FED CUTS RATES AS EXPECTED BUT MARKETS ARE FOCUSED ON THE AI RALLY

This week's interest rate cut by the Federal Reserve came as no surprise. Jerome Powell's Fed has resisted political pressure for most of the year but, with inflation stabilizing and a string of weak jobs data and falling consumer confidence, calls for rate cuts grew harder to ignore. Communication from the Fed following this week's decision shows its priority has shifted from bringing down inflation to strengthening the economy, at least in the short term, causing the dollar to weaken slightly. Still, Powell cautioned against expecting aggressive cuts in 2026.

Meanwhile, US equities continue to show signs of investor nervousness. The Fed rate cut helped boost sentiment and the S&P 500 managed to hit a fresh all-time high this week but disappointing updates from Oracle and Broadcom triggered selling in tech stocks as sales growth failed to match lofty expectations. Lower interest rates may be on Donald Trump's Christmas wish list, but equity investors are likely to settle for more confidence that all that AI spending will be rewarded with sustainable revenue growth.

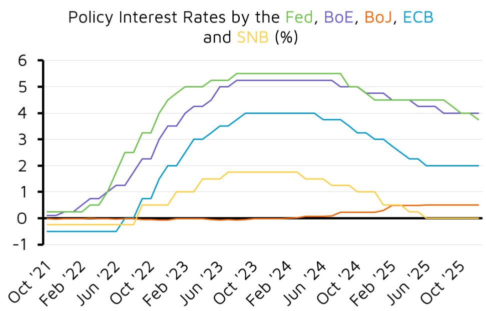
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+0.05%	+0.27%	-0.07%	+0.53%	-0.58%	+0.06%	+0.08%	-9.04%	+2.00%	+0.61%	+0.23%

US: DIVIDED FED BOARD CUTS RATES BY A QUARTER POINT

The Federal Reserve cut interest rates by a quarter percentage point this week to between 3.5-3.75%. This is the bank's third rate cut since September, after a nine-month hiatus. The Fed vote was split between holding and cutting, as concerns about inflation take precedence over concerns about jobs. President Trump and his Treasury Secretary have been pushing for the bank's benchmark rate to be cut by 1.5%. They are actively searching for a Fed chair that shares this view to take over from current chair Jerome Powell, who has been resistant to political pressure. Powell said further rate cuts would be hard to justify, given high inflation.

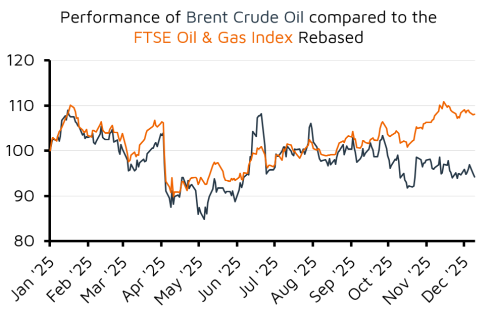
Bonds rallied following the cut. The yield on two-year Treasury bonds, which moves inversely to their price, dropped 0.1 percentage points this week. The S&P 500 gained following the announcement but reversed gains after Oracle's quarterly results fell short of forecasts. The dollar weakened against most major currencies.



OIL: PRODUCTION RISE EXPECTED TO CAUSE SUPER GLUT IN 2026

Oil prices are expected to fall further in 2026. Commodities trader Trafigura forecasts that modest production growth, combined with slowing demand, will lead to oversupply and push prices lower. Brent crude has already dropped nearly 20% in 2025 as OPEC+ members steadily raised output and oil companies boosted supply to protect profits. This trend is likely to continue, with OPEC+ planning further increases and US energy policy prioritising higher shale production.

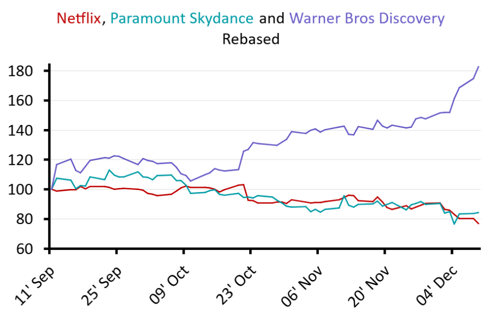
The International Energy Agency is forecasting a modest increase in supply next year, but Trafigura expects significantly weaker demand growth from China as its growing number of electric vehicles further reduces demand for petrol. UK and global energy stocks have lagged broad markets in 2025 as lower prices and restructuring have reduced profits. The US is pushing for a Ukraine peace deal to include the resumption of Russian oil and gas exports to Europe and this has added downward pressure to prices.



M&A: PARAMOUNT AND NETFLIX BATTLE FOR WARNER BROS

Netflix and Paramount are competing to buy Warner Bros Discovery. Paramount had been courting Warner Bros for two years and has pitched ever higher bids for the media company, especially since September. However, Warner Bros's board approved an $83bn cash-and-stock bid from Netflix last week. Under the deal Warner Bros would spin off its broadcasting assets, like CNN, before the merger. This did not sit well with Paramount, which gate-crashed the union with a $108bn all cash hostile bid for the whole enterprise on Monday. Paramount's CEO has bypassed Warner Bros's board and met with its shareholders to make the case for his offer over Netflix's deal.

Netflix shares have lost 25% or $100bn in market value since merger talks surfaced in September. Paramount shares have fallen as well. Warner Bros's shares are up over 80%, as each successive bid drives its price higher. The two companies are among the biggest TV streaming firms, and the deal is likely to be scrutinised by US competition regulators.



Data sourced from FE Analytics, BoE, BoJ, ECB, Federal Reserve, SNB and Investing.com