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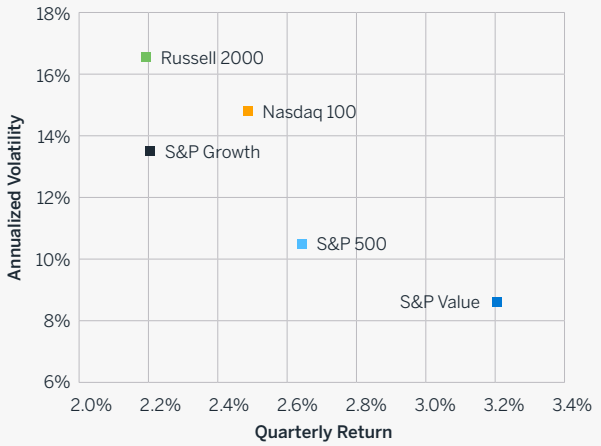
MARKET COMMENTARY – DECEMBER 2025

Q4 2025 MARKET RECAP

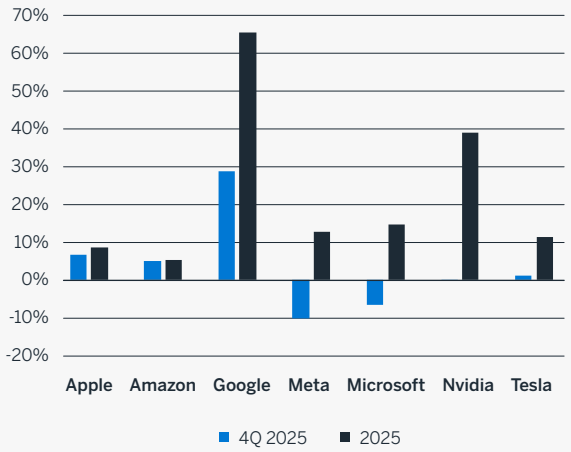
- U.S. equities delivered robust performance in the fourth quarter of 2025. Large-cap stocks, as represented by the S&P 500, gained 2.7% during the quarter and ended the year up 17.9%. This marks the third consecutive year of double-digit returns for the index.
  - Healthcare equities were the strongest-performing sector in the fourth quarter, staging a dramatic turnaround and outperforming the broader S&P 500 by 9% during the period.
    - Easing policy risks for drug makers, significant premium increases, and a resurgence in deal-making late in 2025 contributed to the sector's strong performance. As a result, healthcare equities closed out the year up 14.6%.
  - Telecommunication and Technology stocks remained key drivers of market performance. The two sectors finished the fourth quarter up 7.3% and 1.4%, respectively, and posted full-year gains of 33.6% and 24%.
    - The ongoing AI arms race continued to fuel capital expenditures, although many leading companies experienced periodic volatility as investors began questioning ROI on massive AI infrastructure spending and valuations became an increasing concern.
    - The "Magnificent 7" stocks delivered mixed returns in the fourth quarter: Apple (AAPL) gained 6.8%, Amazon (AMZN) rose 5.1%, Alphabet (GOOGL) surged 28.8%, while Meta (META) declined 10.1%, Microsoft (MSFT) fell 6.6%, NVIDIA (NVDA) was nearly flat at -0.04%, and Tesla (TSLA) edged up 1.1%.
- Real Estate was the worst-performing sector in the S&P 500 during the fourth quarter. Despite the Federal Reserve actively cutting interest rates, a move that typically benefits the sector, Real Estate declined by 2.9%.
  - This weakness was driven by persistent "higher-for-longer" long-term yields, a slowdown in fundamental growth, and specific headwinds within the office and industrial sub-sectors, such as remote work trends and higher capital costs, which have made rent growth challenging.

Sector	4Q 2025	YTD Return	YTD vs. 52-Week High	YTD vs. 52-Week Low
S&P 500	2.7%	17.9%	-1.2%	38.7%
Health Care	11.7%	14.6%	-2.1%	21.8%
Telecomm	7.3%	33.6%	-1.8%	56.2%
Financial	2.0%	15.0%	-1.7%	26.0%
Energy	1.5%	8.7%	-2.0%	20.1%
Technology	1.4%	24.0%	-6.2%	63.4%
Materials	1.1%	10.5%	-1.8%	24.0%
Industrial	0.9%	19.4%	-1.5%	34.7%
Consumer Desc	0.7%	6.0%	-3.3%	37.7%
Consumer Stap	0.0%	3.9%	-4.7%	6.4%
Utilities	-1.4%	16.0%	-7.4%	19.3%
Real Estate	-2.9%	3.2%	-4.4%	12.4%

Risk/Return



Magnificent 7



Office REITs - Average Occupancy

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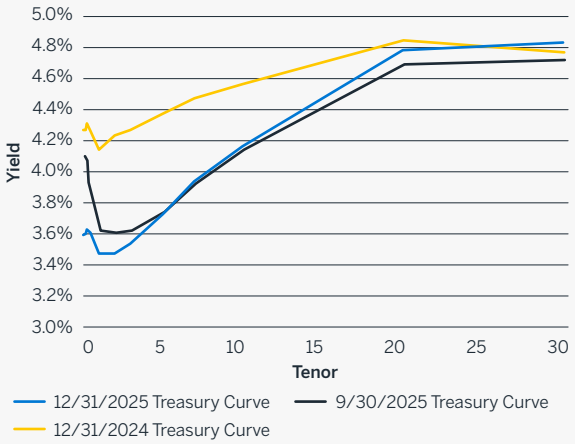
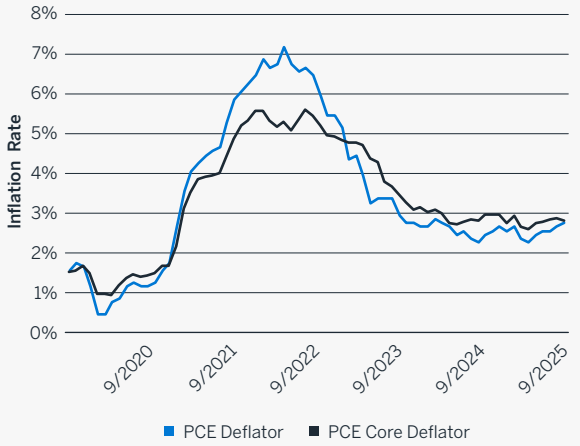
- Fixed income markets turned in a positive quarter as the Federal Reserve pivot became a concrete reality.
- The Fed cut interest rates twice during the quarter, including a 25-basis point cut in December, bringing the target federal funds rate to a range of 3.50% -3.75%.
- Following the December cut, Fed Chairman Jerome Powell signaled that the Fed is now, "well positioned to wait and see," suggesting a potential pause in early 2026.
  - Inflation remained "sticky" but manageable, with core PCE ending the year near 3.0%—above the Fed's 2% target, yet well below prior peaks. A cooling labor market, with unemployment rising toward 4.4%–4.5%, gave the Fed room to ease policy without reigniting inflation.
- Following the cuts, a "bull steepening" of the yield curve occurred, where short-term rates fell faster than long-term rates.
  - At the short end of the curve, yields on 2-year treasuries fell over 13bps over the quarter and 77bps over the year.
  - 10-Year treasury yields rose nearly 2bps over the quarter but fell 40bps over the year.
  - Long-term treasury yields remain elevated despite the Fed's pivot.
    - Yields on twenty-year treasuries rose nearly 9bps since the third quarter and are only down a modest 6bps from the end of last year.
    - Yields on thirty-year treasuries rose 11bps over the quarter and are up 6bps since the end of last year.
- Gold extended its historic bull run in the fourth quarter, rising over 14% and ending the year up more than 67%. Upward pressure on gold was driven by the October government shutdown and global "de-dollarization" efforts, as confidence in traditional dollar-based assets continued to wane.
- The diversification into critical minerals has also spread to silver, which also had a banner year.
  - Earlier in 2025, the gold-to-silver ratio sat at a historic extreme of over 100:1. By the end of Q4, as silver surged, this ratio compressed to roughly 60:1.

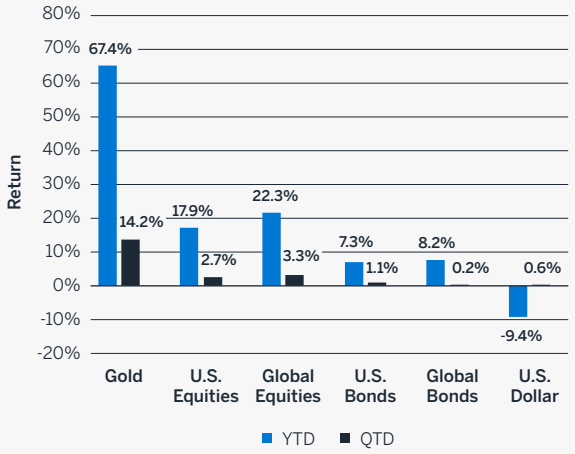
Treasury Yield Curves



PCE Deflator Y/Y & PCE Core Deflator Y/Y



YTD and Quarterly Performance



Gold/Silver Spot Price Ratio

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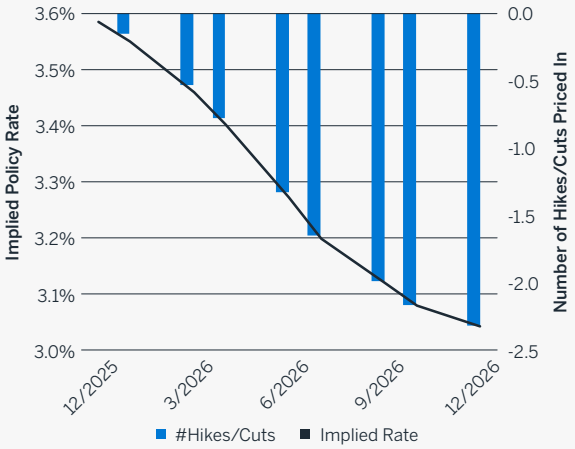
OUTLOOK

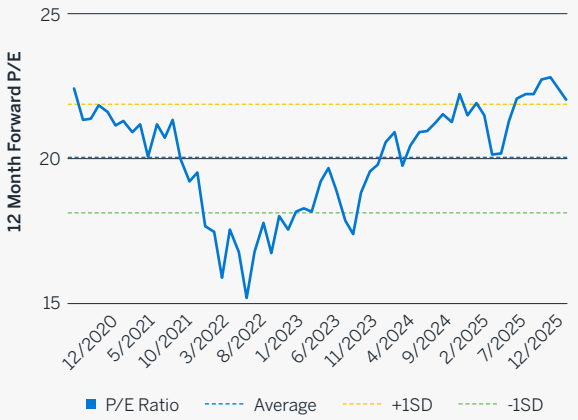
- As investors enter 2026, the focus has shifted from combating inflation to sustaining a resilient global growth cycle. The Federal Reserve begins the year with its benchmark rate at 3.50%–3.75%, transitioning from rapid hikes to seeking the "neutral rate" that neither stimulates nor restrains the economy.
- Jerome Powell's term as Fed Chair ends in May 2026, and markets are closely watching the nomination process. A more dovish successor could accelerate rate cuts, while a hawkish or politically driven choice may heighten market volatility.
- Investors should monitor the 10-year Treasury yield closely. If it stays above 4% despite Fed rate cuts, this may signal persistent inflation or elevated government deficits, keeping long-term borrowing costs high and potentially pressuring real estate and growth stocks.
- Equity valuations will remain under scrutiny heading into 2026, with many investors questioning whether stock prices have become overextended.
  - To dig into this, we can look back and see how much of the S&P 500's appreciation owes to earnings growth, to multiple expansion, and to changes in dividend yield.
- The rolling 12-month forward estimate of price-earnings is sitting at 22 times. This figure is slightly above one standard deviation above average over the period.
- Looking at 5-years of monthly data through the end of the year, most of the performance of the index is attributable to earnings growth.
  - In other words, the main driver behind the rise in the S&P 500 index over the past five years has been an increase in the actual profits that companies are generating. This means that companies listed in the index have, on average, been making more money, which has supported higher stock prices.
- Together, these points suggest that while stock prices are supported by genuine earnings growth, valuations are higher than usual. This doesn't necessarily mean stocks are in a bubble, but it does mean they are priced at a premium, and future returns could be lower if earnings growth slows or if investor sentiment changes.

Implied Fed Funds Rate & Number of Hikes/Cuts



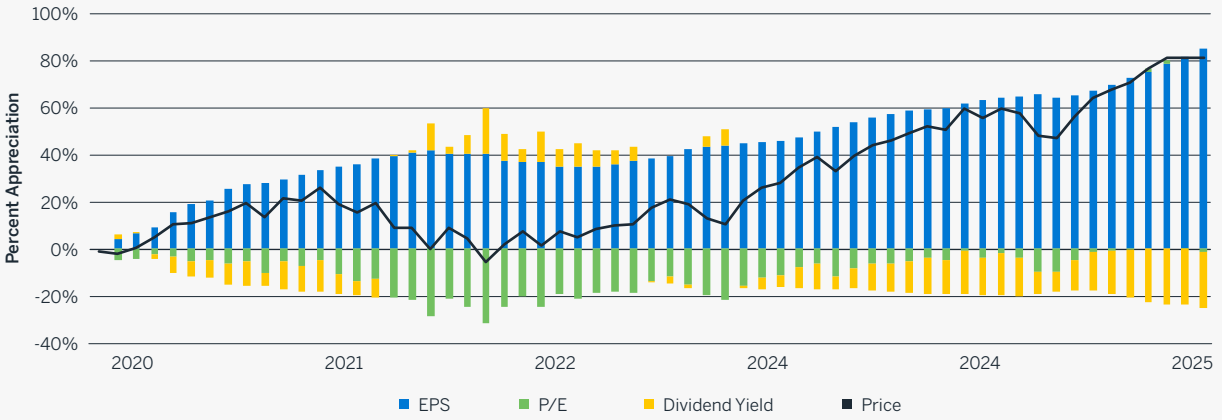
S&P 500 - 12 Month Forward P/E

5-Year



S&P 500 Price Appreciation Decomposed

5-Year



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Gold: Spot U.S/T Oz, **U.S. Equities:** S&P 500 Index, **Global Equities:** MSCI ACWI Index, **U.S. Bonds:** BBG Global Aggregate Index, **Global Bonds:** BBG Global Aggregate Index, **U.S. Dollar:** U.S. Dollar Index