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Wealth Management

Market Summary 4th Quarter 2025

The final quarter of 2025 closed out a strong year for financial markets with US equities finishing near record highs. During the quarter, market leadership shifted from just AI stocks, to Value (defensive) and Small cap stock sectors as hope of further rate cuts from a more friendly Fed will stimulate economic growth. Valuation metrics continued to push higher with the P/E ratio now at 21.8 and above its 5 year average of 20. International stocks continued their outperformance, benefiting from a low US dollar, country specific fiscal stimulus, and foreign capital inflows. Bond markets also saw gains with the Fed implementing two interest rate cuts despite inflation remaining at 2.7%, well above the target of 2%. The big elephant amongst the markets is the alarming exponential growth in our National Debt which now stands at $38.4 trillion, up +$2.23 trillion for the year, and up +$11 trillion from just 5 years ago. However, the good news is that productivity continues to grow as AI becomes more widely adapted into the economy. In sum, the financial markets are benefiting from both advances in technology and easy access to liquidity and huge amounts of cheap debt.

Index Returns:	4th Quarter	2025		4th Quarter	2025		4th Quarter	2025
S&P 500 (SPY)	2.31%	17.72%	U.S. Growth (SCHG)	1.75%	17.50%	U.S. Short Bond (BSV)	1.00%	5.99%
S&P 500 Equal Weight (RSP)	1.15%	11.20%	U.S. Value (SCHV)	2.07%	16.02%	Intermediate Aggregate Bond (AGG)	0.69%	7.19%
Foreign Developed (MAIIX)	3.75%	31.64%	Small Blend (IWM)	1.86%	12.66%	High Yield Bond (HYG)	1.04%	8.60%

Market Outlook: The consensus 2026 market forecast is a ‘Goldilocks’ scenario of moderate economic growth of around 2%, earnings growth of +15%, and two interest rate cuts. Sounds wonderful! However, there are also risks both domestic and geopolitical. On the home front, a deteriorating labor market and stubbornly high inflation will make the Fed’s job more difficult to push rates lower. At the same time, excess stock valuations have set the market up for potential disappointment. And the continual need to fund the ever growing national debt will pressure long term interest rates higher which is a headwind for stocks. Outside the US, de-globalization of businesses is likely to continue. This will put pressure on prices domestically and demand a higher risk premium (lower prices) for financial assets. Separately, it would be remiss not to mention the explosive growth and migration to digital currencies and new operating platforms, not just by individual investors, but institutions and governments (including the US). This shift will alter the financial landscape of products and transactions in a whole new way. *Stay tuned*. Though we do anticipate 2026 to be another positive year for financial assets, expect surprises, innovation, and volatility. Keep your seat belt buckled and enjoy the ride. We have you covered!