Nationwide®
is on your side

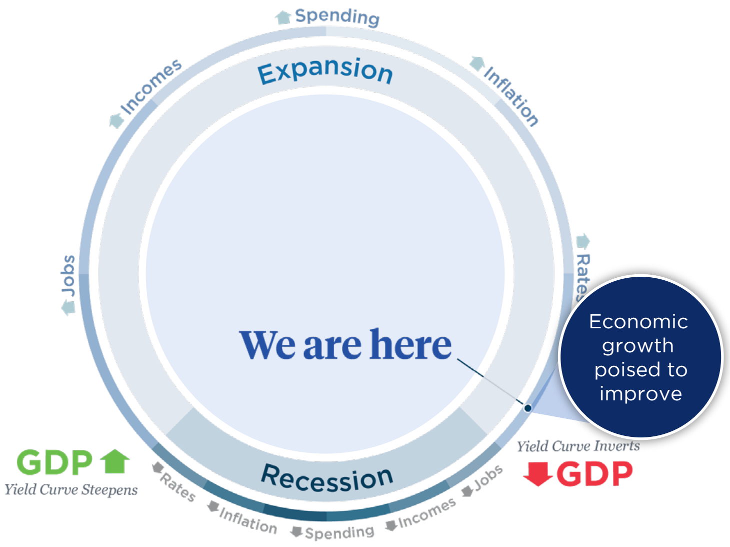
Economic & Financial Markets Monthly Review | December 2025

Uncertain 2025 gives way to hopeful 2026

Economic Overview

Where is the economy now?

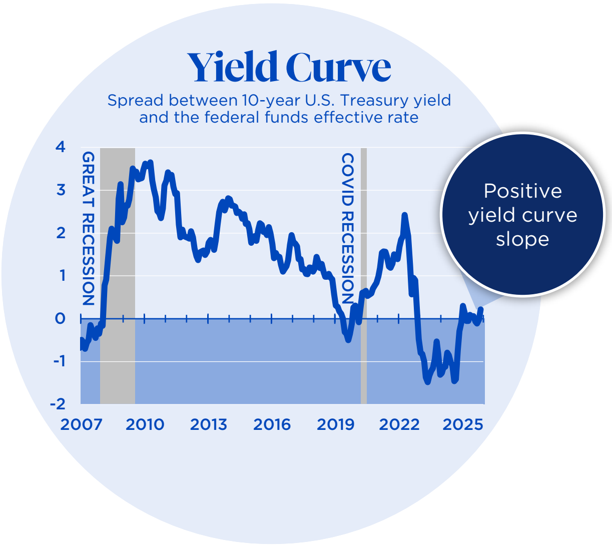
The steady trickle of delayed economic data has been consistent with slowing momentum in economic activity over the final months of 2025. In light of the downside concerns for the labor market, the Fed opted to lower interest rates again in December. But the economy is projected to get a lift over the course of 2026 from these rate cuts, fiscal stimulus from the OBBBA, and continued strong AI capital expenditures.



Economic growth poised to improve

Yield Curve

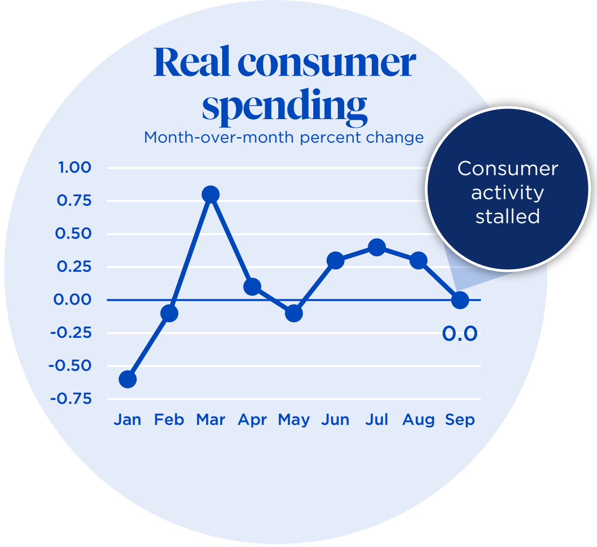
Spread between 10-year U.S. Treasury yield and the federal funds effective rate



Positive yield curve slope

Real consumer spending

Month-over-month percent change



Consumer activity stalled

Where we are this month

Softer activity poised to firm in 2026

Soft hiring, rising inflation, and lingering uncertainty are weighing on growth in the fourth quarter as businesses and consumers wait for improved conditions in 2026.

Short term rates shift lower

As markets priced in the Fed rate cut, short-term interest rates moved to year-lows in December. Longer duration yields remain elevated, steepening the yield curve.

Consumers pulled back in September

After a solid summer, inflation-adjusted consumer spending flatlined in September as financial and labor market concerns tightened household budgets.

What does this mean

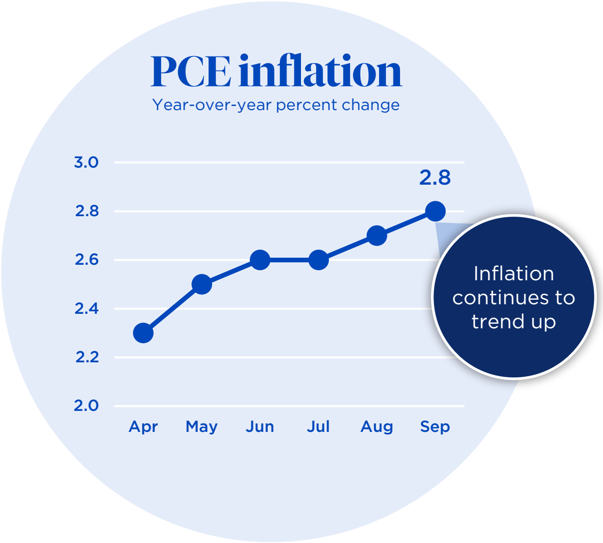
- We expect that economic weakness at the end of 2025 that carries into 2026 should be fleeting as fiscal stimulus, Fed rate cuts, reduced uncertainty and continued strong AI capex are expected to boost investment by businesses and spending by consumers.
- The OBBBA will deliver large individual tax refunds in Q1 and lower tax burdens and enhanced business incentives. Additional investment in AI capabilities and productivity growth could provide upside to growth.

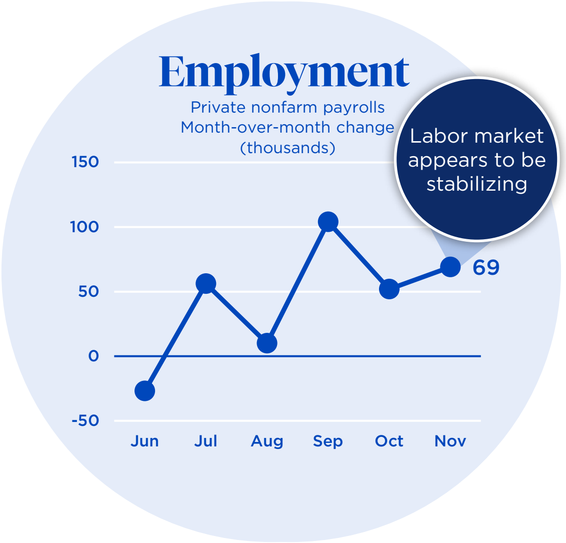
- Following the split decision on a rate cut in December, we expect the Fed to pause for several meetings in early 2026. But a push for further easing could result in a further 50 bps of rate declines later in 2026.
- Yields on 10-year Treasury notes have remained near 4.1 percent, reflecting a more normalized yield curve and term premium. We expect 10-year yields to remain anchored slightly above 4.0 percent, allowing the yield curve to steepen further over the course of 2026.

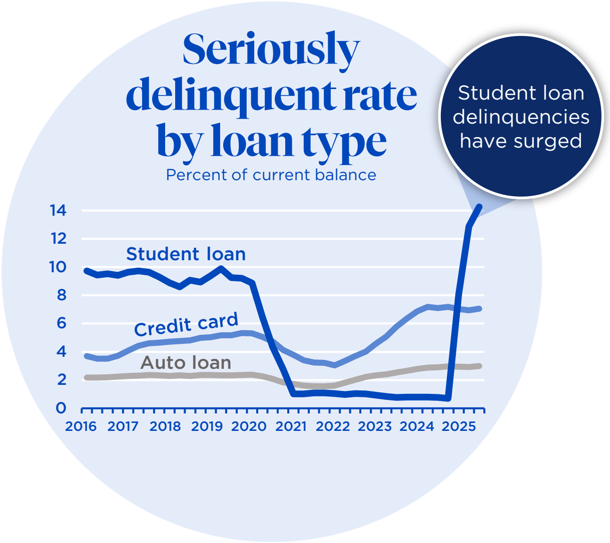
- A sharp decline in spending on big-ticket durable goods and a broad slowdown in nondurable purchases such as clothing and groceries weighed on consumer spending in September. Affordability pressures for middle- and lower-income households are driving more cautious, value-based buying behavior.
- The soft handoff for spending combined with the drag from the government shutdown should slow real GDP growth to an annualized pace of 1.0-1.5 percent in Q4.

Growth slows in Q4 as household strains build

Recent data point to a cooling but still expanding economy in Q4. Private payroll growth improved in November as the labor market appears to be stabilizing following the weaker job gains over the summer. Inflation firmed slightly within the September PCE data, though core pressures remain contained. At the same time, serious delinquency rates climbed to their highest level in over a decade, highlighting building financial strain even as overall conditions remain stable.







Where we are this month

PCE inflation nudges upward

Headline PCE inflation ticked up to 2.8 percent in September, while the core rate eased slightly to 2.8 percent. The broader trend shows inflation drifting slightly higher in response to firmer goods prices.

Private hiring shows signs of stability

Private-sector hiring remains soft but has stabilized in recent months. November private payrolls rose 69,000 following a 52,000 gain in October, lifting the three-month average to 75,000.

Consumer credit stress is rising

Seriously delinquent loan balances climbed further in Q3, with the share of loans 90-plus days past due rising to its highest level since 2014.

What does this mean

- Goods inflation rose 1.4 percent year-over-year—the strongest reading in more than two years—although the monthly growth in the core PCE rate remained modest at 0.2 percent.
- Annual services inflation continues to cool, falling to 3.4 percent in September. Although still faster than pre-Covid norms, softer services inflation is offsetting some of the inflationary pressure on goods from tariffs. This cooling trend should continue in 2026, helping to limit the upside for PCE inflation.

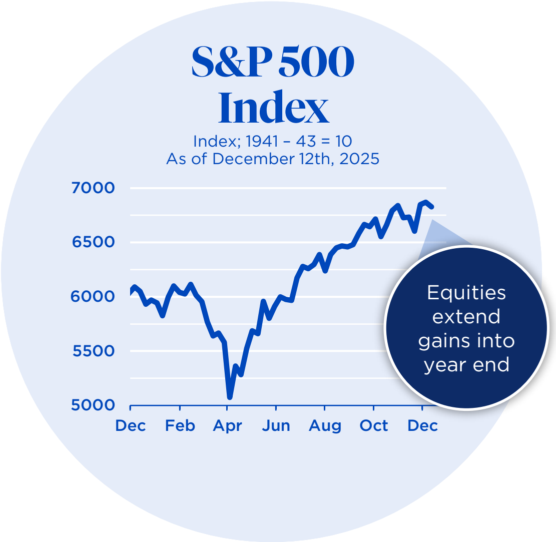
- Employment gains remain narrowly concentrated in health care services, underscoring limited momentum in cyclical sectors but a labor market that can still support steady growth.
- Firmer payroll growth has contributed to improved core personal income gains and should support holiday spending. The stabilization in labor market conditions is consistent with the Fed pausing its rate-cutting activity for an extended period—likely until mid-year 2026.

- The increase in delinquencies has been tied to credit card, auto, and student loan accounts. Credit card and auto loan delinquencies have been grinding higher for several quarters, while student loan delinquencies surged as repayments resumed after an extended pause over the pandemic.
- This is further evidence of strain on some household budgets and points to headwinds for consumer spending in the new year.

Financial Market Review

Investors are feeling jolly this holiday season

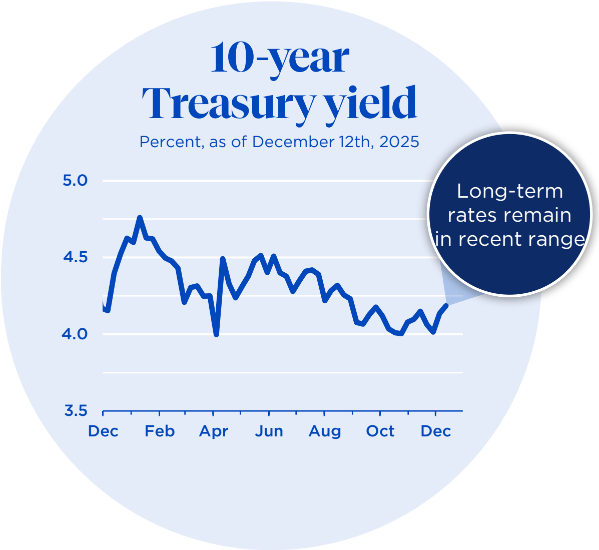
Risk assets are on track to finish 2025 on a strong note, with double-digit annual equity returns and corporate credit spreads remaining tight as investors look forward to positive economic and corporate sector performance next year. We expect to see rising equity prices and a steeper Treasury yield curve in 2026 as looser Fed policy, business incentives in the recent fiscal package, lower policy uncertainty, and loose financial conditions throttle the economy faster.



S&P 500 Index

Index; 1941 - 43 = 10
As of December 12th, 2025

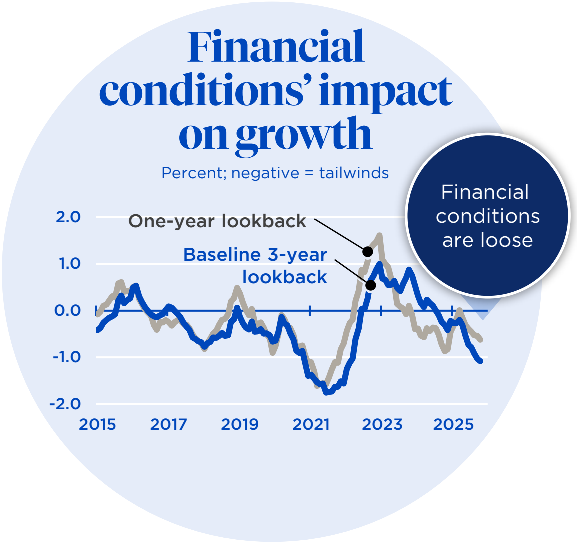
Equities extend gains into year end



10-year Treasury yield

Percent, as of December 12th, 2025

Long-term rates remain in recent range



Financial conditions' impact on growth

Percent; negative = tailwinds

Financial conditions are loose

	Equities on track for another stellar year	Rangebound long-term yields	Loose financial conditions support growth
Where we are this month	Solid economic and corporate earnings prospects and a supportive policy mix—namely fiscal tailwinds, Fed monetary policy easing and lower uncertainty—are keeping stock investors bullish.	Long-term Treasury yields have steadied as signs of a softening labor market are offset by persistently solid economic activity and a potential pause in the Fed cutting cycle.	The economy defied consensus expectations for a slowdown this year in part due to easier financial conditions supporting stronger-than-expected growth.
What does this mean	• The S&P 500 index recovered from its minor November dip and is on track to record a double-digit annual gain in 2025. The market looks poised to extend its run in 2026 despite some concerns around valuation and the lack of breadth in gains outside of AI tech stocks. • In another sign of cheerful moods, cyclical stocks are extending their outperformance relative to defensives in the final weeks of the year.	• The Fed lowered interest rates by another 25 basis points in December and signaled it will keep them on hold in early 2026. We anticipate the Fed to resume its cutting cycle in June 2026 after inflation peaks and a new Fed Chair takes the reins. • We expect a buoyant economy to keep the benchmark 10-year U.S. Treasury yield elevated next year. Real yields remain firm as inflation expectations hold steady.	• Fed rate cuts, strong equity gains, supportive credit conditions led by lower interest rates, low volatility, and a weaker dollar kept financial conditions loose and mitigated headwinds from tariffs and immigration policy in 2025. • We expect financial conditions to remain accommodative in 2026 to support firmer economic growth as fiscal stimulus and lower interest rates boost activity.

Outlook

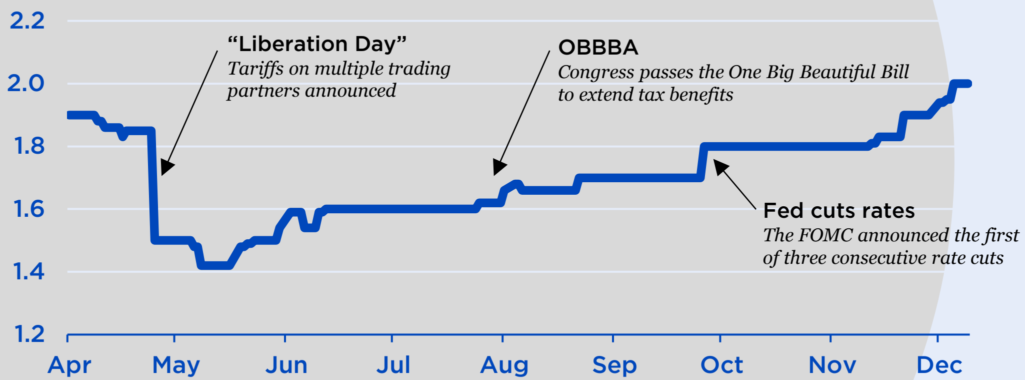
Confidence in the 2026 growth outlook has rebounded

Despite expectations of slower economic growth at the end of 2025, optimism for the 2026 outlook is building. Consensus GDP growth estimates, which troughed at only 1.4 percent earlier this year have accelerated to 2.0 percent in December. Interest rate cuts by the Fed and expected stimulus and tax incentives from the OBBBA budget bill have lifted hiring and spending projections for 2026, while business investment on AI infrastructure should remain robust.

There remain downside risks for 2026 growth, led by the faltering pace of job gains and rising financial pressures for households. Uncertainty surrounding tariffs and other policies, while expected to ease in 2026, could still see significant swings over the next year. But there are also upside factors for growth like faster productivity gains and deregulation that could shift the economy into a faster gear than expected. We view the growth risks as roughly balanced for 2026 with our real GDP growth estimate sitting slightly higher than consensus at 2.2 percent. This would be a moderate pickup from 2025 with late-year momentum that should carry into 2027.

Consensus real GDP growth estimate for 2026

Percent



Hear more in our podcasts
PLAY

FIND **ECONOMIC INSIGHTS BY NATIONWIDE**
WHEREVER YOU LISTEN TO PODCASTS

Forecast

Data as of December 2025

	2024	2025	2026	2027	2028
	ACTUAL	ESTIMATE	FORECAST		
REAL GDP [1]	2.4%	**1.8%**	**2.2%**	2.3%	2.3%
UNEMPLOYMENT RATE [3]	4.1%	4.5%	4.2%	4.2%	4.2%
INFLATION [1] (CPI)	2.7%	3.1%	2.5%	2.0%	2.0%
TOTAL HOME SALES	4.75	4.73	5.00	5.69	5.85
S&P/COTALITY HOME PRICE INDEX	3.7%	1.3%	2.7%	3.1%	3.0%
LIGHT VEHICLE SALES	15.8	16.1	16.1	16.5	16.5
FEDERAL FUNDS RATE [2]	4.25%	**3.50%**	**3.00%**	3.00%	3.00%
5-YEAR TREASURY NOTE [2]	4.38%	3.65%	3.55%	3.55%	3.55%
10-YEAR TREASURY NOTE [2]	4.58%	4.10%	4.10%	4.00%	4.00%
30-YEAR FIXED-RATE MORTGAGE [2]	6.91%	6.25%	5.90%	5.50%	5.50%
MONEY MARKET FUNDS	4.96%	4.03%	3.22%	3.03%	3.03%

Faster growth expected in 2026

Delayed activity from the government shutdown should boost growth at the start of 2026 even as job gains remain soft. But improved hiring and fiscal stimulus money should lift spending in the second half to near 2.5 percent.

Fed expected to pause in early 2026

After a series of rate cuts to end 2025, we expect the Fed hold steady to start 2026. The easing cycle may resume by mid-year, especially if the economy performs worse than expected. But total rate declines over 2026 should be more modest as monetary policy settles near neutral.

[1] *Percent change Q4-to-Q4*
[2] *Year end*
[3] *Q4 average*

Contributors

Kathy Bostjancic
SVP & Chief Economist

Ben Ayers
AVP, Senior Economist

Oren Klachkin
AVP, Financial Market Economist

Vivian Chen
AVP, Financial Market Economist

Daniel Vielhaber
Economist

Brendan Taggart
Economics Specialist

Brian Kirk
Communications Consultant

Sources

Page 1 |	**Where is the economy now?**	
	Business Cycle	*Nationwide Economics*
	Yield Curve	*Bloomberg; National Bureau of Economic Research*
	Real consumer spending	*Bureau of Economic Analysis*
2 |	**Economic Review**	
	Consumer Price Index	*Bureau of Labor Statistics*
	Nonfarm payroll gains	*Bureau of Labor Statistics*
	Serious delinquency rates	*Federal Reserve Bank of New York*
3 |	**Financial Markets Review**	
	S&P 500	*Standard & Poor's*
	10-year Treasury yield	*Federal Reserve Board*
	Financial conditions impact on growth	*Federal Reserve Board, Haver Analytics, Nationwide Economics*
4 |	**Outlook**	
	GDP growth estimates	*Bloomberg*
	Latest Forecast	*Nationwide Economics*

The information in this report is provided by Nationwide Economics and is general in nature and not intended as investment or economic advice, or a recommendation to buy or sell any security or adopt any investment strategy. Additionally, it does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person.

The economic and market forecasts reflect our opinion as of the date of this report and are subject to change without notice. These forecasts show a broad range of possible outcomes. Because they are subject to high levels of uncertainty, they may not reflect actual performance. We obtained certain information from sources deemed reliable, but we do not guarantee its accuracy, completeness or fairness.

Nationwide, the Nationwide N and Eagle and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company. ©2025 Nationwide