



Cooling CPI And Resilient Growth Support Stocks

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The market's big "aha" moment last week was a CPI print that came in meaningfully cooler than expected, followed immediately by the usual chorus that it must be "distorted." That's the wrong takeaway. The right takeaway is simpler and far more important: inflation is coming down decisively, and the largest component of core inflation, shelter, is finally rolling over in a way that should keep downward pressure on inflation well into 2026.

What I have emphasized for years is that the housing and rental measures in CPI are lagging indicators. The real-time private measures—Apartment List, Zillow, Redfin, and related series—have been showing flat-to-down rents year-over-year, while broad home price measures such as Case-Shiller have cooled sharply, running roughly low-single digits. Since shelter is an outsized share of core CPI, this pipeline effect is not a one-month "quirk"; it is a multi-quarter disinflationary force that will keep showing up as the official data catches reality. Even if a methodological assumption or one-off adjustment shaved a few basis points off this month's number, it doesn't change the direction or the persistence of the trend.

That shift matters because it changes the Fed's reaction function. When inflation is sticky, any growth wobble creates a policy dilemma. When inflation is easing, especially from shelter, weakness in growth or labor gives the Fed far more freedom to cut. I'm not going to pretend we can pre-commit to January without the next employment report and more evidence on economic activity, but the trajectory is what counts: disinflation is broadening, and that brings rate cuts into clearer view if the economy softens.

On growth, the near-term data remain noisy but not alarming. Jobless claims have drifted back into a "sweet spot" that is consistent with ongoing expansion, and the economy still looks capable of printing respectable real growth as we close out the year. One underappreciated tailwind into year-end is productivity: if productivity holds up while nominal demand cools, inflation can fall without the economy needing to break. That's the best possible mix for both equities and longer-duration assets.

There are, however, two genuine policy cliffs investors should not dismiss. First is tariff uncertainty, specifically the legal and procedural path via the Supreme Court decision that could either validate or constrain the tariff regime, and the market impact will hinge less on the headline than on timing, implementation latitude, and whether Congress is pulled into the process. Second is the recurring fiscal funding risk into late January, which is exactly the kind of avoidable "Washington shock" that can dent confidence even if it ultimately gets patched. I don't expect policymakers to choose chaos, but markets don't price intentions—they price deadlines.

Looking into 2026, I remain constructive. With inflation cooling, the Fed has room to move the policy rate down further; I continue to look for additional easing that takes short rates closer to the low-3% range over time. Importantly, I do not expect that to automatically pull the 10-Year down by the same magnitude. The long end is likely to remain anchored in the low-4% area as term premium, issuance, and structural forces keep longer yields from collapsing. That means the equity market backdrop can still be favorable—falling inflation and easier policy are supportive—while investors should remain realistic that "cash-to-bonds" won't be a one-way windfall unless the long end participates more meaningfully.

Finally, the market's leadership question is increasingly tied to whether AI translates from capex and excitement into measurable productivity and cash flow. We have already seen how quickly perceived leadership can rotate, and the funding and valuation speculation around major AI platforms is a reminder that much of this is still option value—tremendous potential, but not yet fully realized monetization. The most economically consequential AI breakthrough in the medium term may be autonomous driving at scale, because it would hit the real economy directly through logistics, labor substitution, safety, and time savings. But the lesson from recent corporate outcomes is clear: not everyone will get there, and the dispersion between winners and losers could remain wide.

If Washington avoids self-inflicted disruptions and productivity holds up, 2026 has the ingredients for a very good year for risk assets—though with market leadership likely to broaden beyond the most crowded AI trades as investors demand demonstrated earnings power, not just promise.

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