



December 17, 2025

## Morning Briefing

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### On Brazil, Mexico & S&P 500 Earnings Revisions

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Check out the accompanying [chart collection](#).

**Executive Summary:** As Brazil's economy falters, its central bank has not eased, more determined to tame inflation than spur economic growth. Such Volcker-esque monetary policy has put bank chief Gabriel Galipolo in the hotseat, William reports, and at odds with President Lula. Will looser fiscal policy revive the swooning economy or will it be taken too far for political reasons? ... Also: Tearing a page from Trump's playbook, Mexico has imposed its own 50% tariffs on imports from Asia. Melissa explores the reasons Mexico doesn't want to be China's backdoor into US markets. ... And: For a fifth straight month now, Joe reports, analysts' earnings revisions have been net positive and to a strong degree.

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**Brazil I: No Monetary Easing as Economy Slows.** Gabriel Galipolo wasn't alive when Paul Volcker made his name as one of history's greatest inflation fighters. But the 43-year-old [president](#) of the Central Bank of Brazil finds himself in league with the late Federal Reserve chairman in ways few Latin American investors saw coming.

Volcker, of course, was the larger-than-life Fed chief whom President Jimmy Carter charged with tackling double-digit inflation in 1979. Over the next eight years, after boosting short-term US rates to [as high as 20%](#), Volcker reduced inflation from a [14.8% peak](#) to well below 3.0% ([Fig. 1](#)). To succeed, Volcker had to endure a torrent of criticism—including [death threats](#).

Similarly, Galipolo is in the hotseat for keeping interest rates at a Volcker-esque 15% as GDP growth approaches contraction territory. In Q3, Brazil's GDP [rose just](#) 0.4% q/q (saar) ([Fig. 2](#)). Retail sales have now [declined](#) in five of the last six months. On Monday, the central bank reported that its economic activity index, a widely tracked proxy for GDP, weakened unexpectedly in October by [0.25% m/m](#). The outlook for Brazil's economy 2026 seems precarious.

No comparison between policymakers is ideal, especially two from very different eras.

Brazil's inflation today isn't nearly as high as the levels Volcker managed to subdue. [Inflation](#) slowed to 4.5% y/y in November ([Fig. 3](#)). This puts it back within the central bank's tolerance range—a band of 1.5ppts above and below 3.00%—for the first time since September 2024.

But so embattled is Galipolo that he was thrown a [political lifeline](#) from one of Brazilian President Luiz Inácio Lula da Silva's (a.k.a. "Lula") inner circle. On December 9, the eve of the central bank's last policy meeting of 2025, Edinho Silva, head of Lula's Workers' Party, said of Galipolo: "He has achieved significant results in reducing inflation. I have a lot of confidence in Galipolo. We can't say he's wrong in defending his ideas." The support is surprising considering Lula's [public criticism](#) of the central bank's hawkishness, although Silva did hedge by adding that many in Lula's leftist party think it's time "enter a cycle of interest rate cuts."

A day later, Galipolo did not ease. Board members voted unanimously to leave the benchmark rate, the Selic, unchanged at a two-decade high for a fourth straight meeting ([Fig. 4](#)). "The present strategy," the board's statement said, "of maintaining the interest rate at its [current level](#) for a very prolonged period is appropriate to ensure the convergence of inflation to the target."

**Brazil II: Can Fiscal Loosening Save the Day?** With Galipolo sticking with his Volcker act on rates, the focus of investors is on how quickly and competently Lula's government can roll out a public spending package amid the distraction of the upcoming October 2026 election.

There's concern that fiscal loosening ahead of the vote might go too far, keeping inflation expectations elevated. And there's a clear sense that the broader Latin American region has much riding on its biggest economy thriving. So much so that [Time magazine](#) recently included Galipolo on its list of the 100 next world leaders.

Here's more:

(1) *Bond Vigilantes circle*. Lula must be careful not to trigger the Bond Vigilantes. Ten-year bond yields are elevated historically—currently [around 13.5%](#)—as Brazil projects that its already [troubling 78.1%](#) debt-to-GDP ratio, as of September, is headed toward [100% by 2030](#) ([Fig. 5](#)).

(2) *The Bolsonaro effect*. Much recent financial market turbulence has come from

Washington's trade war. Now investors are bracing for the potential for political turbulence at home ahead of the [general election](#) 291 days from now.

Brazilian stocks and the currency, the real, plunged on December 5 following reports that former President Jair Bolsonaro is backing one of his sons to run for the top job ([Fig. 6](#)). The Brazil MSCI stock price index (in local currency) fell 4.2% that day ([Fig. 7](#)).

Many investors sense that the candidacy of [Flavio Bolsonaro](#), a senator, could be a chaotic one as the right wing tries to oust Lula, 80, who's running for a [fourth term](#). Last month, Jair Bolsonaro began serving a 27-year sentence for staging a [coup attempt](#) following his 2022 election defeat. Brazil is already seeing large protests over [legislative efforts](#) to release him from jail early.

(3) *Time for reform*. Interest rates at 15% aren't sustainable, of course. But the more Team Lula is preoccupied with election-year intrigue, the less time there is to cut bureaucracy, modernize Brazil's industrial policy, increase investment in infrastructure, simplify regulations, and raise productivity so that the domestic economy generates less inflation.

Until that time, Galipolo is on the case to do his best Volcker act. Things might be much easier for Brazil's 213 million people if crushing interest rates weren't required.

**Mexico: De-Risks from China.** China's export machine continues to hum, but the destination keeps changing. The latest trade data show that US tariffs haven't stopped the flow of goods into the US as much as rerouted it. A growing share of Chinese goods is being diverted to Mexico for modest "value-add" before heading to the US, a scheme to skirt US tariffs.

In response to mounting US pressure, Mexico [announced](#) last week that it will implement its own tariffs of up to 50% next year on a broad set of Asian goods, aimed at those from China, to slam shut this backdoor way of exporting to the US. The move is best read as defensive positioning. That is, not to win concessions in the upcoming 2026 United States-Mexico-Canada Agreement (USMCA) review but to reduce the risk of tighter rules-of-origin or harsher enforcement demands from Washington.

Mexico also is motivated by the desire to shield its domestic industries from the competitive threat represented by Chinese imports' flooding into Mexico, especially as the US curbs its demand for Chinese goods. Mexico doesn't want to be the dumping ground for China's export overcapacity.

Here's more:

(1) *Mexican diversion*. In November, China's global exports rebounded (up 5.9% y/y), [pushing](#) the monthly trade surplus to about \$112 billion. The rebound pushed China's 12-month surplus on non-US trade over \$1 trillion for the first time ever ([Fig. 8](#)).

Many of China's non-US-bound exports have found their way to Mexico: From July 2022 to October 2025, the 12-month sum of China's exports to the US (in USD) fell about 30%, while exports to Mexico rose roughly 16% ([Fig. 9](#)). Likely, a good deal of China's exports to Mexico were sent on to the US.

(2) *Mexican backdoor*. This isn't new: Washington long has argued that China uses Mexico as a backdoor way of getting Chinese goods into US markets, not just through direct transshipment but via value-added assembly and integration into North American supply chains under USMCA. The persistent US-China trade conflicts have escalated the trend.

Lately, Chinese firms also have been adding last-mile manufacturing capacity in Mexico to stay close to the US market. Examples are easy to find: China's truck maker Foton has [announced](#) a new \$40 million factory in Jalisco, slated to be operational in 2026, alongside expansions at other Mexican sites. Chinese auto-interior supplier Tongling has [broken ground](#) on a \$90 million plant in Guanajuato. In principle, these investments could allow Chinese firms to bypass US tariffs under USMCA, but only if production in Mexico meets strict rules-of-origin requirements, a focal point of the upcoming 2026 review.

(3) *USMCA clock tick*. The US Trade Representative has set the formal runway for the first Six-Year Joint Review of the USMCA, [scheduled](#) for July 1, 2026, and held a public hearing in early December 2025 to surface the contentious issues likely to dominate the agenda.

Rules-of-origin have been front and center, with US industry participants [arguing](#) that Chinese steel and aluminum can be processed in Mexico and embedded in parts that enter the US duty-free under USMCA, creating a cost advantage versus US producers. Key issues include what qualifies as substantial transformation, how circumvention is policed, and whether sector-specific rules (e.g., on autos, metals, and parts) are tightened.

(4) *Chinese overcapacity*. By announcing its own heavy tariffs on Chinese imports, Mexico isn't just currying favor with the US but also is trying to avoid becoming the dumping ground for Chinese overcapacity as US policymakers work to limit US demand for Chinese goods through new tariffs and barriers to trade ([Fig. 10](#)). Mexico's new tariff law effectively names

the pressure points, including autos and auto parts.

While most Asian products will see Mexican tariffs capped at 35%, certain categories, including autos, will face the full 50% rate. That is intentionally aimed at China's vehicle exports, which in total have scaled rapidly to record levels ([Fig. 11](#)). In the first half of 2025, China's auto exports to Mexico climbed about 31% y/y.

**Strategy: Yet Another Month of Strong Estimate Revisions Data.** LSEG has released its December snapshot of the monthly consensus revenues and earnings estimate revision activity over the past month. In our [S&P 500 NRRI & NERI](#) report, we index this activity by the number of upward revisions less downward ones, expressed as a percentage of total forward estimates. A zero reading indicates that an equal number of estimates were raised as lowered over the past three months.

Our resulting Net Revenues Revisions Index (NRRI) and Net Earnings Revisions Index (NERI) reflect three months of activity, encompassing an entire quarterly reporting cycle (since analysts' tendency to revise their estimates differs at different points in the cycle).

Joe's review of the December data found that revisions activity remains impressively strong among most of the S&P 500's 11 sectors, as it has since bottoming in May. More than a few sectors' data stand at or near multi-year highs. Some highlights:

(1) *S&P 500 NERI remains near four-year high.* The S&P 500's NERI index was positive for a fifth straight month in December after turning positive in August for the first time in 11 months but fell 0.7pt m/m to 4.5% and is down from a 47-month high of 5.9% in October. It's still up sharply from a 28-month low of -7.8% in May ([Fig. 12](#)).

December's 4.5% NERI reading ranks in the top 16% of the 488 monthly observations since March 1985, when the data were first calculated, and is well above the average reading of -1.9% seen since. More impressively, the 12.4ppts jump in NERI over the seven months since May is its biggest seven-month improvement since March 2021. Viewed through a wider lens, it ranks within the top 5% (specifically, the 26th largest) among all seven-month NERI changes since 1985.

NERI finally has broken out of its mostly negative range since June 2022 and settled well above its average historical readings. Historically, such speedy NERI reversals (this one began six months ago, in June) have preceded positive readings for the next two years. That supports the recent recovery to record-high stock prices and suggests further above-

trend gains ahead.

(2) *Many sectors have positive NERI.* Seven S&P 500 sectors recorded positive NERI for a fourth straight month in December, the most since August 2024 and up from five sectors in August. That's a notable improvement from May, when only Utilities' NERI was positive.

Though no new sectors joined the positive NERI club this month, two did see their NERIs improve markedly m/m—and for a seventh straight month at that—to multi-year highs: Information Technology and Utilities ([Fig. 13](#) and [Fig. 14](#)). Utilities' 19-month-long positive NERI streak easily leads all 11 sectors, and its NERI is at an 11-year high. NERI is at a 49-month high for Information Technology and remains very near November's four-year highs for Health Care and Financials ([Fig. 15](#) and [Fig. 16](#)).

Here are the December NERI readings for the S&P 500's 11 sectors: Information Technology (14.7%, 49-month high), Financials (11.8), Health Care (5.9), S&P 500 (4.5), Utilities (5.8, 11-year high), Communication Services (1.8, 7-month low), Industrials (1.1), Consumer Discretionary (0.1), Real Estate (-1.0, 13 months negative), Consumer Staples (-4.0, 18 months negative), Energy (-6.8, 17 months negative), and Materials (-8.2, six-month low, 17 months negative).

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## Calendars

**US: Wed:** MBA Mortgage Applications; Waller; Williams. **Thurs:** Headline & Core CPI 3% & 3%/y/y; Initial Claims 225k; Philadelphia Fed Manufacturing Index 2.2. **Fri:** Personal Income & Consumption; PCED; University of Michigan Consumer Sentiment Headline, Current Conditions & Expectations 53.3, 50.7 & 55.0. (Source: FX Street)

**Global: Wed:** Eurozone Headline & Core CPI 2.2% & 2.4% y/y; IFO Business Climate Index, Current Conditions & Expectations 88.2, 85.7 & 90.5; UK CPI 0.0%; UK PPI 0.2%. **Thurs:** ECB Interest Rate Decision 2.15%; BoE Interest Rate Decision 3.75%; UK Retail Sales; Bailey. **Fri:** Germany & France PPIs; Germany GfK Consumer Climate Index; Italy Business Confidence; UK Retail Sales; Buba Monthly Report. (Source: FX Street)

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## US Economic Indicators



**Employment** ([link](#)): Nonfarm payroll employment climbed 64,000 in November, showing little net change since April, according to the latest report. The change in total nonfarm payrolls was revised down by 22,000 (to -26,000 from -4,000) in August, while September's change was revised down by 11,000 (108,000 from 119,000) for a combined loss of 33,000. (Note: Due to the recent federal government shutdown, this is the first publication of October data, so there are no revisions for October this month.) Private payrolls rose 69,000 during November, following gains of 52,000 and 104,000 the prior two months. Employment trended higher in health care (46,000), construction (28,000), and social assistance (18,000), while transportation & warehousing (-18,000) continued to decline, losing 78,000 from its February peak. Federal government payrolls were down 6,000 in November, after sinking 162,000 in October, and is down 271,000 from January's peak. Turning to wages, average hourly earnings for all employees on private nonfarm payrolls ticked up 0.1% in November and was up 3.5% y/y.

**Earned Income Proxy** ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, climbed to yet another a new record high in August, increasing 0.4%. Average hourly earnings advanced 0.1% during the month, while aggregate weekly hours rose 0.3%—with private payroll employment flat and the average workweek up 0.3%.

**Unemployment** ([link](#)): The report notes that the unemployment rate (4.6%) and the number of unemployed (7.8 million) were little changed from September, but both were higher than last November, with the former at 4.2% and the latter at 7.1 million. The participation rate edged up from 62.4% in September to 62.5% in November. The unemployment rate for African Americans (to 8.3% from 7.5% in September) climbed over the two-month period, while the unemployment rates for Hispanics (5.0 from 5.5) and Asians (3.6 from 4.4) fell over the period; the rate for Whites (3.9 from 3.8) was little changed. Here are their year-ago unemployment rates: African Americans (6.4%), Hispanics (5.3), Asians (3.8), and Whites (3.8). By education: Unemployment rates for those with a high-school diploma (to 4.4% from 4.2% in September), some college or an associate's degree (3.5 from 3.4), and those with a bachelor's degree or higher (2.9 from 2.8) showed small upticks over the two-month period, while the rate for those with less than a high school diploma was unchanged at 6.8%.

**Retail Sales** ([link](#)): Headline retail sales were flat in October, following a downwardly revised 0.1% increase in September and below the consensus estimate of a 0.1% uptick. However, retail sales for the control group—which excludes autos, gasoline, building materials, and food services, used in calculating GDP—jumped 0.8% in October,

rebounding from September's 0.1% shortfall. Of the 13 nominal retail sales categories, eight increased in October, while five declined. October sales performance versus that of a year ago: furniture & home furnishing stores (2.3% m/m & 0.5%y/y), sporting goods, hobby, musical instrument & book stores (1.9 & 4.6), nonstore retailers (1.8 & 9.0), miscellaneous store retailers (1.5 & 9.5), clothing & clothing accessories (0.9 & 5.7), electronics & appliance stores (0.7 & 4.9), general merchandise stores (0.5 & 2.0), food & beverage stores (0.3 & 2.2), motor vehicles & parts (-1.6 & 1.2), building materials & garden equipment & supplies dealers (-0.9 & -4.5), gasoline stations (-0.8 & 1.9), health & personal care stores (-0.6 & 5.7), and food services & drinking places (-0.4 & 4.1).

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