MARKET COMMENTARY

Q4 2025 COMMENTARY

Economic Summary

U.S. equities delivered another strong year in 2025, extending the post-2022 recovery and finishing near record highs. Returns were not linear, as markets periodically digested tariff-related headlines and bouts of volatility, but the dominant driver remained an Artificial Intelligence (AI) growth narrative supported by resilient earnings and sustained capital investment.

In recent years, U.S. equity returns have been disproportionately driven by the ten largest companies, many of which are tied to cloud computing, semiconductors, and AI (Chart 1). This narrowing breadth has increased concentration in market cap weighted benchmarks, making index returns more dependent on a handful of stocks and amplifying downside risk if valuations compress or earnings momentum fades. Notably, the S&P 500®'s top ten constituents now represent roughly 40% of the index, the highest level in about 35 years (Chart 2).

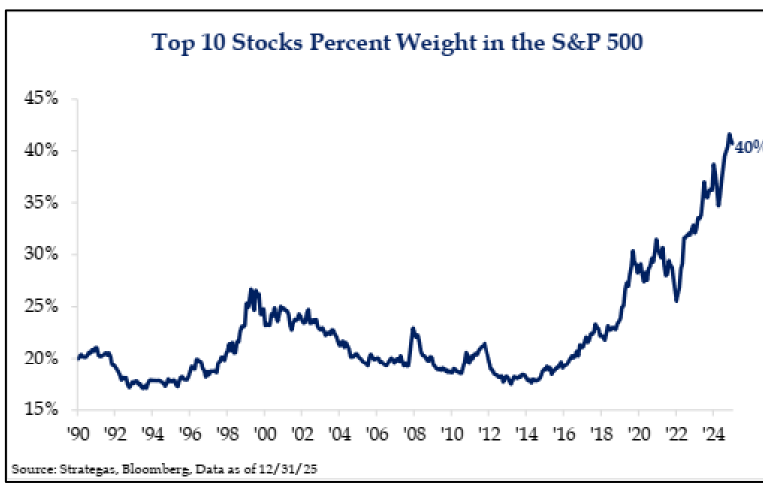
Expectations for 2026 corporate earnings remain constructive, with many forecasters projecting another year of mid-teen's growth as easier monetary policy, a resilient economy, and continued AI-related investment support revenues and margins. That earnings delivery matters more than usual because equities are entering the year at valuations well above historical averages, leaving less room for disappointment.

With U.S. midterm elections in 2026, markets may experience higher volatility as policy uncertainty increases and control of Congress comes into focus (Chart 3). Shifting expectations for taxes, spending, regulation, and trade can lift the equity risk premium

Annual S&P 500 Contribution of 10 Largest Weights During Positive Performance Years

Year	Top 10 as % of Total	S&P 500 % Perf.
2007	78.7%	3.5%
2023	68.4%	24.2%
2024	68.1%	23.3%
2020	58.9%	16.3%
2025	**57.3%**	**16.4%**
1999	54.5%	19.5%
2021	45.0%	26.9%
1998	36.8%	26.7%
1996	33.9%	20.3%
2017	33.3%	19.4%
2019	32.8%	28.9%
1991	28.6%	26.3%
2006	27.6%	13.6%
2016	26.6%	9.5%
2003	23.6%	26.4%
1995	22.3%	34.1%
2014	22.2%	11.4%
2004	21.1%	9.0%
2005	20.5%	3.0%
2010	19.6%	12.8%
2012	19.2%	13.4%
1997	19.1%	31.0%
2013	17.6%	29.6%
2009	15.5%	23.5%
1992	14.9%	4.5%
1993	12.2%	7.1%

Source: Strategas, Bloomberg, 12/31/25



Charts 1&2

Source: Strategas Research Partners, "Quarterly Review in Charts", 1/5/26

Past performance does not guarantee future results.

Economic Summary (continued)

and widen sector dispersion, but once the political outlook clarifies, markets typically refocus on fundamentals such as earnings, growth, and monetary policy.

The Stock Market

Mega-cap technology stocks again led the market, pushing the NASDAQ Composite up 21% for the year (Chart 4). For a third consecutive year, the NASDAQ outpaced both the S&P 500® and the Russell 2000®, underscoring the market's continued preference for large, high-quality growth companies. The large-cap S&P 500® gained 18%, while the small-cap Russell 2000® rose 13% and trailed large caps for the third straight year.

Style leadership followed a similar pattern. Growth stocks continued to outperform value in 2025, with the Russell 1000® Growth Index rising 19% versus a 16% gain for the Russell 1000® Value Index (Chart 5). Investor enthusiasm around AI, along with the earnings durability demonstrated by mega-cap technology leaders have remained a primary driver of the performance gap.

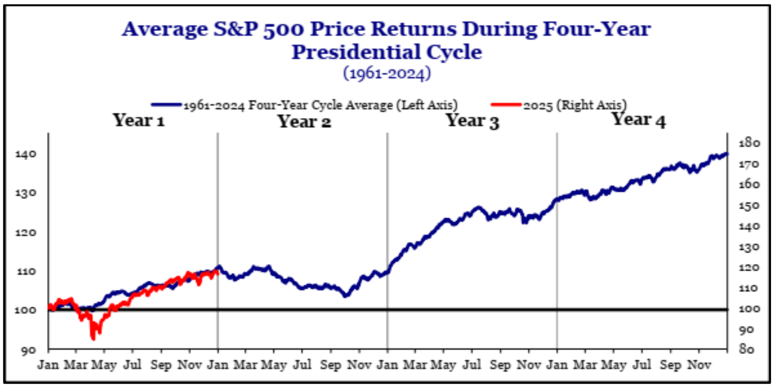


Chart 3
Source: Strategas Research Partners, "Quarterly Review in Charts", 1/5/26

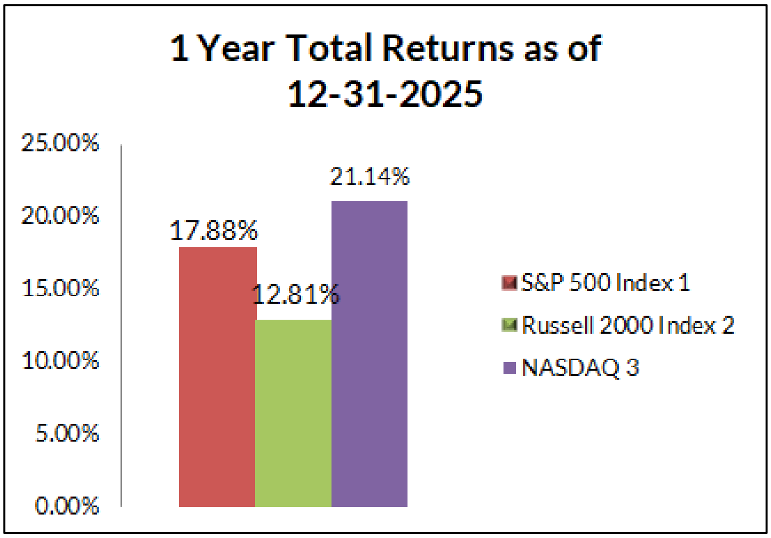


Chart 4
Source: Morningstar Direct

[1]The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. [2]The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index. [3]The NASDAQ Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange (more than 2500 stocks). You cannot invest directly in an index. [4]The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. [5]The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.

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The Stock Market (continued)

At the sector level for the S&P 500®, Communications, Technology, and Industrials were top performers for the quarter, delivering returns of 32%, 24%, and 23%, respectively. Conversely, Real Estate, Consumer Staples, and Consumer Discretionary lagged, posting returns of 3%, 4%, and 5%, respectively.

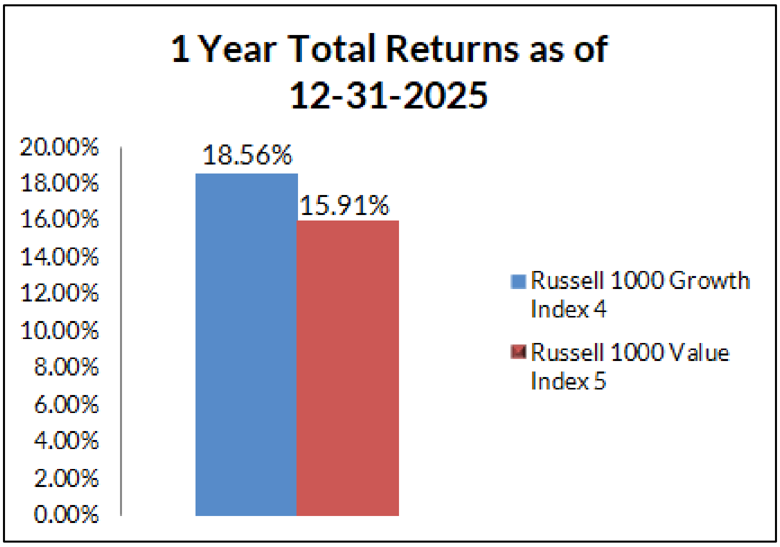

Chart 5
Source: Morningstar Direct

Equity valuations are starting 2026 at elevated levels, which raises the bar for another year of outsized gains. The caution is that markets have already delivered three straight years of double-digit returns, a pattern that has occurred only a handful of times historically. A fourth consecutive double-digit year has been uncommon, especially when starting valuations are rich and much of the good news is already priced in. In this environment, an actively managed portfolio diversified across high-quality companies trading below fair value estimates should be better positioned if market leadership broadens or if the narrative shifts away from today's momentum-driven leaders.

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The Bond Market

The 10-year U.S. Treasury note began the year yielding 4.6% and finished at 4.2%. Over the course of the year, the Federal Reserve (the Fed) reduced short-term interest rates three times, taking the federal funds target range from 4.25%–4.50% to 3.50%–3.75%. Policy messaging also evolved toward sustaining full employment, even as inflation remained above the Fed's previous objective of 2%. If this emphasis persists, it could leave room for additional rate cuts, particularly if growth softens even with inflation still elevated.

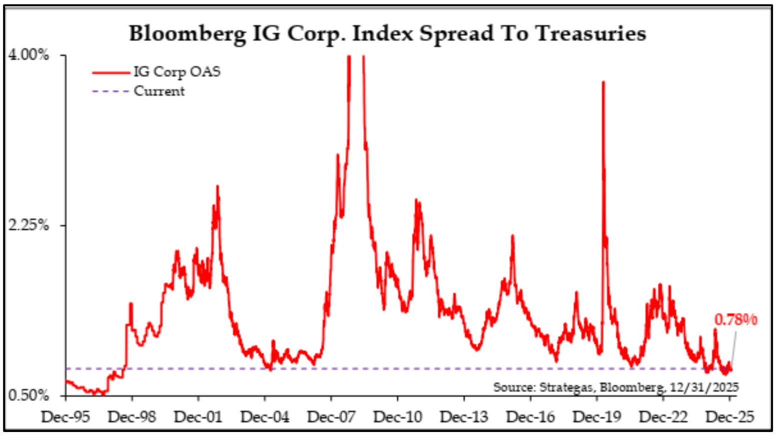

Chart 6
Source: Strategas Research Partners, "Quarterly Review in Charts", 1/5/26

Corporate credit spreads widened in April amid tariff-related headlines but gradually tightened into year-end (Chart 6). Spreads ended the year near historically low levels, reflecting supportive market conditions but leaving investors less compensated for taking incremental credit risk. Against this backdrop, investors should be disciplined when adding incremental credit exposure, especially in lower-quality segments where today's spreads provide limited compensation for additional risk.