

MARKETS AND ECONOMY

Schwab's Market Perspective: Looking for Direction

While stock and bond markets wait for U.S. federal data to become available again, private-sector reports suggest lukewarm overall economic growth.

November 14, 2025 • [Liz Ann Sonders](#) • [Kevin Gordon](#) • [Kathy Jones](#) • [Michelle Gibley](#)

The government shutdown suspended many federal economic data reports, leaving investors and central bankers alike in the dark. Private data has filled the gap to some extent, suggesting lukewarm overall growth, cooler labor demand and weak consumer sentiment. We expect the Federal Reserve to keep short-term interest rates steady at the December meeting but see scope for one or two rate cuts in the first half of 2026.

Meanwhile, comments from U.S. and Japanese political leaders have called into question the future independence of those countries' central banks, historically a worrisome development for inflation and market stability.

U.S stocks and economy: Data desert

Due to the government shutdown between October 1st and November 12th, investors have been lost in a [federal data desert](#), left to assess the state of the economy from private sector barometers such as purchasing manager indexes (PMIs) and private labor reports.

What do they show? For a start, weaker manufacturing but healthy services activity. The Institute for Supply Management (ISM) Manufacturing PMI slipped to 48.7 in

October, remaining in contraction (defined as below 50). On the other hand, the ISM Services PMI rebounded to 52.4.

Services have outpaced manufacturing activity



Source: Schwab Center for Financial Research, Bloomberg, Institute for Supply Management (ISM), as of 10/31/2025.

Meanwhile, ADP's National Employment Report showed private-sector payrolls rose by a modest 42,000 in October. Although a reversal from the prior two months of negative readings, shown below, the increase was still relatively small.

ADP showed modest payroll gains in October

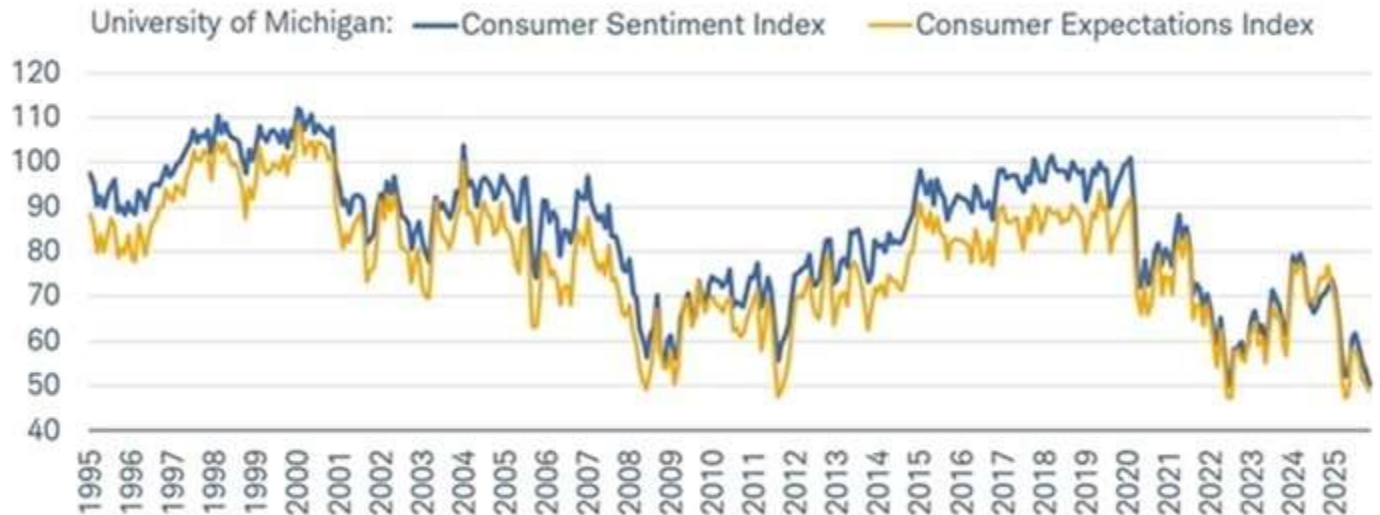


Source: Schwab Center for Financial Research, ADP Research, Bloomberg, as of 10/31/2025.

In the meantime, sentiment data have suggested an anxious and perhaps even depressed consumer base. As shown below, the Consumer Sentiment Index from the University of Michigan fell in November to its lowest since June 2022. Other than that month, the index is at its lowest in history. The expectations component, which

tracks how consumers feel about the economic outlook, also fell and is nearing a cycle low.

Sentiment and expectations remain under pressure



Source: Schwab Center for Financial Research, Bloomberg, as of 11/7/2025.

Forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data.

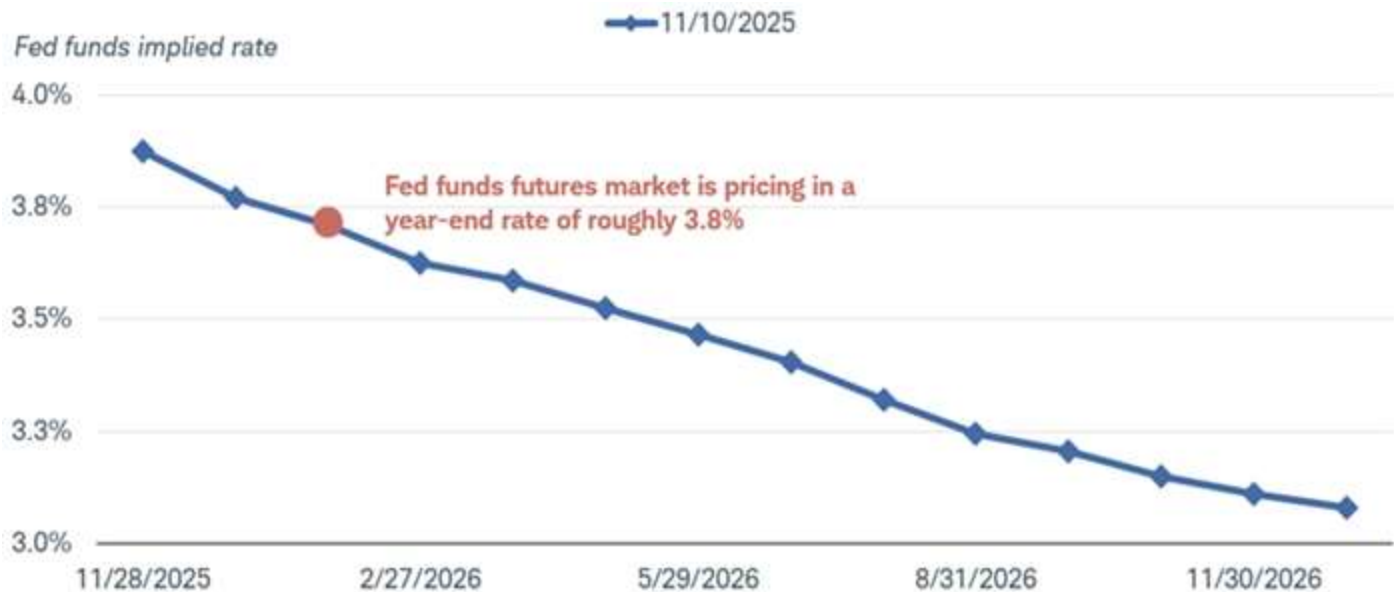
Even without the usual government data, the private sources of data tell a similar tale: overall growth is lukewarm, manufacturing is struggling, services maintain decent strength, labor demand is cooler, and consumer sentiment is weak.

Fixed income: Federal Reserve likely on hold for now

Fixed income market investors continue to vacillate between concerns about inflation and expectations of weaker growth. Lack of economic data due to the government shutdown has added to the confusion, keeping Treasury yields range-bound.

Short-term interest rates continue to fluctuate in response to shifting expectations about the direction of Federal Reserve policy. Currently, the federal funds futures market is discounting about a 67% probability of a rate cut by the Fed at its December meeting. That's down sharply from a few weeks ago when it was closer to 90%. Remarks by Fed Chair Jerome Powell and other members of the Federal Open Market Committee (FOMC) have lowered expectations for a rate cut in the near term.

Markets are generally pricing in a rate cut in December



Source: Bloomberg and the Federal Reserve. Market estimates as of 11/10/2025.

Market estimate of the Fed funds using Fed Funds Futures Implied Rate (FFX3 COMB Comdty). Futures and futures options trading involves substantial risk and is not suitable for all investors. Please read the [Risk Disclosure Statement for Futures and Options](#) prior to trading futures products. For illustrative purposes only.

The issue continues to be the tension between the Fed's two mandates (maximum employment and stable prices). The labor market is weakening but year-over-year inflation as measured by the Consumer Price Index (CPI) continues to be stuck near 3%. [Lack of economic data](#) makes it even more difficult for the Fed to assess the economy's condition and outlook. We expect the Fed to remain on hold at the December meeting but see scope for one or two rate cuts in the first half of 2026.

However, it's worth noting that if inflation doesn't recede quickly, the Fed has little room to lower rates. At a target range of 3.75% to 4%, the lower bound of the federal funds rate is just 75 basis points above the year-over-year change in the CPI, one of the main inflation indicators. An aggressive pace of easing, as expected by the market, could push the inflation-adjusted or "real" policy rate into negative territory, which would be stimulative for the economy. Consequently, we believe that the Fed will take a more cautious approach and wait to see if inflation falls. Unless the labor market shows real signs of deterioration with the unemployment rate moving above 5%, the scope for rate cuts is limited.

The upper bound of the federal funds target rate is close to the inflation rate



Source: Bloomberg. Monthly data from 9/30/2015 to 9/30/2025.
 Consumer Price Index for All Urban Consumers: All Items (CPI YOY Index) and Federal Funds Target Rate - Upper Bound (FDTR Index). Indexes are unmanaged, do not incur management fees, costs, and expenses and cannot be invested in directly. **Past performance is no guarantee of future results.**

For intermediate- to long-term yields, there is also limited scope for declines as long as the economy is growing at a moderate rate. Financial conditions are currently easy and demand for business and consumer loans remains firm. In addition, expansive fiscal policy is likely to push the term premium higher, keeping yields elevated. (The term premium is the extra yield investors demand to hold long-term bonds rather than a series of short-term bonds.)

The U.S. is running a deficit of 5.8% of gross domestic product (GDP) at a time when inflation is above target. As a result, investors are likely to demand a higher yield to buy long-term bonds due to the risk of inflation. Upward pressure on long-term yields has been mitigated to some extent by the Treasury's decision to issue more short-term T-bills than bonds, but the risk presented by rising deficits will likely mean the yield curve steepens as the Fed lowers short-term interest rates.

The term premium represents the extra yield investors demand to hold Treasury bonds



Source: Bloomberg. Adrian Crump & Moench 10-year Treasury Term Premium (ACMTP10 Index).

Weekly data from 11/6/2010 to 11/6/2025.

The term premium is the compensation that investors require for bearing the risk that short-term Treasury yields do not evolve as they expected. The term premium in the chart above is obtained from a statistical model developed by New York Federal Reserve Bank economists Tobias Adrian, Richard K. Crump, and Emanuel Moench.

We see value in intermediate term (with average maturities generally in the four-to-10-year range) high-credit-quality bonds, such as Treasuries, government mortgage-backed securities, Treasury Inflation Protected Securities (TIPS) and investment-grade corporate and municipal bonds. However, we anticipate that volatility will likely begin to rise in the months ahead.

International stocks and economy: Lessons in central bank independence

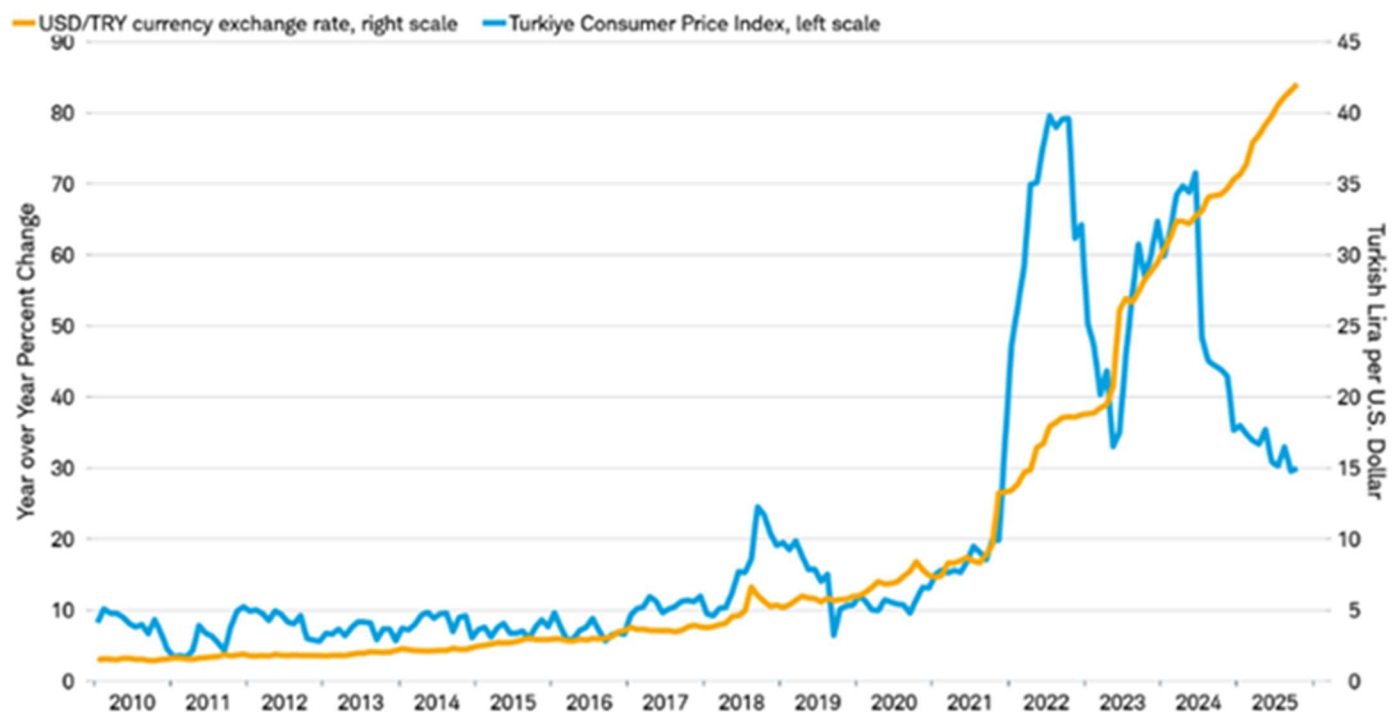
The independence of the Federal Reserve and Bank of Japan have come into question this year after U.S. President Donald Trump and new Japanese Prime Minister Sanae Takaichi made statements intended to direct monetary policy. The threats to central bank independence have quieted down but could rise again. What effects might we see from less-independent central banks?

The International Monetary Fund World Economic Outlook published in October 2025 looked at the macroeconomic effects of undermining central bank independence, reviewing 134 transitions in 11 advanced economies and 16 emerging markets since 2000. Politically motivated transitions, where the central bank lost some independence, resulted in inflation expectations being less well anchored. Six months after the transition, inflation exceeded targets by 2% on

average in cases where political interference is generally expected. On average, during all politically motivated transitions, inflation rose 1.7 percentage points and the nominal (including inflation) currency exchange rate fell by nearly 3 percentage points. Politically motivated transitions occurred 50% of the time in emerging market economies, while only 8% of the time in advanced economies. A study by the Banco Central do Brazil noted that the loss of central bank independence disproportionately hurts lower income consumers due to the tendency for inflation to rise.

When a central bank begins to lose credibility, markets start to question its ability to fight inflation, exacerbating the inflation situation. Erosion of investor confidence can result in capital outflows and less foreign investment into the country, resulting in currency declines, volatility in government bond markets, weakening economic activity. The combination of these factors is likely to be the opposite of what politicians likely intended. A recent example is Türkiye, where President Recep Tayyip Erdogan began pressuring the central bank in 2018 to lower interest rates, despite high inflation. Several forced changes in governors and a series of rate cuts pushed inflation higher and caused the currency to fall relative to the U.S. dollar.

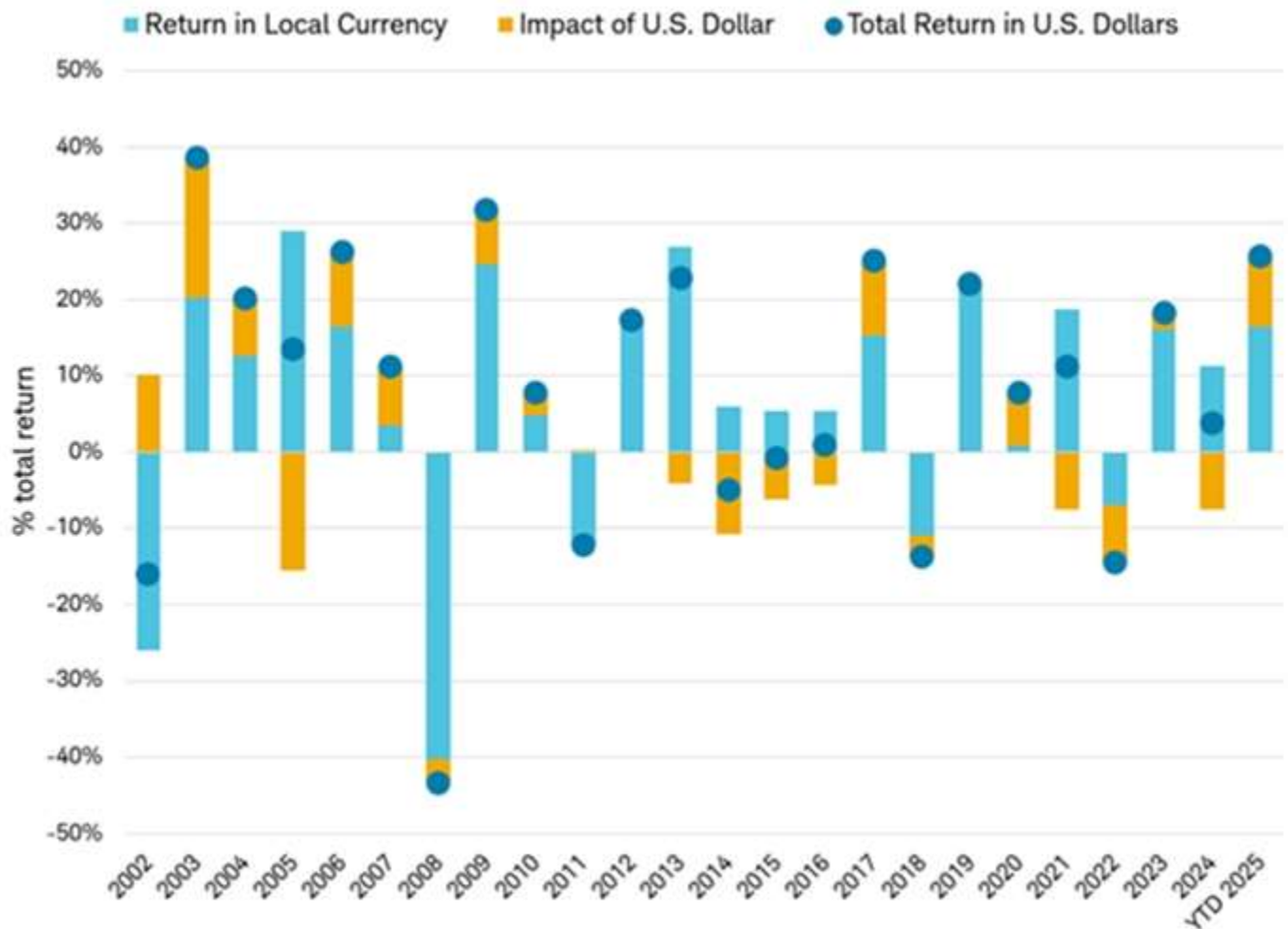
The results of Türkiye's loss of central bank independence



Source: Schwab Center for Financial Research, Macrobond Financial, Turkish Statistical Institute data as of 11/10/2025. Currencies are speculative, very volatile and not suitable for all investors. **Past performance is no guarantee of future results.**

Historically, there have been consequences when central banks lose independence. Checks and balances in advanced economies like the U.S. and Japan have tended to preserve independence. We have not seen drastic overnight reactions in currency markets this year despite threats to the independence of the Federal Reserve and Bank of Japan. That said, the value of the U.S. dollar and the Japanese yen could decline over time if challenges to the respective central banks' independence intensify.

The change in value of the dollar has added to returns this year



Source: Schwab Center for Financial Research, Bloomberg, as of 11/7/2025.

Total return includes price changes plus dividends, interest or distributions. Local equity returns as measured by the MSCI EAFE Net Total Return Local Currency Index, total return as measured by the MSCI EAFE net total return USD index. Impact of U.S. dollar is the difference between these returns. Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly. **Past performance is no guarantee of future results.**

We expect the U.S. dollar may continue to fall due to changes in relative monetary policy and interest rate differentials with developed-market bonds, as the Fed is likely to outpace rate cuts elsewhere. [Japanese stocks](#) could rise in local currency if

the yen weakens. The euro and European stocks may be the prime beneficiary, as the European Central Bank is either finished or close to being done cutting rates this cycle, and its independence has not been credibly threatened.