

In our last *SIA Perspectives*, we noted that the third quarter results, combined with outsized gains in the second quarter, pushed most stock markets higher by double-digits for the first nine months of 2025. We acknowledged that financial markets might continue to cheer economic growth being spurred by government fiscal spending and interest rate policies.

However, investor enthusiasm cooled early in the fourth quarter with a 43-day government shutdown in the U.S. – the longest on record. Investors were not worried originally, but as the weeks passed, concerns developed as evidence that critical data the U.S. Federal Reserve (Fed) relies upon to determine its policies would probably be delayed or missed altogether.

For stock investors, these concerns were counterbalanced with another wave of strong corporate earnings growth, and stocks posted reasonable gains for the fourth quarter. Meanwhile, bond investors were stuck in neutral as the lack of economic data compromised the Fed’s ability to provide insight regarding future policies.

By the end of December, most stock and bond markets generated gains for the fourth quarter, but not nearly as strong as those posted in the second and third quarters.

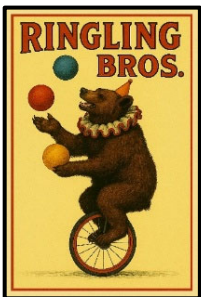
## What Happened to Financial Markets in 2025?

The returns for 2025 were not achieved without some tough bouts of performance during the year. In fact, the S&P 500 Index fell by 19% from its recent high at one point this spring and finished the year up almost 18%, a recovery of nearly 40%. Stock markets overseas fell by approximately the same amount and recovered to blow past U.S. benchmarks with a return of over 30% for 2025. Meanwhile, bonds provided a cushion to portfolio balances as the Bloomberg U.S. Aggregate Bond Index fell by less than 3% during its largest downward swing of the year.

As a reminder of the headwinds faced by financial markets and investors during the year, the summaries below recap sections of SIA’s communications – conveyed through our quarterly themes and observations:

### 1<sup>st</sup> Quarter – “What a Circus!”

- In January, the White House announced that Elon Musk would head the Department of Government Efficiency (DOGE) which is intended to be a temporary federal initiative established by President Trump. Its mission is to streamline government operations, reduce spending and eliminate inefficiencies across federal agencies.
- A Chinese start-up unveiled an artificial intelligence (AI) model named DeepSeek-R1 in late January. This announcement immediately caused turbulence in global stock markets as investors feared that DeepSeek’s more cost-effective and efficient AI model might disrupt the competitive landscape.
- Declaring “no room left to negotiate,” the president laid out plans to assess 25% tariffs on Canada and Mexico.
- In mid-March, Germany’s parliament approved a landmark fiscal reform, marking a shift from the country’s traditionally cautious stance on public spending. This move signaled a pivot toward more public investment and a more assertive economic policy approach.



## 2<sup>nd</sup> Quarter – “Investors Kick the Can”



After financial markets found their “footing” in April, investors pushed off worst-case scenarios and piled back into riskier assets leading to outsized returns for stock investors in both the U.S. and those overseas.

There remain many issues investors chose to ignore by “kicking the can,” yet could impact future performance, including:

- Can O’ War: tensions in the Middle East and the Ukraine-Russia war.
- Can O’ Tariffs: potential for trade wars has not been eliminated.
- Can O’ Debt: the downgrade of the U.S. credit rating in May by Moody's caused little reaction.
- Can O’ DOGE: this efficiency experiment may continue to impact specific sectors and companies.

## 3<sup>rd</sup> Quarter – “To Infinity and Beyond”...?

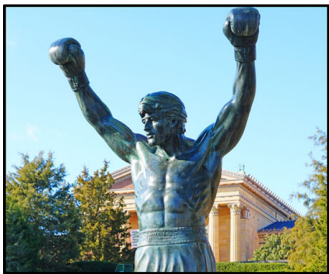


- Investors were pulled higher “kicking and screaming” throughout the year, as headlines often overshadowed solid economic data and corporate earnings growth. For financial markets, expectations of slowing growth are different from negative growth, and stocks can still advance in this environment.
- The rally in bonds also boosted performance in 2025 as prices moved higher. Most bond market segment yields remained attractive and provide good support for portfolios should stocks sell-off in the near future.

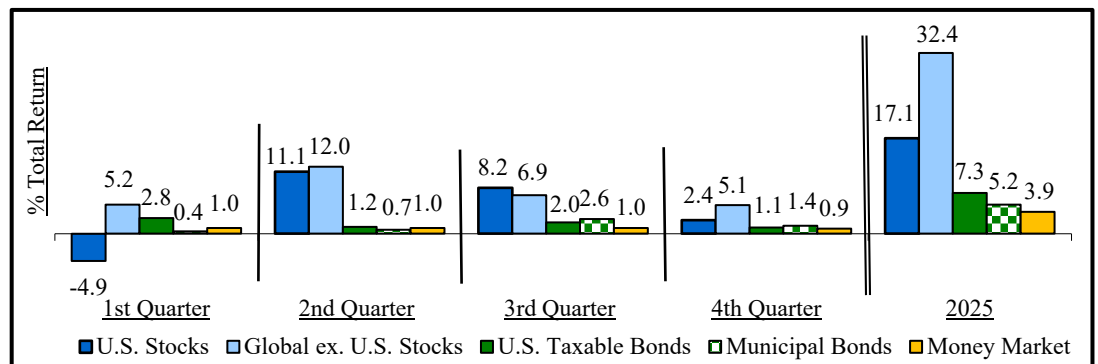
## 4<sup>th</sup> Quarter – “Investors Face a Rocky Ending”

- Despite worries regarding the impact of the U.S. government shutdown on economic growth, a strong wave of corporate earnings announcements during the quarter helped improve outlooks for continued stock market gains. Key growth drivers, particularly the ongoing success of AI and its expanding adoption across multiple industries, appeared to remain firmly in place.
- Once the government reopened, investors digested the delayed updates to key economic data. Market reactions were tempered, but positive, following the announcement of softer-than-expected inflation in November. This news paired well with the substantial upside surprise in third-quarter GDP (4.4% versus expectations of 3.3%).
- Fiscal stimulus from nations outside the U.S., including significant packages provided by Japan and Germany, continued to support developed and emerging market stock index returns.
- After the Fed’s December meeting, it announced the third and last interest rate cut for the year, settling in a range of 3.50% to 3.75%.

### After A Rocky Year, the 2025 Winners Are....?



**Long-Term Investors**

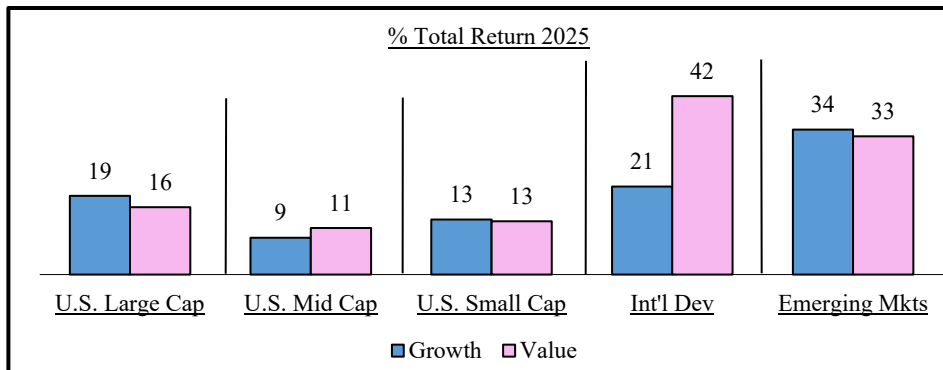
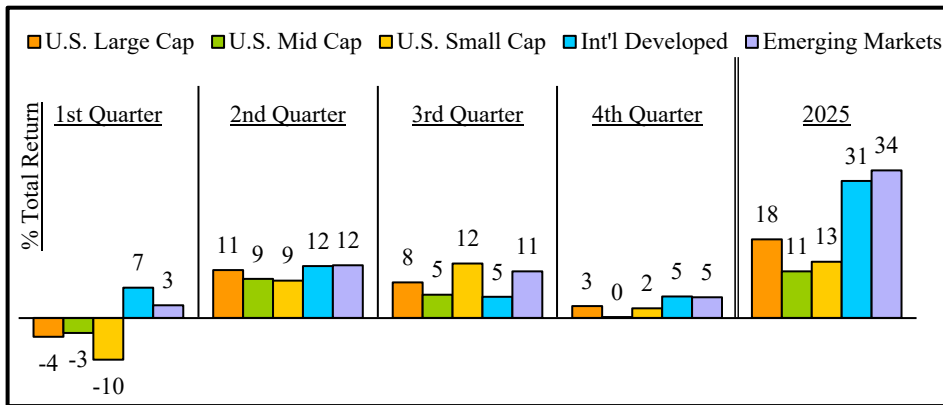


The bar chart above highlights the percent total returns of five major asset class segments for each quarter and in 2025. Gains from stock markets overseas boosted portfolio results significantly, while U.S. stocks, U.S. bonds (both taxable and municipal) and money market funds added to returns.



## How Did Stock Benchmarks Perform?

A very rocky first quarter of performance continued through early April until the negative trend reversed quickly. A powerful rally in May and June continued into September, leading to good results for both the second and third quarters. The double-digit gains in 2025 across all stock market benchmarks, shown in the graph below, were excellent given the uncertainty investors faced throughout 2025. These gains accrued despite warnings about stretched valuations and stocks being “priced for perfection.”



- Stocks in the U.S. fell in the first quarter, then moved higher in each of the next three quarters to post double-digit gains for the year.
- Meanwhile, international developed and emerging market benchmarks powered higher each quarter and ended the year with outstanding gains of more than 30%.
- These performances were the best for each since 2017 and 2009, respectively.
- The exhibit to the left highlights ranges of performance by investment style using five stock market segments as a guide to 2025’s results.
- While it appears that U.S. segments had comparable results for growth and value, changes in leadership swung widely from quarter-to-quarter.
- Overseas markets were dominated by value for most of the year as financial stocks soared.

## What Happened to Bond Yields and Prices in 2025?

Bond investors entered 2025 expecting lower interest rates as inflation appeared to be firmly in the rearview mirror. In our 2024 year-end comments, we noted in “SIA’s Outlook” that policy direction under the new U.S. administration could either support or disrupt that path. As PIMCO’s CIO Dan Ivascyn aptly put it, and we shared at the time, “the only certainty is uncertainty.”

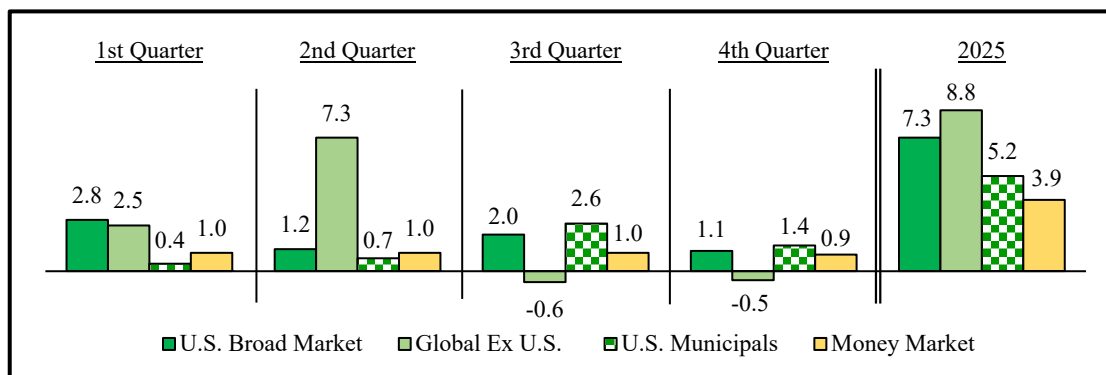
Uncertainty surfaced quickly in 2025 with tariff announcements as early as February. This news fueled financial market volatility and reignited the bond market experts’ debate of when, and if, the Fed could return its inflation target to an annual rate of 2%. As news developed, Fed Chair Jerome Powell made it clear to all that the Fed viewed tariffs as a one-time adjustment rather than a sustained boost to inflation. He included the caveat that “we are well positioned to wait to learn more about the likely course of the economy before considering any adjustments to our policy stance.”

Another uncertainty emerged as rhetoric from the White House questioned the ability for the Fed to maintain its independence. This concern intensified throughout the year, yet bond markets remained relatively calm and supported, in part, by the Supreme Court’s explicit acknowledgment that the Fed is a “uniquely structured, quasi-private entity.” This comment signaled that the White House does not possess the same authority over Fed leadership as it does over federal agencies.

After bond investors patiently waited nine months for further clarity from the Fed, markets cheered as Jerome Powell made it clear that the Fed was increasingly focused on signs of labor market weakness rather than the inflationary impact of tariffs. The Fed announced in September the first of what would be three rate cuts in 2025.



Despite the considerable noise, headlines and bouts of volatility, most bond segments provided very good performance in 2025. As noted in the table below, quarterly results for various bond benchmarks were generally positive and combined to produce the best calendar year in five years. Few, if any, forecasters predicted that bonds would provide such good returns for 2025, and these results confirm that trying to guess the direction of bond markets is nearly as difficult as trying to guess the direction of stock markets.



Bonds	Yield Year-End		Change in Yield	% Total Return 2025
	2024	2025		
U.S. Treasuries				
2-Year	4.25%	3.47%	-0.78%	<b>5.0%</b>
5-Year	4.38%	3.73%	-0.65%	<b>7.2%</b>
10-Year	4.58%	4.18%	-0.40%	<b>8.2%</b>
30-Year	4.78%	4.84%	0.06%	<b>3.7%</b>
U.S. Aggregate	4.91%	4.32%	-0.59%	<b>7.3%</b>
Corporates	5.33%	4.81%	-0.52%	<b>7.8%</b>
Municipals	3.74%	3.60%	-0.14%	<b>4.3%</b>
High Yield	7.49%	6.53%	-0.96%	<b>8.6%</b>
Global ex-U.S.	2.85%	2.99%	0.14%	<b>8.7%</b>

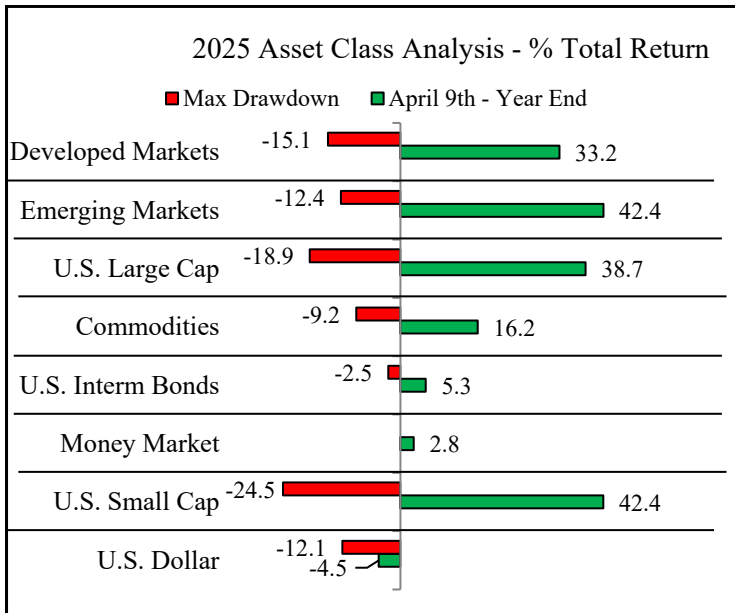
- As noted by the % Total Return column, in the table to the left, gains for the year were a nice surprise, especially to those investors who might have soured after the declines posted three years ago.
- For 2025, investors were rewarded for taking on credit quality and duration risks.
- Yields offered as of year-end 2025 stand at rates that are above inflation, when just a few years ago they were generally much lower and below the historic rates of inflation.

### How Have Investment Strategies Performed?

In last year’s outlook we projected that 2025 would begin with reasonable expectations for another year of positive returns. We also cited that “this year will be particularly challenging as announced policies and potential guidelines for the new U.S. administration could wreak havoc or be a boon to financial market performances.”

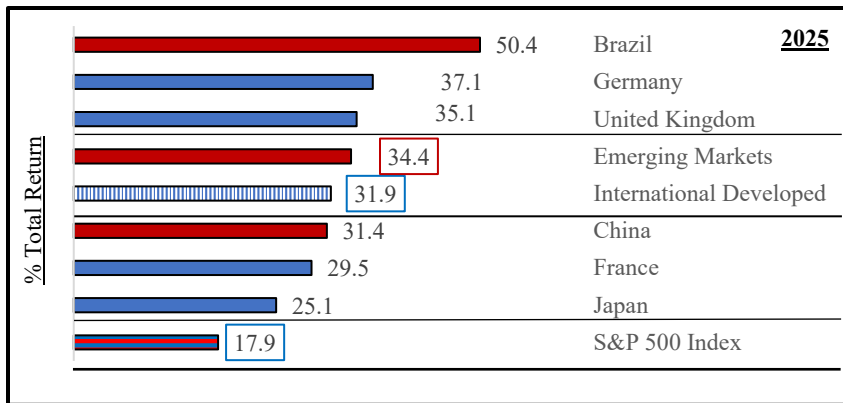
Little did we know that the year would provide both “havoc” and a “boon” at various times for financial markets.





- The bar chart to the left highlights “havoc,” as most assets listed suffered significant downturns at some point earlier in 2025. For example, the U.S. Large Cap benchmark suffered a decline of 18.9% early in the year.
- Because most of the downturns ended around April 8<sup>th</sup>, the chart notes the “boon” in performance through year-end. As illustrated, the U.S. Large Cap index rebounded by 38.7% through year-end.
- During these periods, U.S. Interm(ediate) Bonds and Money Market allocations provided support to portfolios with stocks and bonds.

While the double-digit declines for most stock market benchmarks may have rattled investors, we remained focused on the achievement of longer-term goals.



- The bar chart to the left indicates performance for several major regional and country stock market benchmarks for 2025.
- Shockingly, despite political and social unrest worldwide, stock market returns overseas dominated throughout the year.
- In fact, all listed markets overseas outperformed the U.S.’s double-digit return by historic amounts. Emerging Markets posted its best calendar return since 2017 (8 years) with International Developed’s return being the best since 2009 (16 years).

The outlook for 2026 remains cloudy as key factors continue to dominate world economies. War, tariffs, artificial intelligence and politics will dominate discussions, and in turn, investor sentiment.

In late January, our Research Team will have completed interviews with our top outside resources and will use these inputs to determine SIA’s long-term expected return ranges for various asset classes. This review will assist us also in forming our outlook for 2026.

### Behind the Scenes at SIA

2025 will be remembered as a year of professional and personal growth for our Team and the firm. Key highlights of the year include:

1. serving current clients, while continuing to add clients at a measured pace, which pushed revenue to all-time highs.
2. enlisting the services of an outside consultant to assist with the firm’s strategic and succession planning.
3. conducted an internal Information Summit with four SIA Associates to discuss and share what was learned from continuing education completed to maintain the Independent Advisor Representative status as registered with the Securities and Exchange Commission.

\* Representative benchmark indexes for all exhibits are detailed on page six of this SIA Perspectives.



4. investing time and resources to upgrade our communication systems to assist with internal workflows designed to improve efficiencies and client services.
5. providing financial and other support to staff seeking to improve professional knowledge. A few key events included attending the:
  - Compliance workshop in Washington, DC.
  - Registered Investment Advisor Council at Vanguard’s headquarters in Pennsylvania.
  - PIMCO educational seminar that included senior investment managers in California.
  - Schwab annual IMPACT conference in Denver to network with the study cohort of Schwab’s RIA Management Advancement four-month program.
6. our Associates are dedicated to enhancing our community. Our Team’s impact included:
  - being recognized in August by *Louisville Business First* as one of the top philanthropic firms in the Louisville area. ([\*See our website for more details about this award.\*](#))
  - serving as a proud supporter of the annual Give for Good campaign sponsored by the Community Foundation of Louisville. We are proud to have helped sponsor record-breaking results with 25,000 donors contributing over \$10.5 million, impacting more than 600 charities. All in just one day!

Cheers to a healthy and prosperous new year and a fun Winter Olympic 2026 viewing season,

The Associates of SIA

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\* **Benchmark Indexes used in this SIA Perspective include:** Page 2: Dow Jones Total U.S. Stock Market Index (U.S. Stocks), MSCI ACWI ex USA (Global ex. U.S.), Bloomberg: U.S. Aggregate Bond (U.S. Taxable), Municipal 1-15 yr. (Municipal Bonds), Morningstar US Money Market – Taxable peer group (Money Market); Page 3 (top): S&P 500 (U.S. Large Cap), Russell: Mid-Cap (U.S. Mid Cap), 2000 (U.S. Small Cap), MSCI: EAFE (Int’l Developed) and EM (Emerging markets); Page 3 (bottom): growth and value style indexes of those used in Page 3-top Page 4 (chart): Bloomberg: U.S. Aggregate Bond (U.S. Broad Market), Global Agg. ex. U.S. (Global Ex U.S.), Municipal 1-15 yr. (U.S. Municipals), see pg. 2 money market Page 4 (table): Bloomberg: U.S. Aggregate Bond (U.S. Broad Market), U.S. Corporates (Corporates), Muni Bond (U.S. Municipals), Corporate High Yield (High Yield), see pg. 4 chart. Page 5: Bloomberg Commodities Index (Commodities), ICE U.S. Dollar Index (U.S. Dollar), other indexes same as above. Page 6: MSCI Country Indexes (e.g. MSCI Brazil, MSCI Germany)

