December 2025 Market Update

In their December 2025 market update, Doug Johnson and Dan Rinck of HCM Wealth Advisors describe a market that continues to defy widespread pessimism. Despite a brief 5% pullback that many commentators framed as the beginning of a larger sell-off, the market quickly recovered to near all-time highs. This rapid rebound, combined with several unusually strong market breadth and sentiment indicators, suggests underlying resilience and continued bullish momentum heading into year-end.

One of the core themes discussed is the ongoing disconnect between market performance and investor sentiment. Rinck emphasizes that this remains “the most hated bull market,” with sentiment readings hitting levels typically seen only during deep market washes—not at all-time highs. The 314 Research sentiment composite fell below 40, a rare event that historically precedes very strong forward returns, sometimes upward of 30%+ over the following year. This contradiction—bearish sentiment amid bullish price action—supports the notion that investors are still fighting the tape.

Similarly, Rinck highlights thrust indicators, such as an “almost” Zweig Breadth Thrust, which occurs when market participation surges from extreme selling to aggressive buying within 10 days. While the threshold wasn’t fully met, the reading came close enough to indicate capitulation-like activity during what was only a 5% decline—a highly unusual outcome. Other indicators like the McClellan Oscillator showed strong positive reversals as well. These breadth thrusts traditionally appear during major market bottoms, not near highs, meaning buyers remain eager to step in quickly.

Breadth continues to look healthy more broadly. The NYSE advance-decline line is nearly back to all-time highs, indicating wide participation beneath the surface—even as headlines focus on mega-cap AI-driven stocks. This suggests the rally is supported by more than just a handful of companies.

Seasonality also adds a tailwind. The historical “Santa Claus rally” tends to begin around mid-December and carry into early January, and with markets already stabilizing at highs, the typical pattern appears intact. December has historically delivered average gains of around +1.3% going back to the 1940s. Combined with strong breadth and sentiment indicators, the probability of a typical year-end rally seems favorable.

Johnson and Rinck also discuss Dow Transports, a classic barometer of economic health. The index is back to new highs and forming a strong base. Since transports represent the movement of goods across the economy, their strength implies underlying economic stability and continued expansion. A breakout in transports historically supports broader equity strength.

However, they also acknowledge the implications of strong trailing performance. The S&P 500's rolling 3-year return is 1.5 standard deviations above the long-term average. While this is not a sell signal, it suggests that forward returns may moderate simply due to mean reversion. Historically, once returns reach 2 standard deviations above trend, the following year averages around –3%. The message isn't bearish—just a reminder that high trailing returns often lead to more muted future gains.

Sentiment among institutional allocators also remains surprisingly bearish. Johnson suggests that the market's evolution—especially the rise of intangibles-driven technology giants and the polarizing nature of AI investing—has made traditional valuation frameworks less effective. Additionally, diversification has struggled: only 158 stocks beat the S&P 500 this year, one of the narrowest leadership patterns since 1960. Many investors feel they "must own the seven big stocks" to keep up, which has led to dissatisfaction even in a strong market.

Sector dispersion has been wide as well. More than half of S&P stocks lag the index by 10% or more, and many stocks are flat or negative. This narrowness has frustrated diversified investors and added to the reluctance to embrace the rally.

Internationally, 2025 included shifting narratives. Early in the year, foreign markets—particularly Europe—briefly outperformed. Tariff headlines then caused a sharp divergence between U.S. and overseas markets, but by year-end, the U.S. once again reasserted its leadership. The U.S. continues to benefit from stronger earnings growth, better pricing power, and more durable market leadership.

On the economic front, recession fears remain widespread but unsupported by current data. Economic growth remains robust. The Atlanta Fed projects nearly 4% GDP growth for Q3, and even the lowest major forecasts are near 1.5%—well above recession levels. Earnings expectations have stabilized and even re-accelerated for 2025 and 2026, with projected S&P earnings growth of 10–13%. Historically, strong earnings growth makes major market declines less likely.

The global monetary environment has shifted dramatically. Nearly all central banks are cutting or maintaining interest rates rather than tightening, reversing the pattern seen in 2022–2023. The Fed has ended quantitative tightening, and whispers of potential quantitative easing in 2026 are emerging. Historically, such coordinated easing supports equity markets.

However, the strategists also highlight risks. Leading economic indicators have fallen below coincident indicators—a pattern that has historically preceded recessions. So far, the economy has defied this signal, but the divergence remains concerning. Another potential concern is the presidential cycle: year two of a presidential term is often weaker for markets. But Johnson notes that the usual cause—fiscal and monetary tightening—is unlikely in 2026, as both appear poised to loosen, making a typical "weak Year 2" less likely.

Looking ahead, two major thematic forces will shape markets: AI infrastructure build-out and rising energy demand. AI spending is projected to grow from $174 billion today to $1.2 trillion by 2029, a staggering 47% annual growth rate. This includes investments in edge computing, cybersecurity, data centers, personalized AI, and quantum computing. HCM has added targeted ETF exposure to these areas to capitalize on the expected boom.

Meanwhile, AI adoption is driving massive power consumption. Expected electricity demand from data centers is projected to exceed grid supply by 2032, creating opportunities in the broader energy sector—from utilities to transmission infrastructure to nuclear and renewables.

Johnson and Rinck close by emphasizing perspective. 2025 saw several sharp narrative shifts—tariffs, inflation worries, AI debates—but ultimately turned into a strong, low-volatility year. The comparison to 2000—a frequent media talking point—is, in their view, overly simplistic. While tech has led the market, the magnitude of price appreciation is nowhere near the excesses of the late 1990s. Volatility has been relatively low, corrections shallow, and participation fairly broad.

Overall, their message is that while risks remain, the market continues to show remarkable strength supported by solid economics, strong earnings, broadening participation, improving liquidity conditions, and powerful structural themes like AI. Heading into 2026, the backdrop appears more constructive than negative, and investors should remain balanced, disciplined, and attentive to both opportunities and risks.