Economic and Market Review Q4 2025

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IM&R Update

ECONOMIC REVIEW

Financial markets delivered solid results during the fourth quarter of 2025, though momentum moderated late in the period. October and November benefited from easing inflation trends, resilient economic data and confirmation that the Federal Reserve had entered a measured easing cycle. By December, markets shifted into a consolidation phase as year-end rebalancing, profit-taking and seasonal liquidity effects tempered further upside. Importantly, this pause reflected valuation sensitivity following strong gains rather than a deterioration in underlying fundamentals.

The Federal Reserve continued its transition toward accommodation during the quarter, having implemented additional rate cuts earlier in the period and confirming that balance-sheet runoff would conclude by year-end. Policymakers emphasized a data-dependent approach, reinforcing expectations for a gradual policy path into 2026. Inflation continued to cool, labor conditions softened modestly without signaling stress and consumer spending remained resilient. Political and tariff-related uncertainty generated headlines but did not materially influence market behavior.

FINANCIAL MARKETS REVIEW

Domestic Stock Market

U.S. equity markets posted strong quarterly gains. The S&P 500 rose close to 9% in Q4, extending an already robust year as earnings growth remained durable and financial conditions eased. Technology and communication services continued to lead, supported by ongoing artificial intelligence investment and productivity-driven capital spending. Market participation broadened modestly, with the Russell 2000 advancing roughly 12%, as declining interest-rate volatility improved sentiment toward smaller, domestically focused companies. December's consolidation reflected profit-taking after a strong run rather than weakening earnings expectations.

International Stock Markets

International equities contributed positively to diversification. Developed markets benefited from a softer U.S. dollar and improving economic momentum, with the MSCI EAFE Index gaining about 6% during the quarter. Japanese equities remained supported by corporate governance reforms, while European markets stabilized alongside easing inflation trends. Emerging markets posted solid but more selective gains, with the MSCI Emerging Markets Index up about 7%, supported by commodity-linked regions and targeted policy support in China.

Fixed Income Markets

Fixed income markets stabilized and delivered primarily income-driven returns. The Bloomberg U.S. Aggregate Bond Index gained approximately 2% in Q4, as Treasury yields moved within a narrower range and rate volatility subsided. Credit spreads remained tight, reflecting stable corporate fundamentals and contained default expectations. Municipal bonds benefited from favorable technicals and steady demand, while TIPS modestly lagged earlier in the quarter as higher real yields offset inflation adjustments. Bonds continued to re-establish their role as both a source of income and portfolio ballast.

Commodities

Gold continued to trend higher during the quarter, gaining close to 6% in Q4, supported by declining real yields, expectations for gradual monetary easing and demand for diversification amid ongoing policy and geopolitical uncertainty. Silver was more volatile, finishing Q4 up over 9%, reflecting its dual role as both a monetary metal and an industrial input, with near-term price action influenced by growth expectations and currency movements. Overall, precious metals maintained their diversification role within portfolios.

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IM&R PERSPECTIVE

Looking ahead, markets enter 2026 with a constructive but increasingly selective backdrop. Valuations are elevated following strong gains, suggesting the potential for periodic volatility, yet the broader macro environment remains supportive. Inflation is trending lower, earnings growth remains resilient and monetary policy is gradually shifting toward accommodation.

Portfolio positioning remains focused on diversification, disciplined risk management and alignment with long-term investment objectives.

Please reach out to your financial professional with any questions you may have.

Important Definitions and Disclosures

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Inflation is the rate of increase in prices over a given period of time; typically reported as a broad measure, such as the overall increase in prices or the increase in the cost of living in a country.

The S&P 500 index is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. The Russell 2000 Index is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small-cap securities market. MSCI EAFE Index is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by major MSCI indexes from Europe, Australia and Southeast Asia. The MSCI Emerging Markets Index captures large- and mid-cap representation across 24 Emerging Markets countries. Bloomberg U.S. Aggregate Bond Index is an index with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. It is not possible to invest directly in an index.

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