Market Insight Quarterly

Fourth Quarter 2025

News & Views from LPL Research

The economic forecasts set forth in the presentation may not develop as predicted. Please note: all return figures are as of December 31, 2025, unless otherwise stated. This information is not intended as authoritative guidance or tax or legal advice. You should consult with your attorney or tax advisor for guidance on your specific situation.

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Q4 2025 at a Glance

Sector	Q4 2025
Gross Domestic Product*	1.0%
S&P 500 Index	2.7%
Bloomberg U.S. Aggregate Bond Index	1.1%
Bloomberg Commodity Index	5.8%

Source: LPL Research, Bloomberg, 12/31/2025

* Bloomberg consensus as of 12/31/2025

Figures for S&P 500 Index, Bloomberg U.S. Aggregate Bond Index, and Bloomberg Commodities Index are total returns from 09/30/2025 - 12/31/2025 (Q4)

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment.

Past performance is not indicative of future results.

Equities Capped Another Year of Double-Digit Gains

Major U.S. averages capped 2025 with a modest fourth quarter advance, marking a third straight quarterly gain with the S&P 500 adding 2.7%, including dividends. Trading over the last three months was not a smooth move higher, with equities broadly dipping below the quarter-to-date flatline a couple of times before reclaiming positive territory over the final few weeks of 2025. Nonetheless, the S&P 500 and Dow set fresh records on Christmas Eve, with the Dow ultimately leading major averages with a 4.0% quarterly gain, while the Nasdaq added 2.7%. The Russell 3000, a gauge for total stock market performance, closed 2.4% higher.

Perhaps the highest-profile talking point for stocks last quarter revolved around stronger-than-expected earnings and favorable earnings revision and guidance trends. S&P 500 earnings grew 13.5% during the third quarter, easily topping the 7.9% consensus estimate at the start of October and bringing the positive earnings growth streak up to nine consecutive quarters. Upbeat artificial intelligence (AI) headlines remained in high supply, namely surrounding elevated AI spending plans, and adoption, as well as a flurry of AI-related deals.

Additional rate cuts from the Federal Reserve (Fed) were another big talking point for Wall Street bulls. After resuming the central bank's rate cutting campaign in September after a year-long pause, Fed Chair Jerome Powell and company delivered another 0.5% of easing via 0.25% reductions in October and December. The Federal Open Market Committee fulfilled hopes of another 0.25% in December despite expectations waning near 30% in November, with markets cheering less hawkish than expected remarks from Fed Chair Powell amid three dissents.

Developments in Washington also remained front and center as markets operated in a data vacuum for the first month and a half of the quarter amid the longest government shutdown in history. Even following Congress' Continuing Resolution, the lack of economic data lingered with the omission of key October data, which later sparked scrutiny around November's cooler-than-expected inflation print as multiple key price changes were set to zero. Meanwhile, trade updates were positive, with Washington and Beijing extending their trade truce for a year, alongside various other exemptions.

Small Caps Kept Pace with Large Cap Peers

After setting a record high for the first time in nearly four years during the third quarter, small cap stocks extended their year-to-date advance last quarter while logging more all-time highs along the way. The Russell 2000 small cap index kept pace with its large cap counterparts, adding 2.2%, including dividends, ending just shy of the Russell 1000 large cap index's 2.4% total return. Similarly to large caps, the Russell 2000 was led by healthcare stocks amid rotation dynamics into the space across both asset classes, while communication services shares were also among small cap outperformers. Consumer staples and technology names lagged. Looking forward, earnings power, balance sheet strength, and AI investment continue to favor large caps.

Value Stocks Gained the Edge Last Quarter

Growth stocks snapped back-to-back quarters of outperformance as the Russell 1000 Value Index bested its growth counterpart with a 3.8% gain, easily surpassing a measured 1.1% advance for the Russell 1000 Growth Index. A few moving pieces played into last quarter's growth underperformance, with a noteworthy momentum unwind in November triggering a 7%+ drawdown in the Russell 1000 Growth Index, erasing quarter-to-date outperformance for the style. AI scrutiny was also a persistent overhang, with market chatter surrounding additional OpenAI commitments, circular spending between AI-related companies, and debt financing for AI projects. As a result, healthcare and consumer staples outperformed the broader Russell 1000 Growth Index.

Magnificent Seven names finished mostly higher, although only Alphabet (GOOG/L), Apple (AAPL), and Amazon (AMZN) beat the tape, while AI theme bellwether NVIDIA (NVDA) was little changed and shares of Meta (META) and Microsoft (MSFT) fell over the last three months. Rotation dynamics supported the healthcare sector, with the removal of some policy headwinds among key drivers.

International Stocks Sealed a Year of Rare Outperformance

International and emerging markets (EM) capped a year of rare outperformance over their domestic peers in the same fashion, with the MSCI EAFE Index for developed international markets and the MSCI EM Index respectively rising 4.9% and 4.8% in dollar terms last quarter, topping the S&P 500's 2.7% total return.

Emerging markets within the Asia-Pacific region continued to stand out within the asset class, with South Korea and Taiwan both securing outstanding yearly performance supported by spillover of AI enthusiasm and the critical role the markets play in the global technology supply chain. However, greater China lagged on weak economic signals. In developed markets, Japanese benchmarks garnered support from tech shares, as well as bolstered stimulus and reflation hopes following the election of pro-growth lawmaker Sanae Takaichi. European stocks ended the region's strongest year since 2021 near record levels thanks to support from falling interest rates and German fiscal spending plans throughout 2025.

Treasuries Log Fourth Straight Quarterly Gain

Core bonds, proxied by the Bloomberg U.S. Aggregate Index, finished 1.1% higher during the fourth quarter in its fourth straight quarterly gain, recording an above-average 7.3% annual gain. Treasury yields continued to face downside pressure over the last three months as central bankers delivered two additional rate cuts while traders continue to expect further policy easing in 2026. The yield curve (as proxied by the 2-year/10-year curve spread) steepened as shorter-dated yields fell on rate cut expectations while rates on longer maturities rose on solid economic activity and sticky inflation, reaching its steepest level since 2022.

Corporate bonds also traded higher, with the most credit sensitive sector of the bond market — high-yield corporate bonds — outperforming investment-grade securities. Based on the Bloomberg High-Yield Index, the sector gained 1.3% while the Bloomberg Corporate Bond Index added just 0.8%, however, both sectors were outpaced by mortgage-backed securities' (MBS) 1.7% advance. Credit spreads continued to narrow and remain near historic tights, and jitters around systematic risks during the quarter proved to be short lived.

Metals and Energy Continued to Diverge

The Bloomberg Commodities Index moved steadily higher during the fourth quarter, ending with a 5.8% gain. Metals and energy prices diverged last quarter with West Texas Intermediate (WTI) crude oil continuing to struggle amid oversupply concerns, leaving prices 6.6% lower at quarter-end. WTI closed the year 15% lower, below $57 per barrel, after prices peaked early in 2025 before struggling to find traction amid OPEC+ production hikes, surging non-OPEC output, and sluggish demand from a cooling global economy. Natural gas prices closed the fourth quarter 7.4% lower, also shedding over 15% last year.

Meanwhile, gold's record setting year powered onwards and upwards as the yellow metal rallied another 11.9% last quarter. Gold prices rose 64.6% in 2025 on the back of Fed rate cuts, as the non-yielding bullion historically benefits from lower rate environments, while global central banks continued to diversify their reserve holdings and ETF inflows remained elevated. Nonetheless, silver stole the spotlight with a 53.6% quarterly rally — bringing its year-to-date return up to 148% — amid concerns of a supply shortage due to elevated technology industry demand. Grains edged higher and soft commodities declined.

All commodities performance is based on Bloomberg commodity indexes.

A Look Ahead

Economy. The economic landscape remains dynamic and complex, although risks are broadly tilted to the upside in the new year. Looking ahead, investors should consider the following:

- **Growth Rebound.** The U.S. economy is expected to experience a modest slowdown in early 2026 before rebounding later in the year. Underlying resilience from AI-driven investment and fiscal spending should help offset weaker household activity and steer the economy clear of a recession.
- **More Cuts Likely on the Way.** We anticipate the Fed will proceed with gradual rate cuts this year, balancing inflation concerns with a softening labor market. As the Fed remains committed to cutting rates, retail rates will eventually follow suit.
- **Cooling Labor Market.** The labor market is expected to cool, evidenced by declining job openings, moderating wage growth, and employers signaling caution. However, this slowdown will not be evenly felt as high-income households will continue to navigate the environment with relative ease while lower-income workers will bear the brunt of reduced hiring and tighter financial conditions.
- **Non-Recessionary Environment.** Headline inflation may run hotter to start the year before inflation pressures recede, broadly due to softer household demand. While the U.S. economy should be sluggish in the first half, it is also expected to avoid a full-blown recession due to tailwinds from additional Fed rate cuts and business friendly dynamics from the One Big Beautiful Bill Act (OBBBA), in our view.

Stocks. The stock market in 2026 could look a lot like 2025, as some cyclical drivers from the past year continue in the new year. Several powerful cycles should help push stocks higher this year, although more episodes of market volatility should be expected. Looking ahead, investors should consider the following:

- **Policy Tailwinds and AI to Power Equities.** A strong 2025 does not mean this advance in the stock market won't deliver more gains in 2026, and key pillars of support this year are expected to stem from the AI investment cycle, a supportive monetary policy cycle, and the stimulus boost from the OBBBA.

- **Earnings Are Riding the AI Wave.** The AI frenzy is reflected in expectations for double-digit S&P 500 earnings growth this year, with Magnificent Seven names likely to continue playing a significant role. The earnings growth gap between the Magnificent Seven and the rest of the market will likely persist, supporting large cap growth stocks, but expect this gap to narrow as the year progresses.
- **Valuations Remain Optimistic.** The favorable backdrop suggests stocks can at least hold their valuations, but it's difficult to make a case for meaningful multiple expansion. This means that earnings growth, rather than multiple expansion, will probably have to drive stock prices higher.
- **Market Divergence and Other Risks.** We believe this bull market should keep running, as most do at this stage. But rich valuations, narrow market breadth, AI investment scrutiny, and the propensity for higher volatility in mid-term years present risks to the rally. Watch for pullbacks to consider adding equities exposure.

Bonds. To end 2025, Treasury markets grappled with the ongoing Fed rate cutting campaign and, more specifically, how low the Fed will take the fed funds rate — dynamics which will likely continue into 2026 — while corporate credit markets digested idiosyncratic risks. Looking ahead, consider the following:

- **A Rangebound Yield Environment.** The direction and level of interest rates will depend on how low the Fed will take the fed funds rate in 2026. Markets expect the Fed to cut short-term interest rates to 3.0%, which, if true, means the 10-year will likely trade between 3.75% and 4.25% this year.
- **Credit Risks to Remain Contained.** Corporate credit markets are showing signs of idiosyncratic risks. However, corporate credit market spreads are still largely priced to perfection. While idiosyncratic risks will continue to increase, we do not expect systemic credit risks to rise.
- **Return Drivers.** Returns will be income-driven as Treasury yields stay rangebound and credit spreads remain tight; agency MBS and investment-grade corporates should outperform Treasuries, while riskier sectors face limited upside and higher default risk.

Please note: All return figures are as of December 31, 2025, unless otherwise stated.
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U.S. Treasuries may be considered "safe haven" investments but do carry some degree of risk including interest rate, credit, and market risk. They are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Fourth Quarter Performance Overview

Healthcare Posted a Standout Quarter Amid Rotation Dynamics

S&P 500 sector performance, ranked by fourth quarter returns*

Sector	Q4 2025
Healthcare	11.7%
Communication Services	7.3%
S&P 500	2.7%
Financials	2.0%
Energy	1.5%
Technology	1.4%
Materials	1.1%
Industrials	0.9%
Consumer Discretionary	0.7%
Consumer Staples	0.0%
Utilities	-1.4%
Real Estate	-2.9%

International Stocks Ended a Year of Outperformance on Top

Domestic and international asset class performance, ranked by fourth quarter returns*

Asset Class	Q4 2025
Large Foreign	4.9%
Emerging Markets	4.8%
Large Value	3.8%
Small Value	3.2%
S&P 500	2.7%
Russell 3000	2.4%
Mid Value	1.4%
Small Growth	1.2%
Large Growth	1.1%
Mid Growth	-3.7%

Fixed Income Sectors Ended the Fourth Quarter Mostly Higher, Led by EM Debt

Bond market performance, ranked by fourth quarter returns*

Sector	Q4 2025
EM Debt	2.4%
MBS	1.7%
Munis	1.6%
High-Yield Corporates	1.3%
Bank Loans	1.2%
High-Yield Munis	1.1%
Bloomberg U.S. Agg	1.1%
U.S. Treasuries	0.9%
Investment-Grade Corporates	0.8%
Foreign Bonds (Hedged)	0.5%
TIPS	0.1%
Foreign Bonds (Unhedged)	-0.5%
Preferred Stocks	-1.6%

*Source: LPL Research, Bloomberg 12/31/2025

All data as of 12/31/2025. All indexes are unmanaged and cannot be invested into directly. All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results. The sectors are represented by the 11 S&P 500 Global Industry Classification Standard (GICS) indexes. Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index.

Bond Market Asset Class Indexes: Foreign Bonds (hedged) – Citigroup Non-U.S. World Government Bond Index Hedged for Currency; Preferred Securities – Merrill Lynch Preferred Stock Hybrid Securities Index; Treasury – Bloomberg U.S. Treasury Index; Mortgage-Backed Securities – Bloomberg U.S. MBS Index; Investment-Grade Corporate – Bloomberg U.S. Corporate Bond Index; Municipal – Bloomberg Municipal Bond Index; Municipal High-Yield – Bloomberg Municipal High Yield Index; TIPS – Bloomberg Treasury Inflation-Protected Securities Index; Bank Loans – Bloomberg U.S. High Yield Loan Index; High-Yield – Bloomberg U.S. Corporate High Yield Index; Emerging Market Debt – Bloomberg Emerging Markets USD Aggregate Total Return Index Unhedged; Foreign Bonds (unhedged) – Citigroup Non-U.S. World Government Bond Index (unhedged).

Important Disclosures

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing. The economic forecasts set forth in this material may not develop as predicted. All performance referenced is historical and is no guarantee of future results.

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Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory.

Yield is the income return on an investment. This refers to the interest or dividends received from a security and are usually expressed annually as a percentage based on the investment's cost its current market value or its face value.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Small cap is a term used to classify companies with a relatively small market capitalization. The definition of small cap can vary, but it is generally a company with a market capitalization of between $300 million and $2 billion. The prices of small cap stocks are generally more volatile than large cap stocks.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Bloomberg Global Aggregate Index measures the performance of global investment grade debt. The index includes treasury, corporate, and securitized fixed-rate bonds. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The Russell 1000 Index consists of the 1,000 largest securities in the Russell 3000 Index, which represents approximately 90% of the total market capitalization of the Russell 3000 Index. It is a large-cap, market-oriented index and is highly correlated with the S&P 500 Index. The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK. The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

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