



CLOSING THOUGHTS ON A YEAR OF UNCERTAINTY

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LIZ ANN SONDER: I'm Liz Ann Sonders.

KATHY JONES: And I'm Kathy Jones.

LIZ ANN : And this is *On Investing*, an original podcast from Charles Schwab. Every week we analyze what's happening in the markets and discuss how it might affect your investments.

Well, hi, Kathy. Here we are at our final episode of 2025. We are taking a break over the holidays. Maybe more important, we're giving our listeners a break over the holidays. And hopefully many of you listened to the previews that we provided on our pod about our outlooks last week. We talked about it on the pod. We have the written version of our outlooks that have published in the last couple of weeks. But maybe this is a good time to look back a little bit. So Kathy, as you look back over the past year, what are the themes that you will remember most?

KATHY: Well, it's been a really interesting year, I think, because of the policy uncertainty. And I know we use that word uncertainty all the time, but there has been so much up and down in terms of policy, you know, tariffs on, tariffs off. Fed policy, are they on hold? Are they hiking? Are they lowering rates? Who's at the Fed? Who's going to be at the Fed?

I think I feel a little bit like it's been a game of ping pong this year because we're constantly trying to get ahead of the next policy issue that's out there. And meanwhile, the economy has certainly slowed, but it has chugged along in most ways that we can measure. The shutdown of the government has thrown a monkey wrench into that as well. Part of the policy uncertainty has been due to that. But as we look sort of through the numbers, I think you'd agree that, overall, the economy has been relatively resilient, certainly some weak spots, but able to bounce back from all of this, which is quite surprising.

But I would say I feel just a little bit like I've been put through the washing machine. And I'm hoping... the good news is the bond market's done OK throughout all of this and investors have gotten pretty decent returns, but it would be nice to get a little bit smoother track in terms of what to expect out of Washington going forward into 2026. But I fear that at least the first half, we're still going to be having conversations about things like who's going to be at the Fed? What is the policy with respect to, not only interest rates, but the balance sheet going to look like?

Trade policy clearly is still something we're up in the air about in many ways. So I feel like the ping pong game is going to continue into 2026. How about you?

LIZ ANN: I agree. I think uncertain is clearly a descriptor for the recent environment. But one of the things that we put in our outlook is there's also been instability. You already touched on it with regard to the Fed, the on again, off again monetary policy, clearly instability as it relates to tariff policy on again, off again delays, concerns about what the Supreme Court ruling will be, what the implications are for how and if tariffs can be implemented in a different way, possible rebates. So I don't think any of that changes as we head into 2026. So I think that instability will stick with us. It's part of the reason for the ongoing K-shaped nature of this cycle. And you see it showing up both in the economic side of things as well as the market side of things.

You certainly have to think back to the early April period as a pretty wild time in the market. We had had a near bear market in equities from mid-February until that early part of April and came just shy in terms of the S&P 500®, but we did hit bear market territory for both the NASDAQ and the Russell 2000. And I think that represented a point where the market was doing its job as a leading indicator and was moving ahead of what were rising concerns about tariffs and their impact.

Of course, what was announced on so-called Liberation Day on April 2 was much more extreme than what the market was pricing in. And we really had a riot. It was felt in my side of things, on the equity market, your side of things, in the fixed-income market, also in the dollar. And then we saw that announcement come on April 9 that those tariffs would be delayed by 90 days and boy, then the market was off to the races. That intraday turn on April 9 was really extraordinary. It was one of those classic rip-your-face off rallies. And I think a healthy reminder to investors that actually some of the best single days in the history of the stock market have come in the immediate aftermath of some of the worst single days in the history of the stock market, literally at times back-to-back days.

And I won't forget a conversation I had a couple of months after that early April period with a client. And she came up to me at a live client event that I was doing and said, "Liz Ann, I'm just kicking myself. I did exactly what you and everybody at Schwab has always told me never to do, which is I panicked." She said, "I have read your 'Panic is Not a Strategy' pieces that you update every once in a while and I panicked and I sold everything when the market opened on April 9." And she said, "I just can't believe that as a student of everything Schwab has taught me, I just went against those lessons and reacted based on emotions." So sometimes the pain can be reminders of the importance of discipline around investing.

Another thing that I found interesting this year, is just that the different cohorts of investors and their impact on markets and the implications it has for things like investor sentiment. We know we've had this incredibly powerful cohort that was essentially born out of the pandemic, the retail traders distinct from individual investors, retail traders, the cohort that tends to skew younger, they tend to skew male, they have a little bit more of a gambling mentality born out of the pandemic alongside sports betting. And really is a cohort that has approached the market more with a gambler's mindset than an investor's mindset. And it's one of the things that many of us at Schwab, including Rick Wurster, our CEO, has been out there trying to emphasize that there is a big difference between gambling and investing.

And you've seen it in the trading data, you've seen it in the sentiment data, you see it in how various baskets within the market have performed. They've become a very dominant force in the market, but without much regard for traditional fundamentals. And it's why we have seen these divergences in terms of investor-sentiment readings, some of the investor-sentiment readings that are action-oriented, that are behavioral-oriented, that pick up what some of these retail traders are doing have showed trends like, you know, aggressive buy-the-dip and, you know, FOMO fear of missing out.

And yet at the same time, we get some of these volatility periods in the market and corrective phases in the market. And you see attitudinal measures of sentiment where you're often picking up more traditional investors, longer-term investors, those swings tend to be more significant from bullish to bearish depending on short-term action in the market, disconnected at times between what investors are saying they feel about the market and what they're actually doing. So bigger swings and attitudinal measures of sentiment, less large swings and behavioral measures of sentiment. I think that those kind of bifurcations and dislocations are also probably going to continue in 2026.

But I'll close and reiterate what you said. The economy has proven to be incredibly resilient. The market has done what it often does, which is climb a wall of worry. So, not that we're cheering for any ongoing uncertainty or instability, but those have represented some bricks in this wall of worry that the market tends to climb, but I think it may be a bit more of a choppy year this year. I think ongoing rotations among sectors, up and down the cap spectrum, but potentially a continued broadening out like we have seen recently. And maybe that is just a more level playing field for active investors relative to passive for opportunities in... down the cap spectrum, equal weight, having an opportunity to perform better relative to the capitalization weighted indexes. So I still have some optimism for 2026, but I don't think it's going to be all smooth sailing.

All right, so let's narrow the scope a little, Kathy, and maybe touch on a few hot topics this week. We did mention on a previous episode that it had seemed like President Trump had settled on Kevin Hassett to be the next Fed chair, but maybe that's not a lock, there might... you know, another Kevin has entered the proverbial chat. So what's your take on the latest as we tape this?

KATHY: Well, again, there's this policy uncertainty ping-ponging around, right? And so we don't know. We believe it's down to the Kevins. But now, you know, there's always the potential for someone to come out who's been on the sidelines, who might emerge again. So Kevin Hassett, as we mentioned, seemed to be the frontrunner. Now it seems as if maybe Kevin Warsh is the frontrunner.

Warsh used to be at the Fed. And I think that the big distinction between the two, both seemed to lean towards lower interest rates, which is one of the criteria the president has put out there, but Warsh takes the approach that the Fed's balance sheet should be much smaller. And I think this is structurally different than a lot of other people who might be in contention and different than Kevin Hassett. So his theory is that the Fed has too much influence and its

balance sheet should be smaller. Now the Fed has reduced the size of the balance sheet and has now kind of stabilized that.

So that opens up a lot of different questions as to just how he believes a smaller balance sheet will achieve lower inflation and lower interest rates. I think that's something that needs to be teased out a little bit more if he becomes the frontrunner, remains the frontrunner. You know, there's also Christopher Waller, who has been on and off named as a potential, highly respected, has been outspoken about his views about the structure of Fed policy and how it should work.

I think we've got to wait until January. And that's when the president says he's going to finally make his nomination. We'll see how... where he lands on that. And I think the market is rightfully expecting someone who is advocating lower interest rates. I think beyond that, there's going to be a lot of questions about how each of them would tackle inflation or how the frontrunner, whoever is nominated, would tackle inflation in order to allow interest rates to come down. Otherwise, what you'll see is lower short-term rates perhaps, or a Fed chair who's out of sync with the rest of the committee, and long-term rates continuing to edge a little bit higher. So, remains to be seen, like everything with this administration, there's always "until it's done, it's not done." There's always a lot of guesswork that goes into it, but it does have longer-term implications.

Liz Ann, I wanted to go back to you on the data front here. We got some jobs data, and it wasn't great. It wasn't terrible, but it wasn't great. Unemployment rate, I think that sort of the key has been ticking up. It's at 4.6%, but a lot of different things going on, a lot of noise in the data. You want to dig into that a little bit?

LIZ ANN: Sure, and you're right. There is a lot of noise in the data. It was one of those reports where if you were an economic bull or an economic bear, I could share a component of the jobs report that supports your view. So it was a little bit mixed. We did have a gain in payrolls of 64,000, which was a little bit better than expected. That follows a triple digit drop in payrolls for the month prior.

In terms of the sectors where you've seen job growth and or contraction, continues to be strength in payrolls in the non-cyclical area of education and health services, whereas the biggest drawdown in terms of payrolls last month was transportation and warehousing, kind of that ultimate cyclical category. So that says something about the slowdown in the economy that we talked about.

Yes, you're right, the unemployment rate has popped up to 4.6%. So that's been a pretty steady increase. Our colleague Kevin Gordon arrayed the numbers going back to June and somewhat rounding here. So you've gone from 4.1 to 4.2 to 4.3 to 4.4. Then we didn't have a report for October and now 4.6, or rounded up to 4.6.

Now, you could argue that the unemployment rate ticked up for the, if we were on camera, I'd be showing the air quotes now for the "right reasons," given that we saw an expansion in the labor force, but generally a deteriorating trend. The household survey... the Bureau of Labor Statistics conducts two surveys every month. The establishment survey is the survey from which payrolls are generated and then they also do a household survey and that's where the unemployment rate is calculated from. And again, in keeping with not having some of the data for October, there was no household survey for October, but November did show a gain, but only of 96,000. That's a pretty anemic reading for the household survey. So that's more of a negative reason why we saw an uptick in the unemployment rate.

So I think just a bit of a mixed bag. Long-term unemployment did tick higher. So it's not just shorter-term unemployment, but people who stay unemployed for an extended period of time. That's been consistent with a pretty decent spread between initial unemployment claims, which of course we get on a weekly basis every Thursday, and continuing claims, people who continue to stay on unemployment insurance. And I think it just reinforces, it's an oft-used descriptor of the current low-hiring, low-firing kind of backdrop, and I don't anticipate any major change soon. I think, Kathy, you'd probably agree with me that in terms of what will move the needle as it relates to Fed policy, not that they're by any means turning a blind eye to the inflation side of their mandate, but I'm guessing the employment side of their mandate is going to be what they key off of in terms of decision making, correct?

KATHY: Yeah, I think for good reason. You know, the Fed really can't affect supply-side inflation. So if inflation is driven by supply factors, as we saw during the pandemic and as we've seen with tariffs, etc., they can't really affect that with their policy tools, but they do affect the demand side. So if unemployment is rising, people aren't working, they're not making as much money, then demand softens and that eventually leads to lower inflation. So the Fed does, I think, lean a bit more towards trying to stabilize the labor market at a time when, even with inflation a little bit on the high side, I think it's OK with them if the labor market loosens a bit, which is their terminology, but not too much because then that risks a recession and a significant downturn in demand.

It's a tough balancing act. Powell has said the two mandates are in tension. I think that that has been the case for quite some time, and it's a very difficult thing to balance. And that is why, probably, such a wide dispersion of opinions at the Fed about what to do and when to do it, and also just this sort of go slow, measured pace to try to figure out where they are on this path to trying to stabilize the two factors.

So Liz Ann, what do you think now about what listeners should be watching over the next couple of weeks while we're on holiday?

LIZ ANN: Yeah, so I mentioned unemployment claims. So we get those weekly. I think those always should be on everybody's radar. We get the Consumer Price Index, the CPI, some regional Fed data, some home sale data. We also get, finally, GDP. And that's backward looking, obviously, because it'll just be for the third quarter. But one of the things that I'll be focused on when we get GDP is the release of what's called NIPA-based profits, so National Income and Product Accounts. It's millions and millions of companies. It's publicly traded companies, private companies, large companies, small companies, S-corporations. So it runs the gamut. It truly is profits of the entire country. We often focus on profits as confined to the S&P 500, but obviously the economy is more than just that.

And the reason why I think it's important is the first half of the year, S&P profits were up about 13%, a similar growth rate to both the first and the second quarter. However, NIPA-based profits in the first half of the year were actually in negative territory by low-to-mid single-digit range. So that really further highlights these bifurcations and how many of the larger companies have had very resilient earnings. That's not the case for the vast majority of companies. So see whether that big divergence, given that third quarter S&P profits were yet again double digit, very strong, whether we continue three quarters in a row of that divergence between all corporate profits and S&P profits. So that'll be on my radar. How about you?

KATHY: Well, I'm going to say you've covered most of the important economic data for the next couple of weeks. I'm going to suggest maybe our listeners take a break and not focus too much...

LIZ ANN: Yes!

KATHY: ... on the markets and the economy. Now, the stuff that happens when liquidity is very thin during the holiday period often just washes itself out after things pick up again after the first of the year. I'll put in a plug for a

book I just read that has influenced my thinking a bit. It's called [*4000 Weeks: Time Management for Mortals*](#) by Oliver Burkeman. And it basically advocates "take a step back" and not get too wrapped up in things. And so...

LIZ ANN: Great advice.

KATHY: Yeah, it really has been a fun read. I think he makes some important points for people to think about. So I'm going to say let's all just, you know, kind of chill for a little bit and see what happens, because I know, I know after the first of the year, Congress will be back, crazy stuff will be happening. We'll have a lot to talk about, but let's hope not too much happens over the next couple of weeks.

LIZ ANN: That is a wrap for 2025. That's it for us today. Happy holidays, everybody. We are so appreciative of the attention you've given this podcast. We have really enjoyed it the last couple of years. So we're really grateful that you tune in every week. And I want to remind our listeners that you can always access all of our written reports, particularly our 2026 outlooks and lots of visuals in there, and you can find those at [Schwab.com](https://www.schwab.com) forward slash learn. And if you have enjoyed this episode, please take a moment to leave us a review on Apple Podcasts or a rating on Spotify.

KATHY: Also as a reminder, you can keep up with us in real time on social media. I'm @KathyJones on X and LinkedIn. That's Kathy with a K.

LIZ ANN: And I'm @LizAnnSonders on X and LinkedIn. Still have lots of imposters, so make it your New Year's resolution to follow the real me and not some of my imposters.

KATHY: Good resolution. We are taking a break over the holidays. This is our last podcast of 2025. We'd like to thank some of the people who help make the show possible. [*On Investing*](#) is produced by Matt Bucher and edited by Kory Hill. Patrick Ricci is our executive producer. Special thanks to Chris Batchik, Mason Reed, Diane Jacobs, Adrienne Beata and Deborah Hinton Brown who do so much behind the scenes to make this show possible.

Happy holidays and thanks for tuning in.

LIZ ANN: For important disclosures, see the show notes or visit [schwab.com/OnInvesting](https://www.schwab.com/OnInvesting), where you can also find the transcript.