in net exports, and sustained capital investment in artificial intelligence and related sectors. However, this strength contrasts with softer labour market signals, as non-farm payroll growth remained subdued through September.

Across other developed markets, activity is improving only gradually. Early indicators from Europe and Japan point to modest positivity, yet structural weakness persists, particularly in export-oriented industries. Global trade flows remain constrained by tariff regimes, limiting external demand and weighing on industrial output.

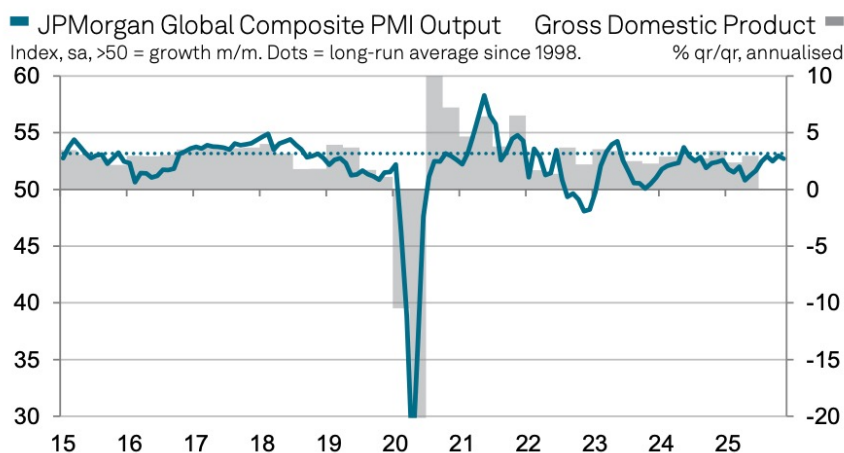
China continues to register positive growth but shows clear signs of deceleration. Fragile consumer sentiment and ongoing weakness in both residential

and commercial property markets are key drags. Reduced exports to the US, reflecting elevated tariffs, have further dampened performance. Nevertheless, capital expenditure in technology, artificial intelligence, and defence-related sectors remains resilient, mirroring trends observed in the US.

Inflationary pressures have broadly eased across OECD economies, with most central banks nearing the end of their rate-cutting cycles. In the US, core inflation, measured by the PCE deflator, has moderated to around 3%, though it remains above the Federal Reserve's 2% target. The Fed's rate reductions in September and October, citing labour market softness, have raised concerns that inflation risks may be underestimated over the medium term.

**Most central banks outside US are nearing the end of rate-cutting cycle.**

## J.P.Morgan Global Composite PMI™



Source: J.P.Morgan, S&P Global PMI,

Market pricing, as reflected in Fed funds futures, now assigns a 90% probability—up from 40% two weeks earlier—of a 25bps cut at the December FOMC meeting. This shift follows comments from John Williams, President of the New York Fed, who noted that US monetary policy remains moderately restrictive and that further easing, including in December, would be prudent to safeguard against labour market weakness.

Geopolitical risks, while somewhat eased, remain material. Conflicts in Ukraine, Gaza, and China, alongside tensions around Taiwan, continue to

threaten regional stability and global supply chains. These dynamics reinforce the need to integrate geopolitical risk into strategic asset allocation.

## - Global Markets – review of November

Although US equities ended November broadly unchanged, the month will be remembered for pronounced intra-month volatility. Investor concerns centred on the potential bursting of the US “AI bubble”—a theme highlighted in GOJI’s September 2025 report and echoed by other commentators. While leading AI stocks avoided a severe correction, a number of secondary names experienced sharp declines of 20–40%, particularly those lacking sufficient revenues and profitability to support ambitious capital expenditure plans.

Equity markets outside the US delivered modest gains, supported by investors seeking diversification and relative value. Europe, Japan and select emerging markets benefited from expectations of improving GDP growth and corporate earnings recovery, though performance remained uneven.

The prevailing narrative of AI-driven growth, coupled with monetary easing, continues to underpin upward revisions to global economic and earnings forecasts. Consensus suggests monetary policy across the US and other OECD economies will remain broadly accommodative, while fiscal support is expected to persist. In response to US trade measures, both Europe and China have introduced expansionary monetary and fiscal initiatives aimed at offsetting external headwinds, which may help stabilise broader macroeconomic conditions.

Nevertheless, questions are emerging regarding the sustainability of the equity rally. Particular scrutiny has been directed at “vendor financing” structures and circular capital flows underpinning high-profile transactions involving NVIDIA, OpenAI and other AI infrastructure players. Furthermore, much of the

Nasdaq and S&P 500’s recovery from the April trough appears driven by retail momentum, short-covering

**November will be remembered for pronounced intra-month volatility.**

and FOMO-led activity from hedge funds and algorithmic strategies. The relatively muted participation of institutional investors raises concerns about elevated valuations in the AI segment and the durability of the rally, particularly against a backdrop of stagflationary risks in the US and subdued global growth.

## Near-term performance of various asset classes

Asset Class Index	US Equities MSCI USA	Global Equities MSCI World	Global ex US Equities MSCI World ex USD
1 month	0.03%	0.31%	1.07%
3 months	6.16%	5.67%	4.39%
YTD	17.74%	20.59%	28.66%
FY 2024	25.08%	19.19%	5.26%

Asset Class Index	US Corporate Bloomberg US Corporate	US Treasury Bloomberg US Treasury	US Aggregate Bloomberg US Agg
1 month	0.65%	0.62%	0.62%
3 months	2.56%	2.10%	2.35%
YTD	7.99%	6.67%	7.46%
FY 2024	2.13%	0.58%	1.25%

Asset Class Index	Global Govt Bonds Bloomberg Global TSY	Global Aggregate Bloomberg Global Agg	GEM Equities MSCI EM
1 month	-0.01%	0.23%	-2.38%
3 months	-0.15%	0.63%	9.01%
YTD	6.69%	7.88%	30.41%
FY 2024	-3.58%	-1.69%	8.05%

Asset Class Index	Asia ex Japan Equities MSCI AC AxJ	China A MSCI China A Onshore	China Offshore MSCI China
1 month	-2.83%	-2.27%	-2.50%
3 months	8.49%	1.79%	2.95%
YTD	29.47%	24.17%	33.04%
FY 2024	12.51%	11.91%	19.67%

Asset Class Index	Global Commodities CBR	Gold Spot Price	USD Norm. Broad USD Index
1 month	-0.35%	5.32%	-0.28%
3 months	-0.28%	22.18%	0.68%
YTD	1.61%	61.58%	-6.22%
FY 2024	12.47%	26.49%	9.03%

Source: GOJI, MSCI, Bloomberg; data as of 28/11/2025

**Mixed performance across asset classes in November.**

From a performance perspective, global equities (in USD terms) rose by 0.3% in November. US equities were flat, while developed markets ex-US posted a respectable gain of 1.1%. Emerging markets underperformed, falling 2.4%, weighed down by China and technology-related sectors. US fixed income delivered modest gains, with Treasuries up 0.6%, while global bonds were unchanged. Commodities were mixed: crude oil softened on increased Saudi output and weak demand, whereas gold extended its upward trajectory.

## Market Outlook of December 2025

GOJI's outlook for the final month of Q4 remains cautiously constructive, though more restrained than the prevailing market consensus, which increasingly anticipates a potential "melt-up". While thematic tailwinds—artificial intelligence, technology sector leadership, anticipated Federal Reserve easing, and seasonally favourable year-end dynamics—support a positive bias, the broader environment is still shaped by macroeconomic fragility, policy uncertainty, and elevated valuations.

Our investment strategy is grounded in a multi-dimensional assessment of macroeconomic indicators, corporate earnings projections, asset valuations, investor positioning, capital flows, and technical chart patterns. This framework underpins our strategic asset allocation and risk-adjusted positioning across global markets.

Outside the US, the macro backdrop is expected to remain broadly supportive, provided trade tensions do not escalate further. Europe and China have enacted expansionary fiscal and monetary measures to stabilise growth and offset the adverse effects of US trade actions. These interventions may sustain momentum, though structural headwinds persist, particularly in export-dependent industries.

Within the US, concerns are mounting around stagflation, characterised by slowing growth and persistent inflation. Contributing factors include the absence of employment data due to the government shutdown, residual tariff effects, labour market disruptions linked to the Department of Government Efficiency initiative, tighter immigration enforcement, and emerging weakness in private sector hiring. Sentiment has improved following the finalisation of President Trump's tariff framework and the passage of the "One Big Beautiful Bill"—a modestly stimulative fiscal package—yet inflationary pressures remain entrenched.

A critical issue is whether the Federal Reserve risks a policy error by cutting rates in both October and December despite upward inflationary trends. These decisions will be closely monitored, with significant

**We remain cautiously constructive in the final month of the year.**

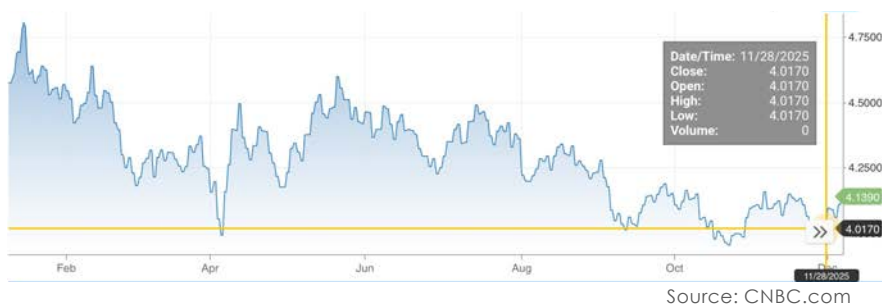


implications for fixed income and equity markets.

Global GDP growth is projected to remain below its long-term average, constrained by trade tensions and uneven recoveries across major economies. Europe's easing cycle appears near completion, while China maintains an accommodative stance. In the US, further easing remains plausible should data deteriorate, potentially bolstering liquidity and investor confidence.

Corporate earnings—particularly in AI, technology, and financials—are expected to remain resilient. However, valuation pressures may intensify if long-duration yields rise. With the S&P 500's forward P/E ratio at 23–24x, sustaining current levels will require continued strength from high-growth technology leaders and a stable 10-year Treasury yield below 4.50%.

## U.S. 10 Year Treasury



The US bond market remains volatile, shaped by technical and structural forces. GOJI favours selective entry into Treasuries when yields approach 4.50% per annum. Non-US bonds have seen notable yield compression, limiting upside unless recession risks escalate. Duration exposure should be carefully managed given prevailing valuations and shifting rate dynamics.

Investor positioning shows divergence. Systematic strategies remain overweight and have actively traded around equity exposure amid rising volatility. From near full investment, any adverse shock could prompt substantial selling, as these models—driven by momentum and volatility signals—adjust rapidly. This dynamic introduces potential downside risk if sentiment weakens unexpectedly.

**We favour selective entry into Treasuries when yields approach 4.50% p.a.**

## Consolidated Equity Positioning



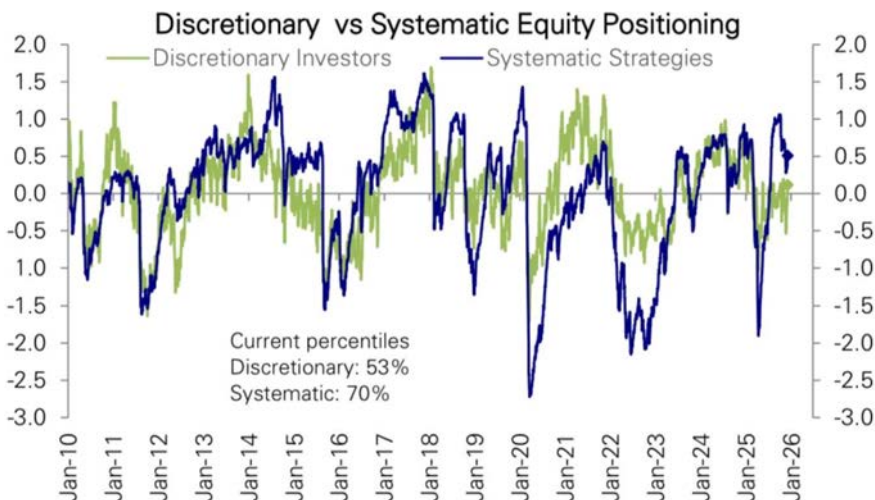
\*Weights based on explanatory power in regression of equity performance on indicators

Source: Deutsche Bank Asset Allocation

Discretionary managers have modestly increased equity exposure, encouraged by easing tariff tensions, expectations of further Fed cuts, and broadly positive Q3 earnings. Yet caution persists, with concerns over elevated valuations, risks of an AI bubble (short technological lifecycles of AI chips, vendor financing, and mounting leverage), potential Fed missteps, and lingering uncertainty around tariff impacts on margins.

**Discretionary managers have modestly increased equity exposure.**

## Discretionary vs Systematic Equity Positioning



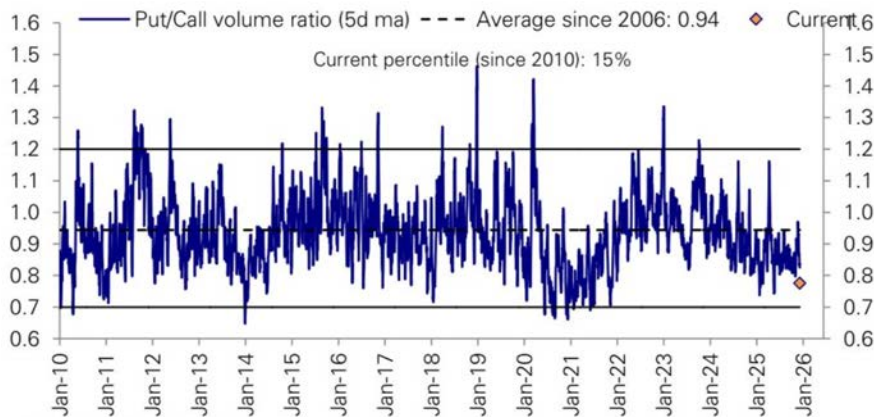
\*Wtd average of Z-scores for positioning indicators, weights based on explanatory power in regression of equity performance on indicators

Source: Deutsche Bank Asset Allocation

Retail sentiment remains strongly bullish, fuelled by high-profile transactions involving NVIDIA, OpenAI, and other AI infrastructure leaders. Confidence in further rate cuts has supported risk appetite. Options activity has surged, particularly in calls, driven by retail traders and fast-money funds. This aggressive pursuit of upside, coupled with minimal demand for protective puts—reflected in a notably low put/call ratio—suggests heightened vulnerability. Should adverse news emerge, markets may face abrupt downside pressure due to limited hedging activity.

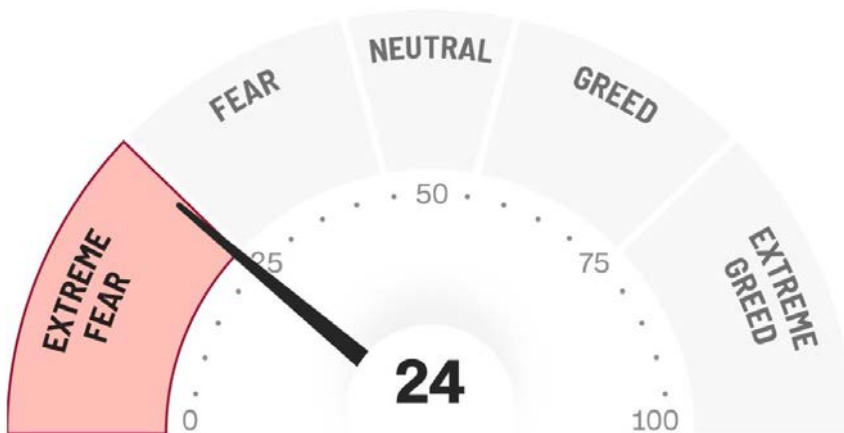
**Retail sentiment remains strongly bullish.**

## Equity Put / Call Volume Ratio



## Fear & Greed Index

- What emotion is driving the market now?



Source: CNN Business  
Last update November 28 at 8:00:00 PM ET

The CNN Fear & Greed Index swung from “Extreme Fear” to “Fear” during November.



## Short-term Technical Analysis

US equity indices—the Dow Jones, Nasdaq, and S&P 500—remain above their 200-day moving averages, though recent trading has been marked by notable volatility. Indices briefly slipped below their 50-day averages before rebounding. This dynamic reflects a clear divide between two investor camps: the bullish cohort, confident in the durability of the AI-driven growth narrative and the prospect of continued monetary easing by the Federal Reserve; and the more cautious group, sceptical of both the sustainability of the AI boom and the Fed's policy trajectory. The tension between these perspectives continues to shape short-term market behaviour.

## S&P 500 Stock Price Index



Source: MarketWatch.com

**Despite resilient earnings and supportive technicals, the outlook remains uncertain.**

Despite resilient earnings and supportive technicals, the outlook remains uncertain. Elevated price momentum and strong retail optimism, set against concerns of an AI-driven bubble, require agility and discipline. Investors must remain vigilant to shifting market dynamics, balancing optimism with prudent risk management. In today's complex environment, adaptability is critical to safeguarding portfolios while navigating both opportunities and risks. Sustaining performance will depend on disciplined positioning, careful monitoring of valuations, and readiness to adjust strategies as conditions evolve.

## **The Way We See It**

### **- Global Markets and Investment Thematics**

**At GOJI, our investment framework is built on a dual approach—balancing short-term tactical agility with long-term strategic discipline. We distinguish between tactical positioning (3–6 months) and strategic allocation (1–2 years), allowing us to navigate evolving market dynamics with precision.**

### **Long-Term Risk-Neutral Strategy Rationale**

GOJI maintains a long-term risk-neutral stance, reflecting elevated valuations and sub-par global growth. Current market behaviour appears anchored in best-case assumptions, favouring pro-growth, pro-equity, and pro-digital asset policies.

In this context, we recommend a modest underweight in high-beta growth assets, given stretched valuations and volatility. Conversely, we favour overweight allocations to cash and high-quality, stable assets. This strategy seeks to preserve capital, enhance resilience, and maintain flexibility amid policy uncertainty, balancing risk and opportunity across global portfolios.

### **Short Term: to retain a moderately bullish tactic, but remain nimble in December**

GOJI's tactical asset allocation stance for December and Q4 remains moderately bullish, supported by the Federal Reserve's dovish pivot, prioritising employment over inflation risks through successive rate cuts. This policy shift, combined with resilient corporate performance in US growth sectors—AI, technology, and financials—underpins a constructive near-term outlook. Discretionary investors, currently underweighted, may be encouraged to re-enter, while retail participants, buoyed by gains since April, are likely to sustain momentum, potentially with increased leverage. Yet optimism is already priced in, leaving limited margin for error. Elevated valuations and skewed positioning towards high-beta exposures heighten vulnerability. GOJI advocates nimble positioning, active risk management, and readiness to pivot as dynamics evolve.

**Maintain a long-term risk-neutral stance.**

**Remain moderately bullish in the short term.**

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