World markets review — Fourth quarter 2025

Equities

Global stocks rose modestly, supported by solid corporate earnings and better-than-expected U.S. economic growth. Investor worries about high valuations among artificial intelligence (AI) stocks were offset by stellar quarterly earnings reports from AI-linked companies, including Alphabet, NVIDIA and Microsoft.

Health care stocks posted the largest gains, reversing course from earlier in the year when the sector lagged other areas of the market. Materials stocks also moved significantly higher amid rising prices for gold, silver and other commodities. Real estate stocks fell amid weak home sales in some key markets. Consumer discretionary stocks also declined.

Equity index returns (%)	Dec 2025		4Q 2025		2025	
	U.S. dollar	Local currency	U.S. dollar	Local currency	U.S. dollar	Local currency
S&P 500	0.1	0.1	2.7	2.7	17.9	17.9
MSCI ACWI	1.0	0.8	3.3	3.6	22.3	19.7
MSCI ACWI ex USA	3.0	2.2	5.1	6.0	32.4	24.4
MSCI World	0.8	0.5	3.1	3.4	21.1	18.4
MSCI Emerging Markets	3.0	2.6	4.7	5.6	33.6	31.3
MSCI EAFE	3.0	2.1	4.9	6.1	31.2	20.6
MSCI Europe	3.9	2.5	6.2	6.1	35.4	20.6
MSCI Pacific	1.1	1.0	2.2	6.3	23.3	21.0

Source: RIMES

Fixed income

Bonds generally advanced as investors cheered two interest rate cuts by the U.S. Federal Reserve (Fed). Even with inflation moving slightly higher, Fed officials said the cuts were necessary to help support a weakening U.S. labor market. The European Central Bank held rates steady, while the Bank of Japan raised its key policy rate to the highest level in 30 years.

In foreign exchange markets, the U.S. dollar halted a long slide from earlier in the year, remaining steady against the euro and the British pound while rising against the Japanese yen. The U.S. Dollar Index rose 0.6% during the quarter but lost more than 9% for the year.

Fixed income index returns (%)	Dec 2025	4Q 2025	2025
Bloomberg U.S. Aggregate	–0.1	1.1	7.3
Bloomberg Global Aggregate	0.3	0.2	8.2
Bloomberg U.S. Corp IG	–0.2	0.8	7.8
Bloomberg U.S. Corp HY	0.6	1.3	8.6
JPM EMBI Global Diversified	0.7	3.3	14.3
JPM GBI-EM Global Diversified	1.5	3.3	19.3

Source: RIMES. Returns are in USD.

Exchange rates (% change vs. USD)	Dec 2025	4Q 2025	2025
Euro	1.2	–0.0	13.4
Japanese yen	–0.4	–5.8	0.3
British pound	1.5	–0.1	7.4
Canadian dollar	1.7	1.5	4.9
Australian dollar	1.7	0.6	7.7
Swiss franc	1.4	0.4	14.4

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

North America

U.S. stocks advanced during a volatile quarter, as a pair of interest rate cuts and strong corporate earnings outweighed growing concerns of an AI bubble. Trade tensions eased, which helped stabilize markets. Health care and communication services led as most sectors traded higher. Overall, the S&P 500 Index rose 3%, reaching several new all-time highs throughout the quarter.

The Fed cut interest rates at its October and December meetings, bringing the total to three reductions in 2025 and lowering the target range to 3.50%–3.75%. Late in the quarter, U.S. President Donald Trump reiterated his preference for further easing, fueling optimism for additional cuts in 2026. However, the likely timing of any cuts may become clearer once Trump nominates the successor to Fed Chair Jerome Powell.

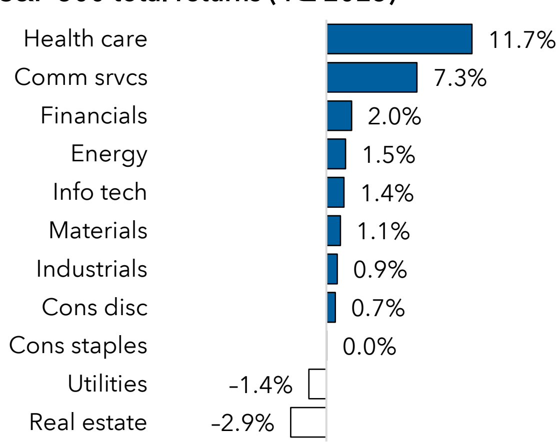
The U.S. economy grew at its fastest pace in two years as gross domestic product rose an annualized 4.3% in the third quarter. Inflation slowed in November, as the Consumer Price Index rose 2.7% from the previous year. This was a decrease from September's 3% rate, the latest data available after the October report was canceled due to the record-setting U.S. government shutdown early in the quarter. Unemployment continued to tick upward to 4.6% in November, the highest rate in more than four years.

Most sectors posted gains in the quarter, particularly health care and communication services. Shares of Google parent Alphabet climbed, in part due to the company's strong third quarter earnings. Eli Lilly shares rose as a November deal with President Trump provided tariff exemptions and access to Medicare patients to the GLP-1 maker. Apple and Amazon shares also advanced.

The real estate and utilities sectors declined modestly. Microsoft was among the largest detractors from S&P 500 returns despite strong earnings, in part due to concerns about overspending, particularly on AI. Shares of Facebook parent Meta Platforms, Netflix and Home Depot also lost ground.

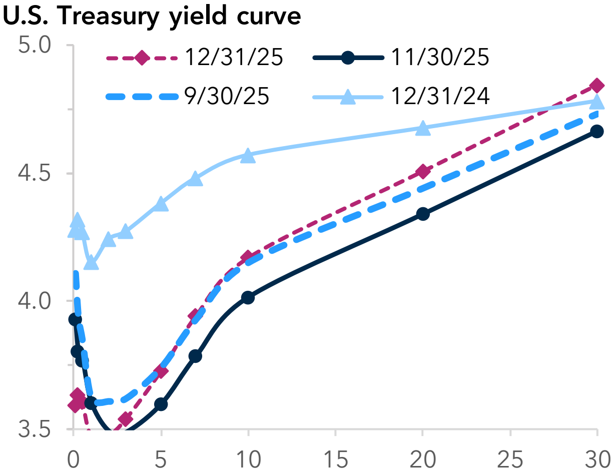
U.S. bonds produced positive results in the fourth quarter. The Bloomberg U.S. Aggregate Index rose 1.1%, amid falling short-term interest rates. The Treasury yield curve steepened during the quarter. The yield on U.S. 10-year notes climbed 2 basis points (bps) to 4.17%, while the two-year yield fell 13 bps from last quarter to 3.48%. In U.S. credit markets, investment-grade bonds (BBB/Baa and above), tracked by the Bloomberg U.S. Corporate Investment Grade Index, gained 0.84% while high-yield bonds, measured by the Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index, advanced 1.31%.

S&P 500 total returns (4Q 2025)



Source: RIMES.

U.S. Treasury yield curve



Source: Bloomberg. The x-axis represents Treasury maturities (years). The y-axis represents the U.S. Treasury yield (%).

Europe

European stocks moved higher amid solid corporate earnings and signs of improving economic growth. Stocks advanced despite elevated inflation in the 20-member eurozone as consumer price increases remained above the European Central Bank's (ECB) 2% target for three months in a row. Overall, the MSCI Europe Index gained 6% for the quarter, lifting year-to-date gains above 35%.

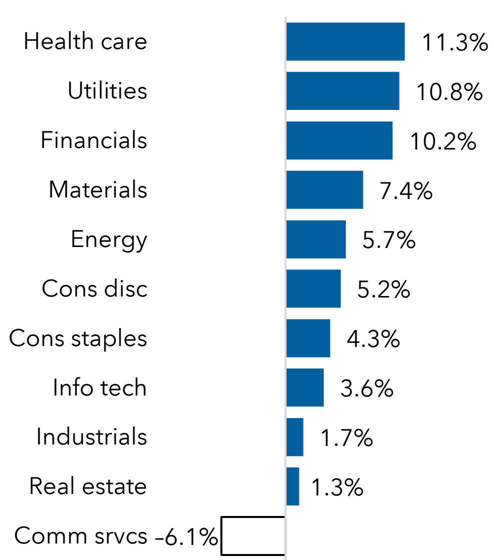
The ECB held interest rates steady at its December meeting. Inflation rose to 2.2% in November, up slightly from the month before, primarily due to higher prices in Germany. ECB officials raised their economic growth forecast for the eurozone to 1.4% on an annualized basis for the full year 2025 and 1.2% for 2026, citing Europe's "resilient" economy in the face of rising U.S. tariffs.

Health care stocks led the way, gaining more than 11% amid strong earnings and sales growth in the sector. Shares of drug giants AstraZeneca and Roche rose more than 20%, respectively. Utilities stocks also rallied, generating just under 11% for the quarter. Spanish energy company Iberdrola reported a 17% rise in third-quarter net profit to €5.3 billion and raised its full-year profit guidance to €6.6 billion. Iberdrola shares gained nearly 15% for the quarter.

Communication services stocks declined, losing about 6%. Shares of Spotify fell nearly 17%. While the music streaming company enjoyed strong quarterly earnings, it reported a 6% decline in advertising revenue and issued weaker guidance for the fourth quarter. Among industrial stocks, Rheinmetall shares lost more than 20% as investors took profits following a remarkable rally. Over the past two years, shares of the German defense contractor have skyrocketed amid sharply higher defense spending in Europe.

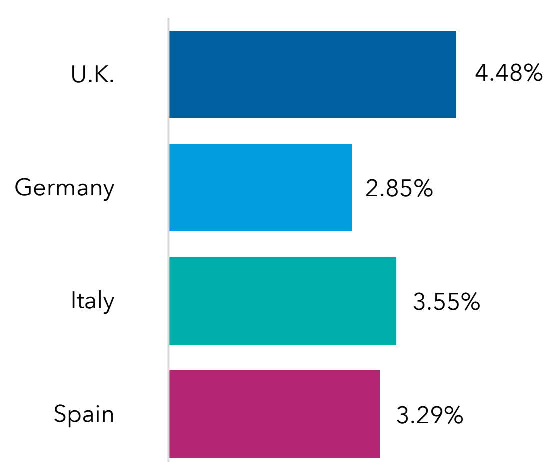
In fixed income markets, European bonds advanced amid modest growth in the eurozone economy and the ECB's decision to keep policy rates steady. The yield on Germany's benchmark 10-year note rose 14 bps to 2.85%. The same maturity in Spain rose 3 bps to 3.29%. In currency markets, the euro remained flat against the U.S. dollar for the quarter, while rising more than 13% for the year.

MSCI Europe total returns (4Q 2025)



Source: RIMES. Returns are in USD.

10-year government bond yields



Source: Bloomberg. As of December 31, 2025.

Asia-Pacific

Japanese equities rose, buoyed by optimism over improved U.S.-Japan trade ties, a weaker yen and corporate reforms. Most sectors advanced, led by utilities and energy, while communication services was the only detractor. The yen depreciated 5.8% against the U.S. dollar.

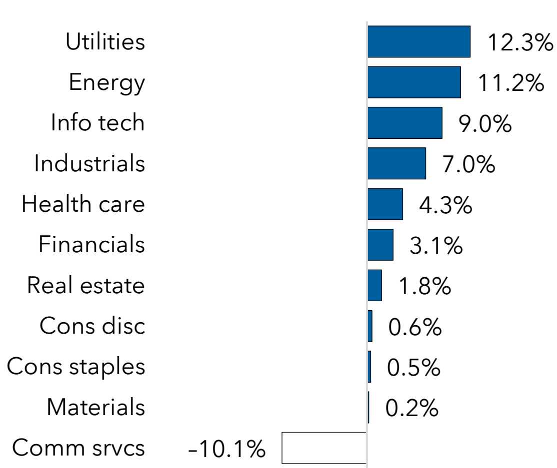
The Bank of Japan (BOJ) raised its key interest rate to a 30-year high. The bank increased its benchmark rate by 25 bps to 0.75% at its December meeting. The move came as inflation remained well above the central bank's 2% target. Meanwhile, the 30-year government bond yield climbed to record highs. Long-term bond yields surged amid investor concerns over the fiscal plans from new Prime Minister Sanae Takaichi's administration. Takaichi's cabinet unveiled a $135 billion stimulus package in November to help ease the impact of inflation and support the economy. Core inflation, which excludes fresh food, rose 3.0% in November, up slightly from 2.9% in September.

Japan's economy shrank more than expected. Gross domestic product contracted by an annualized 2.3% in the third quarter, compared to an initial reading of –1.8%, due to weaker capital investment. In contrast, exports surged 6.1% in November, the fastest pace in nine months and above forecasts. Manufacturing contracted at a slower pace in December. The S&P Global Flash Japan Manufacturing Purchasing Managers' Index (PMI), an indicator of manufacturing performance, climbed to 49.7 in December from 48.7 in November. Concurrently, Toyota shares rose following plans to expand U.S. and hybrid vehicle manufacturing. Shares of Nintendo dropped, weighed down by investor concerns that rising costs for its manufacturing parts, including memory chips, could negatively impact its profit.

Australian shares fell. Most sectors declined with information technology and consumer discretionary leading losses. Materials and consumer staples rose. The Reserve Bank of Australia kept its key interest rate unchanged at 3.6% at its December meeting, as inflation remained elevated. Meanwhile, the S&P Global Australia Manufacturing PMI held steady at 51.6 in December, unchanged from November. Miners like BHP, Rio Tinto and Fortescue saw their shares rise as demand for metals like copper pushed prices to record highs. Copper recorded its strongest annual performance since 2009, driven by increased demand linked to AI. Elsewhere, shares of accounting software provider Xero lost ground as fears of a potential AI bubble dragged global tech stocks in early December. The Australian dollar rose slightly against the greenback.

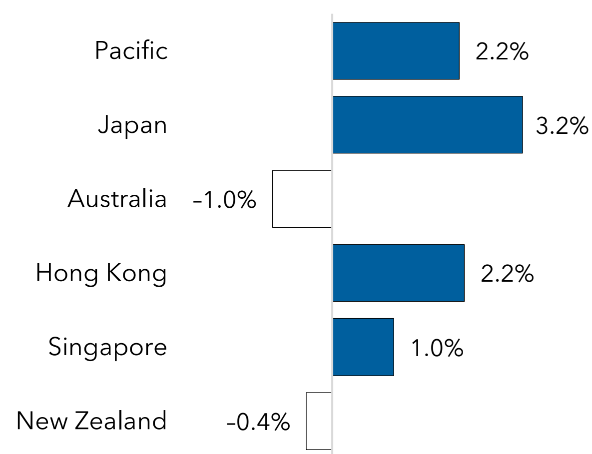
Hong Kong stocks advanced. The city's economy grew 3.8% in the third quarter, accelerating from a 3.1% expansion in the previous quarter, driven by strong exports and steady domestic demand. Utilities and consumer staples led gains among sectors.

MSCI Japan total returns (4Q 2025)



Source: RIMES. Returns are in USD.

MSCI Pacific total returns (4Q 2025)



Source: RIMES. Returns are in USD.

Emerging markets

Emerging markets (EM) equities advanced, supported by strong gains in Korea, Latin America and Taiwan. Chinese stocks declined amid persistent geopolitical uncertainties, while equities in Argentina and South Africa rose. Overall, the MSCI Emerging Markets Index rose 5% during the quarter, ending the year up 34%.

The materials and information technology sectors led the gains, up 11.6% and 16.4% respectively. Semiconductor giants, including Korea's SK Hynix and Taiwan's TSMC, posted record-high profits during the quarter driven by accelerating AI adoption. The consumer discretionary and health care sectors fell 9.1% and 6.7%, respectively.

Chinese stocks fell 7% on weak economic data and a slowdown in U.S. exports. Retail sales increased just 1.3% in November from a year ago, the lowest gain on record excluding the pandemic. Factory output rose 4.8%, the slowest pace in 15 months. Fading consumer subsidies, a prolonged property slump and a softer investment environment heightened deflation risks, prompting policymakers to maintain interest rates. Chinese consumer technology companies Alibaba, Tencent and Xiaomi were the largest detractors of the MSCI EM Index.

Indian equities climbed 5% despite a weakening rupee, as the Reserve Bank of India cut rates by 25 bps to 5.25%. November's consumer price inflation fell below the 2% target, while exports increased despite steep U.S. tariffs. Additionally, shipments to the U.S. jumped 22% year-on-year, outpacing the overall export growth of 19%, easing pressure on the government for a trade deal.

The MSCI EM Latin America Index rose 8%. Shares in Chile, Colombia and Argentina climbed the most. Brazilian equities gained 7% on expectations of a rate cut and low inflation. Meanwhile, Mexico announced tariffs of up to 50% on select Asian imports, likely to impact key sectors like automotive, steel and chemicals. Equities there rose 5%.

Developing market currencies were mixed against the U.S. dollar. The Chilean peso and the Kazakhstan tenge led gains against the U.S. dollar, while the Argentine peso extended its slide, dropping 5%.

Emerging markets debt (EMD) rose during the quarter, closing out an impressive year of gains. EM local-currency government debt rose by 3.34% in dollar terms, as measured by the J.P. Morgan GBI-EM Global Diversified Composite Index. U.S. dollar-denominated debt gained 3.29% in dollar terms, as measured by the J.P. Morgan EMBI Global Diversified Index. ■

4Q 2025 total returns (%)

Equity indexes	(USD)
MSCI Emerging Markets	4.7
MSCI Brazil	7.0
MSCI China	-7.4
MSCI India	4.8
MSCI Mexico	5.4
MSCI South Africa	14.1
MSCI Korea	27.3
MSCI Saudi Arabia	-7.6
MSCI Taiwan	10.4
MSCI Thailand	4.9

Fixed income / currency	USD debt (USD)	Local debt (USD)	Local debt (Local)	Exchange rate (vs. USD)
JPM EMBI Global Div	3.3	---	---	---
JPM GBI-EM Global Div	---	3.3	2.0	---
Brazil	0.6	0.4	3.3	-2.8
China	0.9	2.1	0.3	1.9
Indonesia	1.3	2.6	2.7	-0.1
Malaysia	0.7	4.4	0.7	3.7
Mexico	0.8	3.2	1.2	2.0
Poland	1.1	3.6	2.6	0.9
South Africa	4.5	13.4	8.9	4.1
Turkey	3.3	9.3	12.9	-3.2

Source: RIMES

Certain market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

Unless otherwise noted, all returns are in U.S. dollars and assume the reinvestment of dividends. Country stock returns are based on MSCI indexes.

Bond ratings, which typically range from AAA/Aaa (highest) to D (lowest), are assigned by credit rating agencies such as Standard & Poor's, Moody's and/or Fitch, as an indication of an issuer's creditworthiness.

Bloomberg indexes are unmanaged, and results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes. **Bloomberg U.S. Aggregate Index** represents the U.S. investment-grade fixed-rate bond market. **Bloomberg Global Aggregate Index** represents the global investment-grade fixed income markets. **Bloomberg U.S. Corporate Investment Grade Index** represents the universe of investment grade, publically issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. The **Bloomberg U.S. Corporate High Yield Bond Index** measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. The **Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index** covers the universe of fixed-rate, non-investment-grade debt. The index limits the maximum exposure of any one issuer to 2%.

S&P Global purchasing manager indexes (PMIs) track business trends across both manufacturing and service sectors for various countries. The indexes are based on data collected from companies and follow variables such as sales, new orders, employment, inventories and prices. The **S&P Global Flash Japan Manufacturing PMI** and **S&P Global Australia Manufacturing PMI** provide this information about Japan and Australia, respectively.

J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified and related country-specific indexes track total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, eurobonds. **J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM) Global Diversified** and related country-specific indexes cover the universe of regularly traded, liquid fixed-rate, domestic currency emerging market government bonds to which international investors can gain exposure.

MSCI indexes are free-float-adjusted, market-capitalization weighted indexes. Developed market index results reflect dividends net of withholding taxes. Emerging market index results reflect dividends gross of withholding taxes through December 31, 2000, and dividends net of withholding taxes thereafter. Each index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes. **MSCI All Country World Index (ACWI)** is designed to measure results of more than 40 developed and emerging equity markets. **MSCI All Country World (ACWI) ex USA Index** is designed to measure equity market results in the global developed and emerging markets, excluding the United States. **MSCI EAFE® (Europe, Australasia, Far East) Index** is designed to measure developed equity market results, excluding the United States and Canada. **MSCI Emerging Markets Index** is a free-float-adjusted market-capitalization-weighted index designed to measure equity market results in more than 20 global emerging markets. Individual emerging markets listed herein represent a subset of the MSCI Emerging Markets Index. **MSCI Europe Index** is designed to measure developed equity market results across 15 developed countries in Europe. **MSCI Pacific Index** is designed to measure the equity market performance of the developed markets in the Pacific region. It consists of Japan, Australia, Hong Kong, New Zealand and Singapore. **MSCI World Index** is designed to measure equity market results of developed markets. The index consists of more than 20 developed-market country indexes, including the United States.

S&P 500 Index is a market-capitalization-weighted index based on the results of 500 widely held common stocks. This index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or U.S. federal income taxes.

The **Consumer Price Index (CPI)**, reported by the U.S. Bureau of Labor Statistics, measures the change in prices paid by consumers for goods and services.

Capital Client Group, Inc.
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