

Monthly

GLOBBAL ECONOMIC REPORT

By Jim Welsh

***In-depth Fundamental and
Macro-Economic Analysis.***

Every Single Month.



A Major Reset Is Coming

December 2, 2025

Bifurcation Everywhere

Bifurcation is inherently unstable since it creates a tension between sections of a whole and by definition shows that everyone isn't pulling in the same direction. It's difficult to solve challenging and complex problems even when everyone is seeking a common solution, but virtuously impossible to address problems when opposing views are rigidly embraced. There are a number of significant problems that must be addressed in the next few years that will require everyone pulling in the same direction if they are to be solved.

In 2010 Health Care spending amounted to 17.9% of GDP so controlling the rising cost of health care was important and a large number of Americans didn't have insurance due to the cost. The US had a trade surplus from 1930 until 1976, but it worsened in the 1980's as the Dollar strengthened after President Reagan took office in 1981. After the Plaza Accord in 1985 weakened the Dollar, the trade deficit narrowed as a percent of GDP from -3.0% in 1987 to -0.5% in 1992. The trade deficit deteriorated and reached -5.7% in 2006 before improving to -2.9% in 2009. Since 2013 the trade deficit has been running about -2.9% of GDP. The US has attempted to address Health Care and the Trade deficit. What we have learned is that when everyone isn't pulling in the same direction (bifurcation) the solutions haven't been good.

Healthcare

The Affordable Care Act (ACA) was passed on March 23, 2010, when President Obama signed it into law. The vote in the House was 219 to 212 with every Republican voting Nay (178) along with 34 Democrats. In the Senate every Democrat voted Yea (60) while every Republican (39) voted against it. The ACA wasn't the product of bipartisan deliberations. The main goals of the Affordable Care Act (ACA) were to increase health insurance coverage for the uninsured while reforming the health insurance market to make coverage more affordable and accessible. The ACA expanded Medicaid, created health insurance marketplaces with subsidies, prevented insurance companies from denying coverage based on pre-existing conditions, and allowed young adults to stay on their parents' plans until age 26.

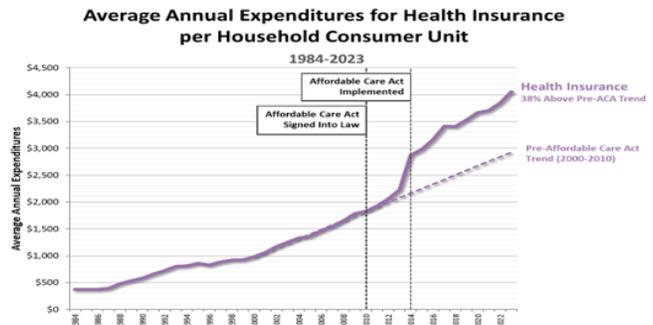
Prior to the passage of the ACA President Obama made a number of promises to those who already had insurance coverage. ***"If you like your doctor, you will be able to keep your doctor,***

period. If you like your health care plan, you'll be able to keep your health care plan, period."

There is no wiggle room in these statements, period. While President Obama promised that the law would not force people to change plans or doctors, millions of Americans ultimately lost access to their doctors, or had their insurance plans canceled because their existing coverage didn't meet the minimum standards established by the ACA.

The biggest promise President Obama and the Democrats made was that the ACA would help make health insurance more affordable. Since its passage in 2010, the cost of healthcare has continued to increase more than inflation and more than many family's budgets can bear. The Affordable Care Act has failed to live up to almost any of the promises President Obama made to get it passed. The cost of Health insurance is 38% above 10-year trend prior to the passage of the Affordable Care Act (ACA) in just 15 years.

Affordable Care Act – Health Insurance less Affordable



Source: U.S. Bureau of Labor Statistics - Consumer Expenditure Surveys, 1984-2023
Note: The CEX questionnaire about health insurance was revised in 2014. © Political Calculations 2024

There are currently no discussions or proposals to address the health care crisis in a non-partisan manner that makes health care truly affordable and accessible. In his first term President Trump and the Republicans failed to produce a viable alternative to the ACA, which is also the case in his second term so far. For good reasons it's easy to criticize the ACA, but at some point it's put up or shut up time for a replacement.

Trade Deficit

In 2024, trade as a percentage of GDP was approximately 25%, with exports representing 11% of GDP and imports 14% of GDP. In order for the US to narrow its annual trade deficit, the US needs to increase exports. This has been a challenge since many other countries have established prohibitive trade barriers, especially the European Union and China. I'm not a fan of tariffs since history hasn't been kind. After the US passed the Smoot Hawley Tariff Act in 1930, trading partners retaliated and global trade crashed by 65% in the 1930's, deepening the Depression.

As discussed most recently in the February 2025 Macro Tides, "In July 2018 President Trump imposed tariffs of 25% on \$34 billion of Chinese products. A 10% tariff was applied on \$200 billion of Chinese goods in September which increased 25% at the end of 2018. By the end of 2018 \$380 billion of goods imported from China were subject to tariffs. The tariffs increased the price of the targeted goods by almost 4% in 2018 before leveling off in 2019. The Tax

2018 Tariffs increased the price of some goods



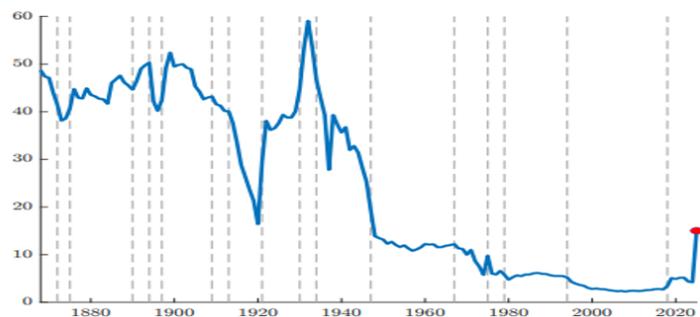
Foundation has estimated that the tariffs in 2018, which were continued by President Biden, reduced long-run GDP by -0.26%, wages by -0.16%, and eliminated 142,000 full-time equivalent jobs.”

The San Francisco Federal Reserve analyzed tariffs from 1870 and found that there was a consistent impact on inflation, economic growth, and unemployment. During the so-called first wave of globalization between 1870 and 1913 and the period between World War I and World War II, tariff rates displayed large and fast variations. During and after World War II, there was a concerted effort to lower tariffs between developed countries. The average tariff rate in the US fell from 36% in 1939 to 10% in 1946. By 2018 the average tariff rate was less than 3%, before President Trump initiated his tariffs on China. Although there were brief increases in tariffs after 1970, they were small and expired after one year.

The San Francisco Fed found that the impact on inflation, economic growth, and unemployment was more significant when tariff changes were large (1870 – 1946), but the impact was also present when tariffs were falling and the changes were small. Higher tariffs lead to lower economic activity, higher unemployment, and lower inflation. The impact on inflation is counter intuitive since tariffs do raise prices, but over time higher tariffs act as a demand shock. The authors surmise that this occurs as higher tariffs create uncertainty that lowers consumer and investor confidence, which ultimately leads to lower inflation. Historically, this combination has led to declines in assets prices that depresses aggregate demand and causes job losses and higher unemployment.

SF Fed – Tariffs = Slower GDP, higher unemployment, and disinflation

Figure 2: Average tariff rate, United States



The tariff increases in 2025 are the largest since the spikes in 1920 and 1930. Since January 2025, the Effective Tariff Rate has soared from 2.5% to 15.0%, a 600% increase. The magnitude of the increase, per the research by the San Francisco Fed, can be expected to have a negative impact on economic growth, unemployment, and create disinflation in 2026 and 2027.

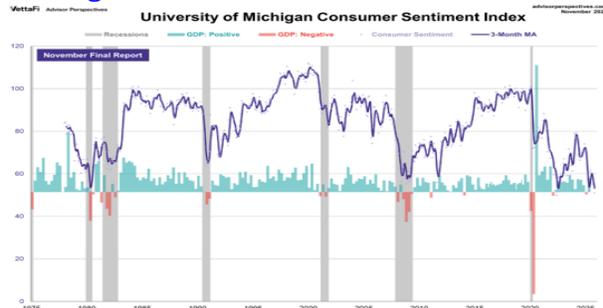
President Trump levied the surge in tariffs without any input from Congress and the legality of his trade actions will be determined by the Supreme Court soon. If the Supreme Court rules he overstepped the authority of the Executive branch, President Trump will pursue another avenue, which will likely wind up at the Supreme Court too. The lack of consensus for the Affordable Care Act and the imposition of tariffs unilaterally are examples of solutions that didn't solve the problem of health care, and the tariffs that are more likely to do some measure of harm, even if the trade deficit narrows in coming years.

Consumer Confidence

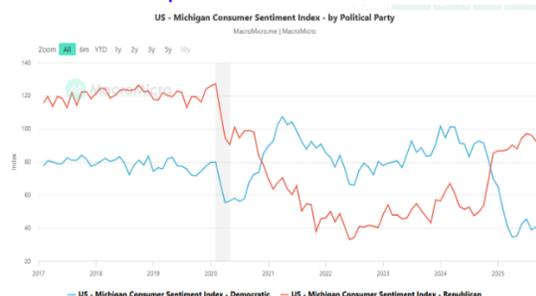
The San Francisco's Fed found that Consumer Confidence was negatively impacted after tariffs increased uncertainty. The University of Michigan measures the confidence of consumers through its monthly telephone survey of a representative sample of consumers. The survey asks respondents questions about how they feel about their personal finances, current business conditions, and their views for the outlook the economy. The responses are compiled and the University of Michigan produces its Index of Consumer Confidence. The Index is widely followed and seen as a leading indicator for the economy. If confidence is high economists expect consumers to increase spending or to keep spending, and reduce spending if confidence is low. In November the Consumer Confidence Index fell 2.6 points (-4.9%) to 51.0 from 53.6 in October. *The November reading of 51.0 is the second-lowest sentiment reading of all-time, only trailing the record low of 50.0 set in June 2022.* It's lower than the 55.3 level during the height of the Financial Crisis in November 2008, and the 51.7 reading in May 1980 as consumers were dealing with double digit inflation.

Since 1977, the only time the University of Michigan's Consumer Confidence Index has been below 60.0 has been during a recession (grey and red shaded areas). Since November 2024 the Confidence Index is down -29.0% and the Index is well below 60, but the economy hasn't been in a recession. GDP grew 1.9% in the fourth quarter of 2024, and although GDP dipped by -0.6% in the first quarter of 2025, the decline was due to a surge in imports ahead of the launch of tariffs in April that subtracted -4.9% from GDP. Final Sales, which excludes imports and inventories, provides a better view of the economy, were up 1.9% in Q1. In the second quarter GDP increased by 3.8%. The government shutdown has prevented the Bureau of Economic Analysis (BEA) from issuing its GDP report for the third quarter, but the Atlanta Fed's GDP Now forecast for Q3 is 3.9% and the New York Fed's Nowcast pegs growth at 2.3%. The economy is not performing so badly that would explain such a low Consumer Confidence Index.

Consumer Confidence Index – November 51.0 Readings below 60 coincident with recessions



U Mich Consumer Sentiment – Same economy – Partisan perception Democrats 42.7 – Republicans 92.4



The University of Michigan breaks down consumer sentiment by political affiliation. In November the level of confidence for Democrats was 42.7 (blue), but was 92.4 for Republicans (red). Members of both parties are experiencing the same economy, but political partisanship is causing

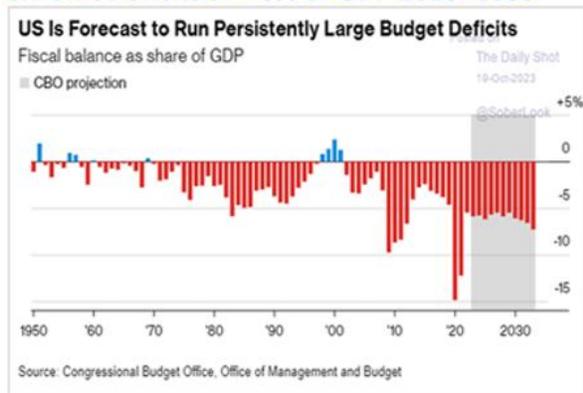
them to see it differently. This is a profound example of bifurcation that has infected members of both parties. After Joe Biden won the 2020 election, Democrats' confidence soared while Republican confidence plunged.

It's difficult to solve challenging and complex problems even when everyone is seeking a common solution, but virtuously impossible to address problems when opposing views are rigidly embraced. If and when Congress does get around to discussing the myriad of problems that need to be addressed and solved, the partisanship evident in the University of Michigan's Confidence survey will express itself with members of each party telling their leaders not to give an inch to the other party. As long as members of each party indulge in party first, problems will grow until something breaks. Only then will members of each party surrender party allegiance and ask their leaders to fix the country's problems that are making life hard.

Fiscal Responsibility

The US is facing an unsustainable increase in debt and debt service, but the annual budget deficit is projected to stay at 6% of GDP through 2033, according to the Congressional Budget Office. Interest expense was more than \$1.0 trillion and consumed 14% of the 2025 budget, which was about what was spent on Medicare and Health programs, and more than National Defense.

Chronic Deficits of > 6% of GDP 2023 -2033



Annual Interest Expense – 14% of 2025 Budget

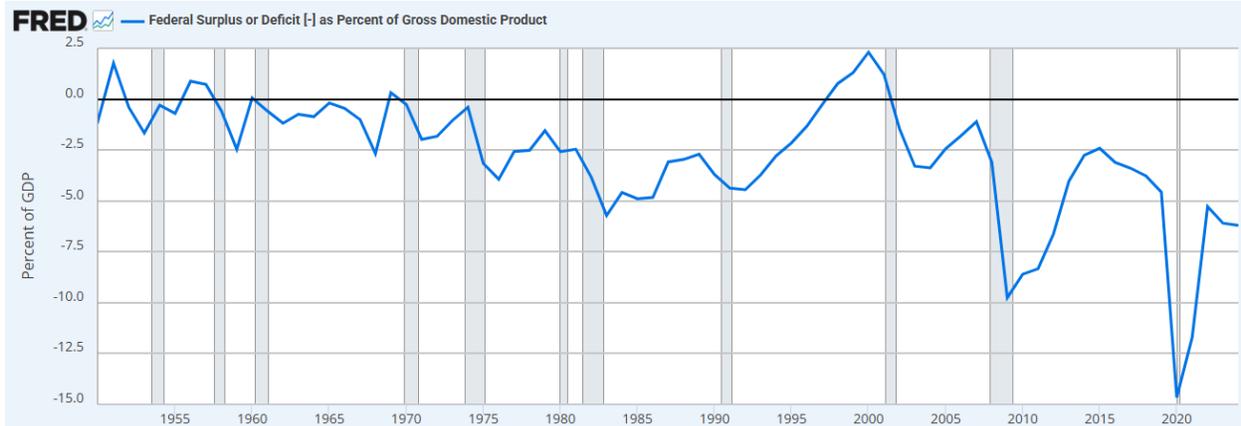


It is imperative that the US lowers the annual deficit from 6% of GDP to 3% or less in coming years in order to stabilize government finances and the economy. That will require tough decisions, sacrifice, and a concerted effort by members of both parties explaining to their constituents why it is critical. In World War II Americans were willing to make extreme sacrifices since they believed it was necessary and worth it. Given the rabid partisanship that dominates both political parties in 2025, it will likely require a crisis to bring about a consensus of what needs to be done. Sadly, both parties can be counted on to blame the other party initially, rather than pursuing a solution.

Federal debt exceeds \$38 trillion, is climbing by \$2 trillion annually, represents 125% of GDP, and that's while the economy is growing by more than 2%. Since 1950 deficits rose during recessions

(shaded areas on chart), but then declined sharply once the economy recovered. The 1973 – 1974 recession lasted 16 months and the Unemployment Rate reached 9.0% in May 1975. The budget deficit hit -4.1% in 1976, but dropped to -1.6% in 1979. During the deep recession in 1982, the Unemployment Rate topped at 10.8% in December 1982. The deficit bottomed at -5.9% in 1983 and then narrowed to -2.7% in 1989. As the Financial Crisis unfolded in 2008 and 2009, the Unemployment Rate reached 10.0% in October 2009, and the budget deficit fell from -9.7% of GDP in 2009 to -2.4% in 2015.

Federal Deficit as % of GDP – Moves up in recessions and declines during recoveries



The economy has been out of a recession for more than 4 years but the government is still running a huge annual deficit. Treasury Secretary Bessent said the Trump Administration would bring the deficit down to 3% of GDP, but no progress was made in 2025 despite tariff revenue. During the next recession the budget deficit will soar and easily total more than \$3 trillion. We are experiencing a chronic deficit crisis and to solve it, both parties will have to put the country ahead of their political ideologies. The Democrats like to spend money and the Republicans like to cut taxes. Neither party respects the need for fiscal responsibility, but the clock is ticking and each year we are moving toward the edge of a financial abyss.

In 2025 Federal spending as a percent of GPP was 23.3%, according to the Congressional Budget Office, and down from 24.0% of GDP in 2024. The improvement is a step in the right direction, but the 50-year average of spending from 1974 through 2023 was 21.0%. Government revenue in 2025 was 17.1% and down from 17.2% in 2024. From 1974 through 2023 Federal revenue from taxes and fees averaged 17.3%.

1974-2023 – Avg. GDP - Spending 21.0%, Revenue 17.3%

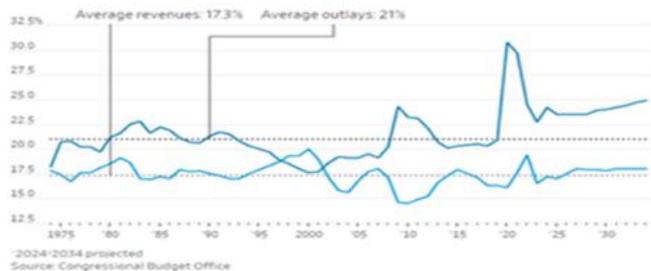
2024 Spending 24.0%, Revenue 17.2%

Federal Spending is the problem

The Ominous U.S. Fiscal Trend

Revenues and spending as a share of GDP, 1974-2034

■ Outlays ■ Revenues
■ Average outlays 1974-2023 ■ Average revenues 1974-2023

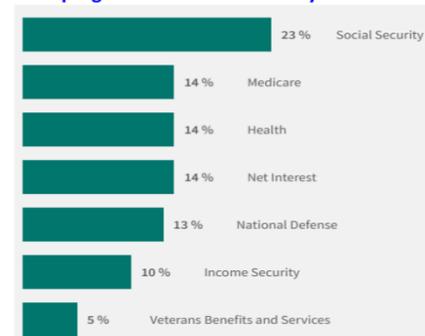


If the US is going to avoid a fiscal crisis, the Democrats will need to accept that spending must be cut from 23% to 21% of GDP or less. The Republicans will need to accept that taxes must be raised so that government revenue is at least 18.5% of GDP. Since the mid-term elections are coming in 2026, neither party will entertain upsetting the faithful in their parties, so nothing will get done in 2026. And with a bigger election coming in 2028, both parties will attempt to rally their disciples with slogans: Tax the rich! Cut taxes! The fiscal health of our country will continue to deteriorate in the next 3 years and Congress will do little or nothing to solve it.

Social Security and Medicare

Federal spending on Social Security in 2025 totaled 23% of the budget with Medicare accounting for 14%. More than 70 million Americans receive Social Security benefits and 68.9 million depend on Medicare. Both of these programs are projected to run out of money within the next decade. The Social Security Administration estimates that Social Security will run out of money in 2033, which will cause the monthly benefit to be cut by 23%. The Medicare Hospital Insurance Trust Fund is projected to run out of money in 2033. This means the 68.9 million people on Medicare will have about 89% of their medical costs covered after 2033, rather than 100%. There are currently no discussions or proposals to address the coming funding crisis in Social Security or Medicare. But Hey, we're going to get the Epstein files! The cost of these programs is going up because Baby Boomers are getting older and relying these programs. This is why Republicans should accept increasing taxes as a percent of GDP, since more people are living longer than at any time in the last 50 years. The 50-year average of federal revenue as a percent of GDP should be increased from 17.3% to 18.5% or higher.

**Social Security – Medicare – 37% of Spending
Both programs will run out money in 2033**



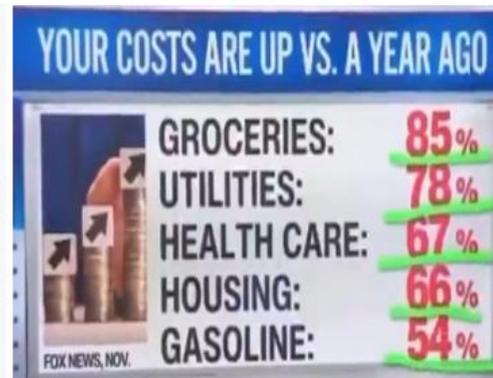
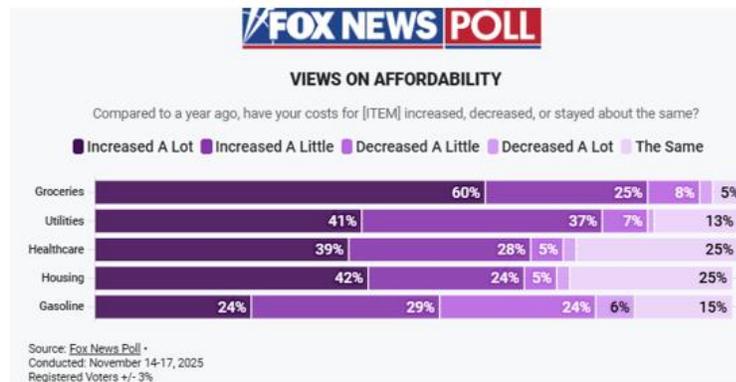
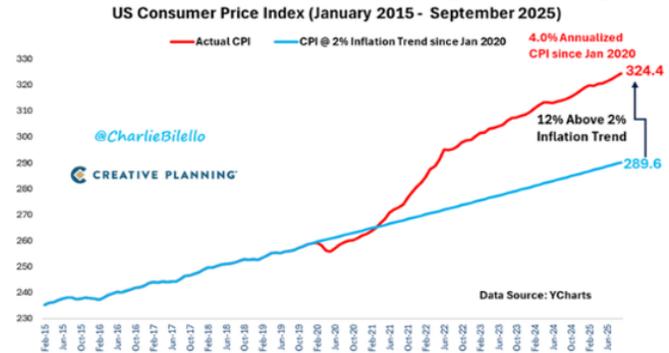
Cost of Living

Annual inflation has fallen from 9.0% in 2022 to near 3% in recent months, which is obviously welcome. However, when people go to the grocery store or pay their monthly utility bill, they aren't paying for the increase from a year ago, which is what the Consumer Price Index (CPI) and the Personal Consumption Expenditures Index (PCE) measure. Consumers pay the *cumulative increase in prices* that have occurred since 2021. The cumulative increase in the CPI is 12% above the 2% trend that existed in the 6 years prior to 2021, according to Creative Planning. A basket of goods and services now costs \$324.40 compared to \$289.60 it would have cost had inflation remained at 2% from 2021 through August 2025.

The higher cost of living is squeezing the living standards of the bottom 50% of wage earners, and a Fox news poll conducted in early November found that consumers are feeling the budget

squeeze. The survey found that 76% of respondents thought national economic conditions are either "not so good" or "poor". In terms of inflation, 52% said prices are "not at all" under control, 29% thought inflation was "somewhat under control", with only 18% saying it is "completely or mostly under control". When asked whether the prices they are paying for groceries, Utilities, Healthcare, Housing, and Gasoline had increased a lot or a little since November 2024, an overwhelming majority said prices had increased a lot or a little, especially for Groceries (85%), Utilities (78%), Health Care (67%), Housing (66%), and Gasoline (54%). President Trump promised he would bring the cost of living down, but that's not what most people are experiencing.

Cumulative Cost of Living is stressing family budgets



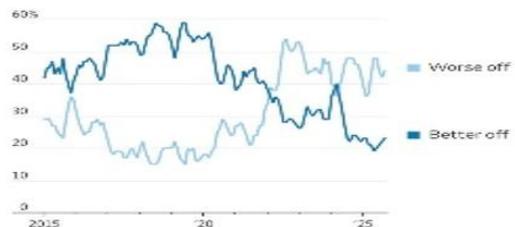
The survey also found that support for President Trump's tariffs is concentrated among Republicans. Only 27% of Republicans were critical of the tariffs, while 92% of Democrats thought they were a bad idea. Importantly, 72% of Independents were negative about tariffs which doesn't bode well for the Republicans in the mid-term elections. Increasingly, elections are determined by Independent voters, since members of the parties will vote faithfully along party lines.

Inflation is eroding Middle Class finances

The Middle Class Is Buckling Under Years of Inflation

Workers are growing tired of an economy in which everything seems to get more expensive.

Change in personal financial situation over the last year, middle income



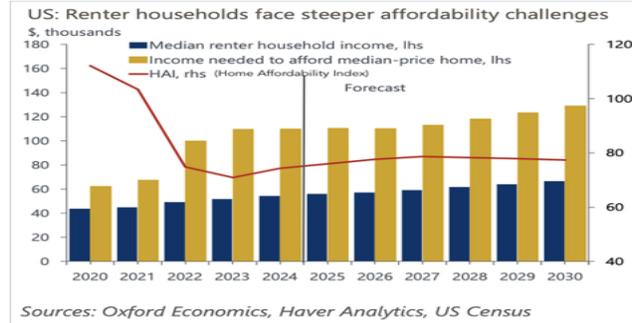
As President Trump levied tariffs, he repeatedly claimed that the American consumer wouldn't bear the cost, since exporters would lower their prices. Most people outside of the Administration didn't buy that argument and knew a portion of the cost increase from tariffs would be passed on to consumers. The only question was how much, not if.

Republicans didn't do well in the November 4 elections, and one of the reasons is how Middle class people feel about their finances. About half as many Middle Class people (22%) feel they are better off than those who feel they are worse off (42%) due to inflation. It wasn't a complete surprise that on November 14 President Trump announced he was rolling back the tariffs on beef, coffee, cocoa, and bananas. This raised an obvious question: *If tariffs didn't increase consumer costs, why would lowering tariffs help bring prices down?* Duh! Inventories that were acquired before November 14 will have to be sold before the lower tariffs will show up on grocery store shelves which could easily take weeks.

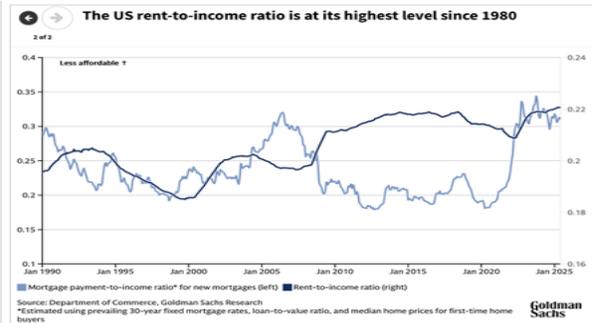
Housing Affordability

Housing Affordability isn't just a problem for those who recently purchased a home or want to buy one. Most renters simply don't have the income to buy a home. The Median income for renters (blue) is about half of what they need to buy a home (gold). Based on income trends (average annual increase in income) and the Median home price, home prices will need to hold at their current levels until 2033 to materially improve Housing Affordability, according Oxford Economics. Saving for the down payment is really hard, since the Rent to Income ratio is the highest it's been since 1980. Would be home buyers are allocating a large portion of their income to pay rent and many don't have the extra income to easily save enough to buy a home.

Affordability affects Renters

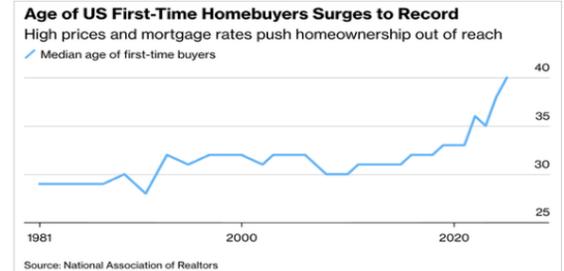


Rent to Income Ratio – Highest since 1980



The average home price has surged by 50% since 2021, which has made it nearly impossible for many young adults to buy their first home. Since 2021 the age of a first time home buyer has jumped from 33 years old to 40 years old. The delay and cost of buying a home is likely contributing to the increase in the number of older women having babies.

Age of First Time home buyer – 33 in 2021 – 40 2025

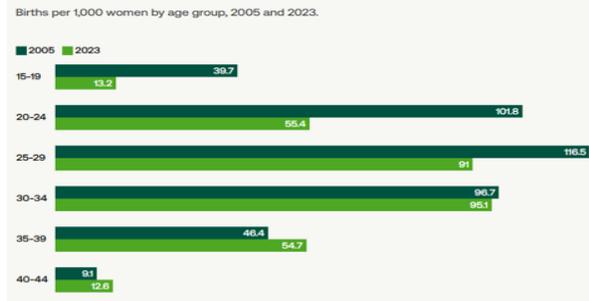


In 2005 women aged 20-24 (101.8 per 1,000 women) and 25-29 (116.5 per 1,000 women), had more children than women aged 30-34 (96.7 per 1,000 women). In 2023 women in the 30-34

group had more children (95.1 per 1,000 women) than the 25-29 group (91.0 per 1,000 women) and the 20-24 group (55.4 per 1,000 women). Incredibly, in 2023 the group aged 35-39 almost had more children (54.7 per 1,000 women) than the 20-24 group (55.4 per 1,000 women).

Older women (30-39) are having more babies

The birth rate decreased for women 34 and younger and increased for women 35 and older.



Fertility Rate – Below Replacement rate of 2.1



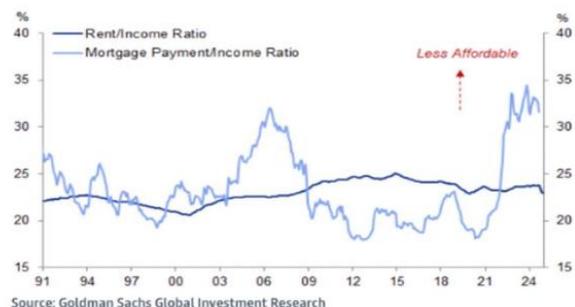
The Total Fertility Rate represents the number of children a woman has during her lifetime. In order to replace parents, a Fertility Rate of 2.1 is considered healthy. The Fertility Rate fell to 1.74 during the 1970’s as inflation lifted the cost of having children, and recovered in the 1990’s and the first 10 years of the 21st century to the Replacement Rate of 2.1. After the Financial Crisis the Fertility Rate has continued to decline and was 1.63 in 2024.

The lack of affordability is forcing many would be home owners to wait much later than any prior generation before them to buy a home, which is also contributing to women having fewer children and having them later. In the next 15 to 20 years there will be less households being formed and fewer workers entering the labor force from natural births, so the economy will grow more slowly. GDP growth is determined by growth in productivity and the number of people entering the labor force who then add to GDP as they spend their income.

The scary part is that renting is more affordable (Rent to Income Ratio) than the cost of owning a home, based on the Mortgage Payment to Income Ratio. As discussed in the July Macro Tides, “The key to affordability is not building more homes but improving the affordability of the existing supply. Reef Insight recently analyzed 10 years of data for each state using household income from the Census Bureau, the mortgage rate from Freddie Mac for each period, and Median home sale prices from Redfin. With this data Reef Insight calculated the percentage the Median Household Income Ratio a homeowner would need to service their mortgage for each state relative to the 10-year averages. Reef Insight then calculated what the current home price and mortgage rate would

Mortgage Affordability is less than Rent Affordability

Exhibit 18: Rental affordability is superior to mortgage affordability
Housing vs. Rental Affordability Indices



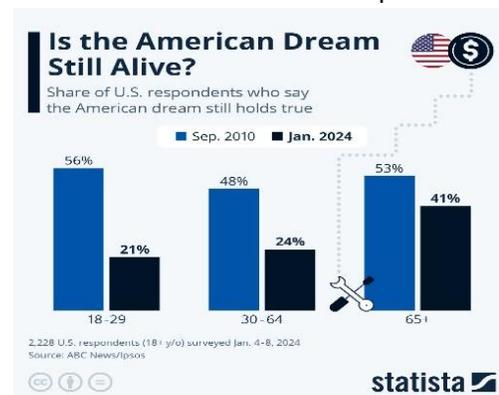
need to be to equal the 10-year Median Household Income Ratio. The average home price would need to fall by -29.3% to align with the 10-year Median Household Income Ratio.”

A decline of this magnitude in home prices would have fairly negative consequences for the economy since the Top 10% of wage earners represent 50% of consumer spending. A negative wealth shock would cause all homeowners to feel less wealthy and convince them to spend less. A 5% pullback in spending by homeowners would tip the economy into a recession. The average decline for the S&P 500 during a recession is -36.0%, which could produce a double whammy on the Top 10% of wage earners.

The American Dream

A July survey by the Wall Street Journal found that 75% think the next generation won't have it better than they have, and just 25% believe they have a good chance of improving their standard of living, a record low going back to 1987. That dim view of upward mobility is because they no longer believe if they work hard they will get ahead. In other words, almost 70% of the respondents said the American Dream no longer holds true. A majority said they didn't think the next generation would be able to buy a home or save for retirement. Many people said they felt a sense of fragility even though their finances were currently OK.

There has been a significant shift from optimism about the future in September 2010 to a sense of helplessness in January 2024, as ABC/Ipsos surveys have identified. The decline in optimism is most pronounced in the younger generation (18-29), whose faith in the American Dream collapsed from 56% in 2010 to just 21% in the January 2024 survey. Many in this age group are still living in their parent's basement, struggling with student loans, and haven't found a decent job since their college degree has little practical value in the real world. President Trump won in part because many younger voters responded to his 'Make America Great Again' as an antidote to the malaise they feel about the American Dream. Optimism also fell from 48% to 24% for those in the prime of their careers (30-64), who have not gotten ahead and their runway is getting shorter by the year.



The disillusionment felt by the 18-29 age group is understandable. The high cost of living is preventing them from following the path of prior generations, the disfunction in government nationally and locally only produces frustration and cynicism, and the touted benefits of capitalism are nowhere to be found in their lives. Some of the shift from optimism is the result of college courses and professors that have focused on what's wrong with America from its founding to the present. Many colleges no longer teach students how to think, but what to think about the history of the US. The push for diversity on college campuses in the last 15 years

doesn't include the diversity of opinion, so honest discussions about US history are smothered by group think. Even if one agrees with the progressive views found acceptable on college campuses, one should be dismayed in how the process has been changed to one of conformity. The acceptable opinions are further amplified since for many the primary source of information about the world comes from social media, where objectivity and facts are predominantly ignored for the sake of pushing an accepted point of view.

The shift from optimism is leading a growing number of young people to think more favorably about socialism. A May 2025 survey by the Cato Institute and YouGov found that 62% of Americans aged 18-29 hold a "favorable view" of socialism. Among young adults (ages 18-29), positive views of socialism are roughly tied with views of capitalism, with both hovering around 50% in various polls, a significant shift from a decade ago when capitalism was viewed much more favorably by this group. Views of socialism are also strongly polarized by political party, with positive views growing among Democrats of all ages. One 2025 Gallup poll found that 66% of Democrats had a positive view of socialism, compared to only 14% of Republicans. The faculty at the majority of Universities, colleges, and high schools are predominantly comprised of registered Democrats. Sometimes it's not difficult to connect the dots.

On November 4, Zohran Mamdani was elected Mayor of New York City. He's a 34-year old member of the Democratic Socialists of America and the Democratic Party, with less than 5 years of experience as a member of the New York State Assembly. The promotion will have him steering the largest city in the US with an annual budget of \$119 billion. Mayor elect Mamdani has pledged to create New York City's first universal childcare program for children ages 6 weeks to 5 years old, make city buses free, and freeze the rent for 1 million rent-stabilized tenants in the city. He has also proposed a tax on New Yorkers who earn more than \$1 million per year and an increase in the city's corporate tax rate to pay for his policy ideas. A look at who voted from Zohran Mamdani explains how his improbable election became reality. Mamdani won 75% of the voters ages 18-29, compared to 50% of all voters, led by Young Women (82%), Black Youth (83%) and Latino Youth (85%). The Republicans deserve a Hat Tip for providing a weak candidate.

Young Women and Youth of Color Propelled Mamdani to NYC Win

The vote choice of young voters (ages 18-29) in the 2025 New York City mayoral election.



The 'system' isn't working for many young adults so they aren't wrong for wanting something different from what they've experienced. They've been told socialism isn't bad and who doesn't want free stuff. Winston Churchill said, "Those who fail to learn from history are doomed to

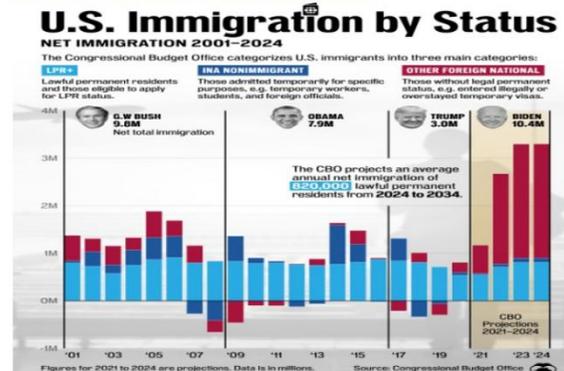
repeat it.” Socialism has been tried before in numerous countries and it failed to increase the standard of living for working people as effectively as capitalism, even with all of its faults and blemishes. But the allure of billionaires paying for young adult’s stuff is overwhelming, even if there is no such thing as a ‘free lunch’. Someone always pays for the lunch and throughout history the cost has often been the loss of freedom for the people who were promised a free lunch. Who knows, maybe New York City’s experiment will turn out differently. Just kidding.

Immigration Reform

The birth rate in the US has collapsed since 2007, so growth in the labor market will be constrained as fewer workers are available to join the labor force. This is a big deal since GDP growth is governed by the growth in the labor market and increases in productivity. The US will need more qualified immigrants to augment the low natural birth rate to sustain GDP growth. Clearly, the US needs a comprehensive immigration policy that addresses future needs, and accommodates those who may have entered illegally, but have been productive, law abiding members of the US economy. This has been true for several decades, but Congress has done little to establish a balanced and humane approach to address the issue of immigration.

It's easy to find speeches by President Obama, Hilary Clinton, Chuck Schumer, and Bernie Sanders in the last 10 to 15 years advocating for a strong border, the perils of allowing illegal immigrants to take jobs away from American workers, and the need to prevent illegal immigrants from receiving benefits reserved for American citizens like Social Security and Health Care. For reasons that have never been stated, the Biden Administration reversed course and pursued an open border policy while saying the border was secure. President Trump inherited a multi-decade problem that was exacerbated under the Biden Administration. There was widespread support for deporting those who are in the US illegally and have committed crimes. But the Trump Administration has also arrested, detained, and deported people who haven’t committed a crime. Their only transgression is having entered the US illegally.

Non-Partisan Congressional Budget Office



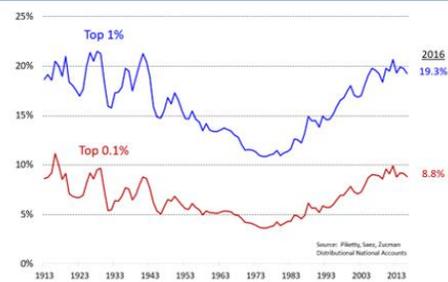
Tom Homan is the acting director of Immigration and Customs Enforcement (ICE) and has frequently said 70% of ICE arrests are people who are already convicted of, or charged with, crimes. Homan believes anyone in the country illegally is subject to arrest and deportation, regardless of their criminal history beyond the immigration violation itself. That’s not the view of the majority of Americans. Official data released by ICE as of November 2025 analyzed by CBS and Reuters found that 48% of ICE detainees in custody lacked any U.S. criminal charges or convictions, while 26% had convictions and another 26% had pending charges.

Income and Wealth Inequality

There is a serious income and wealth imbalance that has concentrated ownership of assets (homes and stocks) in the hands of the Top 1%. In 2024 the top 1% received 21% of total pretax income (chart is through 2016). The last time it was this high was in 1943 after the US entered World War II and in 1928 just before the stock market Crash in 1929 and Great Depression. After the peak in the early 1940's the share the Top 1% received drifted lower until it reached roughly 11% in the late 1970's. In the following 15 years the share the top 1% received nearly doubled by 1993 to 15%, and only back to where it had been in the late 1940's. Since the second half of the 1990's, the share of total income received by the Top 1% continued to climb to 21% in 2024.

Share of Pre-Tax income for the Top 1%

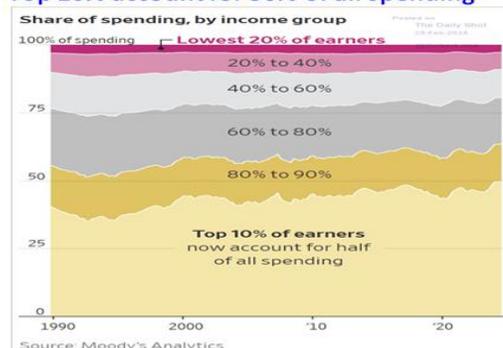
U.S. Pre-Tax Income Shares of Top 1% and Top 0.1% of Households (1913 – 2016)



It's no surprise that the US also has a wealth inequality problem since income is used to purchase homes, stocks, and fund retirement accounts. At the end of 2024 the Top 20% held 71.1% of total household wealth compared to 2.5% for the bottom 50%. Stock values have increased significantly after generational lows were made in 1982 and 2009. Since 1988 Household Net Worth has increased from \$17.9 trillion to \$167.2 trillion in June 2025. Of course, if a household didn't have the income to buy a home or start an investment portfolio, they didn't benefit from the appreciation in real estate and the stock market, which only increased wealth inequality.

The inequality of Income and Wealth is a big problem and there are no easy solutions. The Federal Reserve used monetary policy to boost asset values, but they possess no tools to unwind the large imbalance gracefully. The Top 10% of wage earners account for 50% of consumer spending, so the Fed's goal of using an increase in stocks prices to lift consumer spending succeeded. The downside is that a significant decline in the stock market will lead to less spending by the Top 10% which will deepen the next recession.

Spending by Income Group Top 10% account for 50% of all spending



Dysfunctional Government

All of these issues are challenging and complex problems that will either be addressed, or these unresolved issues will contribute to an economic crisis and social upheaval. This is why it was disheartening that the elected leaders in Congress couldn't manage to come together and keep the government open and functioning. This political bifurcation was harmful and lasted a record 43 days. What did it accomplish? Not much, but it did impact government workers who went

without pay even as they continued to work. It wasn't until safety concerns led to a -6% to -10% reduction of airline flights and mounting flight delays convinced 7 Democrats and 1 independent Senator to vote with 52 Republicans to end the shutdown.

Media Bias

In order to pass the Continuing Resolution, 60 votes are needed in the Senate to pass it. However, high ranking Democrats consistently said that since the Republicans control the House, Senate, and the White House, they could end the shutdown anytime. That of course was factually not accurate. Our elected officials know the rules for passing a Continuing Resolution (CR) requires 60 votes. I lost count of the number of times I heard Democrats repeat the falsehood that Republicans could end the shutdown if they wanted since they control the government.

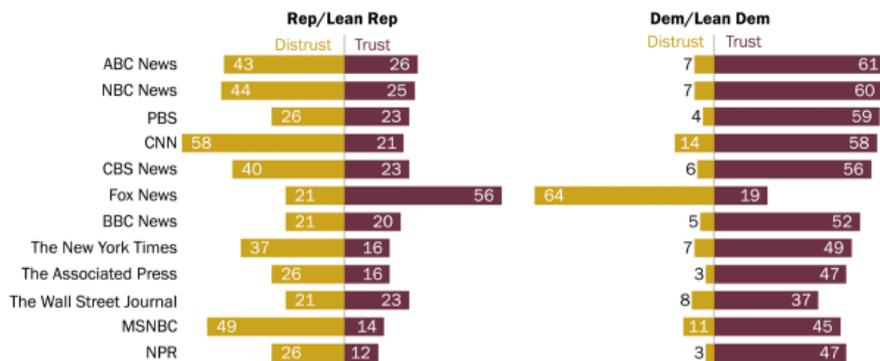
It was discouraging to witness news reporters and news anchors allow Democrats to repeat this falsehood, without reminding them that a CR requires 60 votes and there are only 53 Republicans in the Senate. This omission was the result of either their ignorance of the rule (giving them the benefit of the doubt), or intentional bias which in most cases was likely the case. This isn't my partisan opinion since the rule for passing a Continuing Resolution is pretty straightforward. If one party doesn't have 60 votes, it requires members of the other party to vote yes.

There was a time when the media was referred to as the Fourth Estate since it bore the responsibility to report facts with objectivity. Objectivity has been replaced with opinion based journalism that favors one political side versus the other. That is expected with MSNBC and Fox since their viewers tune in to get their daily fix of venom. My criticism is directed at the traditional sources of news like the New York Times, LA Times, Washington Post, ABC, CBS, NBC, CNN, NPR, BBC, and other news

sources. As the number of independent news organizations have disappeared in the last 15 to 20 years, the concentration and dependence on a small number of 'news' organizations

Republicans and Democrats drastically differ in which news sources they trust and distrust

Among U.S. adults, % who say they generally trust or distrust each as a source of news



increased the leverage to shape and solidify the views and opinions of those who trust their 'news' source. Unfortunately, and dangerously, the trusted 'news' source has become a purveyor of partisan political views, rather than a provider of objective facts that allows for critical thinking. Instead, media sources tell people *what to think* on issues.

Viewers and readers want to have their ‘news’ source reinforce their views, which was what Pew Research found in their June 2025 report entitled, “How do Americans feel about 30 of the country’s major news sources?” Pew found that Democrats and Independents who lean toward the Democratic Party are much more likely than Republicans and GOP-leaning independents to both use and trust major news sources. These include the major TV networks ABC, CBS and NBC, CNN and MSNBC, major public broadcasters PBS and NPR, and the New York Times. Republicans, meanwhile, are much more likely to distrust than trust all of these sources.

The bias within the news media will hinder addressing the many problems we need to address, since the media will continue to slant the ‘news’ by favoring one party’s position over the other. Many people have justified opinionated ‘news’ since President Trump is the anti-Christ. Even if one believes that to be true, the media should provide the pros and cons of any issue and let people make up their own mind. I doubt the media will change their stripes anytime soon, which will maintain the bifurcation within our country that makes problem solving difficult.

Since it is increasingly difficult to get objective news that isn’t biased, AllSides.com provides a Media Bias Chart that rates over 2,400 sources on a five-point categorical scale (Left, Lean Left, Center, Lean Right, Right) and a numerical meter for nuance. AllSides.com doesn’t rate sources for factual accuracy or credibility, only for political perspective.

Voters will be better informed if they balance their primary source with another source that either leans to the left or right. By doing so, they will expose themselves to a different point of view that will at a minimum



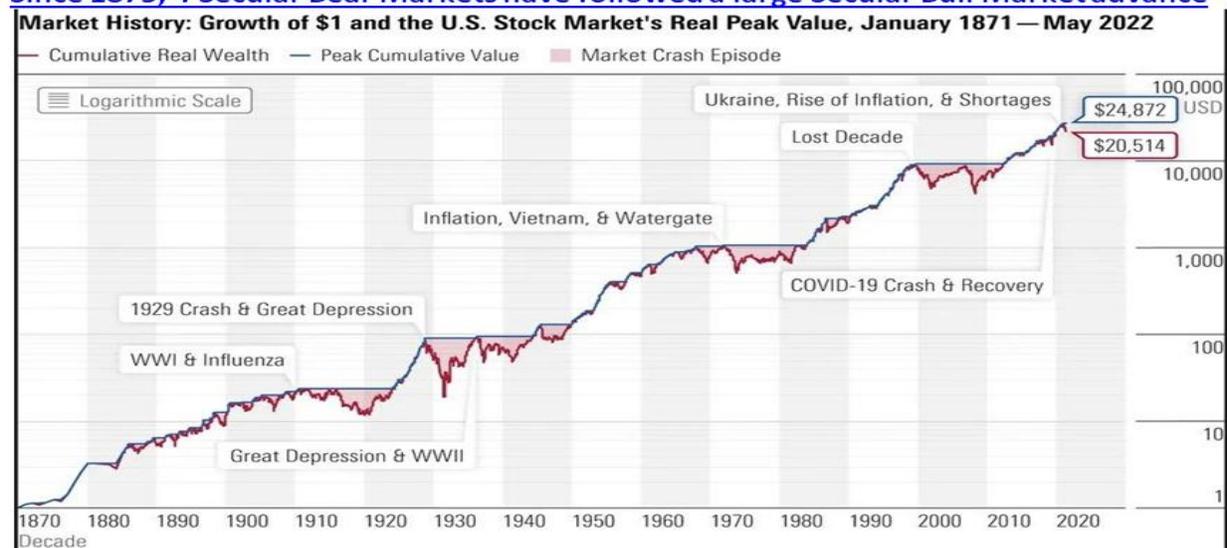
provide new information that might alter or modify their opinion on an issue, or reaffirm their view. Many people are disinclined to challenge their point of view on important issues, and are more comfortable maintaining their personal status quo, as that provides a security blanket in an uncertain world.

Will These Challenges Matter to the Stock Market?

The problems discussed in this letter have been building for decades and aren't likely to be addressed and solved quickly. Since some level of dislocation will develop as solutions are crafted, support for the needed changes will be tough, especially in this era of bifurcation. Reducing government spending and increasing taxes can be expected to have some negative impact on the economy. Stabilizing Social Security and Medicare can only be accomplished if taxes are increased or benefits are reduced, which will prove unpopular. Redefining how health care is delivered is a huge challenge since it represents 18% of GDP, while the demands from an aging population increases demand. Artificial Intelligence may be the greatest thing since sliced bread, but I don't see how it will provide an elixir to make all of these problems go away.

The risk of a Secular Bear Market, which lasts at least 10 years is higher when valuations are as high as they are now. A 10-year Secular Bear Market followed the extreme valuation in 2000 and included two declines of -50%. The fourth highest CAPE ratio in 1966 was followed by a 16-year Secular Bear Market, and the third highest valuation in 1929 was followed by the Great Depression and a -89% decline in the DJIA.

Since 1875, 4 Secular Bear Markets have followed a large Secular Bull Market advance



A Secular Bear Market doesn't happen in a vacuum. They have developed when our country was dealing with problems that were difficult to solve and negatively impacted economic growth. We now have a laundry list of significant problems that each have the potential to weigh on growth and collectively could easily contribute to extended period of adjustment and slower growth.

There is a big bend in the road coming and I want to make sure we're not surprised or blindsided as the majority of institutions and individual investors will be. In the meantime, the trend is currently positive so it's not time to hit the exit button just yet.

Bank of Japan Ripples

On December 1 a Governor for the Bank of Japan indicated that the BOJ would likely increase their policy rate at the next meeting on December 19. Inflation has been consistently above the BOJ's 2% target, with the Headline CPI at 3.0% in November and the Core CPI at 3.1%. On November 20 Japan's new Prime Minister Sanae Takaichi announced she was proposing a new fiscal stimulus package of more than \$135 billion to *'Implement the concept of wise spending and carry out strategic fiscal expenditure to protect the lives of our citizens and build a stronger economy. What Japan must do now is not let its national power decline through excessive fiscal austerity, but rather strengthen its national power through proactive fiscal policy.'*

With inflation above target the BOJ is reversing its extreme monetary accommodation, as discussed in the September Macro Tides. *"The Bank of Japan (BOJ) is unwinding decades of monetary accommodation through Quantitative Easing, Yield Curve Control (YCC), and its Zero Percent Policy Rate (ZIRP). The BOJ held its policy rate at -0.1% from 2016 until lifting it to 0.1% on March 19, 2024. The BOJ increased to 0.25% in July 2024 and to 0.50% in January 2025. The shift in the BOJ's policy and the resurrection of inflation has caused the 30-year Japanese bond yield to soar from 0.4% in 2020 to 3.23% on August 28, and the highest since the early 1990's."*

Government bond yields in Japan have continued to climb since September. On December 1 the 30-year yield is up to 3.386%, which is the highest in history. The 10-year reached 1.868% and is the highest since 2008. The uptick in bond yields in Japan was felt around the world. The German 10-year yield is at its highest since 2011 as is France's 10-year yield. In the US, Treasury yields popped with the 10-year and 30-year bouncing by 0.079% to 4.096% and 4.744%. The move up in global yields pressured the stock market in the US and caused Bitcoin to lose -4.9% after being down by -6.9%.

Japan 30-year government yield – Highest in history



Since the end of 2020 the Yen has declined by -34.0% versus the Dollar and has been testing a low dating back to 1990. The BOJ has increased its policy rate from -0.1% in March 2024 to 0.50% in January 2025, but the Yen is below where it was in March 2024. Most people think higher rates are always a tailwind for a currency and cause it to strengthen. That's not always been the case and Japan is merely proving that point again. The prospect for another rate hike in December did give the Yen a small boost today, but whether the Yen will be able to follow through to the upside is questionable.

The Japanese economy contracted by -0.4% in the third quarter as exports to the US fell by -4.5%, as US tariffs made Japanese goods more expensive. Private consumption was up a slim 0.1%.

Ther biggest drag came from a -9.4% decline in residential investments. On April 1 stricter energy conservation standards for all new projects went into effect which are intended to lower energy emissions. With inflation above the BOJ’s target (3% vs. 2%), the BOJ is considering raising its policy rate, albeit from a low level. The real policy rate in Japan is negative by -2.5% (3% inflation minus policy rate 0.5%).

Yen vs. Dollar – trying to hold above low in 1990



The Federal Reserve on the other hand is debating whether to lower the policy rate when the FOMC meets on December 10, even though inflation is running at 3.0% versus the 2.0% target. GDP in the US is growing faster than Japan’s GDP, but the Funds rate is a positive 0.875% (3.0% inflation minus policy rate 3.875%). The rate cutters on the FOMC look at the positive real rate of 0.875% and think it should be less, so Unemployment doesn’t increase more than necessary. The ‘let’s wait and see’ group point to how much the real Funds rate has been reduced after lowering the Funds rate by -1.50% since September 2024. The real Funds rate is down from 2.375% to 0.875% (September 2024 Funds rate 5.375% minus 3% inflation = 2.375%). Inflation is above target and there is concern inflation expectations could increase if inflation stays up near 3.0%.

Treasury yields

Despite the big uptick in Treasury yields today in response to the increase in Japanese yields, the 10-year Treasury yield remains in no man’s land, as it fluctuates between 3.947% and 4.20%. The trend is considered up though since the 10-year Treasury yield increased in 5 waves as the yield moved up from 3.947% to 4.161%. This is the first wave up and the drop to 3.988% is wave 2. The move up from 3.988% is wave 3 which should push above 4.20% soon, if this pattern analysis is correct.

10-year Treasury yield – 5 wave increase in 10-year yield suggests move > 4.201% coming



The 30-year Treasury yield appears to be forming an inverse Head and Shoulders. A close above 4.79% should be followed by a quick move up to and modestly above 5.0%. (Neckline 4.785% minus Head 4.528% (0.257%) plus Neckline = 5.042%. The same pattern is clear on the 10-year and targets a move to 4.455%. (Neckline 4.201% - Head 3.947% (.254%) plus Neckline = 4.455%.

Treasury 30 yr yield – Close above 4.79% leads to move above 5.0%



The Head and Shoulders on TLT projects a drop to 84.72 if TLT closes below the neckline at 88.45.

TLT – Neckline at 88.45 is key support and the neckline of a Head and Shoulders pattern

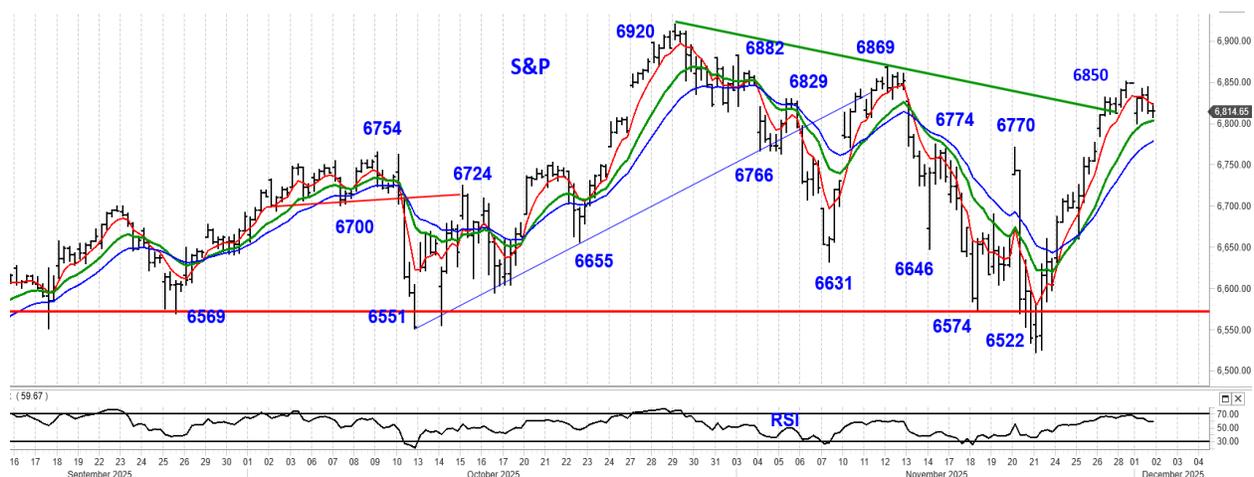


The key point to remember about the Head and Shoulders pattern is that it points to a potential and is only triggered if a close above the Neckline on the 10-year and 30-year, and below the Neckline on TLT occurs. I've seen many Head and Shoulders fail to trigger.

Stocks

The S&P 500 was expected to rally above 6770 but not above 6869, after holding support at 6575. On November 28 the S&P 500 traded up to 6850 before pulling back modestly on December 1.

S&P – Strength of rally from 6522 suggest a new high is coming after a short term pullback



As discussed last week, “The pattern in the S&P 500 is at a crossroad that could result in a new high above 6920 or a bounce that fails below 6869 before a drop below 6522 develops. The S&P 500 made a secondary high at 6869 before dropping to 6574. The rebound to 6770 (wave a) and drop to 6522 (wave b) could be part of an irregular b wave that could carry the S&P 500 briefly above 6770 (wave c). As long as the S&P 500 doesn’t trade above 6869, the bearish path is operative. There is a possibility that the S&P 500 could rally to a higher high above 6920. An early sign that the S&P 500 is rallying to a new high would be indicated if the S&P 500 closes above the green down trend line near 6820.”

The S&P 500 closed above 6820 and the strength of the rally from the low of 6522 increases the odds that the S&P 500 will rally above 6920, after a bit more weakness. The 38.2% retracement of the rally from 6522 to 6850 targets a pullback to 6725. The FOMC meeting on December 10 could provide a bout of volatility, especially if the FOMC doesn’t lower the Funds rate. The San Francisco Federal Reserve published its findings after analyzing changes in US tariffs going back to 1870. I reviewed their research in the December Macro Tides which I’m hoping will be sent out on December 2. Here’s the conclusion of their research. “Higher tariffs lead to lower economic activity, higher unemployment, and lower inflation.” My guess is there will be enough votes to lower the Funds rate, even if 5 FOMC members vote against it.

Seasonality is favorable going into year end and most individual investors will be reluctant to sell winners before year end, so capital gains taxes can be postponed until April 2027. Institutional investors will also be reluctant sellers since they want to show they are exposed to the AI trade

and its great promise. After year-end these positive dynamics will diminish. These are reasons why the market can hold up into early 2026 despite near term volatility, with the S&P 500 managing to rally above 6920. The next dose of volatility could come on December 10 if the FOMC doesn't vote to lower the Funds rate.

A larger unwind in the Artificial Intelligence stocks is coming in 2026. Nvidia has the potential to rally to 192.56 or 197.19 which would help lift the S&P 500 to a new high. A rally above 6920 is expected to set up a great selling and shorting opportunity.

Gold

I didn't expect Gold to rally above 4244 as noted last week. "Gold could rally a bit more before the short bounce is over, but it is not expected to rally above 4244." Gold rallied to 4264 on December 1 which potentially changes the outlook. Gold has been expected to decline below 3887 and possibly down to 3750 or 3325, if Gold retraces 38.2% of Wave 3 (4381 – 1616 September 2022 Wave 2 low). The rally above 4244 suggests Gold may spend more time going sideways than experiencing a large price decline. This would repeat how Gold traded after the spike high of 3496 in April. A sharp decline was followed by months of choppy trading with Gold never taking out the initial low of 3127.

Gold is expected to decline in coming weeks and the key is whether the next decline holds above 3887. If it does, the odds of a decline to 3325 will diminish, and the odds of months of choppy trading will increase. There is no way to know with certainty how this will play out. From a trading perspective, buying if / when Gold drops below 4025 will make sense. The stop would be 3887, since a decline below 3887 opens the door for a drop to 3750 or 3325.

Gold – Wave 4 has begun – Will last months - Above 3887 suggests sideways chop



Dollar

As discussed last week, “The Dollar’s RSI recorded a lower reading as it rallied to 100.39 so a pullback in the near term seems likely.” So far the Dollar has pulled back to 99.01. The 50% retracement of the rally from 96.21 to 100.39 is 98.30, which is just above the intra-day low of 98.03 on October 17. I think the Dollar has been building a base since it fell to 96.37 in June, and will rally to 104 to 106 after it breaks out above 100.25.

Dollar – Close above 100.25 confirms 96.21 low – Must hold > 98.03 to maintain breakout



Major Trend Indicator

The Major Trend Indicator has been indicating that a decline of more than -7% wasn’t likely and that’s been the case. Although the MTI is above the blue horizontal line, the gap has narrowed. The rally from 6522 though, has arrested the decline in the MTI and helped it rebound a bit. This should buy the market more time and suggests a rally above 6920 is still in the cards.

If the MTI falls below the blue horizontal line the odds will increase that the S&P 500 will decline below 6522 and signal the onset of an intermediate decline. I think that’s coming in 2026.

Bear market declines in 2022 and 2025 didn’t occur until after the MTI fell below the blue horizontal blue line, and a good reason to sell materialized. In 2022 it was FOMC aggressive rate increases and a huge increase in reciprocal tariffs in 2025. In 2026 the reason will likely be a reckoning between the enormous spending on AI and a realistic assessment of investment returns as discussed in the November Macro Tides. “Revenues will have to grow so much in the next few years to justify all the spending on AI that a valuation hangover seems unavoidable. I have no idea if the coming AI hangover will mimic the Dot.com and fiber optic wipeout, or merely be a take two aspirin and an Alka Selzer type of hangover. What I am confident about is that at some point investors will realize that a gap exists between where the AI stocks are trading and an

economic reality that is less than all the hype currently accepted without question. It's not if, but when AI companies and investors experience Déjà vu all over again."

Major Trend Indicator – Long Term Trend is positive above the Blue line



The Daily Shot A number of charts in this letter were from The Daily Shot.

Jim Welsh

@JimWelshMacro

JimWelshMacro@gmail.com, MacroTides.com