Equity and Bond Market Update

(as of December 12, 2025)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+15.8%	+12.3%
S&P 500 Total Return Index	+17.5%	+14.3%
Russell 2000 Total Return Index	+15.9%	+9.6%
MSCI EAFE Index (net)	+29.5%	+25.3%
MSCI Emerging Markets Index (net)	+32.1%	+27.7%
Bloomberg US Aggregate Bond TR	+6.7%	+5.6%

Recent Economic Indicators

	Statistic	Data as of
Unemployment Rate	4.4%	Sep 2025
Gross Domestic Product (GDP)	+3.8%	Q2 2025
Consumer Price Index (CPI) – Y/Y	+3.0%	Sep 2025
Consumer Confidence (1985=100)	88.7	Nov 2025
30-year fixed mortgage rate	6.29%	Wk of Dec 14
Housing Starts (single family)	890,000	Aug 2025
10-Year Treasury Yield	4.18%	12/15/2025

As we close out 2025, we'd like to do a review of the major factors that drove markets and dominated financial headlines during the year.

Market Performance

U.S. Stocks:

- **Dow Jones Industrial Average**: Almost 16% year-to-date, slightly lagging the broader market.
- **S&P 500**: Roughly +17%-18% year-to-date, hitting new highs late in the year driven by tech and rotation into value/financials.
- **Russell 2000** (Small Caps): Around +16% year-to-date, with recent strength outpacing both the Dow and S&P 500.

International Stocks:

- **MSCI EAFE** (Developed Markets): International developed markets have significantly outperformed U.S. stocks, up almost 30% year-to-date.
- **MSCI Emerging Markets**: Even stronger performance, with +32%+ year-to-date, leading global equities in 2025. Most of this outperformance came from outsized contributions from South Korea, China and Taiwan

Bonds:

- **Bloomberg U.S. Aggregate Bond Index**: Positive return in the mid-single digits (~+5%–6% year-to-date). The fixed-income market was supported by interest rate cuts and better credit spreads, but gains remain modest compared with equities.

Inflation

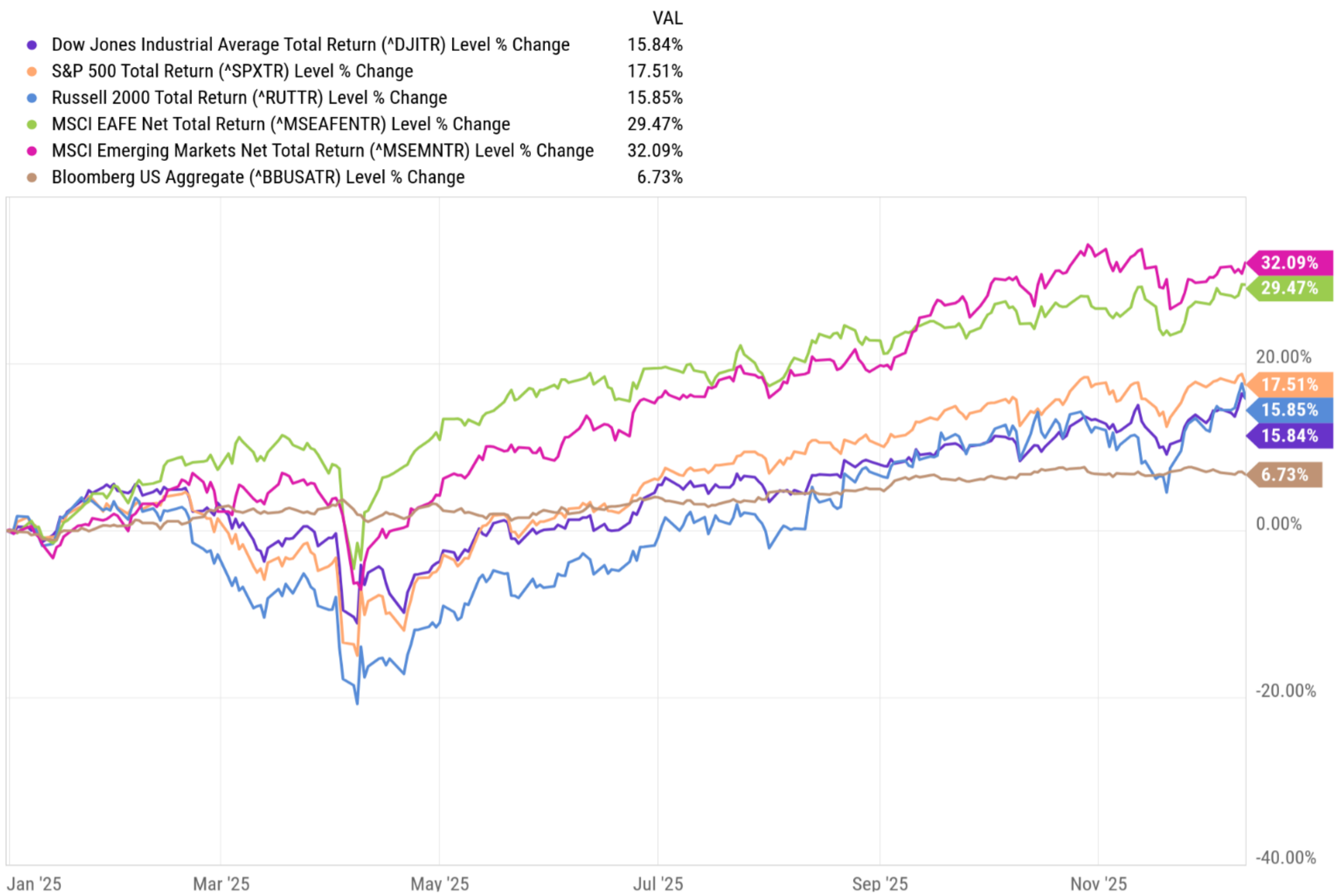
Inflation stayed above the Fed's 2% target most of the year.

- CPI inflation ran around 3.0% year-over-year late in 2025 — meaning prices were still rising faster than the Federal Reserve's 2% goal.
- Core inflation (excluding food and energy) was similarly elevated near 3%, showing broad price pressure beyond volatile categories.

The Fed responded with rate cuts despite inflation not being at target.

- The Federal Reserve cut the federal funds rate to roughly 3.5–3.75%, the lowest in about three years, acknowledging slowing growth and labor market moderation while still wrestling with inflation above target.

Major Market Indices Total Return (YTD through December 12, 2025)



Source: YCharts

Consumer sentiment and real-world pressures remain noticeable.

- Surveys late in the year showed many Americans still feeling the bite from higher grocery, energy and services prices, even if headline inflation was moderating.

Outlook into 2026 suggests some relief ahead.

- Fed policymakers publicly expect inflation to trend down toward 2–2.5% by 2026–2027 if conditions evolve as projected.

Unemployment

Unemployment rose from historically low levels.

- The jobless rate climbed through the year. By September 2025 it was ~4.4%, up from roughly 4.1%–4.2% in mid-year, marking the highest level since 2021. Economists and Fed projections saw unemployment peaking at around 4.5% before easing later.

Job creation slowed dramatically.

- Payroll gains shrank into the tens of thousands per month — far below post-pandemic norms — reflecting a sluggish hiring environment rather than layoffs en masse.

The labor market loosened noticeably.

- Job openings plateaued and remained well below earlier cycle highs, while quits declined and layoffs ticked up, signaling employers weren't aggressively adding workers. Weekly initial claims also spiked seasonally and were elevated relative to the ultra-tight labor markets of 2022–24.

Data reporting was disrupted — adding uncertainty.

- Data reporting disruptions and delays in late 2025 complicated real-time assessment of labor conditions.

Market interpretation and policy implications.

- The slowing labor market — rising unemployment, tepid job growth, softer quits — was a major reason the Fed moved to cut rates in late 2025, balancing inflation concerns with emerging slack.

The Federal Reserve

- After cutting rates by a full 1.0% in the second half of 2024, the Federal Reserve resumed cuts by an additional 0.75% over the last three meetings of 2025. While the short-term benchmark sat at 5.25% - 5.5% from mid-2023 through September of 2024 (after over a year of hikes to battle high inflation the U.S. experienced due to COVID-related stimulus), the rate now sits at 3.5%-3.75%.
- Some Fed officials and Chair Powell attributed the overshoot to one-off factors like tariffs that pushed up prices rather than persistent demand-driven inflation. Others dissented on cuts, arguing inflation was still too high and data were incomplete due to 2025 reporting disruptions.
- Chairman Powell's tenure as Fed chair is set to expire in May next year. Technically, he will remain as a Fed Governor until January of 2028. The current administration is expected to appoint a successor who may take a more dovish policy approach

Outlook for 2026

Currently, the S&P 500 Index is sitting around 6,817. Major banks have released optimistic S&P 500 targets for the end of 2026, generally forecasting continued gains driven by AI investments, strong corporate earnings, and expected Federal Reserve interest rate cuts. Most S&P 500 analyst forecasts fall within a range of 7,100 to 8,000, representing gains between +4% to +17%. Deutsche Bank rolled out the most optimistic forecast of 8,000, citing robust earnings growth and the ongoing AI boom. Bank of America released the most cautious outlook at 7,100, expecting modest gains as earnings growth lifts the market but potential factors like fewer buybacks may temper upside.

Currently, S&P analysts are forecasting earnings growth of almost +17% in 2026 over the entirety of 2025. While these forecasts are quite positive, it is not difficult to expect this to come to fruition with the explosion of AI capital outlays and onshoring of manufacturing capabilities taking place currently in the U.S. A pullback (correction) would not be unusual given current valuations, but any downturn should offer opportunity to rebalance portfolios to take advantage of jittery investor emotions that are not based on any systematic weakness.

As for the bond market, we are currently more in an environment of returns coming from interest income than price appreciation. With a strong economic backdrop and sticky inflation above the Fed's target of 2%, it is more likely we see only a couple more rate cuts in 2026 if any at all. Bond price appreciation at this juncture should only be expected if we see economic weakness and the Fed cuts more aggressively than currently expected.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 992-9220 or by email at **pjackson@lsaminc.com** should you have any questions or comments.

Sources:
S&P Dow Jones Indices website (us.spindices.com)
MSCI Barra website (http://www.mscibarra.com)
The Conference Board (www.conference-board.org)
Bureau of Economic Analysis (www.bea.gov)
JP Morgan Guide to the Markets
CME FedWatch Tool (www.cmegroup.com)
FTSE Russell (www.ftserussell.com)
Bankrate.com (www.bankrate.com)
Bureau of Labor Statistics (www.bls.gov)
United States Census Bureau website (www.census.gov)
Federal Reserve Bank of Atlanta (https://www.atlantafed.org/cqer/research/gdpnow)
OpenAI, ChatGPT

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The S&P 500® Equal Weight Index is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Barclays US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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