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Investment Market Review
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U.S. equity markets delivered another strong year in 2025, supported by solid corporate earnings, healthy balance sheets, and resilient consumer demand. Stocks advanced despite tariff concerns early in the year, ongoing geopolitical conflicts, and a prolonged federal government shutdown that became the longest in U.S. history. Once again, markets demonstrated an ability to look through headlines and focus on underlying fundamentals.

For the full year, the S&P 500 Index returned 17.9%, marking the third consecutive year of strong double-digit gains. The path to those gains, however, was uneven. The S&P 500 fell sharply between mid-February and early April as investors reacted to tariff concerns and uncertainty around the policy outlook. That pullback proved temporary, and stocks rallied over the balance of the year, finishing near their highs as confidence in earnings growth improved.

All 11 sectors of the S&P 500 posted positive returns for the year. Communication services and technology led the way, benefiting from strong revenue growth and continued investment in innovation.

The influence of the so-called “Magnificent 7” stocks remained a defining feature of the market, largely due to their significant weight in the index. That influence, however, masked important dispersion beneath the surface. Only two of the seven—Alphabet and NVIDIA—outperformed the S&P 500 in 2025. Even so, those two companies were the first and second largest contributors to index performance, reflecting both their size and strong absolute returns. This dynamic highlights how index-level results can be driven by a small number of large companies, even when leadership within that group is narrower than in prior years.

We continue to favor broad diversification across industries rather than narrow concentration in as few as seven of the world’s largest companies. This approach may penalize our performance relative to the major stock indexes but, the measure of safety it brings your portfolio is well worth the small sacrifice in relative performance.

Monetary policy played an important role in shaping market expectations during the second half of the year. The Federal Reserve cut interest rates at its final three meetings of 2025, with the third cut occurring in December. While inflation remains somewhat elevated, progress was made over the course of the year. The Consumer Price Index rose 2.7% over the 12 months ending in December, down from a 3.0% reading in January. Softening labor market conditions, combined with moderating inflation, ultimately convinced the Fed that a gradual easing of policy was appropriate.

Looking ahead, market participants are pricing in a pause in additional rate cuts until roughly the middle of 2026, at which point the probability of further easing begins to increase. This outlook reflects the Fed's desire to balance continued progress on inflation with the risk of slowing economic activity. As a result, interest rate policy is likely to remain a source of ongoing discussion in the new year.

Fiscal policy and political developments continue to add to the backdrop of uncertainty. The federal government is once again on the verge of a partial shutdown, only months after the conclusion of the 43-day shutdown that ended in November. Funding for the Department of Homeland Security and tax credits related to health care are expected to be focal points of negotiations in Congress and prominent in news coverage. While such developments can create short-term volatility, markets have historically shown an ability to look through these episodes unless they meaningfully alter economic growth or corporate earnings.

As we enter 2026, valuations across parts of the market are elevated. That said, corporate fundamentals remain strong, and earnings growth continues to provide a solid underpinning for equities. In our view, a broadly diversified portfolio that remains fully invested through the inevitable news cycles remains the most effective approach for long-term investors. Periods of volatility are a normal feature of markets, but patience, discipline, and diversification have been consistently rewarded over time, as the experience of 2025 once again demonstrated.