TrustPoint

Issue No. 52

Market Point

Fourth Quarter of 2025

Quarterly Economic and Market Commentary by the Trust Point Investment Team

An Overview of the Fourth Quarter of 2025

Markets ended the year on a positive note despite ongoing uncertainty around tariffs, inflation, and monetary policy. Strong earnings, easing interest rates, and steady demand supported gains across both equity and fixed income markets, while advances in international stocks reinforced the importance of diversification. Read on for our perspective and how portfolios are positioned heading into 2026.

For more information, scan this QR code or visit www.trustpointinc.com/market-point/.

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An Economic and Market Update from Trust Point

TRUSTPOINT

Q4 2025

Both equity and fixed income markets delivered strong performance in 2025, supported by cooling inflation and improving financial conditions. Looking to 2026, easing tensions between the U.S. and China, front loaded fiscal spending tied to the One Big Beautiful Bill Act (OBBBA), and the lagged effects of earlier rate cuts create a supportive macroeconomic backdrop. Throughout 2025, we increased international and cyclical equity exposure in response to a softening dollar and accumulating data suggesting market leadership may be migrating beyond U.S markets and into cyclical parts of the economy.

KEY ECONOMIC DATA

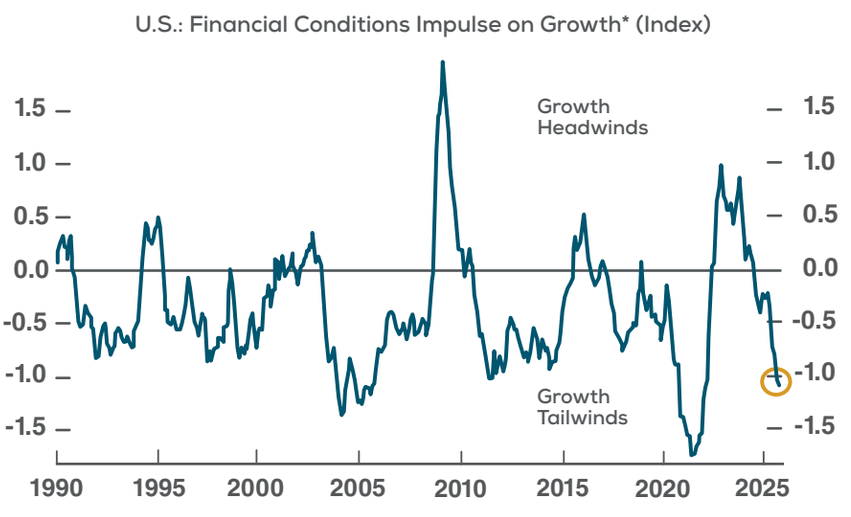
	As of	Actual	3 Mos. Ago	1 Year Ago
Dollar Index Level	Dec	98.3	97.8	108.5
U.S. Economic Activity				
ISM Manufacturing (>50 = Expansion)	Dec	47.9	49.1	49.2
ISM Non-Manufacturing (>50 = Expansion)	Dec	54.4	50.0	54.0
Non-Farm Payrolls	Dec	50k	108k	323k
Unemployment Rate	Dec	4.4%	4.4%	4.1%
CPI Ex-Food & Energy (yoy)	Nov	2.6%	3.1%	3.3%
Global Economic Activity				
JP Morgan Global Manufacturing Index (>50 = Expansion)	Dec	50.4	50.7	49.6
JP Morgan Global Services Index (>50 = Expansion)	Dec	52.4	52.9	53.8

Source: Bloomberg

Resilience and Imbalance: The Economic Story of 2025

In 2025, worldwide GDP expanded at an estimated rate of roughly 3%, reflecting a year of uneven but resilient global growth. The first half was marked by trade tensions and tariff adjustments that introduced periods of market volatility, while the second half benefited from inflation slowing faster than anticipated and a broad easing of financial conditions (Chart 1). More accommodative policy guidance from major central banks later in the year played a key role in supporting this improvement. In the United States, the economy grew by about 2% in 2025. Consumer spending remained a central engine of expansion, reinforcing that U.S. growth is not solely reliant on artificial intelligence-related investment. However, consumer spending patterns continued to display a distinctly "K" shaped dynamic: higher income households, supported by rising equity and housing prices, maintained strong discretionary demand while lower income households faced more pressure as they encountered slower job and wage gains alongside persistently elevated costs for essentials such as rent, food, and energy.

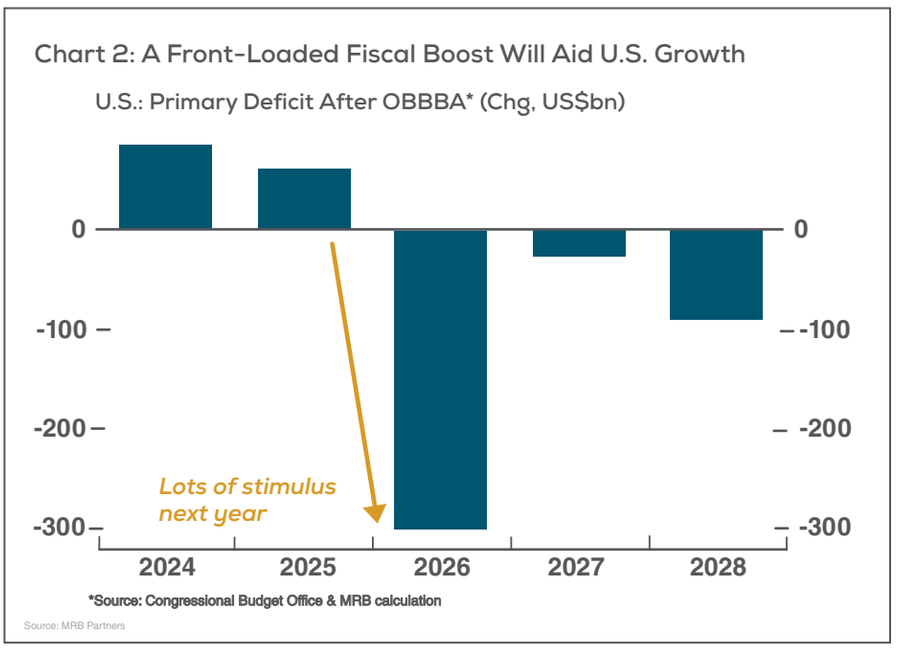
Chart 1: U.S. Financial Conditions Have Become More Supportive



Source: MRB Partners

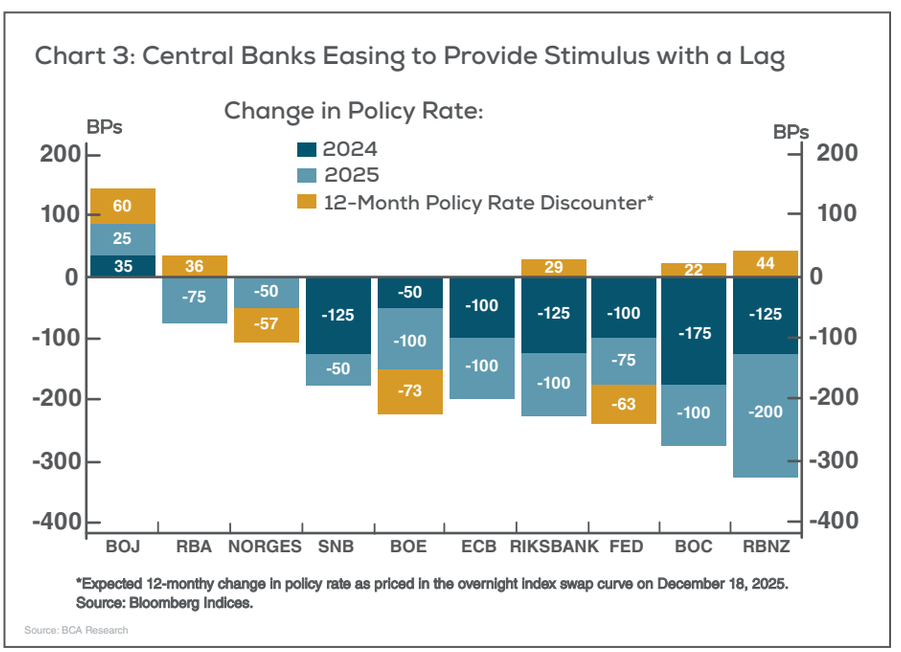
Key Catalysts Shaping the Outlook for 2026

As investors look ahead to 2026, several meaningful catalysts are likely to shape the trajectory of the global economy and financial markets. The recently negotiated U.S.–China trade deal marks a notable shift toward stability in the world's most important bilateral economic relationship. The deal reduces tariff uncertainty and reopens channels for critical minerals, agricultural products, and other manufactured goods. This easing in trade tensions has helped improve business confidence and overall investor sentiment, even as broader geopolitical risks remain. Domestically, fiscal policy will remain a central driver of growth in 2026, supported by ongoing infrastructure investment, targeted incentives, tax cuts, and front-loaded spending authorized under the OBBBA (Chart 2). At the same time, rate cuts by central banks in both 2024 and 2025 should continue to work their way through the economy over time (Chart 3), offering a steady tailwind to growth, even as the scope for further easing in 2026 appears more limited. Together, these forces underscore the importance of policy, geopolitics, and corporate fundamentals in shaping market outcomes in the year ahead.



Rebalancing Toward International Stocks and Cyclical Leadership

From an asset allocation perspective, we continue to favor equities over bonds, supported by a macro environment that remains broadly accommodative. Within equities, adjustments made in the first half of 2025 increased our exposure to international markets, reflecting both improving growth prospects abroad and a deteriorating outlook for the U.S. dollar. A weaker dollar historically enhances returns on non-U.S. assets, making the timing particularly attractive. As the year progressed, we also selectively increased our cyclical positioning across several equity sectors. This move was informed by evidence of strengthening global demand, easing supply chain pressures, and early signs that capital spending cycles were beginning to reaccelerate. Taken together, these portfolio changes reflect our view that market leadership in the next phase of the cycle is likely to be more globally distributed and more cyclically driven than in recent years, creating attractive opportunities for portfolios aligned with a broader set of economic tailwinds.



An Equity Market Update from Trust Point

TRUSTPOINT

Q4 2025

Global equity markets continue to be shaped by the powerful tailwinds of the AI (artificial intelligence) infrastructure buildout, which is driving substantial capital investment and supporting strong corporate profitability. Looking ahead, increasingly supportive fiscal and monetary policies create a more favorable backdrop for cyclical, value-oriented, and economically sensitive areas of the market. While today's environment shares some surface similarities with the late 1990s tech bubble, the combination of real earnings strength, tangible capital formation, and a more resilient economic foundation suggests a fundamentally more durable and balanced landscape for investors.

EQUITY BENCHMARK TABLE

Major U.S. Equity Index Level	Quarter-End	3 Mos. Ago	1 Year Ago	3 Years Ago	5 Years Ago
S&P 500	6,846	6,688	5,882	3,840	3,756
Dow Jones Industrial Average	48,063	46,398	42,544	33,147	30,606
NASDAQ	23,242	22,660	19,311	10,466	12,888

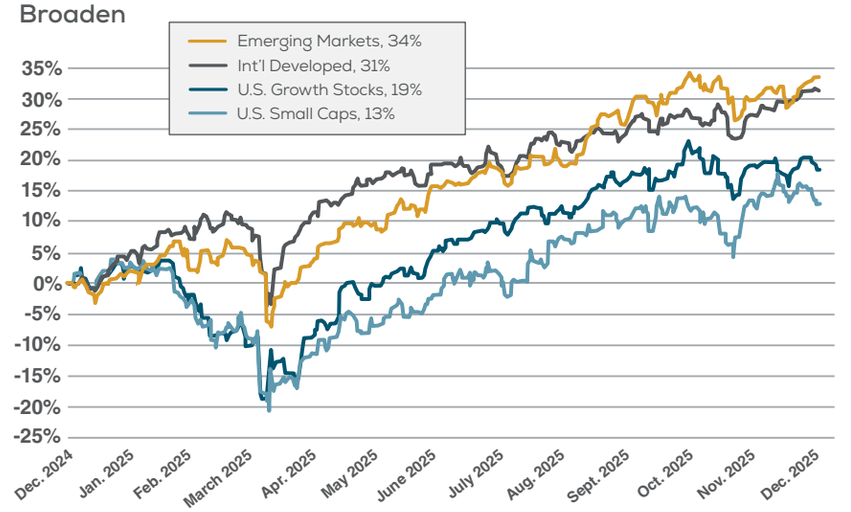
Equity Returns (%)	3 Month	YTD	1 Year	3 Year (Ann)	5 Year (Ann)
US Large Cap Growth	1.1%	18.6%	18.6%	31.2%	15.3%
US Large Cap Value	3.8%	15.9%	15.9%	13.9%	11.3%
US Mid Cap Growth	-3.7%	8.7%	8.7%	18.6%	6.6%
US Mid Cap Value	1.4%	11.0%	11.0%	12.3%	9.8%
US Small Cap Growth	1.2%	13.0%	13.0%	15.6%	3.2%
US Small Cap Value	3.3%	12.6%	12.6%	11.7%	8.9%
International Large Cap Developed (US Dollar)	4.9%	31.2%	31.2%	17.2%	8.9%
International Small/Mid Cap Developed (US Dollar)	2.7%	31.8%	31.8%	15.0%	5.6%
Emerging Market (US Dollar)	4.7%	33.6%	33.6%	16.4%	4.2%

Source: Bloomberg, Morningstar

AI Buildout Powers Revenue Surge as Global Equities Broaden in 2025

Now in the third year of the AI infrastructure buildout, global equity markets continue to be shaped by the massive investment cycle centered on next generation data centers designed to train, deploy, and scale increasingly complex AI models. This multi-year surge in capital expenditures has become a powerful engine of revenue growth across a wide range of industries. Semiconductor manufacturers are seeing high demand for advanced GPUs, high bandwidth memory, and custom accelerators. Cloud service providers and hyperscalers are expanding their AI-optimized server fleets, driving strong order books for networking equipment makers, power management suppliers, and cooling system manufacturers. Even traditionally cyclical industries, such as electrical equipment, industrial automation, and construction engineering, are benefiting from the physical buildout of data center campuses, including power grid upgrades and specialized real estate development. Yet the strength of 2025's equity performance has not been confined to AI beneficiaries. At the same time, international markets also delivered meaningful gains (Chart 4) as economic conditions improved and earnings broadened beyond the largest U.S. growth names.

Chart 4: International Markets Lead the Way as Market Returns Broaden

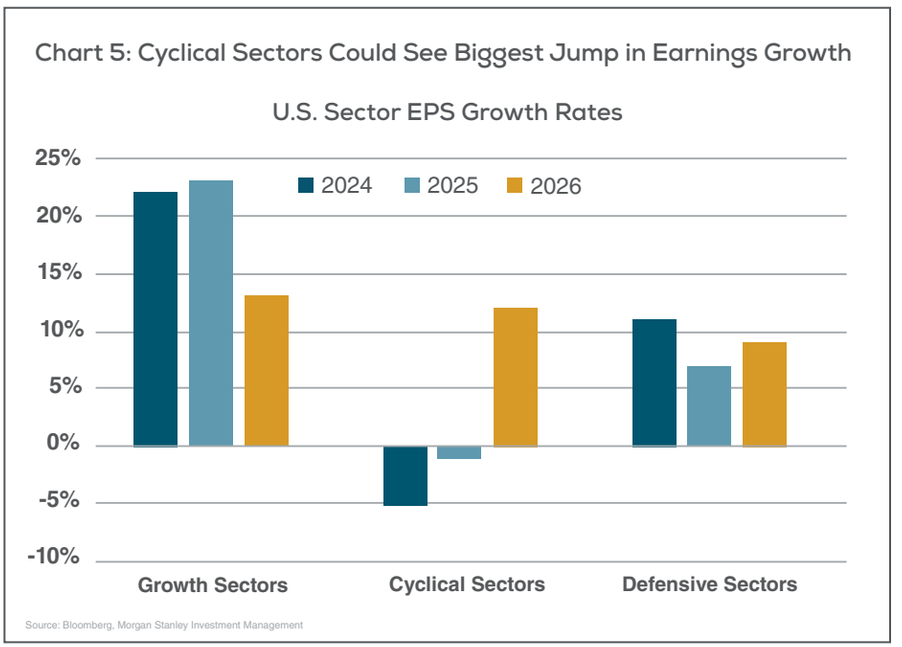


Source: Morningstar Direct

US Growth Stocks: Russell 1000 Growth Index; US Small Caps: Russell 2000 Index; Int'l Developed: MSCI EAFE Index; Emerging Markets: MSCI EM Index

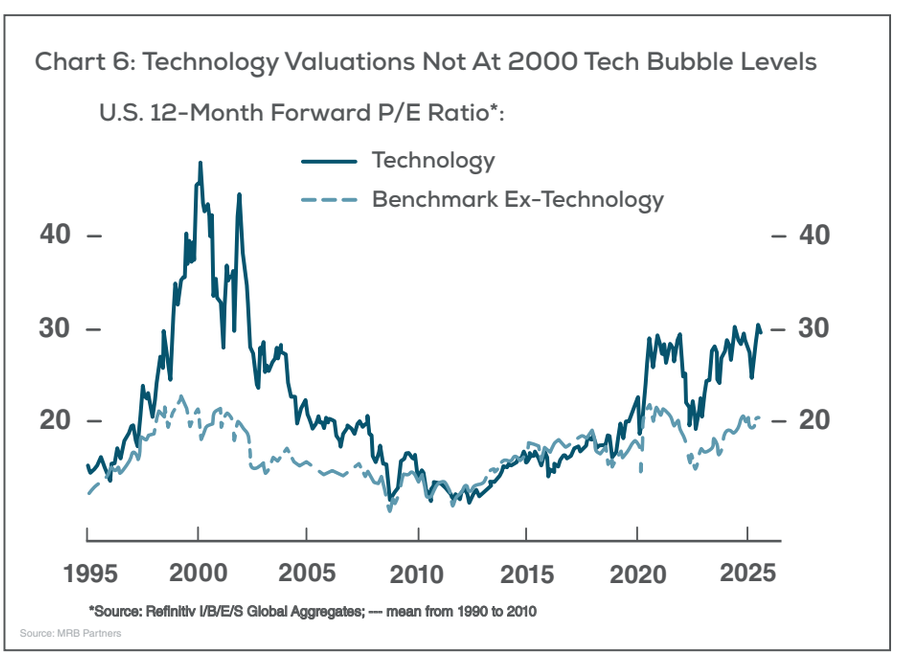
Growth Reacceleration May Shift Leadership Toward Cyclical and Value Stocks

Looking ahead to 2026, the prospect of a global growth reacceleration is gaining momentum as both fiscal and monetary policy shift toward a more supportive stance across major economies. This policy backdrop sets the stage for a potential rebound in areas of the market that tend to benefit most from strengthening economic momentum, including regions with higher sensitivity to global economic activity, such as small-cap, value, and other economically sensitives segments that have lagged the AI-driven leadership of recent years (Chart 5). A synchronized pickup in economic growth would help expand market participation beyond the narrow cohort of companies focused on AI growth, allowing a wider range of fundamentally cyclical and valuation-oriented segments to reengage. If these conditions materialize, the next phase of the cycle could feature a more balanced and inclusive pattern of global equity returns, reinforcing the importance of maintaining diversified exposure across styles, regions, and market capitalizations.



Echoes of Past Cycles, But a Distinct Market Environment

While comparisons to the late 1990s tech bubble have become increasingly common, today's market environment reflects both notable parallels and important structural differences. As in 1999–2000, market leadership remains heavily concentrated in technology companies, valuations are elevated—though not at the levels seen during the 1999–2000 tech bubble (Chart 6)—and retail investor participation is high. Yet the underlying economic and corporate backdrop today is far more robust. Capital formation is being driven by tangible investment needs—most notably the multi-year surge in capital expenditures tied to AI infrastructure, data centers, and digital modernization—rather than the speculative business models that were far more prevalent during the tech bubble. Corporate profitability is also meaningfully stronger and supported by broad based earnings growth, distinguishing the current cycle from the lower-profit environment of the late 1990s. Taken together, these dynamics suggest that while certain behavioral and valuation patterns resemble earlier periods of exuberance, the economic foundation and investment drivers of today's market create a more durable and fundamentally grounded landscape for investors to navigate.



A Fixed Income Update from Trust Point

TRUSTPOINT

Q4 2025

Driven by U.S. leadership, the global bond market ended the year on a strong note, extending gains built earlier in the year. Fixed income investors benefited from a combination of attractive starting yields and price appreciation, as rates fell in response to moderating inflation and broad central bank easing. In the U.S., the 10-year Treasury yield declined from a January peak of 4.8% to end the year at 4.2%. Even with the pullback in rates, yields remain elevated relative to most of the past two decades, offering meaningful income and compelling opportunities across a range of high-quality sectors.

FIXED INCOME BENCHMARK TABLE

U.S. Yields (%)	Quarter-End	3 Mos. Ago	1 Year Ago	3 Years Ago	5 Years Ago
3 Month T-Bill	3.6%	3.9%	4.3%	4.3%	0.1%
2 Yr US Treasury	3.5%	3.6%	4.2%	4.4%	0.1%
10 Yr US Treasury	4.2%	4.2%	4.6%	3.9%	0.9%

Fixed Income Returns (%)	3 Month	YTD	1 Year	3 Year (Ann)	5 Year (Ann)
US Intermediate Treasuries	1.1%	8.2%	8.2%	4.1%	-0.9%
US Treasury Inflation Protected Sec.	0.1%	7.0%	7.0%	4.2%	1.1%
US Mortgages	1.7%	8.6%	8.6%	4.9%	0.1%
US Short-Intermediate T/E Munis	0.5%	5.1%	5.1%	3.6%	1.1%
US Investment Grade Corporates	0.8%	7.8%	7.8%	6.1%	-0.1%
US Senior Bank Loans	--	--	--	--	--
US High Yield	1.3%	8.5%	8.5%	10.0%	4.5%
Int'l Bonds Ex-US (Hedged)	0.5%	2.8%	2.8%	5.3%	0.8%
Int'l Bonds (Unhedged)	0.2%	8.2%	8.2%	4.0%	-2.1%
Emerging Market Debt (US Dollar)	3.0%	13.0%	13.0%	9.7%	1.3%

Source: Bloomberg, Morningstar

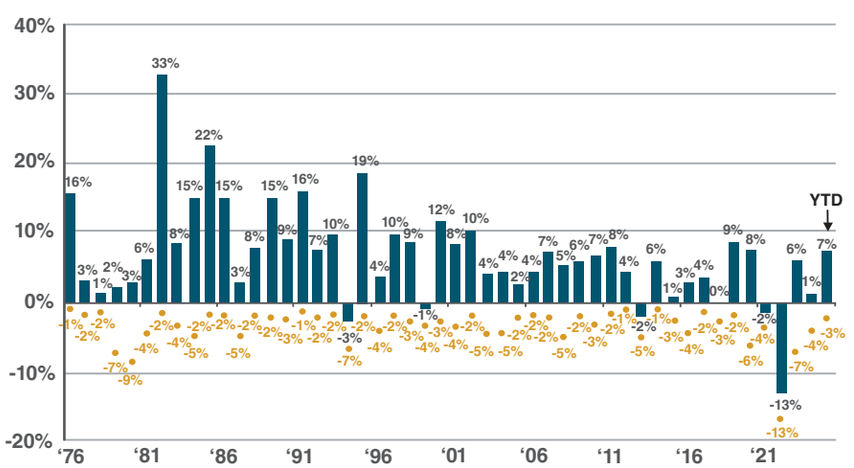
High Yields, Strong Returns: A Standout Year for Bonds

In 2025, the U.S. bond market delivered its strongest results in five years, with the U.S. Aggregate Index rising more than 7%. This performance was supported by cooling inflation, Federal Reserve rate cuts, and signs of softening in the labor market, all of which pushed interest rates lower and increased the value of existing bonds (Chart 7). Importantly, starting yields at the beginning of the year were extremely compelling, providing investors a high level of income even before factoring in the benefit of falling rates and price appreciation. Our portfolios were well positioned to take advantage of this environment. Early in the year, we increased exposure to high quality, interest-rate-sensitive sectors to lock in attractive starting yields while strengthening the defensive profile of our allocations. We also selectively added higher-yielding credit. As a result, our fixed income holdings outperformed the broader market in a year that delivered the best return since 2020. Despite the decline in yields over the year, interest rates remain at the upper end of their twenty-year range (Chart 8), keeping bonds appealing for investors seeking stability, reliable income, and diversification.

Chart 7: U.S. Aggregate Bond Index – Best Performance Since 2020

Bloomberg U.S. Aggregate intra-year declines vs. calendar year returns

Despite average intra-year drops of 3.5%, annual returns were positive in 44 of 49 years

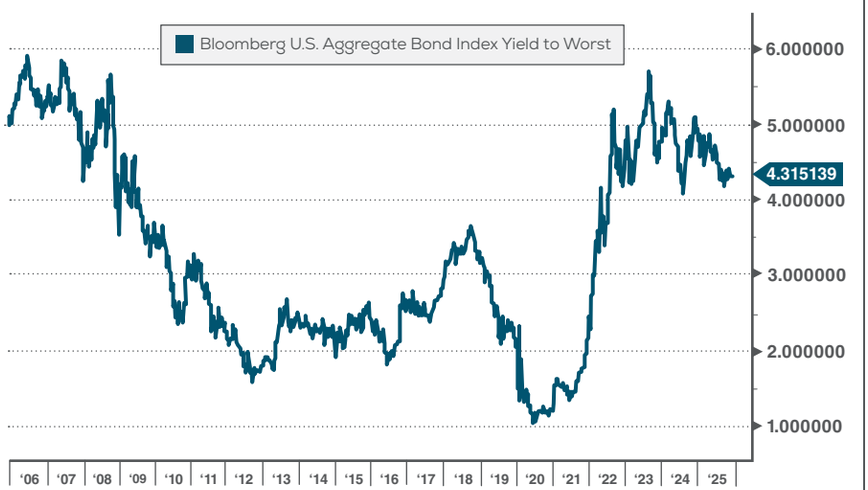


Source: JPMorgan Guide to the Markets

A New Chapter at the Federal Reserve

As we move into 2026, the Federal Reserve is entering a period of leadership transition, as Chair Powell's term expires in May. Markets are closely watching the selection of the next Fed Chair, as leadership changes can influence policy communication and expectations around the future path of interest rates. Reports indicate that potential candidates include current economic adviser Kevin Hassett and former Federal Reserve Governor Kevin Warsh, both of whom are generally viewed as more open to a faster pace of interest rate cuts. At the same time, the composition of the Federal Reserve Board is evolving, with changes in voting membership expected over the year. Each member of the committee holds one vote when setting policy, and shifts in its makeup could affect how consensus is reached. While we believe that economic fundamentals will ultimately guide the Fed's path, changes in leadership and committee dynamics introduce an additional layer of uncertainty. Although not our base case, a scenario in which rate cuts occur earlier or move more quickly than expected could contribute to more persistent inflation pressures and a steeper yield curve. Our portfolios are positioned with this range of outcomes in mind.

Chart 8: Interest Rates Remain Elevated Relative to the Last Two Decades



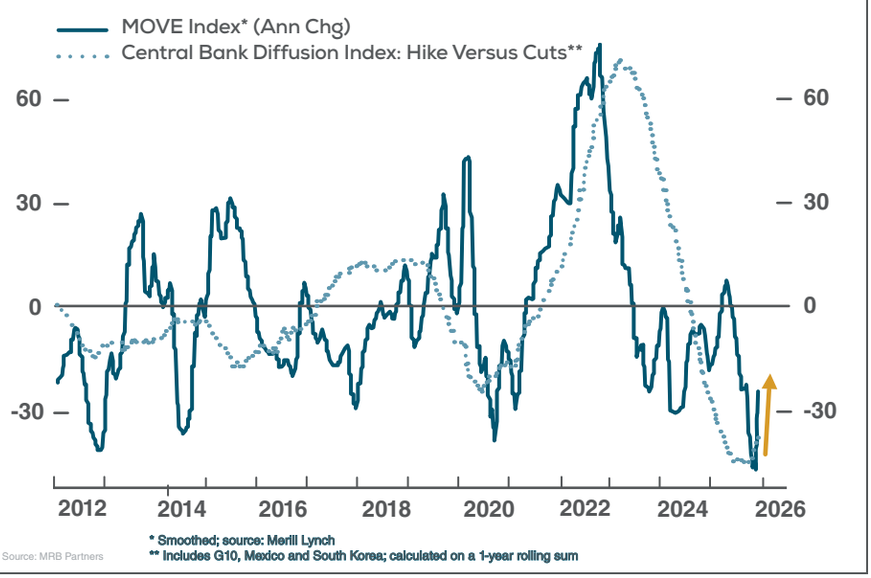
LBUSTRUU Index (Bloomberg U.S. Agg Total Return Value Unhedged USD) Daily 02JAN2006-31DEC2025

Source: Bloomberg, as of 12/31/2025

Navigating Markets as Global Monetary Policy Shifts

After more than a year of rate cuts, the global shift toward looser monetary policy has slowed, a transition that often brings increased bond market volatility (Chart 9). In the U.S., one key dynamic to watch is the rising "term premium," the added compensation investors require for holding longer-term bonds. The term premium typically increases when inflation uncertainty rises or when confidence in the monetary policy outlook weakens. Today's large budget deficits and elevated Treasury issuance add to this pressure, as investors may demand higher yields to absorb the additional supply of bonds. Together, these forces could keep long term yields elevated even as some central banks continue to cut short-term policy rates. In this environment, we are maintaining a cautious stance toward long-duration bonds. Beyond rates, credit markets remain supported by pro-growth fiscal policy and easier monetary conditions. By combining selective credit exposure, inflation protection, and disciplined interest rate risk management, investors can more easily navigate a landscape shaped by shifting monetary policy and the potential for increased volatility.

Chart 9: End of Global Monetary Easing = More Bond Volatility



Source: MRB Partners

* Smoothed; source: Merill Lynch

** Includes G10, Mexico and South Korea; calculated on a 1-year rolling sum

Market Point

Market Point is a quarterly market commentary offering insights on economic conditions and updates on equity and fixed income markets. It's one of the many ways our Investment Management team supports you in making informed decisions, reflecting our mission: ***To Simplify & Secure Your Wealth***.

The individuals contributing to Market Point are pictured from left to right (top row): Nolan Gaffney, CFA®; Steve Brudos; Matthew Wittenberg; Christine Doll; Brandon Hellenbrand, CFA®. Bottom row (left to right): Yan Arsenault, CFA®, CAIA®; and Randy Van Rooyen, CFA®, CEPA®. **If you have questions or are interested in learning more, give us a call to start the conversation.**

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