



“Perception Vs. Truth” Market Commentary – December 2025

By Frank C. Fontana, CFA
President, Banyan Asset Management, Inc.
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The initial estimate of Gross Domestic Product (GDP) in the third quarter of 2025 is scheduled to be released on December 23, 2025. The U.S. Bureau of Economic Analysis originally scheduled to release this on October 30, but the 43-day U.S. federal government shutdown that began on October 1 has delayed the release of many economic metrics. Similarly, the U.S. Bureau of Labor Statistics revealed that they did not collect certain data in October for unemployment or the Consumer Price Index (CPI), which measures inflation on consumer goods and services. The next announcements of unemployment and CPI will be on December 16 and December 18, respectively, both for the month of November. Economists and financial markets must accept that economic data will be missing or incomplete for this unusual period.

The Federal Open Market Committee (FOMC) will make its next heavily anticipated announcement on monetary policy on December 10. The benchmark federal funds rate currently sits at a range of 3.75% to 4.0%. According to CME FedWatch, fed funds futures predict an 87% probability of an additional 0.25% cut on December 10. While likely, this cut is not certain. Moreover, futures currently predict 0.75% in cuts by October 2026, which would leave the federal funds rate at 3.0% to 3.25%. Meanwhile, the Fed’s balance sheet had \$6.552 trillion in assets on November 26 (down \$35 billion from October 29). The Fed plans to stop reducing its balance sheet on December 1. The future of monetary policy will hinge on who President Trump selects to replace current Fed Chair Jerome Powell when his term expires on May 15, 2026. Rumored names circulating in the financial media add to financial market volatility. It is expected that President Trump’s replacement will likely favor easy monetary policy (bullish for stocks).

Technical factors of the market are bullish (more demand than supply), while fundamentals are fairly priced – therefore, we are mildly bullish on the market. The Standard & Poor’s forecast for S&P 500 operating earnings per share (EPS) through September 30, 2026 is \$296.14, which implies a price-to-earnings (P/E) ratio of 23.1 with the S&P 500 at 6,849. The earnings yield (E/P) of 4.32% represents fair value relative to the 10-year U.S. Treasury note yield of 4.02%. The yield spread has expanded slightly to 0.30%. The eight largest companies in the S&P 500 make up \$23.4 trillion of the \$61.1 trillion index market capitalization with a weighted P/E of 40.5. If 38.3% of the index has a P/E of 40.5, then 61.7% of the index has a P/E of 12.3 for the overall P/E to be 23.1. A P/E of 12.3 is an E/P of 8.13%, which is attractively priced compared to the 10-year Treasury note yield of 4.02% (a yield spread of 4.11%).

The S&P 500 squeaked out a seventh consecutive monthly rise in November, rising only 0.1% for the month. The index pulled back 5.1% from October 28 to November 20, only to rally during the final five trading days of the month. Resistance should be near the all-time closing high of 6,890. Should that be pierced on the upside, new capital will likely chase the index to 7,000 and perhaps beyond. On the downside, support levels should be around 6,725 (50-day moving average), 6,540 (November 2025 low), 6,175 (200-day moving average), and 6,100 (February 2025 high).

A helpful model to consider while making decisions under uncertainty is to compare perception with truth: what you *think* you know versus what you *truly* know. Imagine a grid with four quadrants, with the x-axis labeled as “perception” and the y-axis labeled as “truth”. Positive territory is “favorable” and negative territory is “unfavorable”. The quadrant to avoid is a situation that you perceive as favorable but which in truth is unfavorable. This is the quadrant that gets people in trouble (in any situation, not just financial markets). Our perception can be rooted in logic, but it can also be biased (and misled) by emotion. A major risk to financial markets right now is that a significant cohort of investors perceive investing in the S&P 500 index as a safe, diversified way to riches over time. What they do not realize, however, is the truth that the S&P 500 has morphed into an aggressive growth mega-cap technology fund (with the associated risks). The stakes are high, as retirement plans are loaded with these funds. Unfortunately, it will not be obvious until after the bubble bursts what risk such investors were taking. Truth is revealed.