Market Review

OSAIC RESEARCH | INVESTOR CONTENT

2025

The power of patience and staying the course

osaic
Research

EXECUTIVE SUMMARY

Investors entered 2025 expecting lower inflation, falling interest rates, and robust economic growth. Instead, the year began with tariff uncertainty that triggered sharp market pullbacks. The stock market recovered and finished the year strong, as earnings remained resilient and interest rates fell. U.S. equities had another exceptional year. The S&P 500 returned 17.9%, setting multiple new records during the year. Market leadership broadened beyond mega-cap tech companies, with small-cap stock reaching new highs for the first time since 2021.

KEY TAKEAWAYS FROM 2025[i]

Navigating Surprises

Entering 2025, many investors expected a familiar story: inflation would continue to ease, the Federal Reserve (Fed) would start cutting interest rates early in the year, and market leadership would expand beyond large U.S. companies. Instead, the year opened with renewed tariff volatility and policy uncertainty, which unsettled markets. These pressures led to sharp but short-lived pullbacks that tested investor confidence early on.

Despite these early surprises, markets proved resilient. US equities finished the year strong, supported by steady earnings growth, improving participation across stocks, and a powerful rally as rate expectations stabilized. International equities held up well early in the year, helped by lower starting valuations and a weaker dollar, finishing the year strong, while fixed income was choppier, and gold stood out as a top performer.

Looking back, 2025 reinforced important lessons: markets rarely follow the consensus, volatility is often temporary, and disciplined, diversified investors are usually rewarded for staying the course.

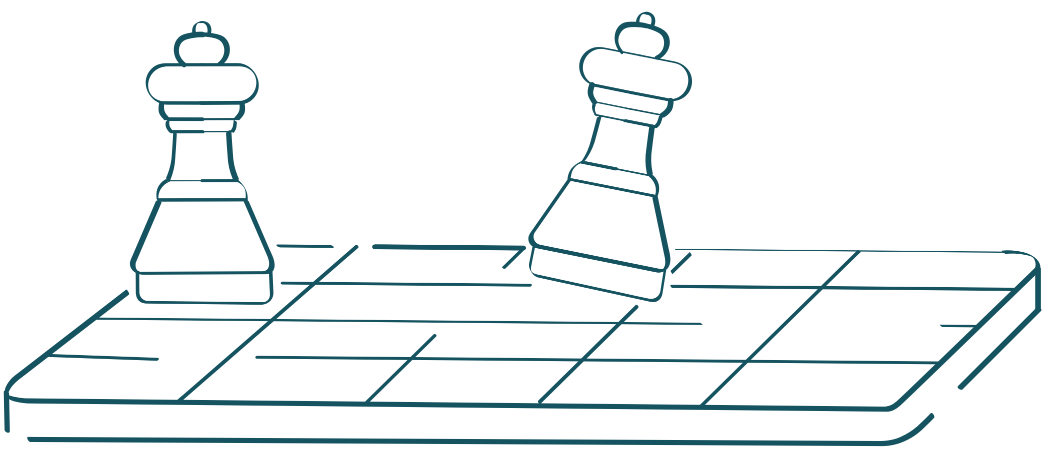
International markets came alive. The MSCI EAFE gained 31.2%, aided by a weaker dollar and attractive valuations. The index notched its best relative performance versus the U.S. in nearly two decades. Emerging markets rose 33.6%, supported by strengthening demand for commodities and a tariff-induced reorganization of global supply chains.

Fixed income entered the conversation. The Bloomberg U.S. Aggregate Bond Index notched its best year since 2020, returning 7.3%, and the Global Aggregate returned 8.2%. Despite lingering inflation, the Federal Reserve ultimately cut rates three times, paving the way for a rally in fixed-income assets.

Alternatives captured investors' attention. Gold surged over 60% - its strongest year since 1979 - amid rising geopolitical tensions and stubborn inflation. Energy markets were split, with oil prices falling as production flooded the market, while natural gas prices rose with increasing demand. Housing prices remained sky-high, averaging $426,800 due to limited inventory and elevated mortgage rates.

Key Lessons:

- Diversification mattered as leadership rotated across regions and asset classes.
- Patience was rewarded as markets rebounded from brief declines to reach new highs.
- Long-term market performance is tied to economic and earnings growth, not rapidly evolving political policy.



Looking to 2026, easing monetary policy, accelerating global growth, high starting yields, and attractive valuations outside U.S. mega-caps create compelling opportunities for diversified, long-term investors.

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A STRONG YEAR FOR U.S. EQUITIES[i]

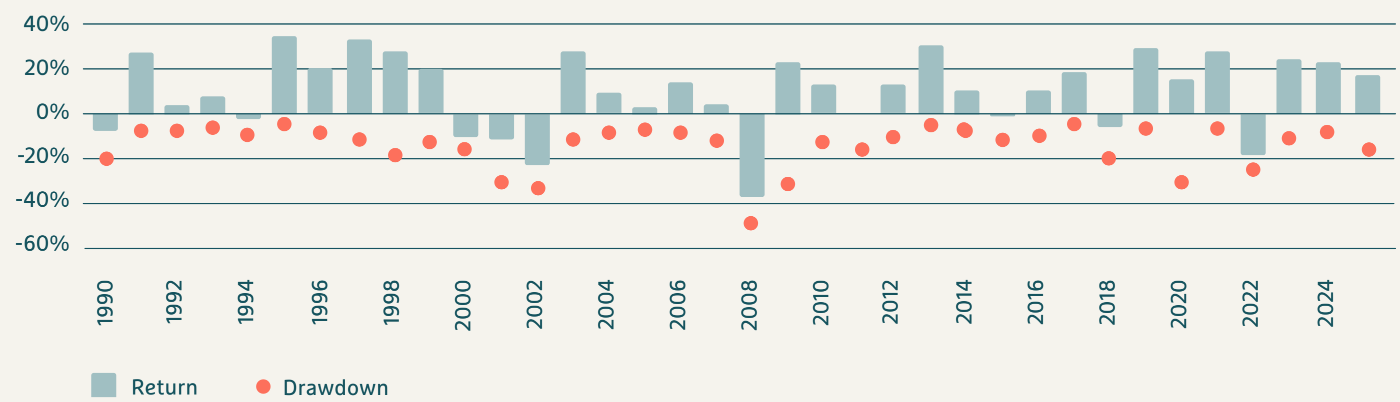
From Tech-Led to Broad-Based

17.9%▲
The S&P 500 return in 2025

The S&P 500 returned 17.9% in 2025, close to a third straight year of 20%+ gains, a run last achieved in the late 1990s. This strong finish masked a volatile start, as shown in Chart 1, the index fell more than 20% from record highs early in the year, briefly entering bear-market territory. Pullbacks like this remind us that market gains are rarely smooth; strong returns are often earned by enduring sharp declines along the way.

Markets rebounded sharply from April lows, delivering double-digit gains to close the year. Unlike in recent years, 2025 saw broader participation across asset classes, as leadership expanded beyond a narrow group. Small-cap stocks held up well alongside large caps in 2025, with the Russell 2000 reaching a new all-time high for the first time since 2021, as shown in Chart 2, as earnings improved and financial conditions eased. Sector performance also became more balanced, even as Artificial Intelligence (AI)-driven technology companies continued to lead.

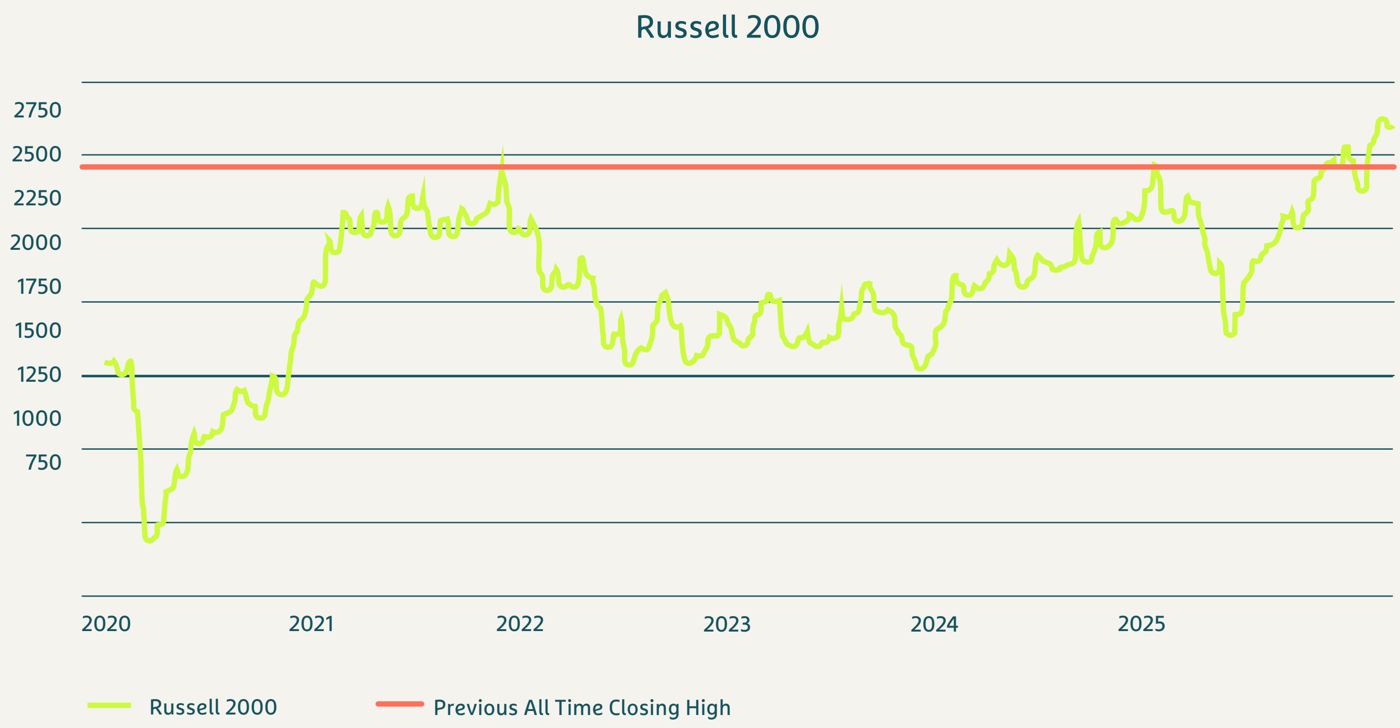
CHART 1

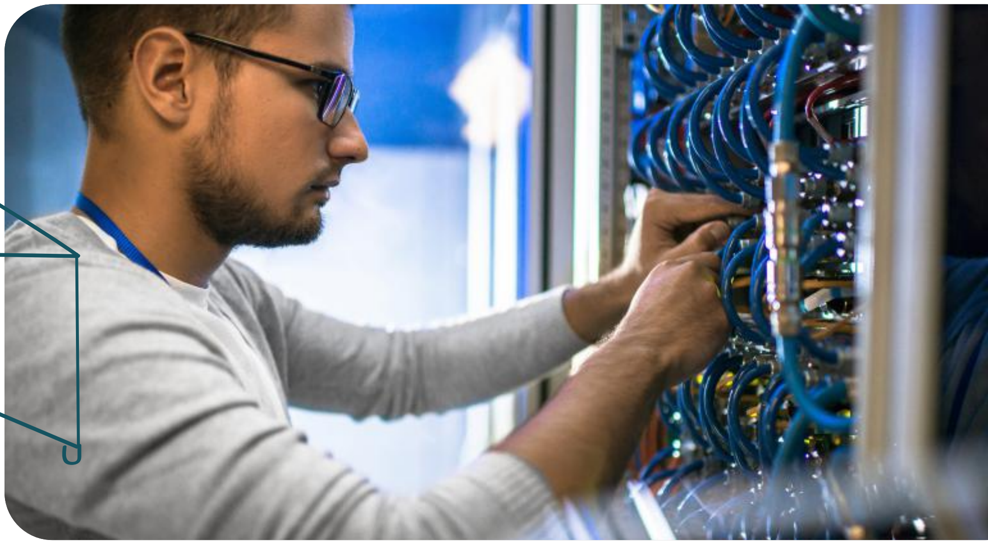


FROM TECH-LED TO BROAD-BASED: A STRONG YEAR FOR U.S. EQUITIES[i]
Continued

By year-end, major U.S. equity indexes, the S&P 500, Nasdaq, Dow Jones Industrial Average, and Russell 2000, closed within 1–3% of all-time highs, reinforcing the value of diversification and patience.

CHART 2





THE WORLD REENTERED THE CONVERSATION

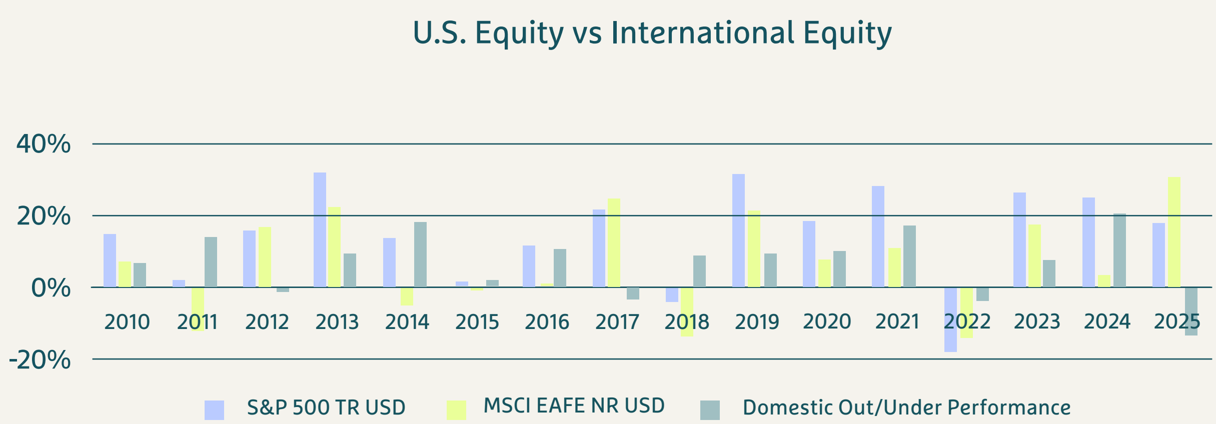
International Inequities

31.2%▲
MSCI EAFE Index return

International markets turned a corner in 2025. The MSCI EAFE Index (Europe, Australasia, and Far East) returned 31.2%, its strongest relative performance versus U.S. large cap stocks in nearly two decades (Chart 3). After years of U.S. market dominance, this shift underscores why global diversification matters as leadership changes.

Momentum in international markets built throughout 2025 as more attractive valuations as shown in Chart 4[i] drew investor interest abroad. A weaker U.S. dollar and improving earnings made Europe, Japan, and emerging markets increasingly compelling. Policy support, corporate reforms, and a desire to diversify away from crowded U.S. technology stocks further fueled investment abroad.

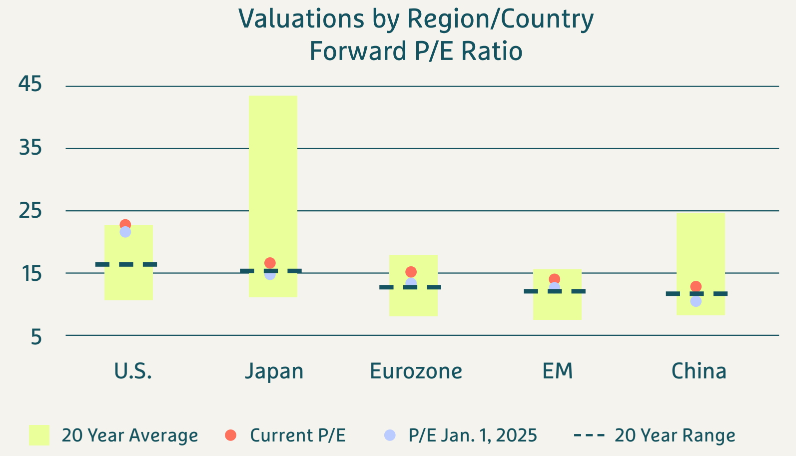
CHART 3



INTERNATIONAL INEQUITIES: THE WORLD REENTERED THE CONVERSATION *Continued*

33.6%▲
Emerging markets

CHART 4



Emerging markets also delivered strong results: the MSCI EM Index (Emerging Markets) rose 33.6%. Gains were fueled by tariff-related supply chain realignment, increased global manufacturing activity, and stronger demand for industrial metals and energy, which benefited commodity-exporting countries.

After years of being under owned (held less than their market size might suggest), international markets are seeing renewed investor interest as investors recognize their potential to enhance overall portfolio returns.

SOLID RETURNS AMID RATE SHIFTS[i]

Fixed Income

Fixed income delivered strong results in 2025, both in the U.S. and globally, despite periods of volatility.

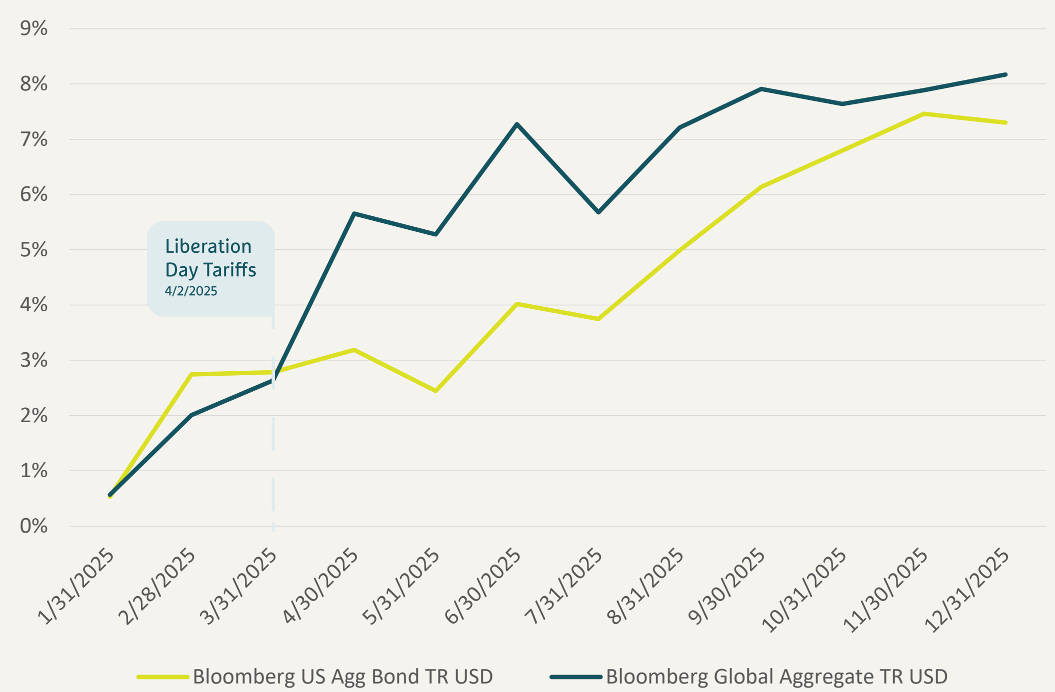
PERFORMANCE HIGHLIGHTS

Bloomberg U.S. Aggregate Bond Index: **+7.3%▲**

Bloomberg Global Aggregate Index: **+8.2%▲**

Fixed-income markets struggled early in 2025 as policy uncertainty and tariff announcements ahead of April's Liberation Day drove sharp market volatility (Chart 5[i]). Equity markets sold off, and investors moved towards bonds for stability, even as high interest rates limited bond price gains. Elevated yields helped support income and reinforced bonds' role as a stabilizer during market stress.

CHART 5



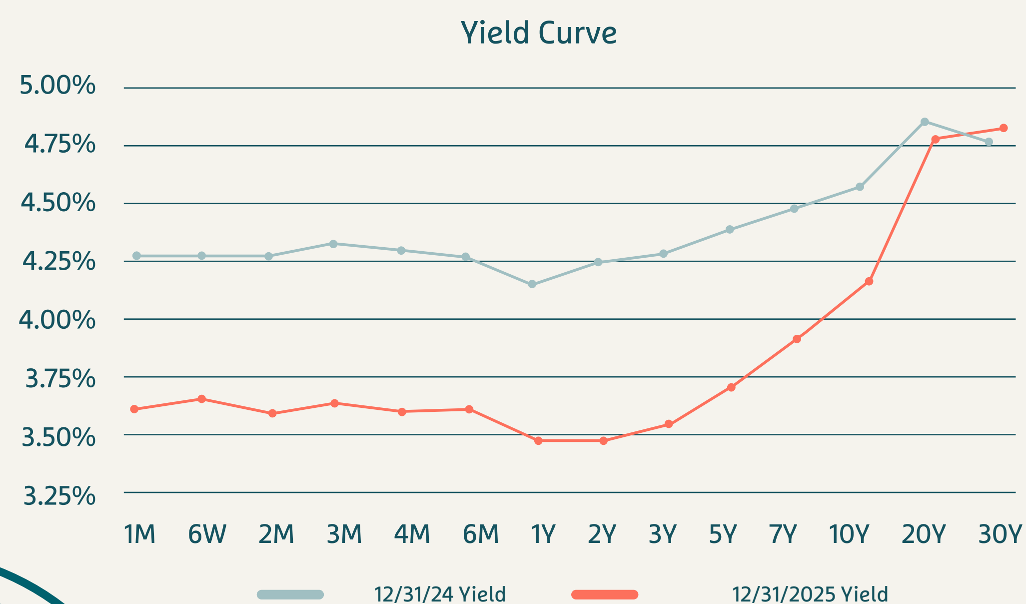
FIXED INCOME: SOLID RETURNS AMID RATE SHIFTS[i] *Continued*

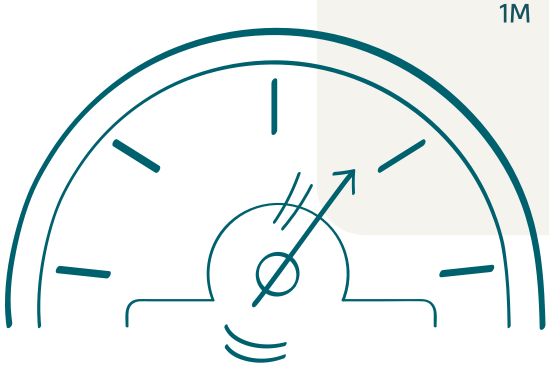
After cutting rates at the end of 2024, the Federal Reserve began 2025 holding rates at 4.25%–4.50% to guard against inflation, while monitoring signs of labor cooling, leaving the yield curve relatively flat with high yields and little difference between short- and long-term maturities (Chart 6). As economic growth showed signs of slowing, inflation risks kept the Fed cautious and delayed further easing. This approach reflected a careful balance between inflation control and emerging labor market concerns.

As the year progressed, the labor market showed clear signs of slowing, with hiring easing and earlier job gains revised lower, along with continued progress on inflation. This gave the Fed confidence to begin cutting rates in the fall, delivering three quarter point rate cuts by year's end. As short-term rates fell with Fed easing and longer-term rates stayed higher due to growth expectations in government debt concerns, the yield curve returned to a more normal upward slope, supporting bank lending and credit availability.

Credit fundamentals remain healthy, though tight credit spreads offer limited reward for taking on lower-quality credit risk. With yields still attractive and policy uncertainty more manageable than earlier in the year, fixed income is positioned to provide income stability and competitive returns in 2026, with additional upside if rates move lower.

CHART 6





GOLD SHONE BRIGHT, ENERGY DIVERGED, HOUSING STAYED TIGHT[i]

Alternatives

+60%
Gold's strongest year since 1979

Gold was the standout performer of 2025, surging more than 60%, notching multiple record highs above $4,500 an ounce, and its best annual return since 1979. Strong central bank buying, ongoing geopolitical tensions, expectations for future Fed rate cuts, and concerns about rising government debt kept demand for gold elevated throughout the year.

Even as the U.S. economy showed resilience, and inflation moderated, concerns around rising government debt, ongoing geopolitical risks, and future policy uncertainty continued to support strong demand for gold. By year-end, gold had firmly reestablished itself as the market's ultimate hedge, benefiting from both fear and opportunity.

Energy markets told a different story. Crude oil prices drifted lower, averaging around $65 per barrel, as robust U.S. and OPEC+ production created a persistent supply surplus despite geopolitical flare-ups. In contrast, U.S. natural gas prices strengthened, supported by rising power generation demand, industrial usage, and tighter inventories (Chart 7).

The year underscored a clear divergence: oil weighed down by oversupply and soft global growth, while natural gas benefited from regional demand strength and constrained supply.

Gold Annual Returns

Year	Return	Year	Return	Year	Return
1975	-25.2%	1992	-5.8%	2009	27.6%
1976	-4.1%	1993	17.4%	2010	27.7%
1977	23.1%	1994	-2.1%	2011	11.7%
1978	35.6%	1995	1.1%	2012	5.7%
1979	133.4%	1996	-4.4%	2013	-27.8%
1980	12.5%	1997	-21.7%	2014	-0.2%
1981	-32.2%	1998	-0.6%	2015	-11.6%
1982	12.0%	1999	1.2%	2016	8.6%
1983	-14.8%	2000	-6.3%	2017	12.6%
1984	-19.0%	2001	1.4%	2018	-1.2%
1985	5.8%	2002	24.0%	2019	18.8%
1986	19.5%	2003	21.7%	2020	24.4%
1987	24.5%	2004	5.0%	2021	-3.5%
1988	-15.7%	2005	17.1%	2022	-0.2%
1989	-2.2%	2006	23.9%	2023	13.1%
1990	-2.5%	2007	31.6%	2024	27.2%
1991	-9.6%	2008	3.4%	2025	64.7%

ALTERNATIVES: GOLD SHONE BRIGHT, ENERGY DIVERGED, HOUSING STAYED TIGHT[i] *Continued*

Housing affordability remained a challenge. The median home price hovered near $426,800, as shown in Chart 8, which compares home prices to median income over decades. Although mortgage rates declined from roughly 7% in 2024 to about 6.2% by year-end, conditions stayed restrictive. Limited inventory, driven by labor shortages, elevated construction costs, and homeowners reluctant to sell, continued to constrain activity throughout the year.

CHART 7

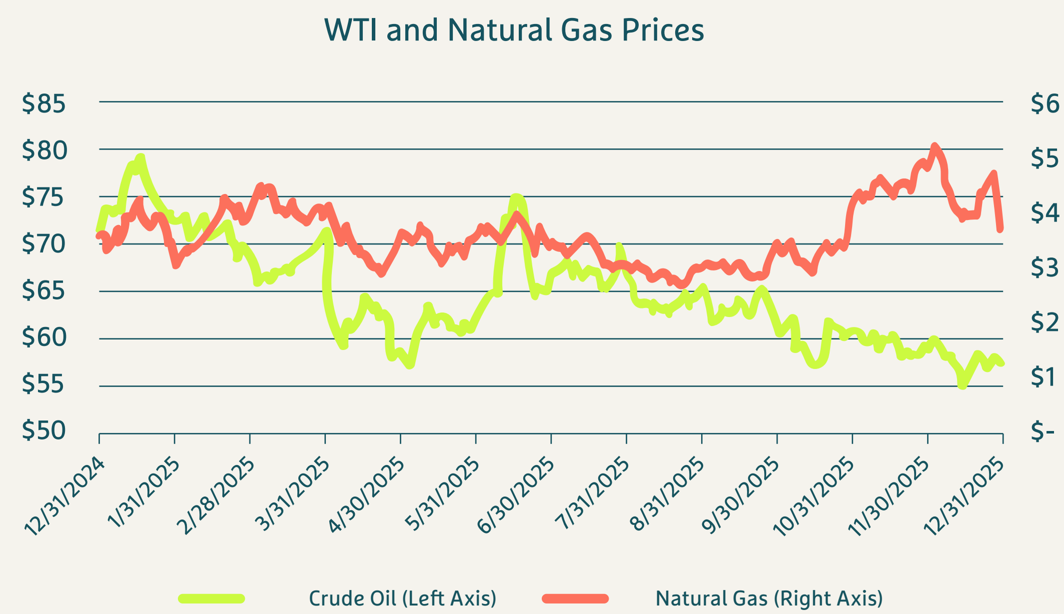
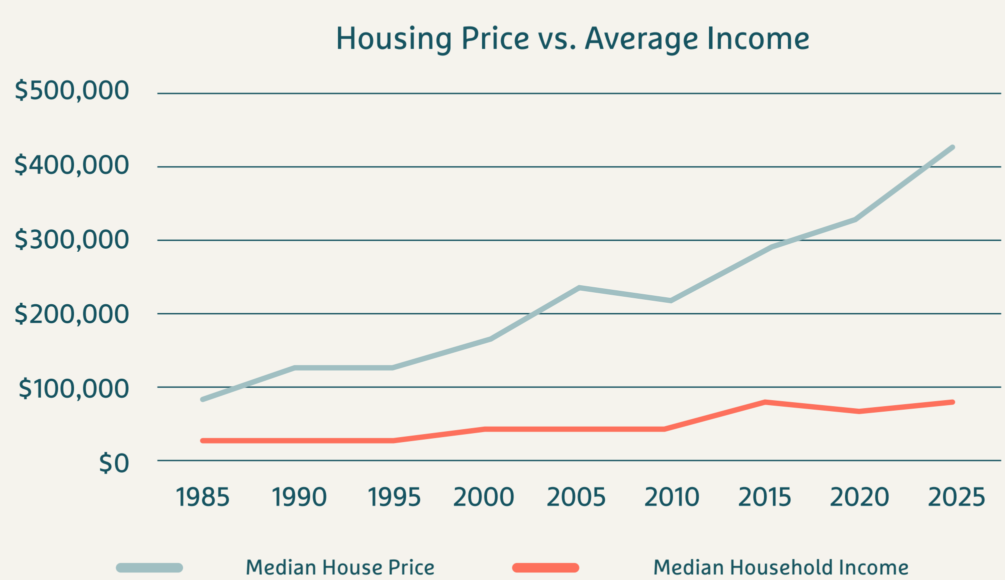


CHART 8



DISCIPLINE AND DIVERSIFICATION WIN

Conclusion

A familiar lesson was reinforced in 2025: periods of uncertainty and volatility often coincide with strong long-term returns for disciplined investors. Early-year policy shocks and sharp drawdowns tested confidence, but resilient earnings, stabilizing interest rates, and a broadening of market leadership ultimately propelled markets higher.

Against this backdrop, several investor successes stood out:

Diversification mattered

Leadership rotated across regions, sectors, and asset classes, underscoring the value of a well-diversified portfolio rather than relaying on any single theme.

Patience was rewarded

Investors who stayed invested through volatility saw markets recover and finish near record highs.

Discipline drove success

Outcomes were shaped as much as by staying the course as by market direction.

Looking ahead to 2026, conditions appear more balanced. Easing monetary policy, normalized yield curves, and attractive valuations outside U.S. mega-cap equities create opportunities across a broader set of markets. These trends reinforce why diversification and a long-term perspective remain essential tools for navigating the next phase of the market cycle.

Economic Definitions

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

Gold: Gold is mostly traded on the OTC London market, the US futures market (COMEX) and the Shanghai Gold Exchange (SGE). The standard future contract is 100 troy ounces.

Median Sales Price of Houses Sold for the United States: Median Sales Price of Houses Sold for the United States as the middle price point for existing homes sold nationally, reported quarterly by the U.S. Census Bureau and HUD, indicating half sold for more and half for less, offering a more typical view of the market than the average price.

Median Household Income in the United States: Median Household Income in the United States as the income level where half of all U.S. households earn more and half earn less, representing the combined gross income of all people living together in a household, regardless of relation, from sources like wages, salaries, and pensions

OPEC+: OPEC+ refers to the Organization of the Petroleum Exporting Countries plus additional major oil-producing nations, forming a strategic alliance. It builds upon the original OPEC framework by including primary non-OPEC producers. Established in 2016, the group consists of 12 OPEC members—such as Saudi Arabia, Iraq, and the UAE—alongside 10 non-OPEC countries, including Russia, Mexico, and Kazakhstan. The alliance was created to enhance global cooperation in managing oil supply and stabilizing prices. It controls over 80% of the world's proven oil reserves and accounts for approximately 41% of global oil production, granting it significant influence over market conditions.

WTI: WTI Crude oil futures are the benchmark for oil prices in the United States and serve as a reference point for global oil pricing.

Natural Gas: The natural gas futures price is based on delivery at the Henry Hub in Louisiana, the nexus of 16 intra- and interstate natural gas pipeline systems that draw supplies from the region's prolific gas deposits. The contract trades in units of 10,000 million British thermal units (mmBtu)

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg US Agg Bond: The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg High Yield Corp: The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging market's country of risk, based on Bloomberg EM country definition, are excluded.

Bloomberg Global Agg: The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Municipal Bond Index: The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

VIX: The VIX Index is a financial benchmark designed to be an up-to-the-minute market estimate of the expected volatility of the S&P 500 Index and is calculated by using the midpoint of real-time S&P 500 Index (SPX) option bid/ask spread.

[i] Bloomberg data as of 12/31/2025

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