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Market Commentary Q4 2025

Bull markets often climb a wall of worry, and throughout the fourth quarter and most of 2025 that was the case. Despite the longest U.S. government shutdown on record, rising job cuts, weak consumer sentiment, and volatile headlines, risk assets continued higher, and all major asset classes ended the year at or near all-time highs.

The S&P 500 briefly fell nearly 20% from February to April, prompting aggressive forecast cuts, only to rebound sharply in one of the fastest recoveries on record.[1] The S&P 500 rose 2.7% during the fourth quarter, rounding out a year of strong performance and finishing 2025 returning +18%.[1] Global markets delivered strong returns, with international equities outperforming the U.S.

Leading US Indices (Total Return)	2Q'24	3Q'24	4Q'24	1Q'25	2Q'25	3Q'25	4Q'25 (sorted)	TTM
S&P 100 Mega-Cap	7.1%	5.1%	4.6%	-6.0%	12.8%	9.7%	3.3%	20.1%
S&P/Citigroup Value	-2.1%	9.1%	-2.7%	0.3%	3.0%	6.2%	3.2%	13.2%
Nasdaq	8.5%	2.8%	6.3%	-10.3%	18.0%	11.4%	2.7%	21.1%
S&P 500 Total Return	**4.3%**	**5.9%**	**2.4%**	**-4.3%**	**10.9%**	**8.1%**	**2.7%**	**17.9%**
S&P/Citigroup Growth	9.6%	3.7%	6.2%	-8.5%	18.9%	9.8%	2.2%	22.2%
Russell 2000	-3.3%	9.3%	0.3%	-9.5%	8.5%	12.4%	2.2%	12.8%
S&P 600 Small-Cap	-3.1%	10.1%	-0.6%	-8.9%	4.9%	9.1%	1.7%	6.0%
S&P 400 Mid-Cap	-3.4%	6.9%	0.3%	-6.1%	6.7%	5.5%	1.6%	7.5%

Strategas Securities, LLC – 01/06/2026

Technology and Communications led sector performance, supported by heavy artificial intelligence ("AI")-related investment and despite growing concerns about the interconnected funding among major AI players.

Despite volatility, the market's resilience reinforced a familiar lesson: annual drawdowns are normal, but long-term investors benefit from staying invested, rebalancing, and avoiding emotional decisions.

S&P 500 Sectors (Total Return)	2Q'24	3Q'24	4Q'24	1Q'25	2Q'25	3Q'25	4Q'25 (sorted)	TTM
Health Care	-1.0%	6.1%	-10.3%	6.5%	-7.2%	3.8%	11.7%	14.6%
Communication Services	9.4%	1.7%	8.9%	-6.2%	18.5%	12.0%	7.3%	33.6%
S&P 500 Total Return	**4.3%**	**5.9%**	**2.4%**	**-4.3%**	**10.9%**	**8.1%**	**2.7%**	**17.9%**
Financials	-2.0%	10.7%	7.1%	3.5%	5.5%	3.2%	2.0%	15.0%
Energy	-2.4%	-2.3%	-2.4%	10.2%	-8.6%	6.2%	1.5%	8.7%
Technology	13.8%	1.6%	4.8%	-12.7%	23.7%	13.2%	1.4%	24.0%
Materials	-4.5%	9.7%	-12.4%	2.8%	3.1%	3.1%	1.1%	10.5%
Industrials	-2.9%	11.5%	-2.3%	-0.2%	12.9%	5.0%	0.9%	19.4%
Discretionary	0.6%	7.8%	14.3%	-13.8%	11.5%	9.5%	0.7%	6.0%
Staples	1.4%	9.0%	-3.3%	5.2%	1.1%	-2.4%	0.0%	3.9%
Utilities	4.7%	19.4%	-5.5%	4.9%	4.3%	7.6%	-1.4%	16.0%
Real Estate	-1.9%	17.2%	-7.9%	3.6%	-0.1%	2.6%	-2.9%	3.2%

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The S&P 500 finished the year up 18%, doubling from its October 2022 levels.[1] Volatility remained contained, with the largest Q4 drawdown only 5%.[1] Looking ahead, the 2026 outlook is cautiously constructive, with a 12-month S&P 500 target of 7,200.[1] Elevated valuations, labor-market softening, and inflation risks temper expectations.

The Federal Reserve ("Fed") cut rates three times in 2025, ending the year at 3.50%–3.75%.[1] The U.S. economy slowed but avoided recession, supported by consumer spending and significant AI-driven capital investment. Tariffs kept inflation above target, and their full impact remains a risk for 2026.

Global equities delivered strong results in 2025, with developed international markets up almost 5% in Q4 and 32% year-to-date. Meanwhile emerging markets were up 34%, helped by a weaker U.S. dollar and narrowing valuation gaps with U.S. stocks.[1] International equities outperformed domestic markets by one of the widest margins on record, not because global fundamentals suddenly improved, but due to currency moves, stimulus efforts, and other idiosyncratic factors. Their performance reinforces the long-standing case for global diversification.

International Indices (Price Chg)	2Q'24	3Q'24	4Q'24	1Q'25	2Q'25	3Q'25	4Q'25 (sorted)	TTM
Kospi (South Korea)	1.9%	-7.3%	-7.5%	3.4%	23.8%	11.5%	23.1%	75.6%
Nikkei 225 (Japan)	-1.9%	-4.2%	5.2%	-10.7%	13.7%	11.0%	12.0%	26.2%
IBEX 35 (Spain)	-1.2%	8.5%	-2.4%	13.3%	6.5%	10.6%	11.8%	49.3%
Bovespa (Brazil)	-3.3%	6.4%	-8.7%	8.3%	6.6%	5.3%	10.2%	34.0%
Swiss Market Index	2.2%	1.5%	-4.7%	8.6%	-5.4%	1.6%	9.6%	14.4%
OMX Stockholm 30 (Sweden)	2.0%	2.2%	-5.5%	0.4%	0.0%	6.8%	8.3%	16.1%
FTSE 100 (UK)	2.7%	0.9%	-0.8%	5.0%	2.1%	6.7%	6.2%	21.5%
Sensex (India)	7.3%	6.7%	-7.3%	-0.9%	8.0%	-4.0%	6.2%	9.1%
MSCI EAFE	**0.0%**	**0.3%**	**-0.9%**	**2.2%**	**3.7%**	**4.8%**	**5.8%**	**17.5%**
S&P/TSX (Canada)	-1.3%	9.7%	3.0%	0.8%	7.8%	11.8%	5.6%	28.2%
MSCI AC World	**2.9%**	**4.5%**	**1.0%**	**-2.5%**	**8.8%**	**7.6%**	**3.4%**	**18.0%**
CAC 40 (France)	-8.9%	2.1%	-3.3%	5.6%	-1.6%	3.0%	3.2%	10.4%
DAX (Germany)	-3.9%	6.0%	3.0%	11.0%	5.5%	-0.1%	2.6%	20.0%
Bolsa (Mexico)	-8.6%	0.1%	-5.6%	6.0%	9.5%	9.5%	2.2%	29.9%
Shenzhen SE A Shares (China)	-7.4%	19.1%	1.6%	2.4%	3.5%	21.4%	0.5%	29.3%
All Ordinaries (Australia)	-1.7%	6.5%	-1.4%	-4.4%	8.9%	4.1%	-1.3%	7.1%
Hang Seng (Hong Kong)	7.1%	19.3%	-5.1%	15.3%	4.1%	11.6%	-4.6%	27.8%

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Fixed income also rebounded after several difficult years. Yields moved slightly lower as the Fed cut interest rates by another 50 basis points in the quarter.[1] Falling interest rates supported bond prices, and aggregate fixed income posted modest gains in the fourth quarter.

Municipal bonds gained in Q4 and returned 4.2% for the year, while Treasury, corporate, and municipal yields remained attractive despite recent declines.[1] Credit spreads tightened to historically low levels, signaling limited near-term recession risk. Historically, when the Fed cuts rates while the economy is still expanding, markets have delivered positive forward returns.

US Yields	2Q'24	3Q'24	4Q'24	1Q'25	2Q'25	3Q'25	Q/Q Chg (bps)	Y/Y Chg (bps)
Fed Funds Target Rate	5.0	4.5	4.5	4.5	4.3	3.8	-50	-75
3-Month T-Bill	4.7	4.4	4.2	4.4	4.0	3.7	-35	-70
2-Year Note	3.6	4.2	3.9	3.7	3.6	3.5	-14	-77
5-Year Note	3.6	4.4	4.0	3.8	3.7	3.7	-1	-66
10-Year Bond	3.8	4.6	4.2	4.2	4.1	4.2	3	-40
30-Year Bond	4.1	4.8	4.6	4.8	4.7	4.9	13	6

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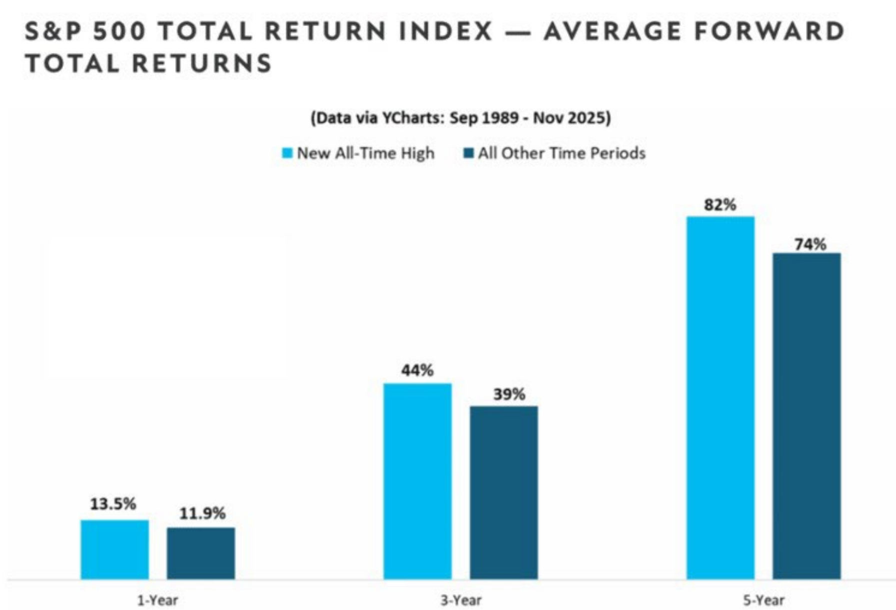
Credit spreads for investment grade and high yield corporate bonds have continued to narrow and are at or near historic levels of tightness. Credit spreads are a good proxy for perceived risk, and fixed income markets are not currently pricing an imminent dislocation. We would expect to see a widening of spreads before any significant economic downturn.

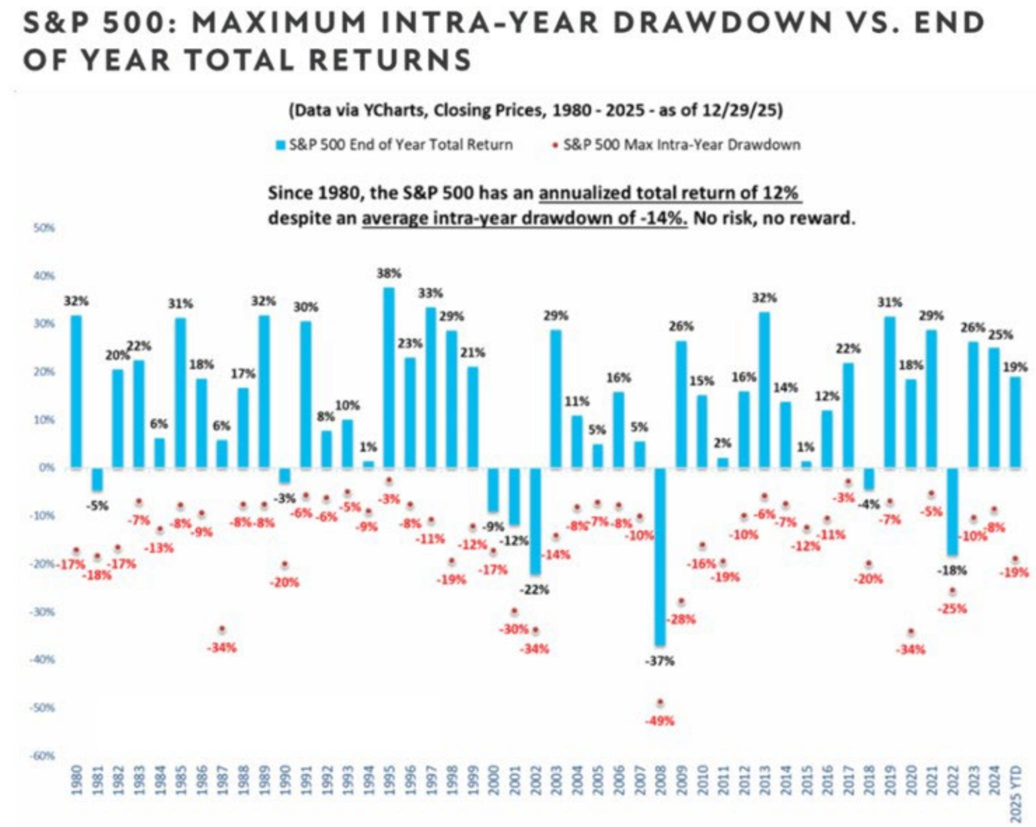
Gold, along with other metals, delivered a historic performance in 2025, surging over 60% for the year, marking its strongest annual run since the late 1970s amid geopolitical instability, a weaker U.S. dollar, and aggressive central-bank buying.[1] Prices climbed from roughly $2,600/oz to above $4,300/oz, with sustained investment flows and shifting monetary-policy expectations driving demand.

A common mistake we see all too often is hesitating to invest at or near market highs. This hesitation has historically been a costly strategy — not just decades ago, but consistently over the last several years and again in 2025. Despite investor anxiety, the market logged nearly 40 new highs this year alone.[1] And while nothing in markets is ever guaranteed, decades of historical data show that forward returns after new highs are frequently stronger than average. In other words, new highs aren't a signal to retreat; they're often a sign of underlying strength and continued momentum. As you see from the chart below, over annualized 1-, 3-, and 5-year periods, investing at new all-time highs has produced greater forward returns than all other time periods.



Source - https://creativeplanning.com/insights/investment/q4-2025-market-commentary/ - 01/06/2026

While the magnitude of the 2025 comeback is greater than most, the story of the stock market is really a story of comebacks, one after another. If we look at the S&P 500, every single year it has a peak-to-trough drawdown averaging -14% since 1980 as shown in the graph below. Stay the course and stay invested, as all market storms eventually pass.



Source - https://creativeplanning.com/insights/investment/q4-2025-market-commentary/ - 01/06/2026

U.S. equities extended their strong multi-year run, with four of the last five years producing returns above 15%. This pattern highlights how unpredictable annual returns can be and how valuable it is to stay invested rather than react to short-term noise.

The 2026 outlook is cautiously optimistic. AI investment, high concentration in mega-cap tech, geopolitical tensions, and fiscal deficits remain central drivers and risks as markets enter 2026.

Questions about a potential AI-driven bubble persisted, as extended valuations, speculation, and labor-market softening raise concerns. Yet earnings growth, heavy corporate investment, and strong demand continue to support the rally. Like past technological revolutions, periods of exuberance are common, and while the eventual correction may be sharp, markets have historically recovered and moved higher over time.

Markets powering higher have always been driven by a small handful of stocks skyrocketing. Although we maintain diversified portfolios, the key findings below, from a related study on shareholder wealth enhancement by Hendrik Bessembinder, were even surprising to us:

- The top 4% of all U.S. firms accounted for 100% of the net shareholder wealth generated between 1926 and 2022. To put this differently, approximately 96% of all stocks ever issued (there have been nearly 30,000 different stocks) have effectively contributed absolutely nothing to long-term shareholder wealth creation.[4]
- The top 1.88% of companies were responsible for 90% of total stock market gains.[4]
- A mere 0.25% of firms created half of all net shareholder wealth.[4]

For advisors and clients, the strong returns of recent years offer a timely opportunity to reassess asset allocation, risk tolerance, and the need to rebalance portfolios. Staying diversified, avoiding market timing, and focusing on long-term planning remain essential to financial success.

While markets may feel stretched after several years of tech-driven gains, rotation into other asset classes could broaden the rally. The current environment still depends heavily on AI spending, and the base case assumes this momentum continues into 2026, though flexibility remains important if conditions shift.

It’s shaping up to be another dynamic year, and maintaining discipline, investing consistently, diversifying, and focusing on fundamentals, remains the most reliable path forward.

Best wishes for a safe and prosperous 2026.

To discuss this commentary further, please contact us at 914-825-8630.

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[1] Strategas Securities, LLC – 01/06/2026
[2] Y-Charts – 01/06/2026
[3] https://creativeplanning.com/insights/investment/q3-2025-market-commentary/ - 01/06/2026
[4] https://www.morningstar.com.au/stocks/only-2-4-of-companies-deliver-all-net-shareholder-wealth - 01/06/2026