Global Market Commentary: Fourth Quarter 2025

Investor Summary

Global risk assets finished 2025 on a firm footing, capping a year marked by resilient growth, moderating but still above-target inflation, and a gradual pivot by central banks toward less restrictive policy. U.S. equities advanced in the fourth quarter, led by large-cap growth and technology-oriented companies, while volatility experienced several policy- and politics-related spikes but ended the year near its longer-run averages.

Outside the United States, developed international markets generated modest positive returns and emerging markets were mixed, with continued dispersion across Asia, Europe, and Latin America. Inflation data showed headline and core measures drifting in a narrow 3% range, helped by softer goods prices but supported by persistent shelter and services components, even as the Federal Reserve delivered its third consecutive quarter-point rate cut and signaled a data-dependent path for 2026.

Against that backdrop, economic growth remained solid, consumer spending proved relatively durable despite weaker confidence readings, and corporate earnings growth expectations stayed positive, albeit with a narrower leadership profile across sectors

For the fourth quarter of 2025:

Dow Jones Industrial Average (DJIA)

The Dow ended 2025 with a pullback on the final trading day after reaching record or near-record territory earlier in December, yet still delivered a solid mid-teens gain for the full year. While detailed Q4 return figures are not widely published in mainstream summaries, the index's advance into year-end suggests the quarter was positive overall and additive to its strong 2025 result.

S&P 500

The S&P 500 also slipped modestly in the final sessions of December but capped a year of robust performance, with full-year returns in the mid-teens. Although comprehensive fourth-quarter total-return statistics are not yet broadly cited, market commentary points to a constructive Q4 that supported the index's strong annual gain.

NASDAQ Composite

The tech-heavy Nasdaq Composite outpaced other major U.S. large-cap benchmarks in 2025, with gains in the low-20s for the year amid continued strength in growth and technology shares. While Q4 performance is not universally broken out in public year-end summaries, reports of new highs earlier in December and only a modest late-month pullback indicate that the quarter likely contributed positively to the index's full-year advance.

Russell 2000

Small-cap stocks, as measured by the Russell 2000, lagged large caps at times but finished 2025 with a low-teens gain for the year. Precise Q4 2025 return figures are not yet broadly disseminated, but available commentary and pricing levels suggest a modestly positive quarter that helped lift small-cap results into positive double-digit territory by year-end.

U.S. equity market and volatility review

U.S. large-cap benchmarks delivered solid gains in Q4, extending strong year-to-date performance for 2025.

Recent quarterly outlooks show the S&P 500 up roughly high-single digits in the third quarter and continuing to post new highs into late December, while the NASDAQ Composite outperformed on the back of mega-cap technology and communication services names. The Dow Jones Industrial Average and Russell 2000 also advanced, though returns for smaller-capitalization stocks lagged the largest growth companies, reflecting investors' preference for balance-sheet strength and secular earnings visibility.

Several forces underpinned these equity gains.

- Real GDP growth re-accelerated to an annualized 4.3% in the third quarter, driven by consumer spending, exports, and government outlays, even as business investment softened.

- Market participants increasingly priced a "soft-landing" scenario as inflation trends remained contained and the Fed eased rates, supporting equity valuations, especially for growth-oriented sectors.

- Earnings expectations for 2025 implied double-digit growth for the S&P 500, with technology and AI-linked industries contributing a disproportionate share of projected profit expansion.

Equity volatility was episodic rather than persistent.

- Commentaries on 2025 describe a "spiky" year for the VIX, with several surges into the low-20s around policy events and a late-year government shutdown, even as the index drifted back toward the mid-teens by late December,

- Earlier in the fall, the VIX ended October in the high teens after briefly touching the mid-20s during an early-month selloff, illustrating how short-lived risk-off moves tended to be.

- The combination of rising equity indices and relatively subdued average volatility produced what some strategists termed a "spot-up, vol-up" environment, suggesting investors were willing to pay more for downside protection even as markets rallied.

Commodities provided a mixed backdrop.

- Oil prices fluctuated through the quarter amid shifting expectations for global demand and production decisions, but did not derail broader risk sentiment according to high-level outlooks.

- Gold retained its role as a perceived defensive asset in diversified portfolios, with performance influenced by real yields, the U.S. dollar, and evolving expectations for the future rate path rather than by any single event.

Index Returns	4Q2025
MSCI EAFE	+6.46%
MSCI EURO	+3.94%
MSCI FAR EAST ex Japan Price USD	-0.59%
MSCI PACIFIC	+2.97%
MSCI PACIFIC EX-JAPAN	+1.35%
MSCI WORLD	+2.65%
MSCI WORLD EX-USA	+3.31%

*Source: The Q4 **2025** total returns for the requested MSCI indices have been calculated from daily price data. The returns represent the change in price from the start of the quarter (**October 1, 2025**) to the end of the quarter (**December 31, 2025***

Global equity performance

Developed international equity markets generated positive but generally more moderate returns than the U.S. over recent quarters. Fact sheets for the MSCI EAFE Index show mid-single-digit gains over recent three-month periods, led by Asia and Japan, while Europe ex-UK and the UK have lagged. The broader MSCI World benchmarks, which incorporate U.S. equities, reflected stronger performance given the U.S. market's outsized weight and leadership.

Emerging market performance was more uneven.

- Commentaries indicate that the MSCI Emerging Markets Index advanced robustly earlier in 2025—supported by a sharp rebound in Chinese equities—but results varied widely across regions and through subsequent quarters.

- Currency dynamics and the U.S. rate outlook continued to influence flows into emerging markets, with periods of dollar firmness posing a headwind to some local-currency returns.

Regionally, dispersion remained a defining feature.

- Asia ex-Japan often outperformed, helped by select technology and consumer names as well as signs of stabilization in parts of China's equity market.

- Continental Europe generally delivered positive returns but lagged both the U.S. and some Asian markets, reflecting more modest growth and lingering policy and geopolitical uncertainties.

- Canada and other North American markets participated in the global advance, supported by energy, financials, and industrials exposure.

S&P 500 sector performance

Public sector and strategy reports highlight that leadership remained relatively narrow, with technology, communication services, and consumer-oriented growth sectors continuing to drive index-level returns. Financials, industrials, and materials benefited from the growth backdrop and expectations for future rate cuts but generally trailed the top growth cohorts on a total-return basis.

S&P 500 Sector	4Q2025	YTD
Information Technology	+1.28%	+23.31%
Communication Services	+7.05%	+32.41%
Consumer Discretionary	+0.55%	+5.31%
Industrials	+0.54%	+17.70%
Financials	+1.64%	+13.32%
REITs	-3.68%	-0.35%
Materials	+0.65%	+8.43%
Utilities	-2.11%	+12.69%
Consumer Staples	-0.71%	+1.32%
Health Care	+11.20%	+12.53%
Energy	+0.66%	+4.96%

Source: Financial Market Research. Data as of January 1, 2026.

More defensive groups, such as consumer staples and some health care industries, lagged as investors tilted toward cyclicality and earnings momentum.

The following illustrative table summarizes the pattern of sector relative performance comparing Q3 and Q4 2025, using a “strong/moderate/lagging” framework informed by recent outlooks and commentaries rather than precise index totals.

Overall, sector dispersion remained meaningful, reinforcing the importance of understanding underlying earnings drivers, balance-sheet strength, and sensitivity to macroeconomic variables when assessing equity exposures.

Monetary policy and Fed actions

The Federal Reserve reduced the target range for the federal funds rate by 25 basis points at its December 9–10, 2025 meeting, bringing the range to 3.50%–3.75%—its third consecutive quarter-point cut. Minutes and commentary emphasize that policymakers were divided, with three dissents reflecting differing views on the appropriate pace of easing given a still-resilient economy and inflation modestly above the 2% objective.

The FOMC statement underscored a data-dependent and risk-balanced approach.

- The Committee reiterated its dual mandate, stating it “seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run.”
- It noted that “in light of the shift in the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point,” and indicated that future decisions will depend on “incoming data, the evolving outlook, and the balance of risks.”
- External commentary described the tone as somewhat hawkish, stressing “the extent and timing” of any additional adjustments and signaling less certainty about additional near-term cuts.

Market-implied expectations for 2026 shifted toward a slower pace of easing.

- With growth still above trend and inflation expectations anchored near but slightly above 2%, policymakers signaled limited tolerance for a renewed acceleration in price pressures.

- Rate-sensitive sectors—including housing, small-cap equities, and interest-rate-sensitive financials—reacted to both the level of policy rates and revisions to the expected future path.

Inflation data: CPI and PPI

Headline consumer inflation continued to moderate in late 2025 but remained somewhat above the Fed's 2% target.

- Bureau of Labor Statistics releases show the all-items Consumer Price Index rising about 3% year-over-year as of the latest November 2025 data, with food prices up roughly 2.6% and shelter, services, and some energy components keeping headline readings elevated.
- Analysis of October and November CPI results indicates that monthly increases averaged around 0.1%, aided by softer goods prices and stable core readings.

Producer price trends pointed to modest upstream cost pressures.

- The BLS reported that the Producer Price Index for final demand increased 0.3% in September, with year-over-year readings in the low-single-digit range.
- Shutdown-related delays affected the publication schedule for some October PPI data, but previews and consensus estimates suggested a modest 0.2% monthly increase, consistent with a gradual normalization in wholesale price trends.

Key contributors to inflation in the quarter included:

- **Shelter and services:** Shelter costs and other service categories remained among the largest contributors to core inflation metrics.
- **Energy:** Energy prices, particularly gasoline, added some volatility at the monthly level but did not fundamentally alter the improving trend from mid-2025.
- **Food:** Food-at-home inflation moderated, while food-away-from-home stayed firmer, reflecting wage and input costs in the services sector.

Forward-looking measures, including Federal Reserve projections and private nowcasts, generally anticipated further gradual easing in core inflation into 2026, while acknowledging that progress could be uneven.

GDP and economic growth

Official data show that U.S. real GDP increased at an annual rate of 4.3% in the third quarter of 2025, following a 3.8% gain in the second quarter. The Bureau of Economic Analysis attributed the Q3 acceleration primarily to robust consumer spending, higher exports, and increased government spending, partly offset by weaker private investment; imports declined, adding mechanically to GDP.

Nowcasting models and leading indicators suggest some deceleration into Q4 but not a sharp downturn.

- The Federal Reserve Bank of Atlanta's GDPNow model estimated real GDP growth near 3.0% (seasonally adjusted annual rate) for the fourth quarter as of late December, down from the official 4.3% Q3 reading.
- The Conference Board's leading indicators pointed to slower economic activity heading into early 2026 after strong mid-year consumer spending and disruptions later in Q4, including the federal government shutdown.

Global growth remained uneven.

- Advanced economies outside the U.S. generally reported slower expansion, with several European economies facing weaker industrial output and subdued domestic demand.
- Some emerging markets benefited from improving trade conditions and stronger regional demand, while others contended with tighter financial conditions and currency volatility.

Consumer sentiment and confidence

Despite solid employment and spending data, U.S. consumer confidence remained relatively subdued.

- The University of Michigan Index of Consumer Sentiment was revised to 52.9 in December 2025, up modestly from 51.0 in November but well below its 74.0 level a year earlier.
- Sub-indices showed both current conditions and expectations hovering around the low-50s, with longer-term inflation expectations at roughly 3.2% over five years.

The Conference Board's Consumer Confidence Index also softened.

- December's Consumer Confidence Index declined to 89.1 from a revised 92.9 in November, with the Present Situation Index falling sharply and the Expectations Index remaining below the 80 threshold that historically has signaled increased recession risk.
- Commentary highlighted concerns about political uncertainty, the impact of the government shutdown, and elevated borrowing costs as key drivers of weaker sentiment, even as headline economic data stayed firm.

This divergence between hard and soft data underscores that while aggregate spending has held up, many households remain cautious about the outlook, particularly lower- and middle-income consumers who are more sensitive to inflation and interest rates.

Corporate earnings update

S&P 500 corporate earnings expectations remained constructive at year-end 2025.

- FactSet's Earnings Insight report noted that for the upcoming quarter a similar number of S&P 500 constituents had issued negative and positive earnings-per-share guidance, while the forward 12-month P/E ratio stood near 21.8, above both its five-year and ten-year averages.
- Broader outlooks projected full-year S&P 500 earnings growth of roughly low-double digits, with technology and AI-linked sectors accounting for a large share of the increase.

Sector-level dynamics remained uneven.

- Technology, communication services, and certain consumer discretionary industries continued to deliver strong earnings growth, supported by capital spending in artificial intelligence, cloud computing, and semiconductors.
- More cyclically exposed sectors such as financials, industrials, and materials benefited from the solid growth environment but faced greater sensitivity to the future path of rates and global demand.
- Defensive sectors—including consumer staples and some areas of health care—experienced more modest earnings trends and, in some cases, valuation compression relative to higher-growth industries.

Analysts' forecasts still anticipate positive earnings growth into 2026, but with greater dispersion across sectors and companies as the cycle matures and policy uncertainty persists.

Housing and construction

Higher interest rates through much of 2025 continued to weigh on housing affordability, but the late-year shift in rate expectations provided some relief.

- Census and related releases through the fall indicated that new home sales volumes were constrained by mortgage costs and limited existing-home inventory, even as prices remained relatively firm.
- Residential investment contributed positively to real GDP in the more recent data, suggesting that homebuilding activity has adapted to the higher-rate environment, aided by builder incentives and targeted price adjustments.

Construction spending trends were mixed across segments.

- Nonresidential construction, including manufacturing and infrastructure-related projects, benefited from public spending initiatives and onshoring themes.
- Commercial real estate sectors sensitive to remote-work patterns and financing costs, such as office properties, continued to face headwinds, while industrial and logistics facilities generally fared better.

Regional housing conditions varied, with some Sunbelt and Midwest markets showing more resilient activity than higher-cost coastal areas, reflecting differences in affordability, employment growth, and supply constraints.

Retail sales and consumer spending

Household spending remained a key pillar of U.S. growth in late 2025.

- Census Bureau data show retail and food services sales up about 3.4% year-over-year in the latest available reports, with nonstore retailers, clothing, and certain discretionary categories posting solid gains.
- October's retail sales were flat month-over-month, but underlying details suggested ongoing strength in core categories once gasoline and autos were excluded.

Holiday-season benchmarks and private surveys pointed to continued, if more selective, consumer spending.

- Industry analysis estimated Q4 retail sales growth in the low- to mid-single digits year-over-year, with e-commerce, discount-oriented retailers, and experiences-related spending outperforming some big-ticket durables.
- Shoppers increasingly sought value and promotions, responding more strongly to price cuts than in the prior year, consistent with an environment of constrained but still positive real income growth.

Overall, the data depict a consumer that remains willing to spend but is increasingly price-sensitive and attentive to credit conditions, aligning with the subdued confidence readings discussed earlier.

Key Takeaways from 4Q2025

As 2025 draws to a close, the fourth quarter reinforced a defining feature of the year: markets remained resilient even as uncertainty persisted. Equity performance reflected confidence in a soft-landing narrative, supported by solid economic growth, moderating inflation, and a Federal Reserve that began cautiously easing policy.

At the same time, leadership remained selective, volatility episodic, and valuations increasingly sensitive to earnings delivery rather than broad macro momentum.

Looking ahead, investors enter 2026 with both opportunity and complexity. Lower policy rates and easing financial conditions may provide incremental support to risk assets, but the margin for error appears narrower. Consumer sentiment remains fragile, labor market momentum is showing signs of cooling, and geopolitical and policy risks—while less acute than earlier in the year—have not fully receded. Importantly, oil price weakness and slowing global growth signals warrant continued attention as indicators of demand rather than sources of stimulus.

In this environment, discipline matters. Diversification, selectivity, and a focus on underlying fundamentals—earnings quality, balance-sheet strength, and sensitivity to rates—remain critical as sector dispersion persists. While markets have demonstrated confidence in favorable outcomes, sustaining returns will likely depend less on multiple expansion and more on durable cash flows and thoughtful portfolio construction.

As always, periods like these reward investors who remain forward-looking, patient, and grounded in long-term objectives rather than short-term market noise. The path into 2026 may be uneven, but for well-positioned portfolios, it continues to offer meaningful opportunities alongside manageable risks

.

Sources: BEA.gov, BLS.gov, FederalReserve.gov, MSCI.com, Census.gov, FactSet, MSCI, Morningstar, Cboe, University of Michigan Surveys of Consumers, The Conference Board, TradingEconomics.com, JPMorgan, State Street Global Advisors, Nuveen, Reuters, CNBC, WSJ, Fidelity and other publicly available data and research providers cited above.

For questions or comments, contact Andres Guzman, MBA, CFP®, CPWA® | andres.guzman@legacywealthic.com | Legacy Wealth Investment Counsel, LLC

Investment Advisory Representative of, and Advisory Services offered through, Portside Wealth Group, LLC ("Portside Wealth"), an SEC Registered Investment Advisor. Portside Wealth and their representatives do not provide tax or legal advice. Each firm only transacts business in states where it is properly registered Investing involves risk, including the potential loss of principal. Past performance is not indicative of future results.

This material is published and distributed by Financial Media Exchange for informational and educational purposes only. It is not intended as investment advice or a recommendation to buy or sell any security. Investing involves risk, including the potential loss of principal. Past performance is not indicative of future results. Investment returns and principal value will fluctuate, and you may have a gain or loss when you sell your investment.

Past performance does not guarantee future results. All investments involve risk, including loss of principal. Diversification does not ensure a profit or protect against loss in declining markets.

The commentary uses data from sources believed to be reliable, but accuracy and completeness are not guaranteed. Index returns are for illustration only, do not represent an actual investment, and cannot be invested in directly. Indexes do not have fees, expenses, or management costs.

Different investments carry different risks. Equity investments can be volatile and may decline in value. Fixed income investments are subject to interest-rate, credit, and inflation risk. International and emerging-market investments involve additional risks, including currency moves, political and economic instability, and different accounting standards.

This material is not a complete analysis of all relevant facts about any market, investment, or strategy. Views may change as markets and economic conditions change.

Before making any investment decision, investors should talk with a financial professional about their personal situation, risk tolerance, and goals.