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2025 Investment Commentary

Another positive market year is in the books, marking the third year in a row for investors to be grateful for what the markets delivered.

A breakdown shows that just about every U.S. investment category experienced moderate to robust gains. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—gained 2.34% in the final quarter of the year, delivering a positive 17.13% return overall. The comparable Russell 3000 index gained 17.15% for the year.

Looking at large cap stocks, the Wilshire U.S. 2500 Large Cap index gained 2.32% in the 4th quarter, to end the year with a 17.15% gain. The Russell 1000 large-cap index delivered a 17.37% gain for 2025, while the widely quoted S&P 500 index of large company stocks gained 2.35% in the fourth quarter, to bring investors a 16.39% return for the year.

The Russell Midcap Index, meanwhile, was largely flat in the fourth quarter, and ended the year with a 10.60% gain.

As measured by the Russell 2000 Small-Cap Index, investors in smaller companies received a 12.81% return for the year. The technology-heavy Nasdaq Composite Index gained 20.17% in 2025.

Foreign markets continue to deliver higher returns than the U.S. domestic indices. The broad-based EAFE index of companies in developed foreign economies gained 4.54%, in dollar terms, in the fourth quarter of 2025, to finish the year with a remarkably robust 27.89% return. European stocks, in aggregate, were up 31.95% for the past 12 months, while the Far Eastern index gained 22.94%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, gained 4.33% in dollar terms in the recent quarter, posting a 30.58% gain for the year.

Real estate securities are still limping along. The Wilshire U.S. REIT index lost 1.69% in the fourth quarter, taking its return down to a positive 2.71% as the books closed on 2025. Commodities returns were a bit of a downer for investors in 2025; the S&P GSCI index posted a negative 0.27% return in the 4th quarter; the year's return came to a slight 0.20% loss. Utility stocks, as measured by the S&P 500 Utilities index, dropped 2.11% in the fourth quarter, but overall delivered a solid 12.69% return for the year.

In the bond markets, yields have fallen everywhere but at the longest durations, and it's still (this is unusual, but persistent) possible to get higher yields on some shorter-term bonds than longer-term issues. Treasuries of 3-month (3.63%) and 6-month (3.60%) duration are yielding more than government securities with 1-year (3.47%) maturities. 5-year Treasuries are yielding 3.73%, 10-year government bonds are yielding 4.17% and 30-year maturities are generating 4.84% annual coupon rates. Five-year municipal bonds are yielding 2.39% in aggregate, while 30-year municipal bonds are yielding 4.19%.

This is the time of year when you hear a lot of predictions, when economists look into their crystal balls and extrapolate current trends. The picture they're painting is rosy short-term, but less optimistic after 2026.

The One Big Beautiful Act lowered tax rates, especially for people in the higher tax brackets, which should drop up to \$150 billion into the wallets and pocketbooks of consumers. The people who benefit most—the higher earners—tend to spend a smaller share of their income, but overall consumers will pay less taxes and might, in the coming year, engage in the all-important consumer spending that makes up such a big part of economic growth.

After 2026, however, watch out. The U.S. government debt levels have already passed dangerous levels (\$38 trillion) and are increasing at ever-faster rates. U.S. household debt has risen to a record \$18.4 trillion, with credit card and auto loan delinquencies rising above pre-pandemic levels. At some point, the credit rubber band could be extended too far, forcing an increase in taxes just to pay the interest on the national debt, and a simultaneous decline in consumer spending as people focus on paying down their credit card obligations.

Another positive note for 2026: the Big Beautiful Bill allows corporations to deduct 100% of their equipment purchases in the year they spend the money. The last time this was possible, after passage of the 2017 tax bill, corporate investment surged and raised the GDP level by nearly a full percentage point. At the same time, the U.S. Central Bank has been lowering interest rates, and a new Fed chairperson in May will have a clear mandate from the Trump Administration to cut rates further and faster. That would give corporations a sugar-high boost to earnings that could last through the year.

Once again, however, this might not be a good long-term strategy. Dramatically lower interest rates could lead to a new inflation surge in the years following 2026. It would take a long time for the Fed to rein in runaway inflation, particularly if, at the same time, the government is struggling to grapple with a runaway national debt.

What does all this mean for investors? The economy and American corporations seem to have successfully navigated the complexities of on-again, off-again, on-again-but-lower tariffs, delivering another good year for stock investors overall. The economy, by most measures, is growing. The consensus among economists and strategists is for a bullish 11% market gain over the next 12 months.

But in truth, the future is unknowable. Former Citibank chair Walter Wriston once complained that economists seemed to be born with 'too many hands,' because whenever he would ask them a straightforward question, they would respond with a plausible future scenario, and then say, 'on the other hand,' and give him an (equally-plausible) opposite scenario.

We are in multiple-hand territory now. The enthusiasm for all things AI could cool, and the pell-mell construction of new data centers could lead to a lot of white elephants on corporate balance sheets. Or, on the other hand, the winds at the back of the market in 2026 could push it to new records, leaving the pundits to write new forecasts on their fortune cookies for the 2027 markets. This is a good time to celebrate our investing good fortune, and hope that we'll enjoy more of the same in the coming year.

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