Q4 Market Review

Quiet Normalization

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In the final quarter of 2025, U.S. equity markets posted modest gains that helped cap a strong year for stocks. The S&P 500 increased +2.7% in Q4, extending its gains for the year to +17.9%. By comparison, the S&P 500 equal weight index – a strong measure of diversified performance relative to the cap-weighted index – returned +1.3% in Q4 and +10.8% on the year. The Nasdaq Composite finished +2.6% for the quarter and +20.4% for the year, and the Dow Jones Industrial Average rose +3.6% and +13.0% respectively. Investor optimism was buoyed by solid corporate earnings, anticipated rate cuts, and moderating inflation trends. This shift in sentiment helped support equity valuations, particularly for growth-oriented sectors such as technology and communication services. At the same time, inflation data continued to show gradual cooling, reinforcing the view that economic conditions were stabilizing without slipping into a downturn. We remain optimistic about equity markets heading into 2026 and believe that the 2025 rate cuts and fiscal measures – such as increased tax refunds – could potentially be catalysts for growth early in the year. We are also aware of heightened risks that may be associated with elevated valuations, earnings disappointments, geopolitical uncertainties, and the backdrop of midterm election-year dynamics.

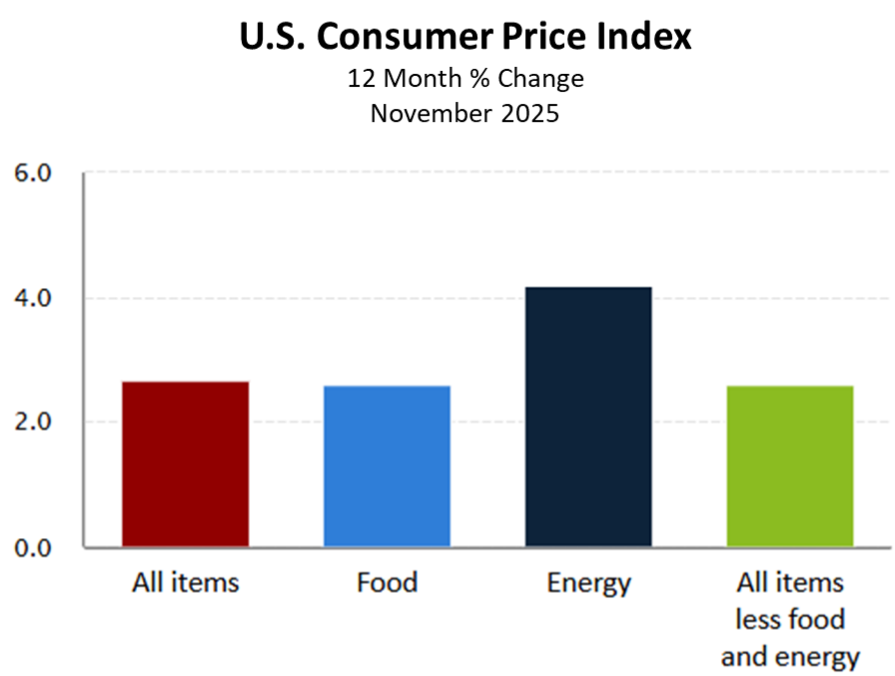
The Economy

The U.S. economy showed modest overall growth with the Federal Reserve Bank of Philadelphia's *Survey of Professional Forecasters* estimating real GDP growth around 1.1% annualized late in the year. Key indicators pointed to a slowing labor market heading into year-end, and significantly weaker job growth. According to the Wall Street Journal, roughly 50,000 jobs were added in December making 2025 the slowest annual pace of job creation in the post-pandemic period. At the same time, unemployment remained historically low at 4.4%, and inflation hovered somewhat above the Federal Reserve's long-run 2% target, contributing to a backdrop of cautious business sentiment and ongoing pricing pressures. Overall, the fourth quarter reflected an economy that was expanding but losing some steam, with resilient consumer demand offset by labor market softness and inflation that had yet to fully return to target.

Inflation and Interest Rates

During the fourth quarter of 2025, inflation data and interest-rate expectations were central forces influencing stock market behavior. Headline inflation, as measured by the Consumer Price Index in *Figure 1*, rose about 2.7% year-over-year in November. These numbers were slightly below earlier periods and fell short of expectations, signaling that price pressures might be easing from their mid-year highs. Investors interpreted the moderation in CPI as evidence that inflation was trending closer to the Federal Reserve's long-run target, which helped support equity valuations – especially in interest-rate-sensitive sectors like technology and consumer discretionary.

Figure 1



Source: U.S. Bureau of Labor Statistics
****Data not seasonally adjusted***

At the same time, interest rate policy heavily influenced market momentum. The Federal Reserve cut the Fed Funds rate multiple times during the quarter, adjusting the target range to historically low levels in response to signs of a softening labor market. Overall, the interplay of softer inflation and a more accommodative monetary stance helped underpin stock market gains in Q4 while highlighting investor focus on the inflation–interest rate nexus heading into the new year.

The U.S. Consumer

American consumers remained pessimistic about the economy in the fourth quarter as the University of Michigan's Consumer Sentiment Index reported multi-year lows. Per *Figure 2*, the overall index dropped from 71.8 in November 2024 to 51.0 in November 2025. This number was noticeably weaker compared with historical averages and a reflection of sharp declines in confidence.

Figure 2

	November 2024	November 2025
Index of Consumer Sentiment	71.8	51.0
Current Economic Conditions	63.9	51.1
Index of Consumer Expectations	76.9	51.0
Personal Finances (Current)	82	66
Economic Outlook (Next 12 Months)	97	56

Source: University of Michigan

Consumers also reported deteriorating views on current economic conditions, personal finances and economic outlook. According to the University of Michigan, Q4 sentiment was driven by continued inflation worries and labor market anxiety with many households citing high prices as a major burden on their finances. Although the sentiment index showed some improvement in the expectations component late in the quarter – indicating slightly less pessimism about future personal finances and business conditions – it stayed substantially below 2024 levels as consumers balanced cost-of-living challenges against signs of modest economic stabilization. The subdued economic mood likely tempered spending intentions despite underlying strength in certain retail and services data.

The U.S. Stock Market

Technology (+2.2) and Communication Services (-0.5%) sectors remained focal points of discussion in Q4 2025 – largely due to sustained demand related to artificial intelligence investment, cloud computing, and data-center growth – even though leadership began to broaden. Data published by Telemet (*Figure 3)* reported that Healthcare was the best performer of the quarter (+11.2%). Value and economically sensitive sectors – such as Financials (+1.7%) and Industrials (+0.6%) – showed relative strength too. Many analysts, including Ryan Detrick of the Carson Group, note that while "defensive areas like Utilities (-2.1%), Consumer Staples (-0.9%), and Real Estate (-4.2%) lagged relative to growth and cyclicals, most sectors were still on pace for positive earnings growth in Q4, indicating a fairly broad underlying market advance." Despite the positive signs of broadening participation, we caution that market breadth remains narrow – with big tech carrying a substantial portion of total returns on the year – and investors should watch whether earnings delivery across the rest of the market continues to support sustained leadership rotation.

Figure 3

Sector	Q4 25 Performance
Communication Services	-0.5%
Consumer Discretionary	-0.3%
Consumer Staples	-0.9%
Energy	+0.1%
Financials	+1.7%
Health Care	+11.2%
Industrials	+0.6%
Information Technology	+2.2%
Materials	+1.2%
Real Estate (REITs)	-4.2%
Utilities	-2.1%

Source: Telemet

Earnings Projections

Many analysts are forecasting solid earnings growth for U.S. equities in Q4 2025, driven by continued U.S. economic resilience and sector profitability. According to data published by the S&P 500, 9 of the 11 sectors are expected to post positive results contributing to +8.8% year-over-year earnings growth. This is a notable broadening from earlier quarters. Technology names – especially those tied to AI and cloud infrastructure – are expected to lead earnings growth, though cyclical/value sectors such as Financials and Industrials are also anticipated to show improving results. BlackRock strategists highlight that "rate cuts and margin expansion" are key boosters for earnings this season while Deutsche Bank analysts note "possible headwinds in Consumer Discretionary due to tighter household budgets." According to *Earnings Insight* data compiled from sell-side analysts (FactSet), expectations for Q4 2025 earnings' growth are somewhat stronger than the broader figure provided by the S&P 500. Per *Figure 4*, FactSet analysts are projecting YoY earnings growth to be over 17%, suggesting that they see robust fundamentals and broad profit momentum across many sectors.

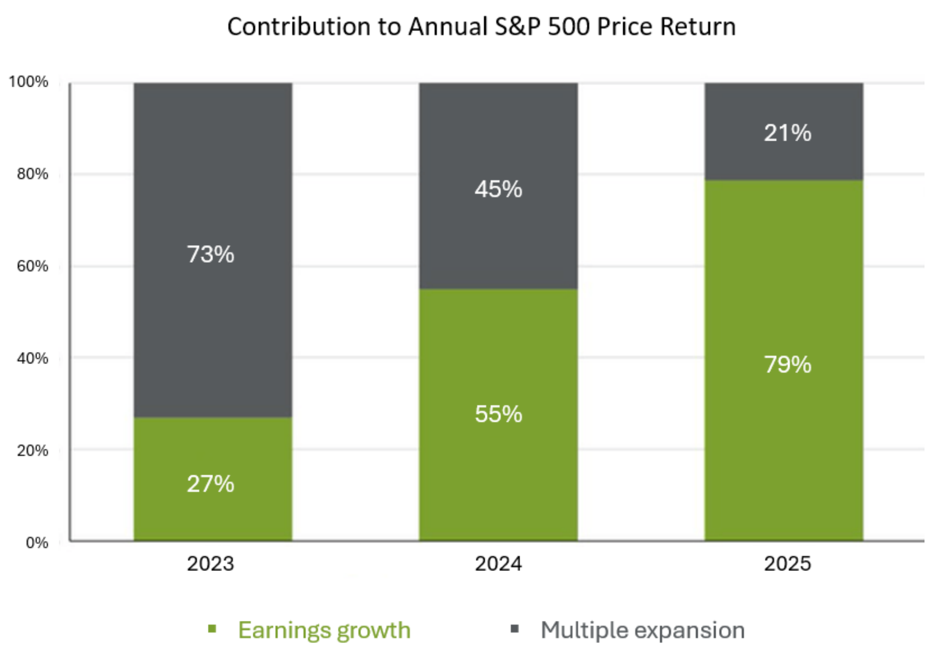
Figure 4

Category	Expected YoY Growth
S&P 500 Earnings Growth (Q4)	**+17.2% (est)**
S&P 500 Revenue Growth (Q4)	**+6.7% (est)**
Full-year 2025 EPS Growth	**+14.8% (est)**
Full-year 2026 EPS Growth	**+13.6% (est)**

Source: FactSet

Technology and Communication Services are expected to remain key earnings leaders – driven by continued AI, cloud, and data-center investment – with Financials and Industrials providing meaningful contributions as well. Earnings have been the primary driver of the most recent bull market.

Figure 5



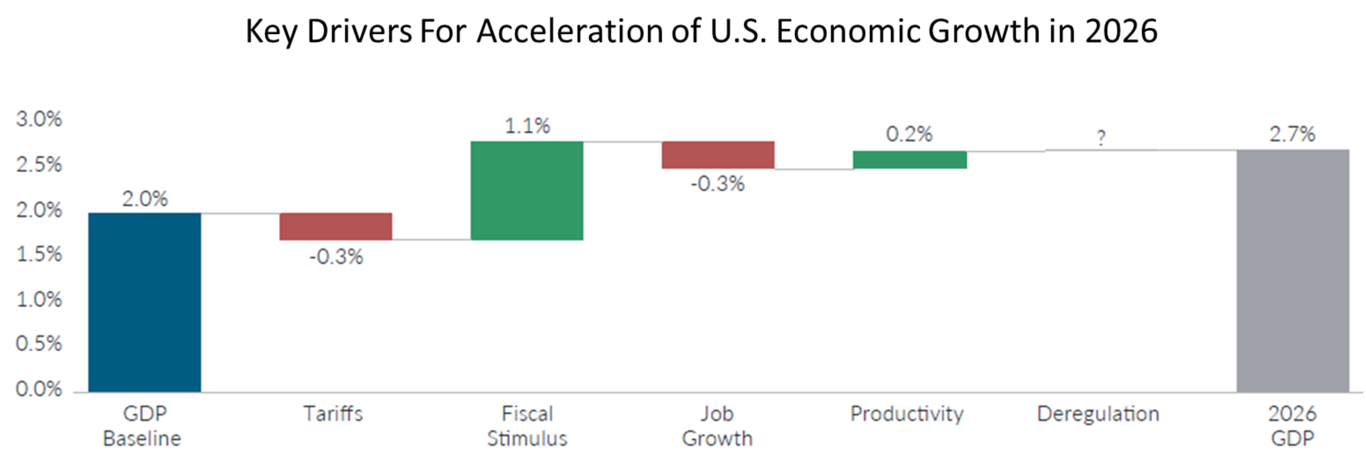
Source: JP Morgan Asset Management

According to JP Morgan *(Figure 5)*, growth was steady at 13.7%-14.8% through the first three quarters of 2025 and roughly 79% of the S&P 500's total return during that time came from earnings. We believe that earnings growth, rather than multiple expansion, will again be the main driver for most of the S&P 500's total return for 2026.

Fundamental Factors

Following the resilience demonstrated by the strong equity returns in 2025, we remain optimistic heading into 2026 for several fundamental factors including: the positive effects from the Fed's 2025 rate cuts, the stimulative impact of the Big Beautiful Bill tax cuts, and a reduction in the negative effects from U.S. tariffs, along with other factors illustrated in

Figure 6



Source: Glenmede

Figure 6. Additionally, Dow Jones reported that its Transportation Average (consisting of airline, railroad, shipping, trucking and other economically sensitive companies) is at a record high. We view this as an encouraging sign that the equity markets are anticipating a pickup in U.S. economic growth. Despite our optimism, ongoing geopolitical tensions and the ever-changing policies coming out of Washington D.C., present challenges that we cannot ignore. While we have grown used to this tumult over the past year, we believe that the level and speed of the volatility could potentially pick up in the year ahead. Overall, we expect to see more stable rates, continued economic growth, broader leadership, and earnings driven returns in the coming quarters as a "quiet normalization" replaces the macro tailwinds of the past two years.

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*GIPS Composite Data and Verification Information Available Upon Request

