# COMMENTARY

## Q4 2025

The 2025 market year was a period of remarkable endurance, defined by a tug-of-war between aggressive policy shifts and persistent underlying momentum. For the third consecutive year, U.S. equities notched double-digit gains, with the S&P 500 returning 17.8%. This performance extended a powerful streak in which the index has seen double-digit growth in seven of the last nine years. However, the path through 2025 was far from predictable.

Volatility reared its head in April in the aftermath of the “Liberation Day” press conference. When President Trump introduced his comprehensive reciprocal tariff plan, markets initially recoiled in uncertainty. This period marked the most challenging stretch of the year, as investors scrambled to model the impact of these tariffs on corporate earnings and consumer behavior. The initial panic eventually proved overblown, as a series of trade deals and extensions were reached. Consequently, the S&P 500 rallied over 38% from its April lows, ultimately securing 38 new record-high closes before the year’s end.

While U.S. equities continued their strength, the real surprise came from abroad. International markets stole the spotlight, with the MSCI EAFE surging 31% and the MSCI Emerging Markets climbing 33.4%. This international outperformance was fueled by multiple expansion, earnings growth, and a declining U.S. dollar, which boosted the value of foreign assets for domestic investors. Market sentiment also continued to be influenced by artificial intelligence, though the “AI trade” began to face new layers of scrutiny. Corporate adoption and demand for accelerated compute drove capital expenditures toward an estimated $400 billion mark for 2025. A sense of caution emerged, however, as many large participants shifted from funding this growth through operating cash flows to debt issuance. Concerns regarding the circularity of these investments also grew, particularly regarding OpenAI’s need to scale revenue exponentially to meet its massive financial commitments.

On the policy front, the landscape was reshaped by both the Federal Reserve and Congress. The Fed performed a delicate balancing act as the labor market cooled into a “low hire, low fire” environment while inflation remained above target. In response, the Fed cut its policy rate three times and halted the reduction of its balance sheet. The combination of falling interest rates and tight credit spreads allowed fixed income to flourish, with the Bloomberg U.S. Aggregate Index returning over 7.2%. Simultaneously, the passage of the One Big Beautiful Bill Act (OBBBA) provided a massive fiscal tailwind by permanently extending the 2017 tax cuts.

As we look toward 2026, the market’s trajectory will largely depend on whether AI can remain a dominant driver of equity returns as the focus shifts from infrastructure to real-world productivity. This technological momentum must contend with a rising federal deficit, which threatens to sustain inflationary pressures. Lastly, a possible near-term catalyst will be the effects of the OBBBA. As tax breaks result in larger-than-usual returns hitting bank accounts this spring, this shift in consumer behavior could provide a significant, albeit temporary, lift to the broader economy.