Q4 2025

MARKET VIEW QUARTERLY

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Coming into 2025, investors broadly anticipated a smoother transition toward lower inflation, earlier Federal Reserve (Fed) cuts, and a widening of market leadership beyond U.S. mega-cap stocks. Instead, the year began with renewed tariff uncertainty and policy volatility that tested confidence and drove sharp but short-lived market drawdowns. Domestic equities ultimately delivered strong results, supported by resilient earnings across broader sectors and styles. International equities gained early leadership, outperforming during the initial tariff period due to attractive relative valuations and a sharply weakening U.S. dollar. While relative performance to the US Markets narrowed in the second half, international markets retained much of their early-year advantage. Fixed income markets followed a more uneven path amid elevated yields and delayed policy easing. At the same time, Gold emerged as one of the strongest performing asset classes in 2025 as investors sought diversification amid rising debt burdens, global fiscal imbalances, and ongoing geopolitical uncertainty.

DOMESTIC EQUITIES[1]

The S&P 500 returned 17.9% in 2025, falling just short of a third consecutive year where the index gained more than 20%, a milestone last seen in the 1990s. This outcome came despite notable volatility, including a decline of over 20% from all-time highs during the first half of the year, briefly pushing the market into bear-market territory. Unlike the prior two years, market leadership broadened meaningfully. Small-cap stocks generally kept pace with large-cap performance as interest rates moved lower, while leadership within the large-cap universe expanded beyond technology. Sectors such as utilities and industrials performed well, while Artificial Intelligence (AI)-linked technology companies continued to deliver strong results. The "Magnificent 7," a group of mega-cap technology companies, representing more than 1/3 of the S&P 500[2], remained a central driver of equity performance. Strong earnings growth and continued investment in AI infrastructure help sustain investor confidence and support higher stock prices across much of the market. Growth stocks outperformed value across most market segments, large caps outperformed small caps, though performance gaps narrowed as earnings growth became less concentrated in a small number of mega-cap names. Consumer spending proved resilient, tariffs had a lower impact than initially feared, and falling interest rates later in the year further improved sentiment. Lower borrowing costs were particularly beneficial for smaller companies, which tend to rely more heavily on external financing. Taken together, US equities finished the year near all-time highs, rewarding investors who remained patient through periods of volatility.

INTERNATIONAL EQUITIES[1]

International stocks had a strong run in 2025, with the MSCI EAFE returning 31.2%, outperforming U.S. large-cap equities and posting its best relative performance in nearly two decades. Performance strength emerged early, supported by a weaker U.S. dollar and more attractive starting valuations relative to U.S. markets. As the year progressed, improving earnings trends, governmental fiscal support, and corporate policy developments overseas helped sustain momentum. Emerging markets also delivered solid gains, with the MSCI Emerging Markets index returning 33.6%, led by South Korea, Taiwan, China, Mexico, and Brazil, as inflation pressures eased and growth conditions stabilized. While relative performance narrowed later in the year, international equities retained much of their early advantage, reinforcing their role as a meaningful source of diversification and long-term return potential within balanced portfolios.

FIXED INCOME[1]

Fixed-income markets delivered solid returns in 2025 despite periods of volatility, reinforcing the asset class's renewed role in diversified portfolios. The Bloomberg US Aggregate Bond Index finished the year with a positive return of 7.3%, as bonds not only provided stability during equity market drawdowns but also contributed meaningfully to total return. After cutting rates at the end of 2024, the Fed kept policy tight early in the year to make sure inflation continued to slow. This kept bond yields relatively high and limited the difference between short-term and long-term interest rates. Bond markets saw increased activity in the spring as tariff announcements created uncertainty and stock markets declined. Investors turned to bonds for stability, while the Fed chose to hold rates steady due to concerns that tariffs could push prices higher. Over the summer, labor market data began to show clearer signs of slowing, including revisions that suggested job growth had been weaker than initially reported leading the Fed to reconsider its cautious approach. By the end of the third quarter, the Fed began lowering rates again and ultimately delivered three quarter-point cuts in September, November, and December. Lower short-term rates helped support bond prices, especially for shorter-term bonds, while longer-term rates remained high due to growth expectations and concerns about government debt. With yields starting at attractive levels, fixed income reestablished itself as both a source of income and a reliable counterbalance to equity risk, offering investors protection during periods of volatility and competitive returns in its own right.

ALTERNATIVES[1]

Gold was the standout performer of 2025, outshining nearly every major asset class. The precious metal surged more than 60% for the year, marking its best annual return since 1979 and setting multiple all-time highs above $4,500 an ounce. Its rise was fueled by a powerful combination of central bank buying, the persistent geopolitical tensions, and investor anticipation of future Fed rate cuts. Even as the US economy showed resilience, moderating inflation and rising debt concerns kept demand for safe-haven assets elevated.

Energy markets followed a more uneven path. Crude oil prices drifted lower throughout 2025, averaging around $65 per barrel, as robust US and OPEC+ production created a persistent supply surplus despite imminent geopolitical flare-ups. In contrast, US natural gas prices strengthened, supported by rising net power generation demand, industrial usage, and tighter domestic inventories.

CONCLUSION

In hindsight, 2025 reinforced a familiar market lesson: periods of uncertainty and volatility often set the stage for strong long-term returns. Early tariff shocks and policy uncertainty tested investor confidence, but resilient earnings, stabilizing interest rates, and shifting leadership across regions and asset classes ultimately lifted markets higher. Returns were not driven by a single theme or asset class, underscoring the importance of diversification as performance rotated across equities, fixed income, and alternatives. Investors who remained patient through short-term volatility were rewarded as markets recovered and finished the year near record highs. Looking ahead, easing monetary policy and normalized yield curves for fixed income support a favorable outlook for disciplined, well-diversified long-term investors.

Economic Definitions

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Existing Home Sales: This concept tracks the sales of previously owned homes during the reference period. Total existing home sales include single-family homes, townhomes, condominiums and co-ops. All sales are based on closings from Multiple Listing Services. Foreclosed homes are only counted in the inventory if the bank is working with a realtor. Foreclosed homes that sell via auction (or other closings outside of the Multiple Listing Services) are not included.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

Gold: Gold is mostly traded on the OTC London market, the US futures market (COMEX) and the Shanghai Gold Exchange (SGE). The standard future contract is 100 troy ounces.

Natural Gas: The natural gas futures price is based on delivery at the Henry Hub in Louisiana, the nexus of 16 intra- and interstate natural gas pipeline systems that draw supplies from the region's prolific gas deposits. The contract trades in units of 10,000 million British thermal units (mmBtu).

University of Michigan Consumer Sentiment Index: Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100).

WTI: WTI Crude oil futures are the benchmark for oil prices in the United States and serve as a reference point for global oil pricing.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg US Agg Bond: The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg High Yield Corp: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg's EM country definition, are excluded.

Bloomberg Global Agg: The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Municipal Bond Index: The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

[1] Data Obtained From Bloomberg Terminal as of 12/31/2025

[2] https://en.macromicro.me/charts/123469/us-magnificent-seven-total-market-cap-and-share-of-sp-500