Keep The Change Ya Filthy Animals

And Other Holiday Antics by Kevin -12/10/25

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John Hughes' timeless masterpiece, "Home Alone," set to the masterful score of John Williams, always makes its way across the Bay family television a couple of times per holiday season. Throughout the course of watching the movie, almost every member of my family finds themselves feeling worse and worse for Kevin (the young boy who is left at home by his parents) as the movie progresses. While watching it requires a healthy dose of willing suspension of disbelief, the ensuing hilarity is worth the frequent moments of discomfort.

There are three groups of characters in the movie; 1) Kevin, the young boy, and the obvious protagonist, who is left at home by his parents on their trip to Paris, 2) The Parents/ Family, the clumsy, aloof hegemons who have the power to giveth and taketh away, and 3) the robbers (Harry & Marv.) The most recent time I was watching, I found myself drawing parallels to the movie in real life. 1) Kevin's part would be played by the stock market/ investors 2) The parents would be played by the Federal Reserve, and 3) Harry and Marv would be played by interest rates.

As we enter the holiday season 2025 in earnest, one can't help but see the parallels. The Fed (i.e. the parents) have all the power in the world to keep the stock market (i.e. Kevin) safe, if they could just deliver an interest rate cut or two. Unfortunately, they are constantly distracted by seemingly every other member of their family, that they end up making a policy mistake, leaving Kevin at home to fend for himself, and inviting the robbers (i.e. interest rate hikes.) In this bizarre-o version of reality (which the December interest rate futures market is currently not pricing), interest rate hikes are on the menu, and the parents almost immediately come to regret the fact that they sided with the inflation part of their mandate (think Uncle Frank rushing Kevin's father out of the house to the airport in the morning at the expense of Kevin, who is left up in the attic).

Interest rates are toxic to small businesses, who rely on them to be low for accessible borrowing, but don't have the free-cash-flow to support themselves. This should be painstakingly obvious from the recent ADP jobs data, showing that the net job losses last month all came from the smallest category of businesses, while large businesses actually grew headcount (the parallel in Home Alone would be Kevin's age – i.e. getting left home alone wouldn't be such a big deal for say an 18 year-old, but for a 7 year-old (small business) it could be a death sentence.)

The Fed's rhetoric throughout this entire inflation spell has been exhausting; from somebody who works all day with clients who run small businesses, I can tell you personally, the Fed strikes me and everybody I speak with as out of touch with reality. Small business owners are being crippled by high mortgage rates, rates that larger businesses can easily pay, and often access credit at significantly cheaper prices than small business counterparts. Therefore, you can see the market's adverse reaction to its seemingly incompetent Fed anytime they make a communication blunder (think Kevin's Mom sending him up to bed and foreboding "hey, maybe you'll wake up and your family won't be here…") Honestly, Americans probably would rather be without a Federal Reserve at all, at this point, than have one that communicates so poorly and seemingly acts against its best interests at every turn. Emotional reactions to Jay Powell's after-speech Q&A show up in violent 2-3% intra-day market lurches, with the market often ending significantly down after he speaks. The only difference in how I feel is that when I watch Home Alone I chuckle to myself because I know it's only a movie and it will all be over soon.

The core issue here is how the Fed is set up – right now, it is being run by a former private equity executive who was truly never trained in economics. While he is committed to not going down in history like Arthur Burns, the Fed Chair who let inflation get out of control, he seemingly has lost the plot on the other part of the mandate, the jobs market.

The analogy goes a layer deeper the morning the parents get to the airport. Overnight, a snowstorm knocked out their power, so they overslept, and left the house only 45 minutes before their plane leaves. This puts them in a situation of having virtually no margin for error, not unlike the current Fed, who is flying blind without the most recent jobs data due to the government shut down. Members of the media like Steve Liesman have rightfully pointed out that perhaps they should "skip this Fed meeting," due to the high chance that they will make a mistake with the wrong information in hand. Rather than doing this, however, the market is expecting that the Fed will simply choose to cut interest rates, in acknowledgement that they don't want to leave Kevin home alone again for Christmas.

This would be the wise thing for the Fed to do. One more interest rate cut certainly isn't going to ignite inflation back up to 2022 highs, and doubtfully even above 3%. But it will do something to anchor consumer confidence that for once, Kevin's parents are looking out for him. In other words, when you're flying blind, maybe it's just better if you don't get on the flight, stop, and take a look around for your children to make sure everyone is safe.

While it may seem that practical applications to this analogy are lacking, I do believe that when it comes down to it, investors and the stock market will position themselves defensively, owing to the risk-averse nature of their outlook. The same way Kevin built in a bevy of traps to deter the burglars, investors may find themselves flocking towards what feels safe; whether that be towards stocks that are more "Dow Jones-like" than they are "Nasdaq-esque," or simply deciding they will hold off on an investment decision until after the meeting, I strongly suspect that, whatever the Fed rate decision is today, it will not hold much sway in terms of the go-forward path of stocks in 2026. Why? We don't know how many interest rate cuts the future holds, but the path is likely to be lower. Earnings expectations are for a strong year, next year. GDP growth remains strong. Ultimately, the direction of the market will be dictated by the gap between expectations and reality. With the benefits of A.I. expected to start showing up in enhanced average revenue per employee (i.e. productivity) next year, as a strong continuation of a trend which started in 2023, we have reason to believe that prospective inflation can be kept at bay, meaning there are potentially blue skies ahead, if only the Fed can keep its head screwed on straight in the future.