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QUARTERLY INVESTMENT REVIEW & OUTLOOK – Q4 2025

The markets finished 2025 strong, resulting in the 3rd consecutive year of positive equity returns. Fixed income continued its positive trend as well, producing solid results. The Fed delivered additional rate cuts during the quarter while ongoing political drama remained in focus. Looking ahead, the outlook remains favorable with focus on positive economic and corporate earnings growth expectations despite recent market highs and expensive valuations.

- **Equities:** Q4 produced positive equity returns across the board, led by international stocks. While the S&P 500 added 2.7% during the quarter and achieved an attractive 17.9% return on the year, it was international stocks that provided the most robust outcomes. MSCI EAFE returned 4.9% on the quarter and 31.2% during the year while MSCI Emerging Markets achieved a return of 4.7% on the quarter and 33.6% in 2025. Small caps achieved a solid return on the year as well, providing growth of 12.8%. It turned out to be quite a year, given the headlines and the significant drawdown in April resulting from tariff concerns. Corporate earnings proved resilient as EPS growth supported higher valuations. Big winners continue to be in the larger S&P 500 index names (NVDA, GOOG, MSFT), who contributed over 6% to the index return, but there was broadening out as 319 stocks across the index posted positive gains and this was the first year since 2021 that the Mag 7 contributed less than half of the index returns. Expectations heading into the new year remain positive with breadth of the market strong, earnings anticipated to grow at a reasonably healthy level, and favorable policy to provide stimulative support, although don't be surprised to see enhanced volatility and above-historical-average valuations to be tested.

- **Fixed Income:** The Fed followed its September rate cut with two additional reductions in Q4, which met expectations. As a result, the US Aggregate Bond Index had a strong quarter (+1.1%) and produced a favorable return on the year (+7.3%). The credit markets continued to produce positive results with Investment Grade Corporates returning 0.8% on the quarter and 7.8% on the year while High Yield Bonds produced a return of 1.3% on the quarter and 8.6% on the year. Federally Tax-Free Municipal Bonds maintained its attractiveness with a 1.6% return on the quarter and 4.2% on the year and continue to offer favorable yields relative to taxable bonds. Spreads remain at multi-decade lows, continuing our preference for high quality over riskier segments, although the corporate bond curves are more positively sloped than the treasury curve causing interest in intermediate investment grade corporates. The US Treasury yield curve saw movement lower in general with the 2-year yield falling slightly from 3.6% to 3.5% and the 3-month yield moving from 4.0% to 3.7%, but the 10-year yield essentially started and finished at 4.2%. Consensus expects two rate cuts in 2026, although there is a wide range of views.

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- **Economy:** The U.S. economy remained resilient in 2025 with a strong Q4 as tariff and other headlines were shrugged off. Heading into the new year, expectations are positive as well, albeit potentially slowing growth. The Fed's current GDP forecast for 2026 is 2.3%. They currently remain focused on the employment side of their mandate as opposed to inflation. Given anticipated rate cuts, the impact from the One Big Beautiful Bill, and other quantitative easing activities, the economic environment seems favorable at this time. Inflation continues to be sticky and near-term pressures have generally receded, but there is the potential for upward pressure through accommodative policies so this will be watched closely. The consumer remains resilient, and have some stimulus coming, but delinquency rates for credit cards and student loans continue to pick up. The ISM Manufacturing PMI (47.9) denoted contraction in December for the 10th straight month, lagging expectations. However, the ISM Services PMI (54.4) beat expectations and appears more resilient as it drives the U.S. economy higher. Labor demand remains soft and appears to remain in a low-hiring, low-firing environment. While generally positive, uncertainty persists and the global economy is walking a thin line so successful decision making and navigation by policymakers will be watched closely.

2025 PERFORMANCE – BENCHMARK INDEXES

Index	Quarter	YTD	5 Yr Ann	10 Yr Ann	15 Yr Ann
S&P 500 (US large cap stocks)	**+2.7%**	**+17.9%**	**+14.4%**	**+14.8%**	**+14.1%**
S&P 400 (US mid cap stocks)	**+1.6%**	**+7.5%**	**+9.1%**	**+10.7%**	**+10.7%**
Russell 2000 (US small cap stocks)	**+2.2%**	**+12.8%**	**+6.1%**	**+9.6%**	**+9.5%**
MSCI EAFE (devel int'l large cap) - US$	**+4.9%**	**+31.2%**	**+8.9%**	**+8.2%**	**+6.6%**
MSCI EM (emerging mkts int'l) - US$	**+4.7%**	**+33.6%**	**+4.2%**	**+8.4%**	**+3.8%**
Bloomberg US Aggregate (US bonds)	**+1.1%**	**+7.3%**	**-0.4%**	**+2.0%**	**+2.4%**

Data as of 12/31/25. Returns represent total returns (dividends & capital appreciation/depreciation). Past performance is NOT predictive of future performance.