

Well, That Was Interesting...What Now? Q4 2025





2025 Fourth Quarter Stock Market Update

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January 2026

This past year brought a dizzying series of events. We had DOGE, tariffs, the Middle East, the “Big Beautiful Bill”, the Fed and allthings artificial intelligence (AI) give way to a dramatic swoon and even more dramatic recovery (oh and don’t forget a government shutdown that markets largely ignored). In fact, it’s truly hard to believe we fit everything into one year! Ultimately, all the action culminated in another year of surprisingly strong returns for the broader equity indices. The S&P 500® Index and Russell 2000® Index finished 2025 up 17.9% and 12.8%, respectively, while the NASDAQ® Composite finished up 21.1%.

To review, the market started the year on a rough note with first quarter declines of 4.3% and 9.5%, respectively, for the S&P and Russell. Policy uncertainty, specifically DOGE and tariffs, weighed on investor sentiment. Declines went into overdrive in early April after “Liberation Day” and the official proclamation of steep tariffs on trading partners. At one point, the market declined 12% in just four days and was down 18% from its high. We then staged a stunning rally as tariffs were softened and DOGE faded into the background. Subsequently, gains were furthered as the economy remained strong, Congress passed Trump’s BBB and the Federal Reserve resumed interest rate cuts. All the while, AI was in the background fueling massive capital expenditures and stoking investor excitement.

Speaking of AI, technology and AI-related stocks led the charge again in 2025. The tech and communications services sectors advanced 23.8% and 32.5%, respectively, trouncing the rest of the market. AI darling Nvidia (NVDA), which now represents 8% of the S&P, was up 38.9% after a 171.2% gain the prior year. A steady stream of huge spending announcements from tech leaders helped induce the gains. Ultimately, a gold rush mindset seemed to develop across the AI ecosystem and we saw the fervor spread to more speculative corners of the market. So called MEME stocks, which gained popularity on social media, and unprofitable AI/tech stocks posted explosive moves higher. As seen in other investment crazes, people started betting on “stories” with little regard for the price they were paying. Case in point, 18 of the top 20 performers in the Russell 3000® Index from April 1st through the end of November were unprofitable companies!

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We don’t doubt the promise of AI. Advancement and deployment of the technology may accelerate from here and bring new applications that are currently unfathomable. However, there are many risks and unknowns for investors. What could go wrong? For one, investors

