Investment Perspective

4th Quarter 2025

Global equity markets experienced a volatile Q4 2025, yet finished strong with the S&P 500, Russell 2000 Value, and the MSCI EAFE appreciating 2.66%, 3.26%, 4.86%, respectively. Inflationary pressures have continued to ease as economic growth is set to improve through the first half of 2026. These two positive economic developments have led to lower interest rates and falling equity risk premiums driving the equity rally.

For the first time in over a decade, international equity markets outperformed U.S. equity markets. With the strong equity market appreciation over the last 12 months some short-term price consolidation may be necessary, however we do expect conditions to remain relatively supportive of equity markets. Going forward, the biggest headwind to further gains in equity markets will be the need for continually increasing liquidity conditions so that the improved economic outlook can be funded without crowding out risk assets.

The Bloomberg Aggregate Index gained 1.10% for the quarter and finished the year up 7.30%. The ICE BofA 1-10 AAA-A Municipal Index gained 0.75% during the quarter and finished the year up 4.93%. During the quarter, the Federal Reserve cut interest rates 25 basis points in October and in December, lowering the target rate to 3.75% at year end. With the labor market cooling, the Fed indicated that more cuts are likely, but it will be a meeting-by-meeting decision based upon the data. Looking into 2026, the market is pricing in two to three additional 25 basis point cuts, which would lower the target rate to 3.00-3.25%.

During the year, the front end of the yield curve declined approximately 75 basis points matching the Fed’s target rate cuts from 4.50% to 3.75%. Longer dated Treasury yields declined less due to a resilient economy, long term inflation concerns, and future fiscal challenges. These shifts in interest rates resulted in a steeper yield curve with the spread between the 2-year Treasury and the 10-year Treasury ending the year at +70 basis points.

Investment grade credit spreads were stable during the quarter, ending the year at +75 basis points over Treasury yields. Credit spreads traded in a very tight range throughout the year due to healthy financial conditions and strong investor demand for credit. With spreads now trading inside historical averages and with volatility levels low, we anticipate better opportunities to add to Corporate bonds in 2026 should credit spreads widen.

There were no material changes to duration positioning during the quarter. We continue to add longer duration bonds to our respective strategies to lock in attractive total returns for longer.