Capital Markets Review | 4th Quarter 2025

December 31, 2025

Overview

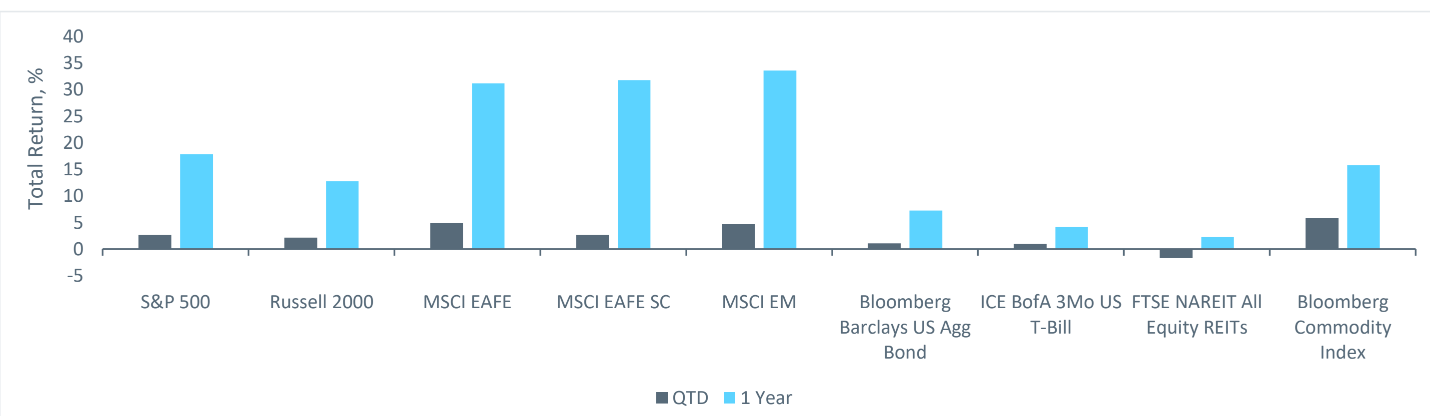
Global equity markets and other risk assets delivered strong returns in 2025 despite periods of volatility. Early in the year, markets experienced significant volatility driven by tariff announcements and concerns about competition and profitability among companies developing artificial intelligence (AI) technologies. Uncertainty also came from a 43-day US government shutdown in Q4, tensions around the independence of the US Federal Reserve, and multiple military conflicts across the world. However, markets looked past these disruptions and rebounded in each case.

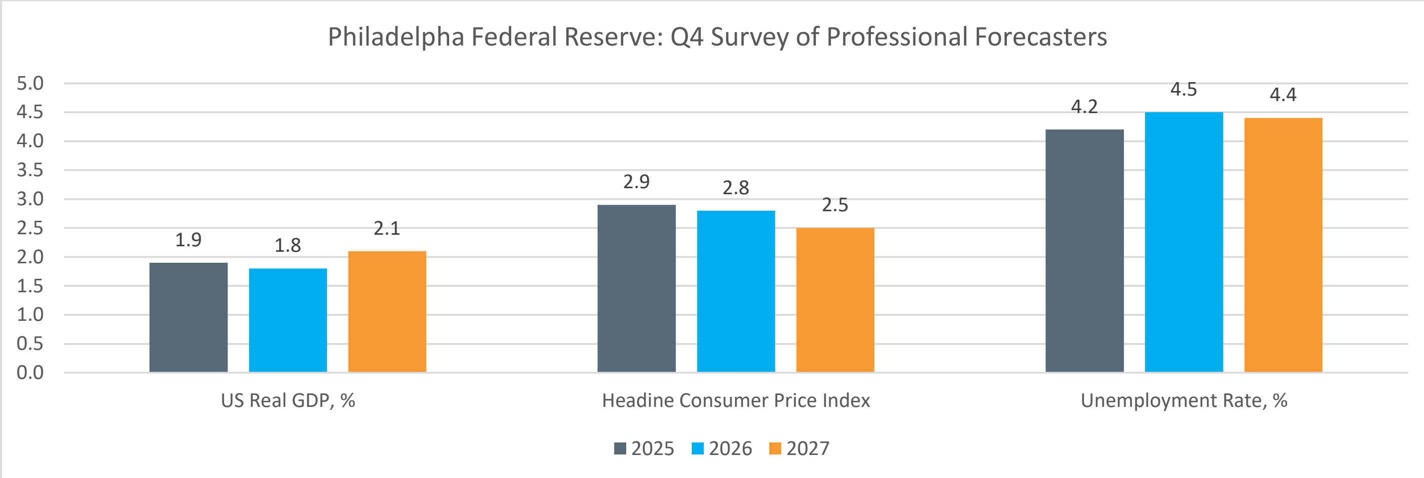
US equities posted their third consecutive annual gain, including posting positive returns in Q4. However, market leadership shifted in 2025. While Alphabet and Nvidia handily outpaced the S&P 500 Index, the other members of the Magnificent 7 underperformed the general market in 2025. Another notable market story was international equities outperforming their US counterparts—a reversal of a multi-year trend. International equity markets were generally supported by a weaker US dollar, more attractive valuations, and expectations for greater monetary and fiscal support. Fixed income markets saw modest positive returns in Q4 to cap off a strong year for the asset class. In 2025, Treasury yields declined across most maturities, while credit markets were supported by strong fundamentals and technicals.

The Federal Open Markets Committee (FOMC) shifted to a more accommodative stance late in the year through a series of rate reductions labeled as "risk management" exercises. After holding steady for most of 2025, and despite diverging views on interest rate policy among committee members, the FOMC closed the year by cutting rates by a combined 75 basis points, including a 25-basis point cut in October and another one in December. The decision to cut rates reflected growing concerns over labor market softness overriding moderating inflation.

Economic data painted a mixed picture throughout 2025. US GDP growth rebounded in the final three quarters after a relatively weak Q1. Forecasts point to positive GDP growth in Q4, with the Federal Reserve Bank of Philadelphia reporting an average forecast for real GDP growth of 1.9% in 2025 based on survey results released in November. Inflation moderated more than expected late in the year, with December's headline CPI at 2.7% year-over-year, though the report was viewed as less reliable due to the use of assumed price levels inputted for the government shutdown period. Unemployment incrementally rose during 2025, ending the year at 4.4%. *(continued on next page)*

Quarter-to-Date (QTD) and 1 Year Performance



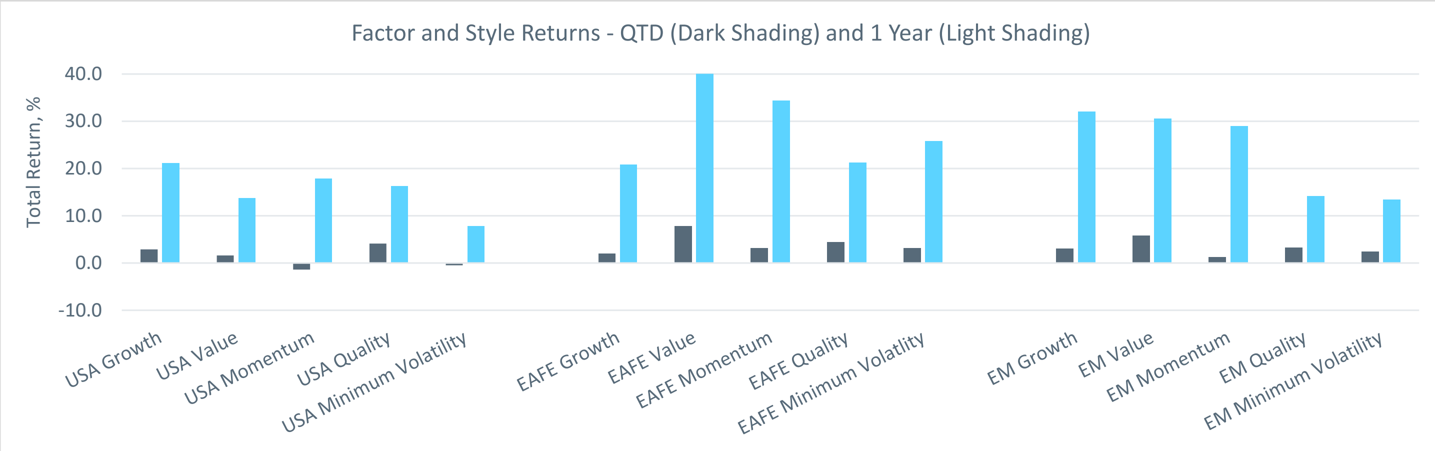


Wage growth exceeded inflation in 2025, while consumer confidence fell (89.1 in December 2025 versus 104.7 in December 2024). Housing market activity remained constrained. Mortgage rates remain elevated and home prices have increased over 50% since January 2020 according to the S&P Cotality Case-Shiller US National Home Price Index.

Outside the US, monetary policy diverged across major economies. Following reductions earlier in the year, the European Central Bank held rates steady in Q4. Meanwhile, the Bank of England cut rates by 25 basis points in Q4 in response to easing inflation pressures and weakening growth. In contrast, the Bank of Japan raised rates by 25 basis points to 0.75% in Q4, citing sustained wage and price pressures, though real rates remain negative. Emerging markets benefited from easing financial conditions. The US dollar weakened during the year, which supported local-currency debt returns and provided support for rate cuts in various economies. China's economy continued to struggle, though its stock market appreciated significantly during the year due to AI-related innovation in the technology sector and supportive policy measures. While sentiment for Chinese assets improved among many investors, others remain wary of the risks presented by a stressed property sector, weak consumption, and local government debt levels.

Expanded Review of Key Economic Indicators

	Q4 2025	Q3 2025	Q2 2025	10-Year Average
Federal Funds Rate	3.64%	4.09%	4.33%	2.18%
Treasury (2-Year)	3.48%	3.61%	3.71%	2.31%
Treasury (10-Year)	4.17%	4.15%	4.23%	2.69%
Treasury (30-Year)	4.84%	4.73%	4.79%	3.12%
Breakeven Inflation (5-Year)	2.26%	2.42%	2.31%	2.03%
Breakeven Inflation (10-Year)	2.25%	2.36%	2.29%	2.05%
Breakeven Inflation (30-Year)	2.22%	2.24%	2.27%	2.07%
BB US Corp: Hi Yld Index - OAS	2.66%	2.67%	2.90%	3.95%
Capacity Utilization	76.00%	76.00%	76.20%	76.61%
Unemployment Rate	4.40%	4.40%	4.10%	4.59%
ISM PMI - Manufacturing	47.90%	49.10%	49.00%	52.92%
ISM PMI - Service	54.40%	50.00%	50.80%	55.59%
Consumer Confidence (Conf. Board)	89.10	95.60	95.20	110.14
CPI YoY (Headline)	2.70%	3.00%	2.70%	3.11%
PPI YoY - Producer Prices	3.00%	2.99%	2.42%	3.00%
US Dollar Total Weighted Index	119.85	120.86	119.83	117.19
WTI Crude Oil per Barrel	$57	$62	$66	$64
Gold Spot per Ounce	$4,325	$3,887	$3,303	$1,832



US Equity

US equity markets delivered positive returns in Q4—sustaining their rebound following heightened volatility earlier in 2025. While the AI buildout remains a major theme, Q4 saw a general broadening of performance down the capitalization spectrum and across sectors.

The Russell 3000 Index returned 2.4% in Q4 and 17.2% for the year. In Q4, value stocks outperformed growth stocks, with the Russell 3000 Value Index returning 3.8% compared to the Russell 3000 Growth Index returning 1.1%. However, growth stocks outpaced their value counterparts for the year. Large-cap and small-cap performed similarly during Q4, with the Russell 1000 Index returning 2.4% to the Russell 2000 Index's 2.2%, with large-cap stocks delivering stronger annual returns as well.

In Q4, there was noticeable dispersion among the largest players in the AI space. Investors appeared to be more discerning than in previous quarters, contributing to more grounded returns for AI-related stocks. Active manager performance was mixed during Q4, with the median large- and small-cap manager generally failing to outperform their benchmarks, with large-cap core and small-cap growth being two notable exceptions. However, the median mid-cap manager (of all styles) outperformed the benchmark by a healthy margin.

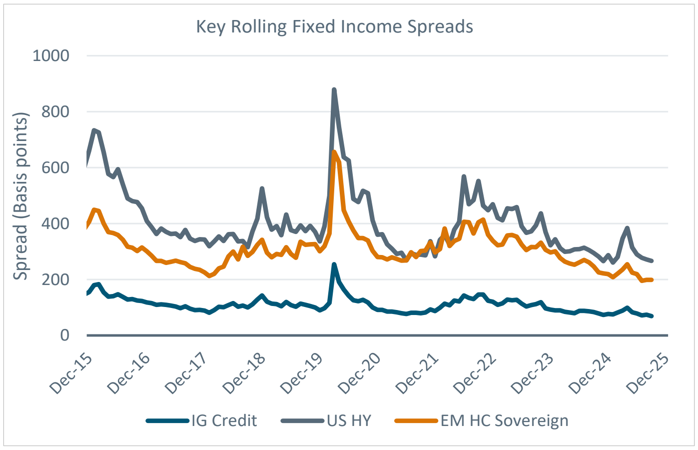
Non-US Equity

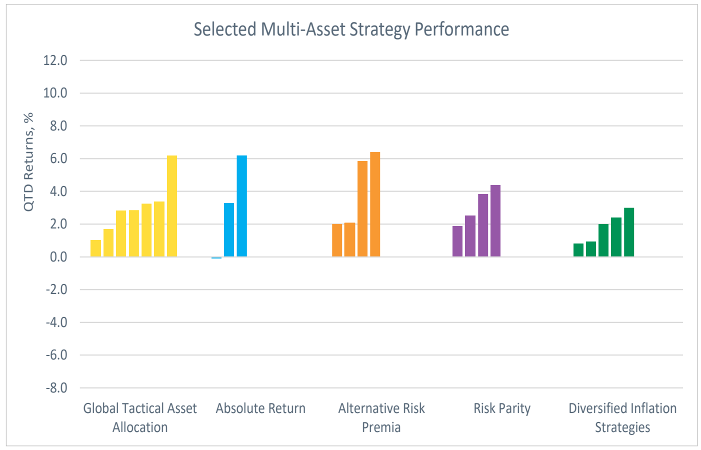
Developed international equities outperformed US equities in Q4 and for the year with the MSCI World ex USA Index finishing 2025 with a 32.6% return. Value stocks continued to outperform growth stocks in Q4. Small-cap stocks trailed large cap stocks in Q4, but each segment ended the year with similar, significant absolute annual returns. Healthcare, utilities, and financials were the best performing sectors during the quarter. European banks had their strongest year in three decades in 2025, as net interest margins improved.

Emerging market stocks slightly lagged developed international stocks in Q4, but emerging markets still produced strong returns for the year with the MSCI Emerging Markets Index delivering an annual return of 33.6% in 2025. Emerging market value stocks outperformed growth stocks during the quarter but lagged over the full year.

Notably, the China equity market underperformed during Q4 after an otherwise strong year; the country was a significant detractor to index returns for the quarter. While US trade tensions with China evolved, economic data from China was mixed, with consumer spending and the housing market remaining weak. South Korea was the top performing emerging market in 2025, as it benefited significantly from exposure to the AI theme and ongoing corporate governance reforms.

Fixed Income and Multi-Asset Commentary





Fixed Income

In Q4, fixed income markets were influenced by a combination of the Federal Reserve's second and third rate cuts of 25 basis points each in 2025, tight credit spreads, and a structurally steeping yield curve. Treasury yields declined across most of the curve in 2025. The yield curve continued its multi-year steepening trend, with the spread between the 2-year and 10-year Treasurys ending the year at 69 basis points—35 basis points steeper over the year and 179 basis points steeper than the peak inversion in mid-2023 peak.

The fixed income markets delivered broad-based gains in Q4 and over the course of 2025. The Bloomberg US Aggregate Bond Index returned 1.1% in Q4, finishing the year with a 7.3% return. Risk assets demonstrated resilience throughout the year, supported by spread compression and stable fundamentals. The Bloomberg US Corporate Investment Grade Index returned 0.8% in Q4 and 7.8% for the year, while the Bloomberg US Corporate High Yield Index posted gains of 1.3% in Q4 and 8.6% for the year.

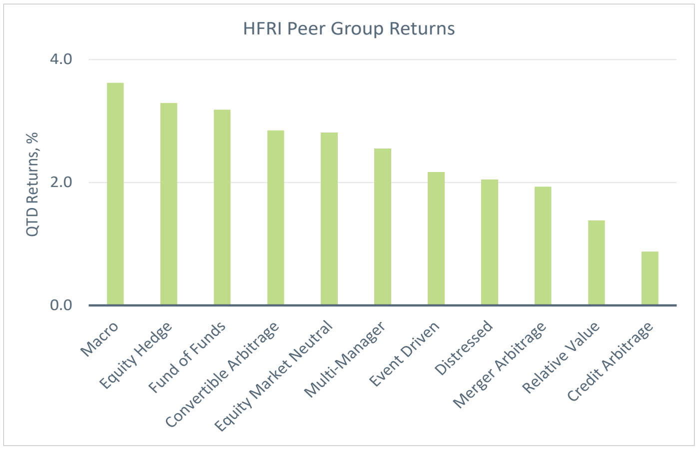
Emerging market debt rallied in 2025, supported by expectations of further interest rate reductions and a weaker US dollar. The JPMorgan EMBI Global Diversified Index, which tracks hard currency bonds, returned 3.3% in Q4 and 14.3% for the year. Local currency bonds also performed well, benefiting from currency impacts, with the JPMorgan GBI-EM Global Diversified Index returning 3.3% in Q4 and 19.3% for the year.

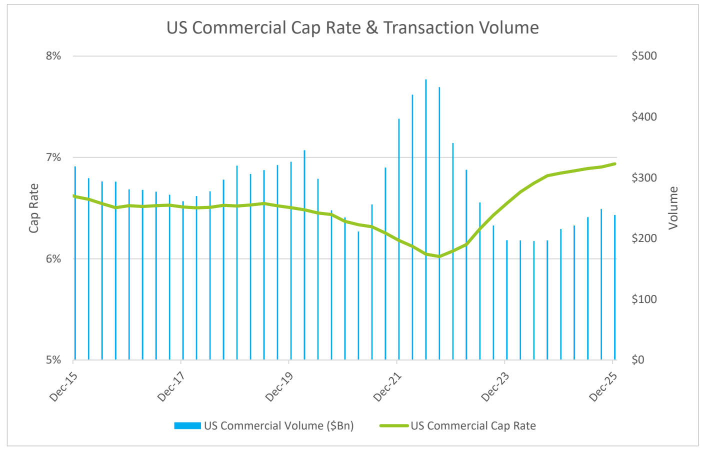
Multi-Asset

Global Tactical Asset Allocation (GTAA) strategies that RVK follows closely delivered positive results in Q4, with several outperforming a US-centric blend of 60% equity and 40% fixed income (60/40 blend), rounding out a strong year. By year end, nearly all GTAA managers in the group outperformed the 60/40 blend. In Q4, the top performing long-biased GTAA strategies benefitted from higher exposure to global equities, particularly emerging markets and European equities, as well as value orientated positions. Precious metals, notably gold, also contributed to returns.

Multi-asset managers that target reduced correlations, low volatility, and limited market sensitivity generally posted disparate returns for the quarter and the year, with some outperforming the 60/40 blend. Alternative Risk Premia strategies that RVK follows posted positive returns. The best performing managers in this peer group benefited from allocations that resulted in long positions in metals. Value and momentum factors were also significant contributors.

For Diversified Inflation Strategy managers tracked closely by RVK reported positive performance to cap off a strong year, with many outperforming the 60/40 blend. The top performing managers benefited from larger exposures to agency mortgage-backed securities, global listed infrastructure, and allocations to precious metals, particularly gold and silver, while real estate allocations delivered mixed results.





Diversified Hedge Funds

Hedge funds finished 2025 with strong, positive results across all major strategy groups. Preliminary data suggests that the HFRI Asset Weighted Composite Index returned 2.6% in Q4, resulting in full-year return of approximately 9.7%.

Macro managers again led performance during the quarter, benefitting from the December rate cut and ongoing rally in precious metals, notably gold and silver, which reached historic levels. The HFRI Macro Total Index returned 3.6% in Q4 bringing its full-year 2025 return to 7.1%.

Equity Long/Short managers generated returns primarily on the long side, while managers with wider tolerances for market exposure continued to capture more beta and perform relatively better. The HFRI Equity Market Neutral Index returned 2.7% in Q4, bringing its full-year 2025 return to 11.2%, while the HFRI Equity Hedge Index returned 3.0% in Q4, bringing its full-year 2025 return to 17.1%.

Credit spreads oscillation in Q4 provided trading opportunities for relative value managers. The HFRI Credit Arbitrage Index returned 2.5% in the fourth quarter, bringing its full-year 2025 return to 8.7%. Diversified strategies remained consistently positive, posting gains in most months in 2025. The HFRI Multi-Manager Index returned 2.2% in Q4, finishing the year with returns of 9.3% while the HFRI Fund of Funds Index returned 3.3% in Q4 with returns of 10.6% in 2025.

Real Estate

Core private real estate generated a positive 0.9% total return in Q4 (on a preliminary and gross of fee basis), as reported by the NFI-ODCE Index, driven from a 1.0% return from income with a price depreciation of -0.1% detracting from total returns. Income returns continue to drive NFI-ODCE's recent positive returns as appreciation returns have bounced between slightly positive to slightly negative over the past six quarters. The 1-year income return ending Q4 of 4.1% remains above the 3- and 5-year trailing returns. A muted recovery continues for private real estate following a significant correction that began in Q4 2022, with Q4 2025 marking the sixth consecutive quarter of positive total returns for the NFI-ODCE. Publicly traded real estate experienced more volatility and delivered a total return of -2.1%, as measured by FTSE NAREIT All Equity REITs Index, bringing it's annual return to 2.3%.

The real estate market continues on a cautious path as investors balance mostly positive fundamentals with continued uncertainty around the economy and geopolitics. The recent rate cuts from the FOMC have made lending more affordable for buyers aiding the transaction markets, which have experienced improved volume year-over-year, but remain below past levels from 2014 through 2020. There continues to be oversupply in certain markets and sectors. Investors are expecting to experience improving supply–demand dynamics as the post-pandemic wave of construction starts to see final deliveries in mid-2026.

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