Capital Market Review

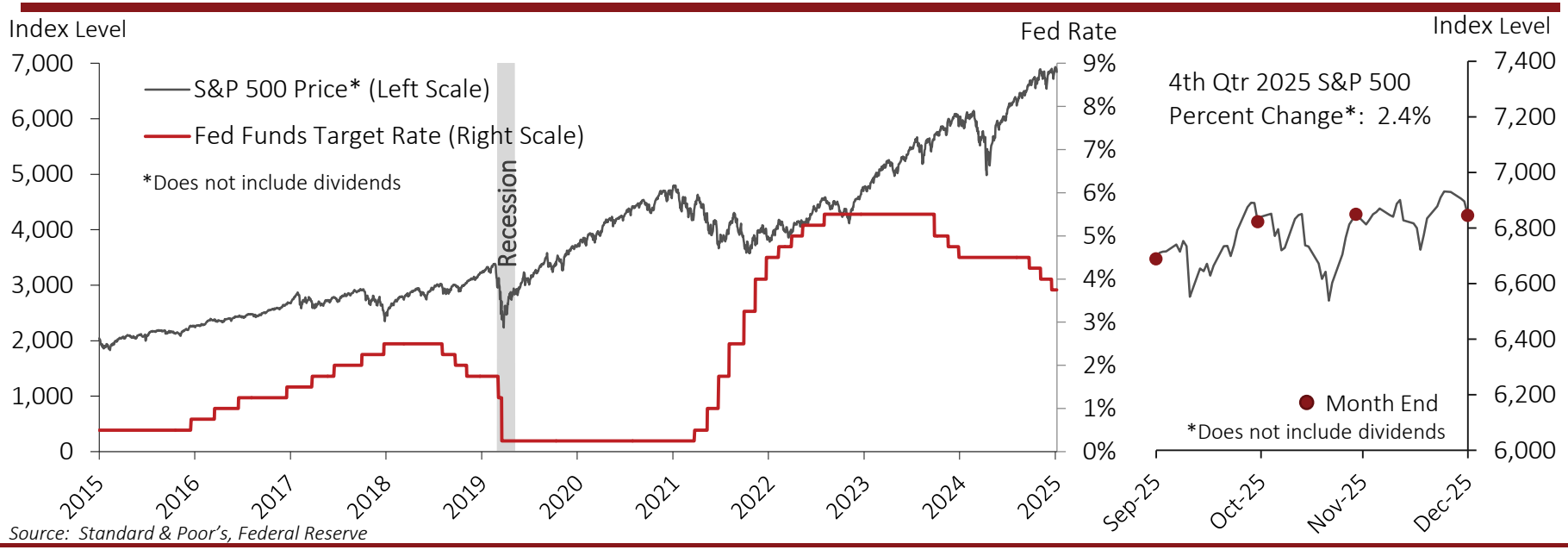
December 31, 2025



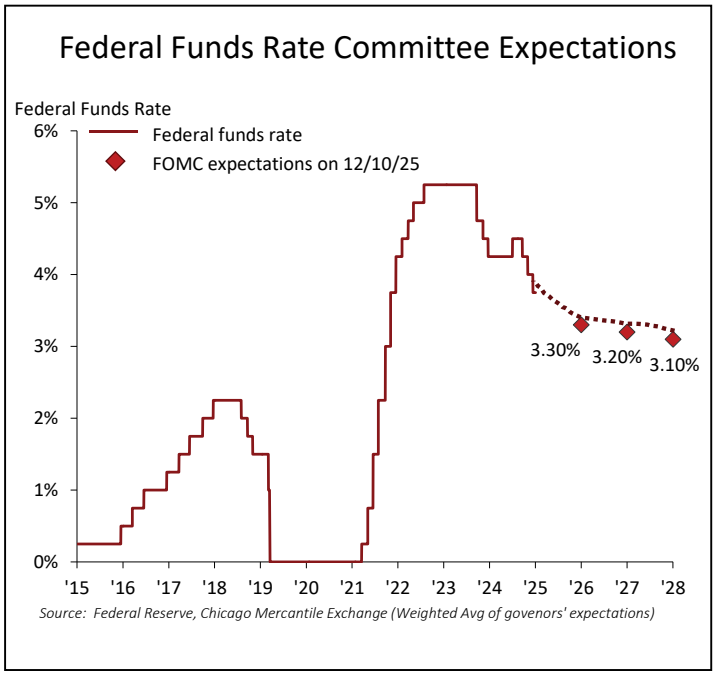

DeMarche

Watch the Capital Markets Review Key Takeaways Video

All's Well That Ends Well

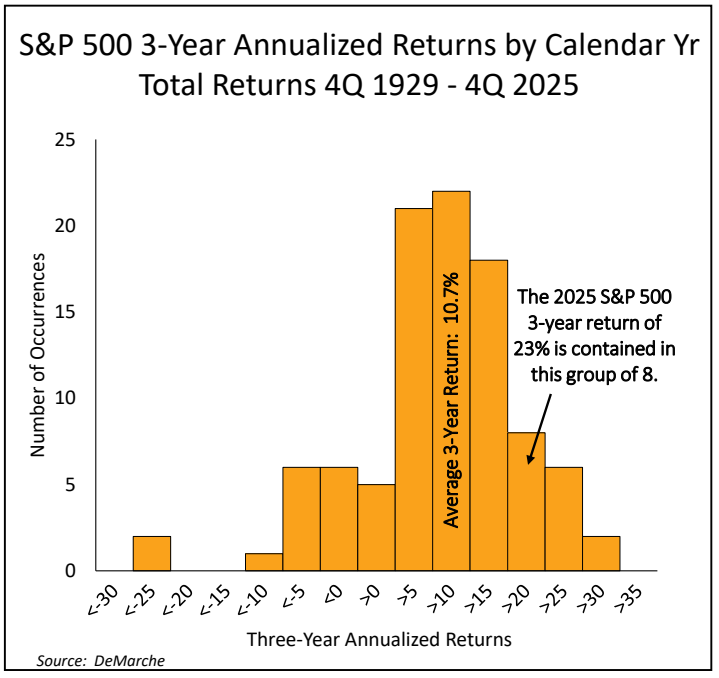


Source: Standard & Poor's, Federal Reserve



Source: Federal Reserve, Chicago Mercantile Exchange (Weighted Avg of govenors' expectations)

Global growth slowed slightly in the beginning of 2025, due to global trade tensions and interest rate uncertainty. Those concerns faded in the second half as multiple central banks cut interest rates. The chart to the left shows the expectation for the Fed to continue rate cuts. It looks like the majority of the cuts are behind us. Equities responded well in this backdrop with the S&P 500 posting strong returns for the third year in a row. In fact, the S&P's three-year run is one of the better returns on record, as seen to the right. Of the 97 rolling three-year observations since 1929, only 11 three-year returns have been better than the current period's.



Source: DeMarche

Broad Market Overview

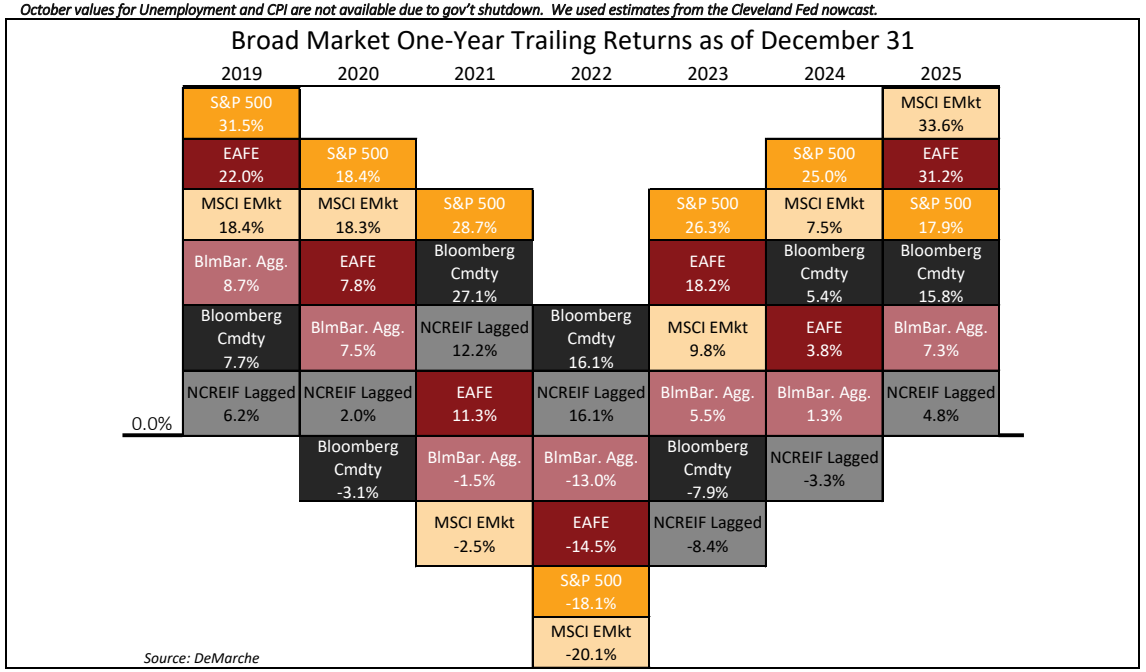
December 31, 2025

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	3.1	21.1	21.2	12.1	12.2
Russell 3000	2.4	17.1	22.2	13.1	14.3
S&P 500	2.7	17.9	23.0	14.4	14.8
MSCI EAFE USD	4.9	31.2	17.2	8.9	8.2
MSCI Emerging Markets USD	4.7	33.6	16.4	4.2	8.4
Bloomberg Aggregate	1.1	7.3	4.7	-0.4	2.0
Bloomberg Global Aggregate	0.2	8.2	4.0	-2.1	1.3
FTSE Non-US Gov't Bond	-0.5	8.5	2.8	-5.2	-0.2
NAREIT (Public RE)	-2.7	1.7	5.7	4.4	5.5
Bloomberg Commodity	5.8	15.8	4.0	10.6	5.7

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.

Indicator Year Ending 12/31	2025	2024	2023	2022	50-YEAR Average
GDP Annual Growth Rate*	5.3	2.4	3.2	1.3	2.8
Unemployment*	4.4	4.1	3.7	3.5	6.1
Inflation (CPI)*	3.2	2.9	3.4	6.5	3.6
10-Year Interest Rate	4.2	4.6	3.9	3.9	5.8

**Note: Prior to the GDP quarterly release from BEA, we show the most recent GDP Now growth rate estimate from the Federal Reserve Bank of Atlanta. October values for Unemployment and CPI are not available due to gov't shutdown. We used estimates from the Cleveland Fed nowcast.*



- The S&P closed the year up 17.9%, the third year in a row with a double digit return. Over the past three years the S&P 500 has been a powerhouse, advancing 23% annualized and far outpacing global markets.
- The Bloomberg Aggregate returned 7.3% for the past twelve months, helped along by a decrease in interest rates in 2025. In addition, the increase of interest rates in 2022 has elevated yields to the point where for the past three years, investment grade bonds have returned 4.7%.
- International stocks have been on a tear the last twelve months, posting returns of over 30% for both developed and emerging market equities. The dollar weakening earlier in the year and market rotation in the 4th quarter provided a nice tailwind to international stocks.
- The chart to the left shows the value of diversification. Emerging market and developed international stocks led global equities this year. Commodity prices improved, especially gold. Bonds and real estate are providing a return above the rate of inflation.

DeFact

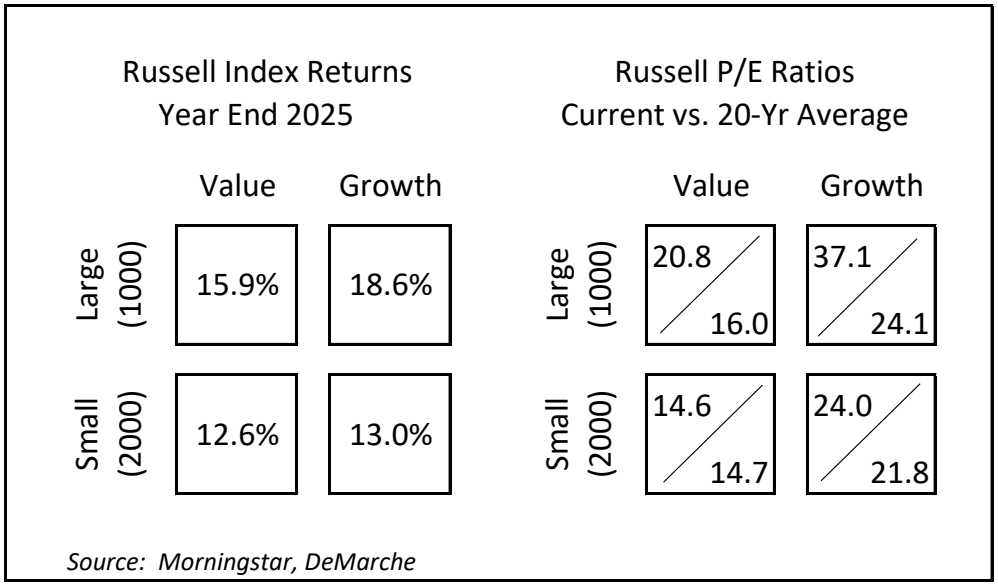
While the S&P 500 moved ahead in 2025, it also began to discern the winners and losers in the AI race. Only Broadcom, Alphabet and Nvidia, three of the top ten mega-cap companies outperformed the S&P 500 for 2025.

Domestic Equities

December 31, 2025

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500	2.7	17.9	23.0	14.4	14.8
S&P Mid-Cap 400	1.6	7.5	12.6	9.1	10.7
S&P Small-Cap 600	1.7	6.0	10.2	7.3	9.8
Russell 1000	2.4	17.4	22.7	13.6	14.6
Russell 1000 Growth	1.1	18.6	31.2	15.3	18.1
Russell 1000 Value	3.8	15.9	13.9	11.3	10.5
Russell 2000	2.2	12.8	13.7	6.1	9.6
Russell 2000 Growth	1.2	13.0	15.6	3.2	9.6
Russell 2000 Value	3.3	12.6	11.7	8.9	9.3

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.



Source: Morningstar, DeMarche

- The rotation from more speculative stocks into more value oriented stocks was prevalent in the quarter as both large and small value stocks outperformed their growth counterparts. Over the past three years, growth has had a big lead, especially in large cap stocks.
- Small cap stocks performed in-line with large cap stocks for the quarter but still lag over longer time periods. Health care was the best performing sector in the small cap index for the quarter and one year. All other sectors had an up-and-down year.
- The chart to the left shows that even though large cap growth stocks are expensive relative to history, all areas of the market seem pricey also. Small cap value stocks P/E ratio is in-line with longer term history. In addition, small cap value stocks performed well in the past twelve months.

DeFact

On average, 12-month subsequent returns following an all-time high have been better than at other times, 10.4% compared with 8.8% when the market wasn't at a high. The effect then moderates as returns on a two- or three-year horizon have been in-line with each other, regardless of whether the market was at an all-time high or not. The S&P 500 closed at "all-time-highs" 39 times in 2025. ~Hartford, JP Morgan.

International Equities

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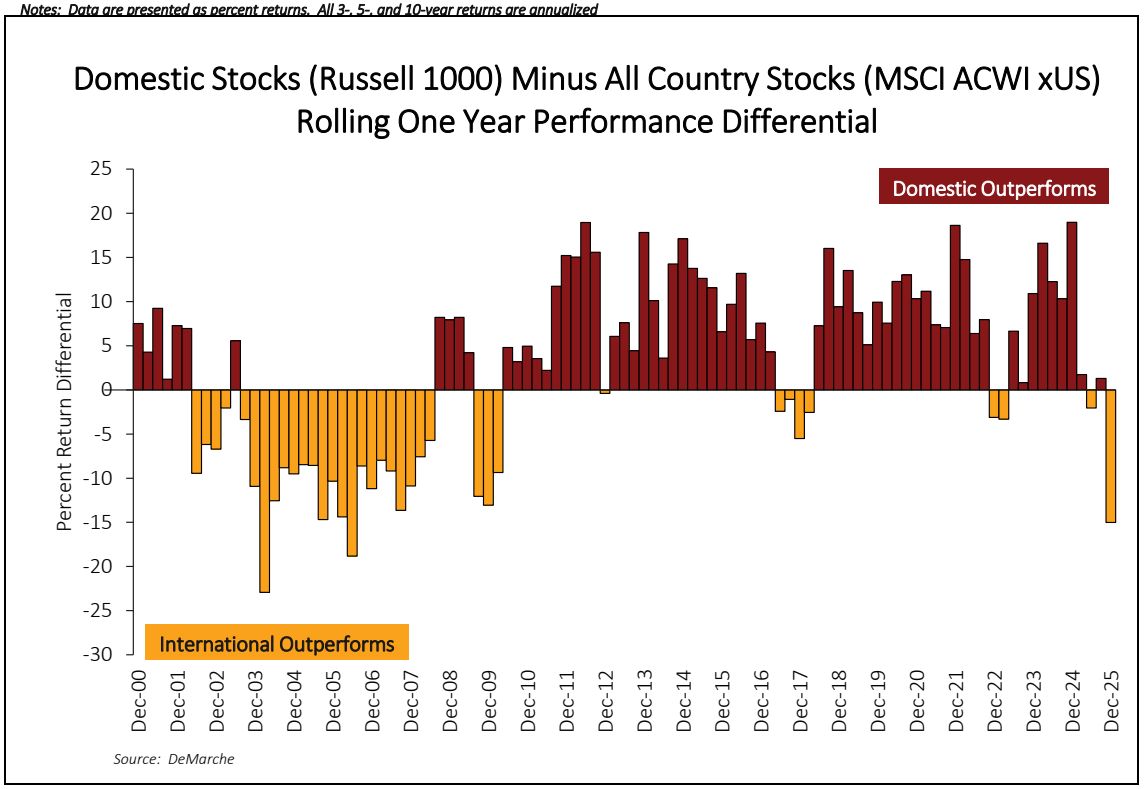
INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	6.1	20.6	15.9	11.5	8.6
MSCI EAFE USD	4.9	31.2	17.2	8.9	8.2
Growth	1.9	20.8	13.2	4.4	7.4
Value	7.8	42.2	21.4	13.4	8.7
MSCI All Country-ex US	5.1	32.4	17.3	7.9	8.4
MSCI AC Asia-ex Japan	4.3	32.3	16.2	3.7	8.5
MSCI Emerging Markets	4.7	33.6	16.4	4.2	8.4
MSCI EAFE Small Cap	2.7	31.8	15.0	5.6	7.5
MSCI Japan	3.2	24.6	17.5	6.6	7.6
MSCI China	-7.4	31.2	11.6	-3.2	5.5
MSCI Germany	2.6	36.3	22.7	8.6	7.6
MSCI France	3.4	28.4	13.9	8.9	9.0
MSCI UK	7.0	35.1	18.4	13.3	7.8

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized



- The weakness of the dollar in the first half of the year is evident in the returns for 2025. The return of the EAFE in local currency was 20.6%, but translated into dollars, the return jumps to 31.2%. Over longer time frames, the dollar has shown strength versus other global currencies.
- Emerging market stocks performed the best among global markets in 2025. The AI boom fueled massive demand for Korean memory chips from Samsung and SK Hynix, culminating in a return in excess of 100% for the MSCI Korean Index. In addition, Brazil and Mexico posted strong returns due to robust commodity prices in Brazil and nearshoring technology deployment in Mexico. Both countries returned over 40% for the year.
- The chart to the left shows the dominance of U.S. equities versus international equities since 2010, with years of outperformance with few exceptions. 2025 shows the best outperformance of international equities of the last 15+ years. The weakening dollar, European defense stocks and AI-related emerging markets stocks helped drive the leadership of international equities this year.

DeFact

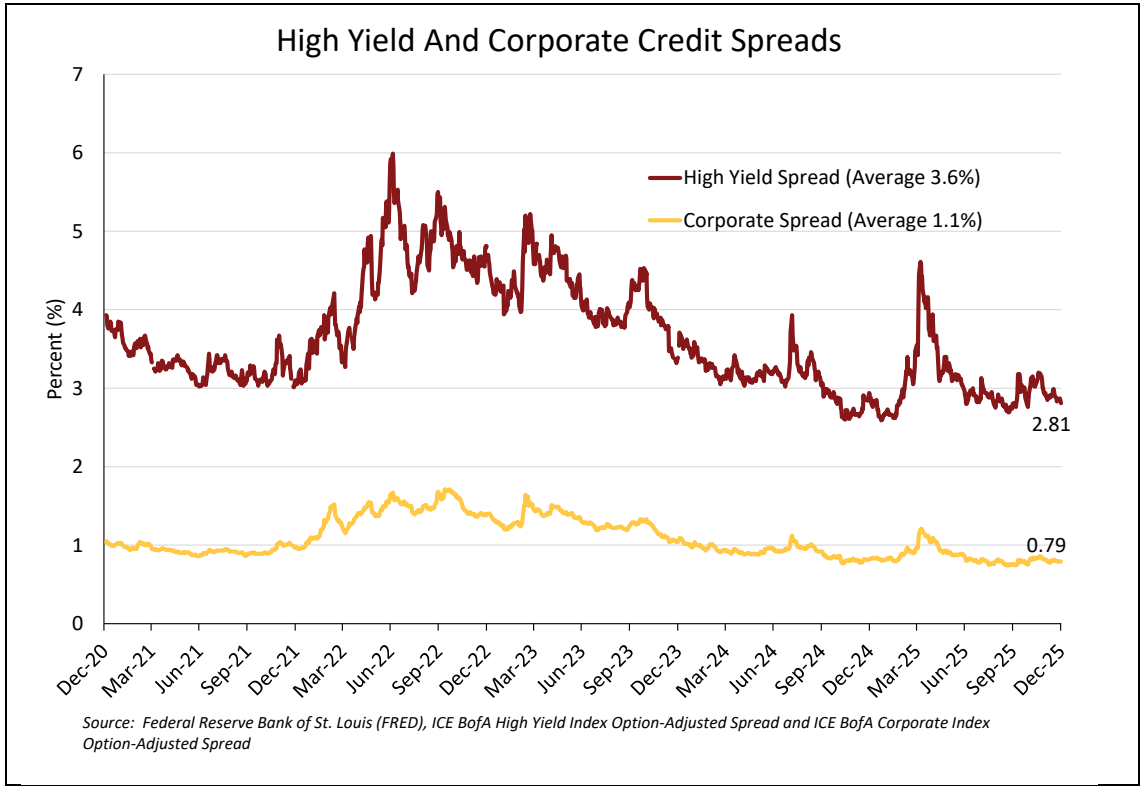
The trade-weighted dollar fell by 7% in 2025, its steepest decline since 2009. The euro was the major beneficiary, rising 13.4% against the dollar. Several factors such as interest rates, trade, and slowing economic growth expectations contributed to the relative decline of the dollar versus other currencies. ~DWS, JPMorgan.

Fixed Income

December 31, 2025

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Bloomberg Aggregate	1.1	7.3	4.7	-0.4	2.0
Bloomberg 1-3 Gov Credit	1.2	5.3	4.8	2.0	2.1
Bloomberg Gov Credit Long	0.0	6.6	3.1	-4.9	2.0
Bloomberg US TIPS	0.1	7.0	4.2	1.1	3.1
ICE BofA Merrill Lynch High Yield	1.4	8.5	10.0	4.5	6.4
S&P UBS Levgd. Loan (bank loans)	1.2	5.9	9.3	6.4	5.8
Bloomberg Global Aggregate	0.2	8.2	4.0	-2.1	1.3
Blmbrg EmgMkt Sovereign (hard)	3.3	14.3	10.6	1.8	4.4

Notes: Data are presented as percent returns. All 3, 5-, and 10-year returns are annualized.



Source: Federal Reserve Bank of St. Louis (FRED), ICE BofA High Yield Index Option-Adjusted Spread and ICE BofA Corporate Index Option-Adjusted Spread

- The rally in risk assets in 2025 extended to fixed income as credit spreads to Treasuries continue to be tight. Additionally, a decrease in interest rates helped returns along the maturity curve. The yield on the ten year Treasury closed 2024 at 4.57% and closed 2025 at 4.16%.
- High yield bonds returned 1.4% for the quarter and 8.5% for the year. The return is primarily coupon, as duration for high yield is shorter than investment grade bonds, and therefore, is less impacted by changes in rates than the Bloomberg Aggregate.
- Global bonds did well in the global backdrop of better economic fundamentals, weakening dollar and interest rate cuts. Emerging market debt had its best year since 2019 with a strong 14.3% return.
- The chart to the left shows that credit spreads to Treasuries have tightened back to where they were earlier in 2025. Spreads widened out in response to the tariff and trade uncertainty at the end of March and beginning of April. Tight credit spreads traditionally mean that investors are comfortable with the risks of owning corporate bonds.

DeFact

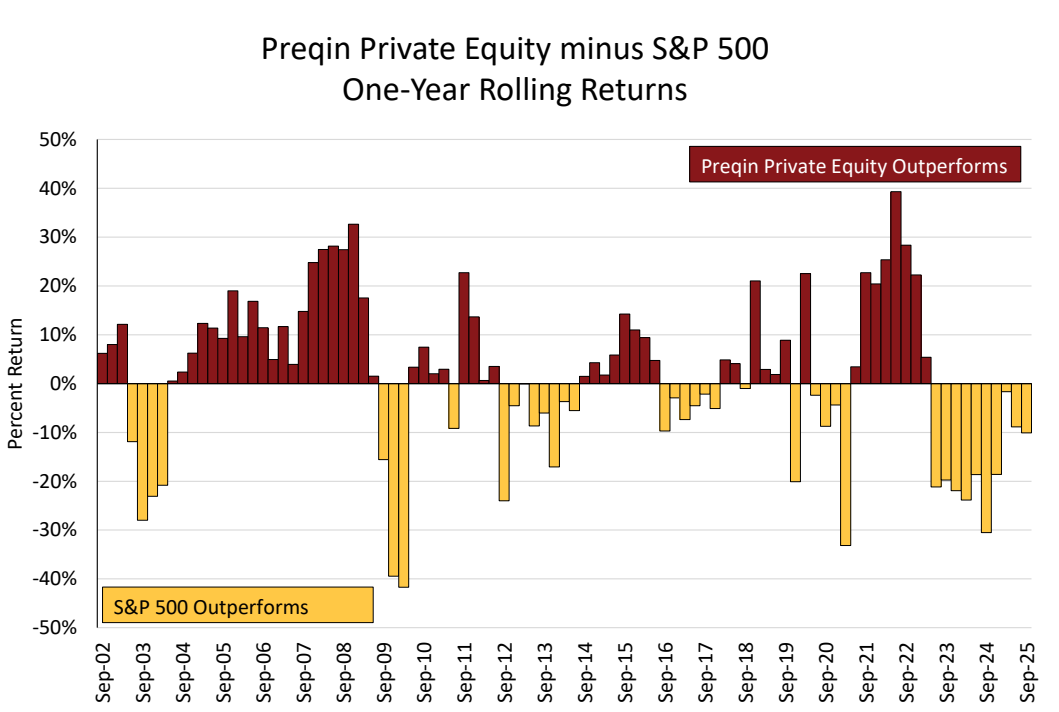
Helped along by rate cuts, the Aggregate returned 7.3% in 2025, its best calendar year return since 2020. However, it looks like the market expects rates to be above 3% for the foreseeable future. Over the past 30 years (120 quarters) the fed funds rate has ended a quarter above 3% only 48 times. ~DeMarche

Less Liquid Strategies – Lagged One Quarter

December 31, 2025

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF ODCE	0.7	4.0	-5.4	3.5	5.0
NCREIF Property (Private RE)	1.2	4.8	-2.5	3.8	5.1
Residential	1.4	5.3	-1.6	4.9	5.3
Industrial	1.0	4.5	-0.6	11.8	12.2
Office	0.9	1.9	-7.1	-2.8	1.4
Retail	1.3	7.0	2.6	3.0	3.0
NCREIF Timberland	0.7	4.4	8.1	8.4	5.4
NCREIF Farmland	0.5	-0.4	2.7	4.7	5.4
HFR FOF Composite	4.0	9.0	7.9	6.1	4.6
Conservative	3.0	7.5	6.5	6.3	4.3
Diversified	3.4	9.8	7.7	6.3	4.7
Preqin Private Equity	2.6	8.4	6.4	13.3	13.4
Private Debt	2.2	6.9	8.3	10.5	8.6
Preqin Infrastructure	1.5	7.0	8.5	11.0	9.5

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.
All data in the table above are as of 9/30



Source: Preqin, DeMarche

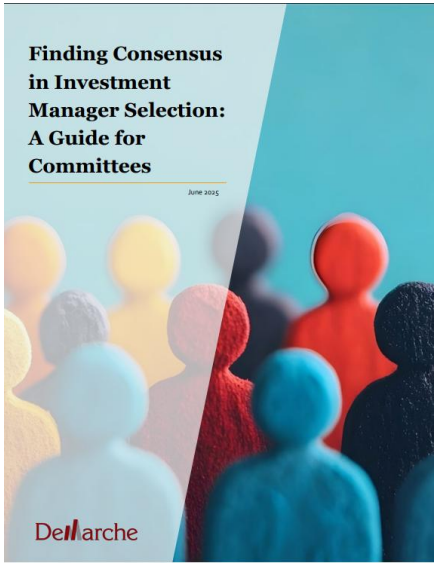
- Real estate returns have been modest for the past twelve months. For the latest quarter, all sectors have posted positive returns but over longer time periods, the office sector has struggled the most. The return of the best performing sector, industrial, has moderated after posting double digit returns in the five- and ten-year time frames.
- Hedge Fund strategies have continued to post good quarterly returns in 2025 and approached double digits for the year. 2025 looks to be a solid year for strategies with returns driven by AI spending, inflation, and other global market dislocations.
- Private equity strategies have posted strong longer term returns. However, over shorter timeframes, they have lagged public equity returns. Three-year returns for public equities are some of the most robust in history while private equity has lagged. The chart to the left shows the outperformance of public markets in the recent term.

DeFact

Not only is the AI trade impacting equities across the globe, it also is significantly impacting real estate investment. Data centers accounted for 31% of the total private real estate funding raised globally between the first and third quarters of 2025. According to Colliers, total funding during the period was $17.9 billion. ~Colliers

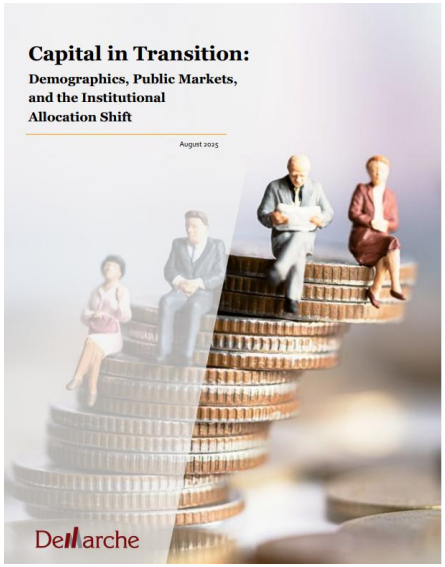
DeMarche Research in Action – 2025 White Papers

Oh Behave! The Dispostion Effect Enters the Behavioral Finance Discussion

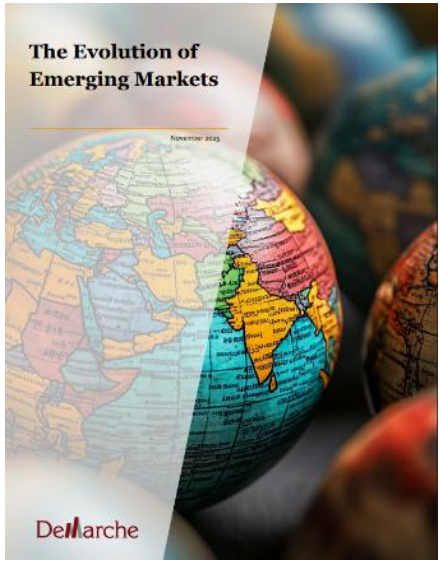


Finding Consensus in Investment Manager Selection: A Guide for Committees

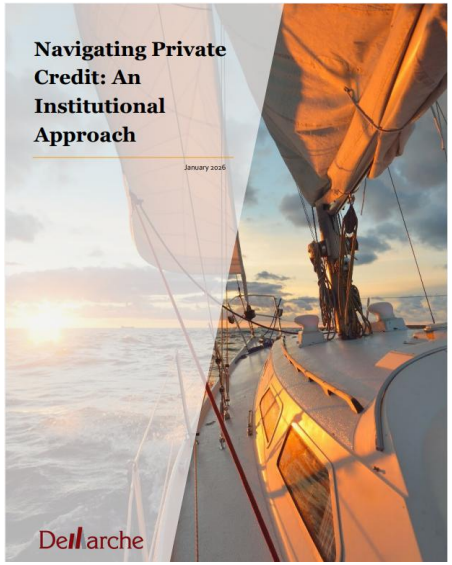
Growth vs. Value: Navigating Style by Size and Geography



Capital in Transitions: Demographics, Public Markets, and the Instittuional Allocation Shift



The Evolution of Emerging Markets



Navigating Private Credit: An Institutional Approach

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