



Morning Comment

Thursday, December 11, 2025

It Sure Looks Like The Fed Just Announced QE Lite

- Even though it looks like the Fed is not going to be cutting rates aggressively going forward, it was not a “hawkish cut” yesterday. The fact that they’re going to be more aggressive in buying T-bills going forward means they’ll continue to be quite dovish.
- Oracle disappointing report last night is hitting the stock, but it’s not causing widespread weakness in the tech sector (maybe because investors think that Broadcom will announce an offsetting positive earnings report after the close today).
- So, unless Broadcom gives us a negative surprise, the outlook for a Santa Claus rally looks good. Next year, however, all bets are off.

The stock market got a nice boost from the Fed's announcement and Chairman Powell's press conference yesterday...as they did not provide the kind of "hawkish cut" that the consensus was looking for. **Actually, the Fed actually DID send the message that there might not be any further cuts while Mr. Powell is Chairman, but they also announced that they will be buying short-term Treasuries more quickly than the Street had been expecting.** Whether this is a QE program...or just "QE Lite"...doesn't matter very much. It's still something that will add liquidity to the system, so this led to a nice rally in stocks at the end of the day.

The futures are giving back some of their gains this morning, however...after Oracle (ORCL) reported their earnings after the close. The company raised their spending forecasts...which added to the fears about overspending (and over indebtedness) in the AI arena. These concerns have been rising in recent weeks/months, so fact that the poster boy for this issue raised their spending plans even more caused the stock...and the AI group...to get hit pretty hard in overnight trading.

Having said this, even though ORCL is still down more than 11% as we write this morning, the futures have bounced well off their overnight lows. So, it looks like the damage from ORCL's drop might not be widespread. Of course, we'll have to see how the AI related stocks act once the market opens. They could roll back over and take the market with it. However, it seems like the better-than-expected moves from the Fed are something that will offset these growing concerns over the profitability of the AI industry for now.

We're guessing that the fact that Broadcom (AVGO) reports this evening is probably helping the tech sector as well. There has been nothing but great news from AVGO over the past 7-8 months...and the stock has rallied more than 180% since April. Thus, the expectation is that they will report another great quarter...and that could/should help offset the negative news out of ORCL as well.....Of course, if AVGO does not meet their lofty expectations, tomorrow could be a rough day...and that could create some real

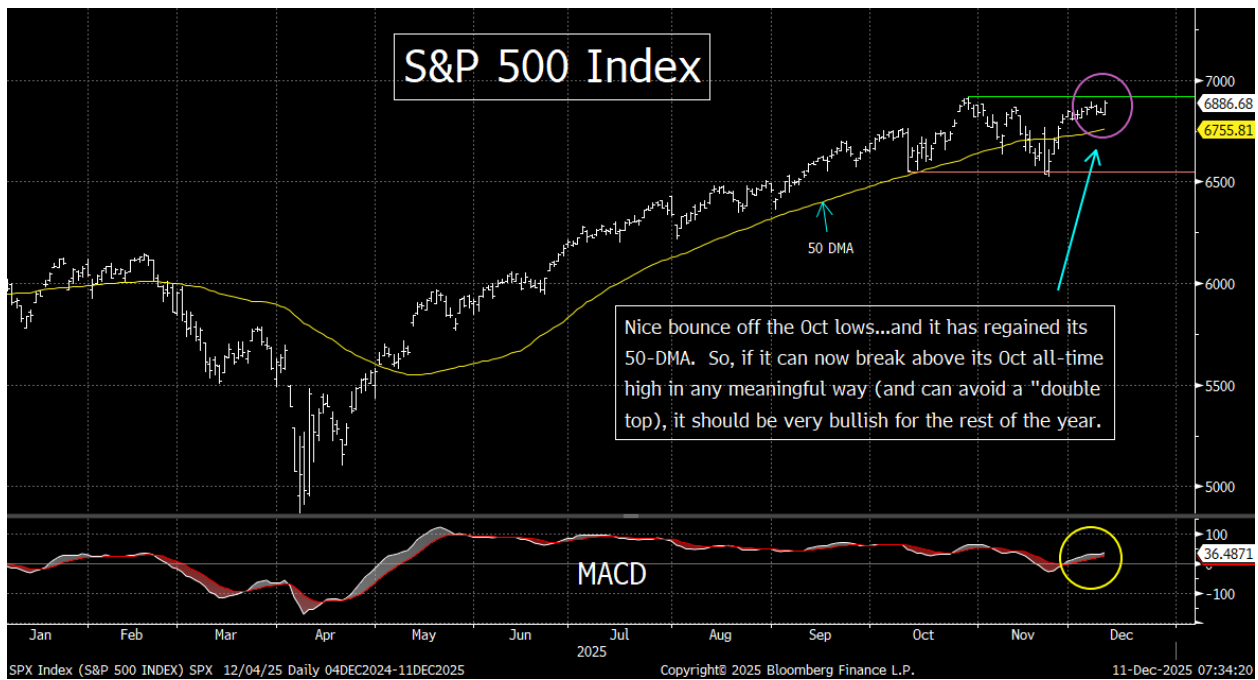
headwinds. **However, it's going to take a fairly large drop in AI related stocks to reverse the news of "QE Lite" from the Fed.**

We do need to point out that ORCL is testing its closing low from late-November (just below \$200). Therefore, it's going to need to hold that level over the next several trading days. Last night's report is signaling that the recent bounce in the stock merely worked off the oversold condition that had developed...and not the beginning of a strong rally. **If ORCL drops below that \$200 level in any meaningful way, it's not going to be good for the stock at all.**

As for the broader market, if this morning's bounce off the overnight lows can hold...and the S&P 500 and NDX 100 can break to meaningful new highs, it should be very bullish for the market as we finish off the year. If, however, the strong weakness from last night reasserts itself...due to AGVO's earnings or any other reason...it will form a "double top" on these averages...which would not be good at all. **In other words, we've been saying all week that the last two trading days of the week would be crucial for the market...and that is still very much the case.** (SPX chart below.)

No matter what happens over the next three weeks, we believe that 2026 is going to face some real problems. As it becomes more and more evident (obvious) that the AI industry is not going to be as broadly profitable...or as quickly profitable...as the market is pricing in, it's going to create some serious headwinds in our opinion. **Just as important, as it becomes more and more evident that the budget deficits in several different advanced countries are finally having an impact on their debt markets (and thus causing yields to rise even though their inflation numbers are not all that bad)...that will create some serious headwinds as well.**

This second issue is something we've been harping on more substantially over the past few weeks...and we believe it is something that investors should take a long look at over the holiday season. Until next year, however...unless ORCL falls a lot more, and AVGO gives us a negative surprise this afternoon...the outlook for the stock market should be a good one for the rest of the year.



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