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Market Commentary

Late Cycle Markets With Early Cycle Policy in Six Charts

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Investing, like economics, isn't a hard science. While we use quantitative data to develop hypotheses about markets, the animal spirits of human nature make controlled experiments and exact predictions impractical.

That being said, the economy broadly follows an observable cycle, as do investment markets, which can be a helpful guide to investment decisions. Unfortunately, we're currently in an unusual environment for investors: late-cycle economic and market characteristics with early-cycle fiscal and monetary policy.

These late-cycle economic and market characteristics include:

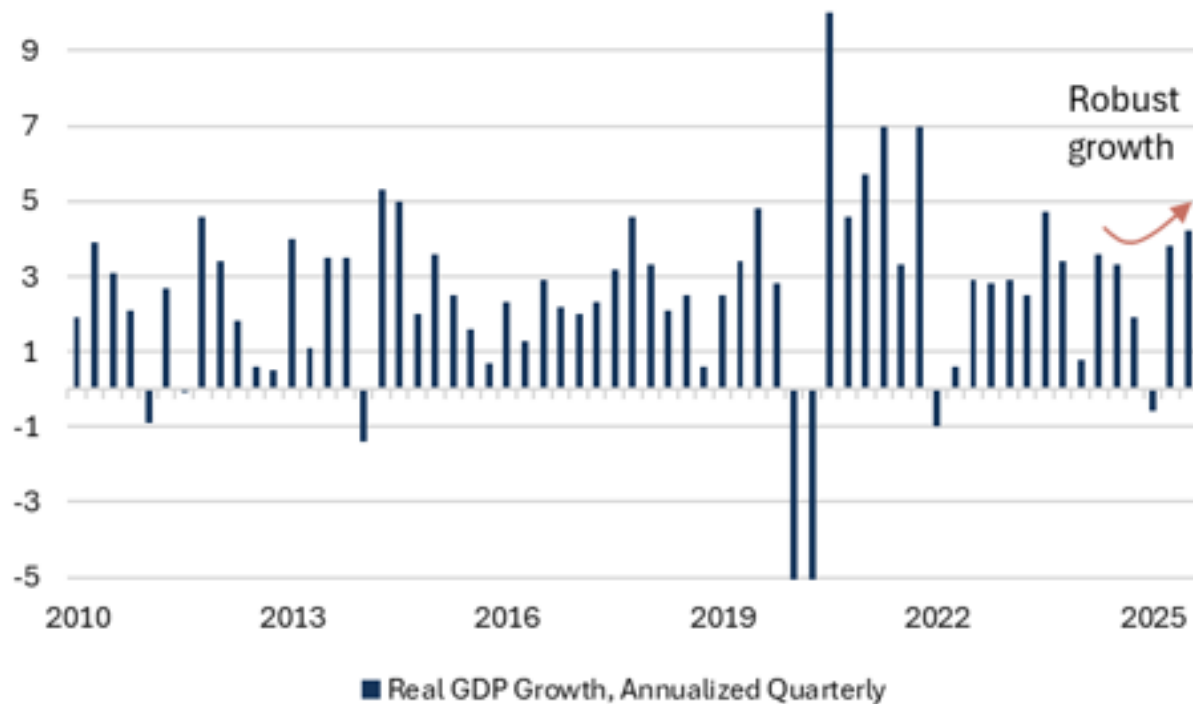
1. Economic growth that is well-above trend for the US (Fig. 1),
2. Inflation that remains stubbornly above target and might be creeping upward (Fig. 2),
3. Low unemployment (Fig. 3), and
4. Investor euphoria as revealed by stock allocations at all-time highs (Fig. 4).

Late cycle is also usually characterized by restrictive monetary and fiscal policy. The Fed would typically push back against inflation through higher policy rates, which also creates a headwind to investor euphoria. This cycle is different. The federal government is operating an early-cycle policy:

1. We continue to run a 6% of GDP budget deficit, which is a stimulus level typically seen during a massive crisis (Fig. 5), and
2. The Federal Reserve has embarked on a rate-cutting cycle, which typically happens after growth has slowed considerably or during a recession (Fig. 6).

As we said last week, these are complicated times for investors, but it is too early to call the top. Risks worth watching include higher bond yields, a hawkish Fed, and concrete messaging from the Magnificent Seven that AI revenue targets will not be achieved. Until then, we remain comfortable with a modest pro-growth tilt in portfolios.

Fig. 1: US GDP Growth (%)



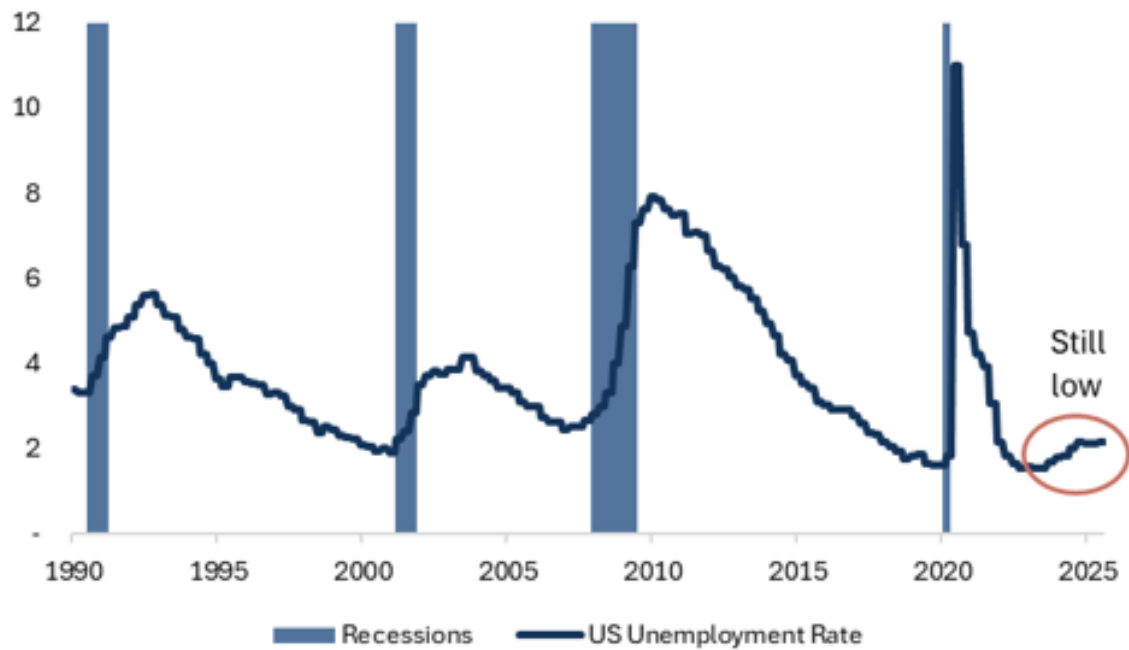
Source: Bloomberg, Mill Creek. As of 11/30/2025

Fig. 2: US Inflation (Consumer Price Index)



Source: Bloomberg, Mill Creek. As of 11/30/2025

Fig. 3: US Unemployment Rate



Source: Bloomberg, Mill Creek. As of 11/30/2025

Fig. 4: Average Investor Equity Allocation (% of financial assets)



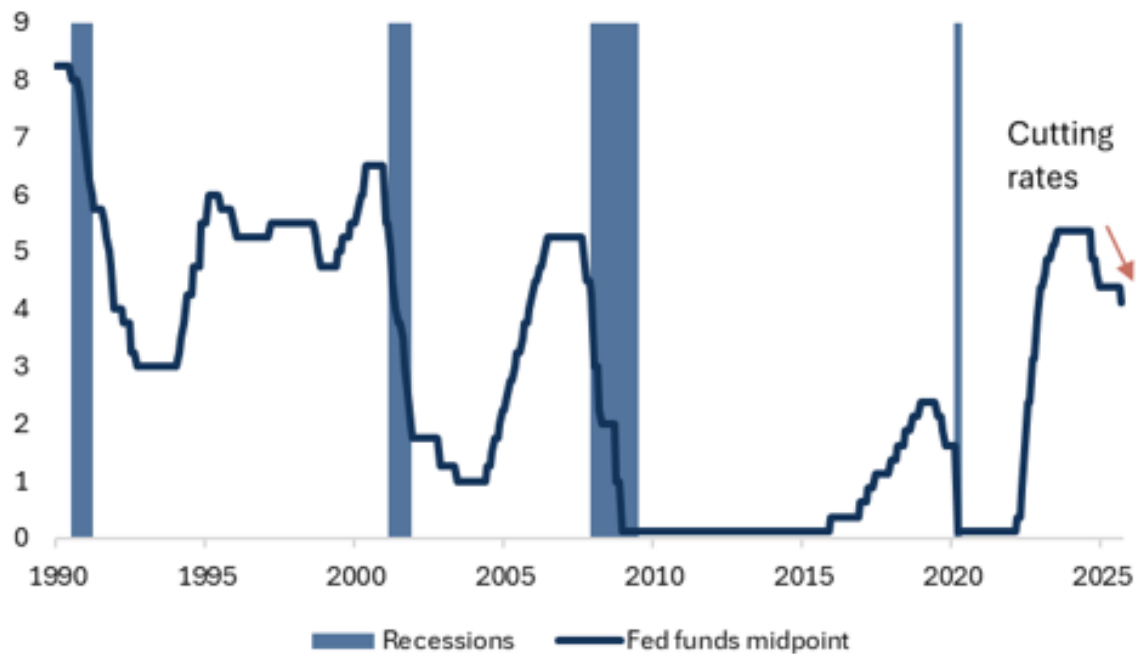
Source: FRED, Mill Creek. As of 11/30/2025

Fig. 5: US budget deficit as percentage of GDP



Source: Bloomberg, Mill Creek. As of 11/30/2025

Fig. 6: Fed funds rate



Source: Bloomberg, Mill Creek. As of 11/30/2025

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