Research @ Citi Markets Edition: Shutdown Over — Why Investors Should Care

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Host: Dirk Willer, Global Head of Macro Strategy and Asset Allocation, Citi

Guest: Alex Saunders, Head of Global Quant Macro Strategy, Citi

Transcript:

Opening Teaser: (00:00)

Research @ Citi Markets Edition

Dirk Willer (00:04)

Welcome to Research at Citi Markets Edition, where we break down Global Macro in 10 minutes or less.

I'm your host, Dirk Willer, Citi's Global Head of Macro, and with me today is Alex Saunders, our Head of Quant Macro. Welcome to the show, Alex.

Alex Saunders (00:17)

Thanks Dirk. Pleasure to be here.

Dirk Willer (00:19)

We are recording this podcast at 8.30 a.m. on Monday, Nov. 17, 2025.

The government finally reopened, but after one day of relief, the market had second thoughts of whether it's actually a good thing, as the incoming data looms large.

So let's start to discuss the data in more detail. The data is quite important at this juncture because the FOMC for December is in doubt and priced essentially at 50-50. And the FOMC, both in December and more broadly, is absolutely key for the equity narrative, because the narrative was — or is — that we are building a bubble in U.S. equities and the Fed cuts into it, which is just extremely bullish and has not happened before, where the Fed was much more cautious when the equity market was as strong.

And for the December FOMC, it's all about the labor market. The Dallas Fed paper out suggesting that the break-even NFP prints are somewhere between 30K and 60K. So anything outside of that range gives a fairly clear case: i.e., if we print less than 30, the Fed will definitely cut. If we're meaningfully above 60, they might sit it out.

So Alex, what's the pipeline like for the official labor-market data? And what's your best guess where it will come out, given some of the alternative data sources that we've seen during the shutdown?

Alex Saunders (01:37)

Yeah, and what we're going to get very quickly — and in fact, on Thursday — is the payrolls number, which, as you mentioned, is an important one, Dirk. Although this will be for September.

The other data that we're going to see within the next two weeks: retail sales, durable goods, industrial production, with some GDP and some inflation numbers, and also JOLTS. Citi is above consensus for September, but as you had mentioned, payrolls data for October and November are going to be much, much more important.

We do think that October data is likely to be released, as there is a revision process for delayed survey responses anyway, but this is likely going to be after the Thanksgiving holiday. It's more of an open question if we get an October CPI. Those are less easily back-filled. If we do get the October and November releases before the FOMC, those are going to take on extra significance.

Now, in terms of what we have seen in the alternative data, we have been seeing signs of a slowdown. So the ADP had a 29K contraction in private employment for September, whereas Citi thinks it was much stronger, and only 42,000 growth in October.

Month on month, those changes have not been a strong forecaster of the full payrolls number, but our U.S. rates team has shown that if you look at three-month averages and then year-over-year changes, they've been much more aligned. Citi Econ still expects that 25-basis-point cut in December, but the market is pricing closer to 50-50 at time of recording.

One leading indicator is the equity market, Dirk. So how are you seeing that recent performance?

Dirk Willer (03:23)

Yeah, good question Alex. So Santa has not shown up yet. And that is, of course, in a sense unusual because the year end tends to be quite strong.

We only have really three episodes where the market had a similarly poor start after having been quite strong January to October. And twice it still worked out and you got your Santa rally. Once you didn't, even though the losses were not overly large.

Now, the pullback last week was partly driven by this Fed narrative, as you mentioned, and in particular by the [Nick] Timiraos article — or tweet, rather — where he clarified the three questions that the Fed is struggling with. One is, “Will tariff inflation still show up?” The second is, “Does weak hiring reflect demand or just supply?” And then the third question is whether rates are still restrictive here.

And the answer from Citi really is that we think the labor market has demand component, the weakness. And we also think tariff inflation will remain relatively muted until the end. So we do expect a cut. And there is some hope that that maybe can get the Santa rally back on track.

That is interesting because the market is actually right now in the “good news is good news” quadrant, which suggests that higher NFP numbers would be good for the market, rather than lower NFP numbers — but so close to a meeting by the Fed where the Fed is on the fence, it suggests to us that weaker data could be positive for the market as it really solidifies the idea of the September cut.

The other issue that the reopening is relevant for is not just the data, it's also the liquidity aspect of markets. And that's important because we had an overshoot in the Treasury General account, the TGA, where it raised more cash than expected. That led to falling bank reserves, which is usually negative for market liquidity. And some of that was due to insufficient spending during the shutdown. So that will improve.

But it's important to realize that that is really the smaller part of the issue. Essentially, we wrote that $8 billion of spending was lost in nominal terms — in real terms, maybe $20 to $30 billion. The CBO said $70 billion, so it's a higher number than what we have. But it's important to understand most of the fall in bank reserves was really because there was excess issuance driving up the TGA.

And there's hope that it will also slow down, but it's not that clearly linked to the shutdown as the spending side. It may have to do something with IEEPA in case the administration wants to build a cushion, in case the tariffs have to be refunded. But now we have a cushion, so we expect the bank reserves to get more stable and to slightly build, actually.

Now, the correlation of those bank reserves with the S&P has weakened. But interestingly, the correlation with crypto is stronger. So hopefully better reserves will be more positive for the crypto market going forward. And we've shown that Bitcoin is actually an important indicator to trade equities. So overall, we think it's a disappointing start, but somewhat too early to give up on Santa.

But Alex, with this crypto market having made some headlines, what is your sense of Bitcoin into year end?

Alex Saunders (06:25)

I think the crypto issues are on the demand side. I think we discussed it on one of the previous podcasts, where we had this de-leveraging event in futures’ space around a Black Friday in mid-October. That hurt sentiment in the space.

The more durable and persistent ETF flows have dried up. From our conversations, we still see interest in the sector, but perhaps there's a lack of urgency in terms of making investments.

We've seen some of the larger wallet balances declining. These are typically long-time Bitcoin holders. They would potentially be concerned that we're in the weak phase of the halving cycles that have played out over the last few years.

Technically speaking, we've shown that simple price filters, such as 200-day moving average, work quite well for trading Bitcoin. We're currently below those levels. On the positive side, crypto is one of the most sentiment-driven markets. So, things can change very quickly. And as you had said, Dirk, the liquidity — Bitcoin is unusually sensitive to the bank-liquidity metrics, and those should be improving.

Dirk Willer (07:32)

Thank you, Alex. So we see two main impacts from the reopening. First, the data will flow again, and we expect the weaker labor-market data to get the Fed to cut in December. Second, liquidity will improve on the margin. Both should be mildly positive for equities into the end. And so we think it's too early to give up on the Santa rally, in spite of the poor start.

Thank you for joining us today. This episode was recorded on Nov. 17, 2025, and I'm your host, Dirk Willer. For more details, Citi clients can check out our Citi Velocity portal. Next week, we will have a special Markets in Motion program, which will feature two of our hosts, Scott Chronert, our U.S. Head Equity Strategist, and myself with a special guest, Heath Terry, Global Head for Technology and Communications Research, to debate AI and the equity outlook.

And be sure to watch our Research @ Citi podcasts, which you can view on the same channel. The Macro Strategy Team will be back in three weeks. Stay sharp!

Disclaimer (08:27)