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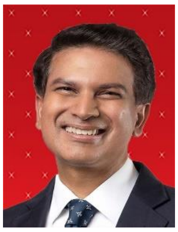
# Macro Insights Weekly

## Risks lurking underneath the US economy

Group Research

December 1, 2025

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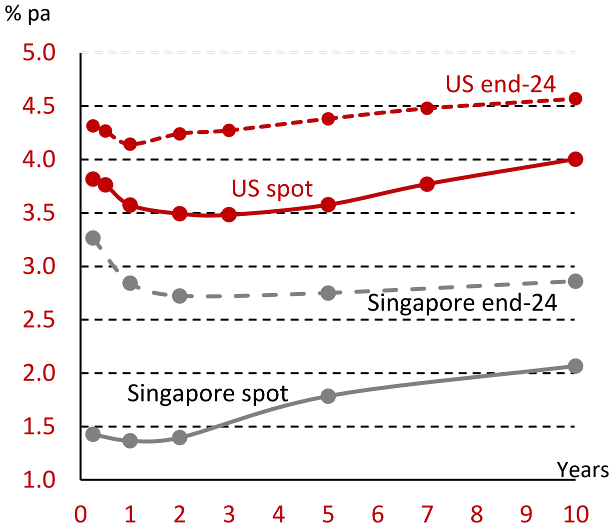
- *The US economy is poised to end 2025 on a strong note; the outlook for 2026 has some areas for concern, which we highlight in this Weekly.*
- *Sharp sell-off in crypto market suggests a risk-off mood going into the new year.*
- *Concerns about AI-related overvaluation of the stock market will persist.*
- *Jobs data looks somewhat unhealthy and have a late-cycle feel.*
- *Financial sector stability issues could return in 2026.*
- *Inflation could nudge up well past 3% and spoil the party in 2026.*

### Chart of the Week: Downshifting yield curves

Rate cuts by the Fed this year and expectations of more in 2026 have pushed the US yield curve down this year. Even more striking has been the downshift of Singapore's yield curve. Both at the short- and the long-end of the curve, the spread between US and Singaporean treasury yields have widened substantially. There are good reasons for the outperformance of Singapore's rates: substantially lower inflation than the US, sustained capital inflows, and ample liquidity are the notable factors.

**Singapore and US Treasury yield curves**




Source: Bloomberg, DBS

## Commentary: Risks lurking underneath

On the surface, the US economy has entered the final leg of 2025 with a great deal of strength. As per Atlanta Fed's Nowcasting analysis, economic growth momentum presently is the highest seen this year. Durable goods orders, manufacturing PMI, retail sales, non-residential investment, and public spending trends point to above-trend GDP growth in 3Q and perhaps also in 4Q. Our 1.9% GDP growth forecast for 2025 is characterised by substantial upside risk.

Beyond real economic activity, the signals from the financial markets are also largely bullish. Some concerns about an AI-bubble notwithstanding, equity markets are on course to the end the year with substantial gains. Credit markets are enjoying record narrow spreads, interest rates on public debt are easing, and currency markets are stable. The Fed may not be ultra dovish (yet), but the market is quite sure that the path ahead features lower rates and ample liquidity.

But is the outlook paved with nothing but comfort? We are picking up a series of clues that point toward potential headaches down the road. Consider the following:

**Crypto sell-off**: Despite the headlines they create, digital assets, particularly crypto currencies, don't make or break the US economy. Yet, over the past decade, they have captured the imagination of investors, retail and institutional. Recent price actions, with Bitcoin down 27% from its highs, suggest major risk-off sentiments. This could be driven by regulatory uncertainty, some major crypto-related law enforcement action, and marginally tighter liquidity. But regardless of the driver of the price decline, the development itself is notable as it displays a degree of exhaustion in the speculative asset markets.

Concerns about the disproportionate share of US equity market performance being driven by the **AI boom** will persist in the coming months. With cyclically adjusted price-earnings ratio of the S&P500 at an all-time high, and most of recent gains being driven by a handful of hyper-scalers, a correction down the road won't be shocking, but would have sizeable negative implications for sentiment and investment.

**Labour market developments** could pose risks to the consumption outlook. This year's jobs data looks unhealthy and has a late-cycle feel compared to that of the Biden era or even Trump 1.0. Goods sector job creation is in negative territory, while public sector jobs are few. Private sector job creation continues, but at a much weaker pace than trend.

**Financial sector stability** issues could return in 2026. Light-touch regulatory approach of the Trump administration on digital assets and broader financial intermediation could cause the market to turn jittery. Along the same vein, if the Fed's independence looks to be more and more in jeopardy, a longstanding anchor of the financial sector could lose its footing.

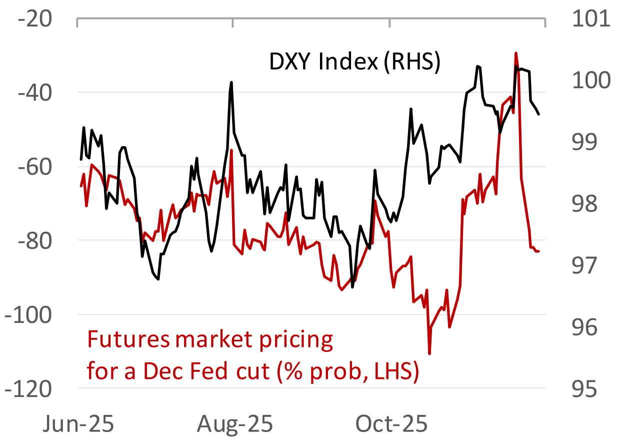
Finally, **inflation**. Cost of living concerns dominated this year's off-cycle elections, and they won't fade, especially if the Fed ends up making an error by keeping policy too lose. From tariff passthrough to immigration tightening-led rise in the cost of workers in services and construction, inflation could nudge up well past 3% and spoil the party in 2026.

*Taimur Baig*

## FX: USD to end 2025 on a softer note

**The USD is entering the final month of 2025 with heavy expectations that the Fed will cut interest rates** at next week's FOMC meeting on December 10. US Labor Secretary Lori Chavez-DeRemer, Fed Presidents John Williams (New York) and Mary Daly (San Francisco) judged that the risks from a softening labor market outweighed the rationale for holding rates high for longer amid weaker demand and tightening credit conditions. The Fed is also scheduled to end quantitative tightening on December 1 by reinvesting maturing securities instead of letting them roll off.

**Renewed Fed cut bets pull the USD lower**




Sources: DBS Research, Bloomberg data

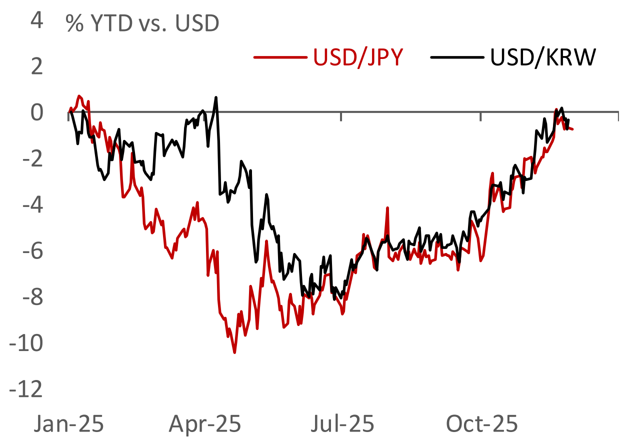
**EUR/USD may eye higher levels in December after finding firm support at 1.15 throughout November.** In contrast to the Fed, the case has strengthened for the European Central Bank to maintain the deposit facility rate at 2% through 2026. Appearing before the European Parliament on December 3, ECB President Christine Lagarde will likely convey that interest rates are at the correct level amid optimism for the resilient Eurozone economy later in the year and the situation in France.

**We are increasingly wary of rising intervention risks in the JPY and KRW.** Each currency has depreciated more than 5% against the USD over the past three months, briefly erasing this year's gains last week. Finance ministers in Tokyo and Seoul have openly flagged one-sided and speculative moves in their exchange rates. On excessive currency weakness feeding imported inflation, the Bank of Japan stressed that it may bring forward its timeline for a rate hike without waiting until next year's spring wage negotiations end. The Bank of Korea blamed the KRW's weakness for limiting its ability to cut rates to support the domestic economy.

**USD/JPY lower after giving back 2025 losses**


Sources: DBS Research, Bloomberg data

**A lower USD/JPY will likely pull USD/KRW lower**

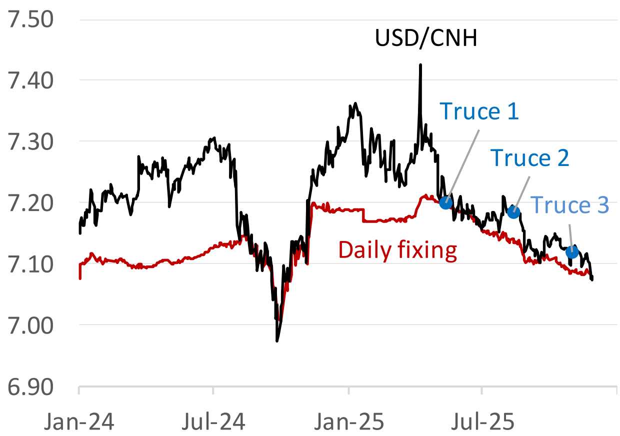



Sources: DBS Research, Bloomberg data

Unlike Seoul, Tokyo has been explicit about its intervention threshold, stepping in before USD/JPY reached 160. When Japan intervened in July 2024, USD/JPY fell sharply from a 38-year high of 162. Given its high correlation with the JPY on an indexed basis this year, expect USD/JPY to pull USD/KRW lower when it falls.

**CNY appreciated 0.7% 7.0742 per USD in November, its best level since October 2024.** Following the White House's decision to maintain the suspension of reciprocal tariffs on Chinese imports until November 2026, the People's Bank of China guided the USD/CNY central parity rate to 7.0789, its lowest since mid-October 2024.

**USD/CNH converges with daily fixing**




Sources: DBS Research, Bloomberg data

**Although US-China relations will remain tense, they may become less confrontational in 2026.** US President Donald Trump is scheduled to visit China in April 2026, with Chinese President Xi Jinping making a state visit to the US later in 2026. The two leaders are also likely to meet again at the APEC Summit hosted by Beijing and the G20 meeting hosted by Washington.

*Philip Wee*

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**Sources**: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)