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Volatility, Recovery, and Resilience

Markets rose broadly in 2025 despite volatility. Equities rebounded after an early-year dip, led by emerging markets and AI sectors, with currencies driving regional differences. Fixed income gained and precious metals surged, while commercial real estate and REITs posted more muted, rate-sensitive results.

MARKET REVIEW
DECEMBER 2025

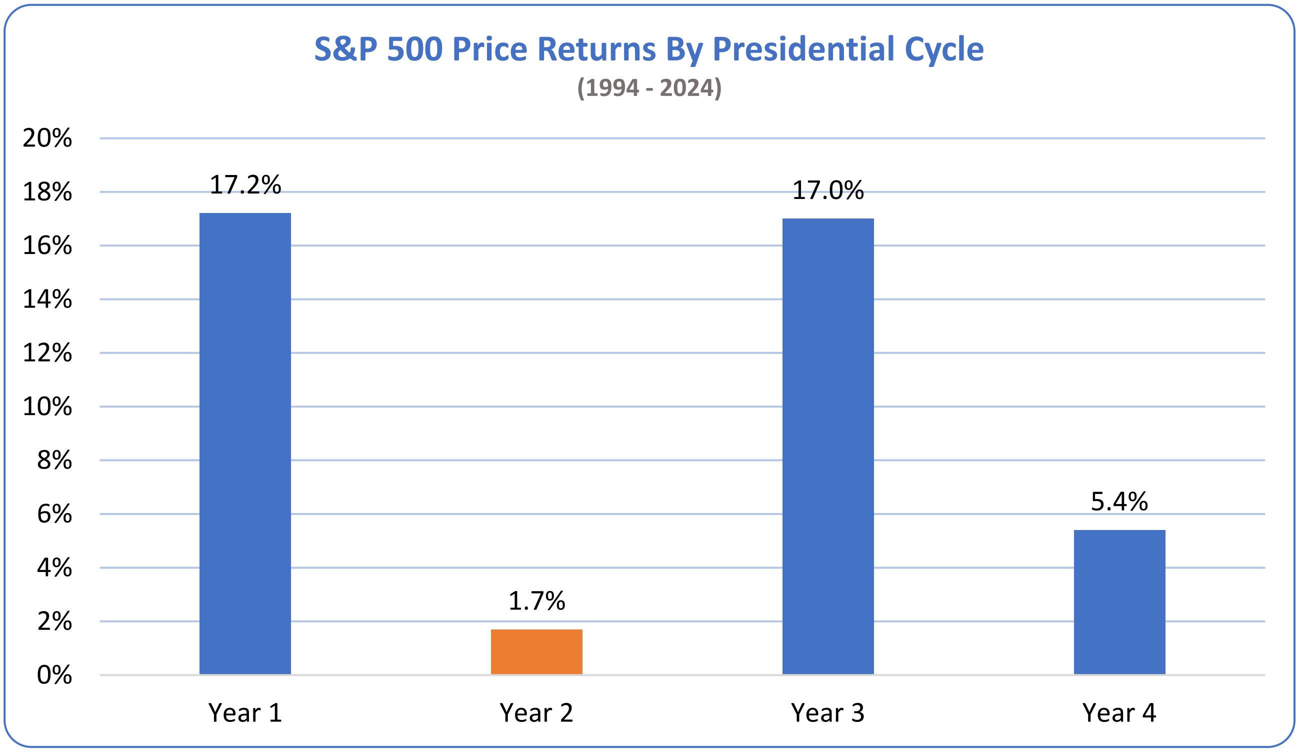
2025 Market Review: Volatility, Recovery, and Resilience

Markets delivered broad-based gains in 2025 despite significant volatility driven by trade tensions, shifting policy expectations, and macro crosscurrents. Equities rebounded strongly after an early-year selloff. Emerging markets and AI-driven sectors led, while currency moves played an outsized role in regional returns. Fixed income also benefited from the risk-on environment as spreads compressed, and the Federal Reserve cut rates. Real assets were led by a surge in precious metals, while commercial real estate and REITs posted more muted, rate-sensitive results.

Monetary Policy Update: The Federal Reserve delivered a widely expected 25 bp rate cut in December but signaled a clear pivot toward caution, with officials increasingly viewing policy as near neutral after 75 bps of easing over the past three meetings. Minimal changes to the statement, a divided vote, and the dot plot, which is still pointing to just one additional cut in 2026, reinforce that a pause is now the base case absent a material economic shock. While Chair Powell cited rising downside labor-market risks to justify the cut, broader recession signals remain absent. Corporate profits are still growing year-over-year, and business fixed investment has not weakened. Historically, the U.S. has never experienced a recession while corporate profits were still growing on a year-over-year basis. Internal dissent highlights healthy, independent debate within the FOMC, a dynamic likely to persist into 2026 amid voter rotation and an upcoming chair transition. Looking ahead, inflation appears well anchored. Key leading indicators such as rents and wages continuing to cool, implying the next move is eventually another cut, but with no urgency to act.

Equities: Markets navigated significant crosscurrents in 2025, beginning with trade tensions and sharply higher U.S. tariffs that triggered a brief equity selloff, before recovering as fiscal and monetary stimulus drove a broad “everything rally” in the second half. Developed market equities rebounded from an early-year decline to finish up 21.1%, making 2025 the first post-pandemic year in which all major asset classes delivered positive returns. Emerging markets led global equities, gaining 33.6% in dollar terms, while growth and value styles produced similar returns globally despite differing regional leadership. AI remained the dominant force in U.S. equities, lifting technology-related sectors, though market leadership narrowed and the S&P 500 underperformed other major regions for the first time in two decades. Regional performance was diverse: Chinese and broader Asian equities benefited from AI momentum and resilient trade dynamics, with Korea posting exceptional gains, while Latin America rebounded on stronger currencies. Japan advanced on reflation expectations and anticipated fiscal expansion. European equities lagged in local terms but were the top performers for euro- and sterling-based investors due to a sharply weaker U.S. dollar, highlighting the outsized role of currency effects in 2025 returns.

Midterm election years tend to deliver the strongest economic growth but surprisingly are often the weakest years for equity markets. Stocks typically price in the anticipated growth well in advance, and once that growth materializes, equities frequently experience significant intra-year drawdowns.



Source: Strategas

Fixed Income: The risk-asset rally carried into fixed income in 2025, driving broad spread compression. Emerging market debt was the top-performing sector on the back of strong fundamentals, investor demand, and favorable currency tailwinds. Global credit returned 10.3% in dollar terms, with U.S. credit outperforming Europe due to higher all-in yields. Government bond curves steepened amid fiscal concerns, yet U.S. Treasuries delivered the strongest local-currency performance at 6.3% in 2025, supported by 75 bps of Federal Reserve rate cuts in the second half of the year. As the Fed approaches the end of its rate-cutting cycle and global yields, particularly in Japan, move higher, yields and volatility are likely to rise again in early to mid-2026. Further curve steepening and potential bouts of volatility are top of mind as we start 2026.

U.S. Treasury Yield Changes

	YTM	Change from Previous Month
3 Month	3.63%	-0.17%
1 Year	3.47%	-0.12%
2 Year	3.47%	-0.02%
3 Year	3.54%	+0.05%
5 Year	3.73%	+0.13%
10 Year	4.17%	+0.15%
30 Year	4.84%	+0.18%

Source: Bloomberg. As of December 31, 2025

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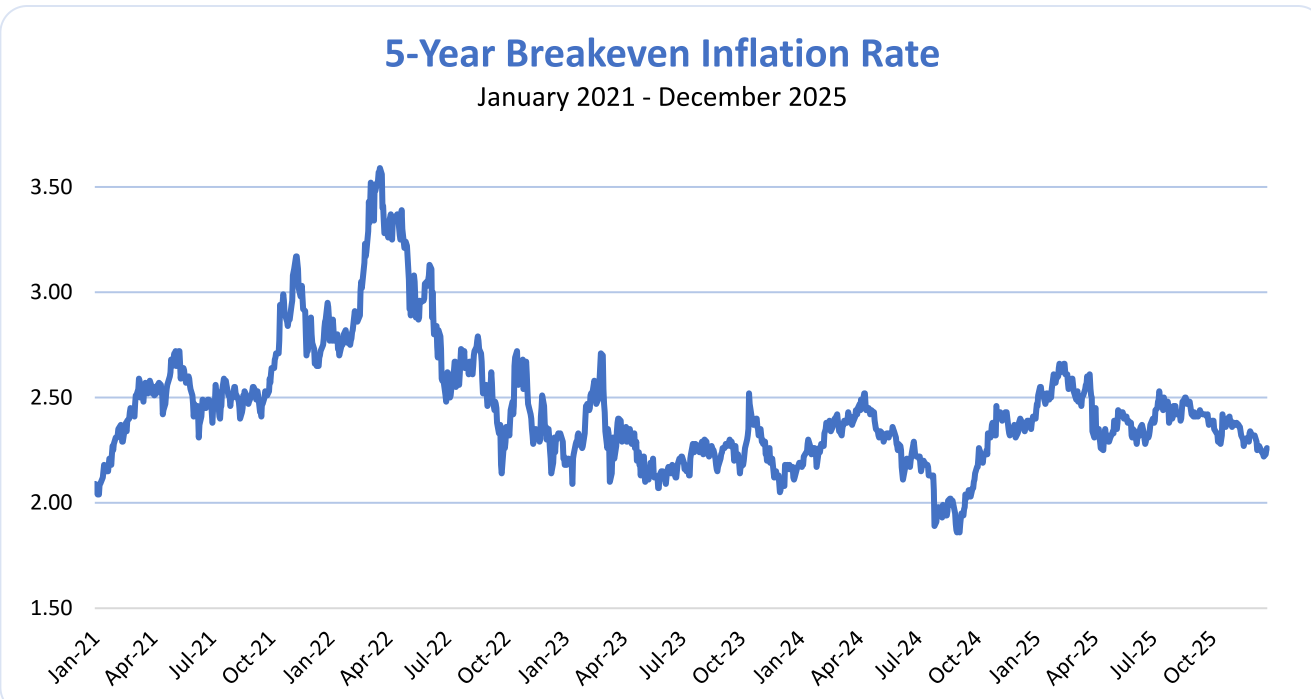
Real Assets: Precious metals led asset-class performance in 2025, with the Bloomberg Precious Metals Index gaining 80.2%. Despite skepticism toward an asset class lacking cash flows or income, gold delivered strong performance during the year, supported by substantial global central bank buying. Silver also outperformed dramatically. Strength in precious metals more than offset declining oil prices, pushing overall commodity returns to 15.8% for the year. Within real assets, the Green Street Commercial Property Price Index edged down 0.1% in December but remains up 2.3% over the past year. With commercial real estate now viewed as fairly valued, further price appreciation is likely to be limited unless medium- to long-term interest rates decline. REITs finished 2025 with mixed results. Sector performance was led by health care, which returned 28.5% in 2025, followed by industrials and diversified sectors.

Market-based measures such as the 5-year breakeven suggest little concern about long-term inflation. However, the real affordability challenge is not the rate of inflation but the higher price level that emerged after COVID, which continues to weigh on consumers. While markets focus on changes in inflation, households experience the persistence of elevated prices in their everyday expenses.



Source: Federal Reserve Bank of St. Louis (FRED)

Diversifying Strategies: Hedge funds finished 2025 on a strong note, with performance accelerating in December. Macro funds benefited from commodities, equities, and trend-following exposures, while equity hedge strategies led overall performance for the year, driven by standout gains in healthcare, energy, and multi-strategy approaches. Event-driven strategies advanced on expectations for a stronger M&A environment in 2026, particularly tied to AI and infrastructure themes. Relative value and rate-sensitive strategies also posted gains as managers positioned for continued uncertainty around inflation, growth, and monetary policy.

As 2025 draws to a close, private markets are experiencing a fourth consecutive year of declining fundraising, with total capital raised falling sharply from 2022 levels, according to PitchBook. Fundraising across private equity, venture capital, and private credit remains weak, with venture capital the most pressured amid limited exits, slower distributions, and longer fund-close timelines. In contrast, secondaries and co-investment funds stand out as rare bright spots, posting strong growth as investors increasingly use these strategies to manage liquidity and portfolio exposures. Elevated dry powder and sizable exit backlogs continue to weigh on the broader ecosystem, suggesting that a more robust deal and exit environment will be needed to restore fundraising momentum. Notably, the largest private equity funds continue to raise capital successfully, highlighting a widening gap between top-tier managers and the rest of the market, while smaller and venture-focused managers face growing challenges in closing new funds.

Exhibit 1: Asset Class Returns (2016 – 2025)

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
High Yield 17.1%	Intl Equity 27.2%	IG Bonds 0.0%	US Equity 31.5%	US Equity 18.4%	US Equity 28.7%	Cmdty 16.1%	US Equity 26.3%	US Equity 25.0%	Intl Equity 32.4%
US Equity 12.0%	US Equity 21.8%	High Yield -2.1%	REITs 23.1%	60/40 14.0%	REITs 27.2%	Diversifying -1.7%	60/40 18.0%	60/40 15.5%	US Equity 17.9%
Cmdty 11.8%	60/40 14.5%	60/40 -2.6%	60/40 22.4%	Intl Equity 10.7%	Cmdty 27.1%	High Yield -11.2%	Intl Equity 15.6%	Diversifying 9.8%	Cmdty 15.8%
60/40 8.3%	REITs 11.4%	US Equity -4.4%	Intl Equity 21.5%	Diversifying 8.4%	60/40 16.6%	IG Bonds -13.0%	High Yield 13.5%	High Yield 8.2%	60/40 13.7%
REITs 5.0%	Diversifying 7.5%	Diversifying -4.7%	High Yield 14.3%	IG Bonds 7.5%	Diversifying 9.8%	Intl Equity -16.0%	REITs 10.9%	Intl Equity 5.5%	Diversifying 10.8%
Diversifying 4.8%	High Yield 7.5%	REITs -4.7%%	Diversifying 8.9%	High Yield 7.1%	Intl Equity 7.8%	60/40 -16.1%	Diversifying 7.4%	Cmdty 5.4%	REITs 10.7%
Intl Equity 4.5%	IG Bonds 3.5%	Cmdty -11.3%	IG Bonds 8.7%	Cmdty -3.1%	High Yield 5.3%	US Equity -18.1%	IG Bonds 5.5%	REITs 2.0%	High Yield 8.6%
IG Bonds 2.7%	Cmdty 1.7%	Intl Equity -14.2%	Cmdty 7.7%	REITs -8.2%	IG Bonds -1.5%	REITs -24.4%	Cmdty -7.9%	IG Bonds 1.3%	IG Bonds 7.3%

Source: IG Bonds = Bloomberg US Aggregate; US Equity = S&P500; Intl Equity = MSCI ACWI xUS; High Yield = Bloomberg US Corporate High Yield; REITs = FTSE EPRA/NAREIT Developed; Cmdty = Bloomberg Commodity; Diversifying = HFN Hedge Fund Aggregate; 60/40 = 60%S&P500/40%Bloomberg US Aggregate

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