Perspectives

A Quarterly Newsletter for Clients of Parsons Capital Management

Quarter 4, 2025

by John Mullen and Ruth Mullen

2025 ended with a relative whimper for domestic stock markets, as a tepid "Santa Claus" rally barely pulled December into positive territory. Even so, it was enough to bring the S&P 500 to its eighth consecutive monthly gain—an impressive achievement for an index that was flirting with bear-market-level declines as recently as April.

After badly lagging in the middle quarters of the year, value stocks bookended their relative outperformance of growth stocks in both the first and fourth quarters. With a 17.88% total return, the S&P 500 notched a third straight year of double-digit gains. The Russell 2000 index of small-cap stocks managed to just about keep pace with the S&P500 for the quarter while the midcap index treaded water. For the year, both lagged their large-cap peers by multiple points.

Looking abroad, U.S. investors were left with relative coal in their stockings as Santa took his rally to the rest of the world instead. A strong December capped a year of outsized gains for foreign equities. Bitcoin, along with the wider crypto space, fell hard in the quarter.

Data as of December 31, 2025	Dec. '25	Qtr. 4 '25	YTD '25
S&P 500	0.06%	2.65%	17.88%
MSCI AC World Index (incl. US)	1.07%	3.37%	22.87%
MSCI EAFE (Europe, Asia, Far East)	3.01%	4.91%	31.89%
MSCI EM (Emerging Markets)	3.02%	4.78%	34.36%
Russell 1000	0.01%	2.41%	17.37%
Russell 1000 Growth	-0.62%	1.13%	18.57%
Russell 1000 Value	0.68%	3.81%	15.92%
Russell Midcap	-0.28%	0.16%	10.63%
Russell 2000	-0.58%	2.19%	12.81%
Bitcoin	-3.19%	-23.28%	-7.32%

Data provided by Tamarac Inc.

Fixed Income Markets

Global outperformance for 2025 wasn't isolated to just stocks. While the U.S. and Global Credit indices were roughly even in the quarter (+0.96% and +1.10% respectively) the full-year disparity was stark with the Bloomberg U.S. Aggregate returning 7.30% compared to the Global at 10.67%. Across the curve, after enjoying a strong rally in the early quarters of the year, longer-dated bonds gave back their outperformance. The Bloomberg U.S. Treasury 20+ Year Index was the lone maturity segment to show a negative return in the quarter. Gains were all within 20 basis points of each other in the 1–to 10-year time periods. The credit market continues to seem largely unconcerned with any potential economic weakness with the ICE Bank of America U.S. High Yield index returning 1.35% for the quarter and 8.50% for the year.

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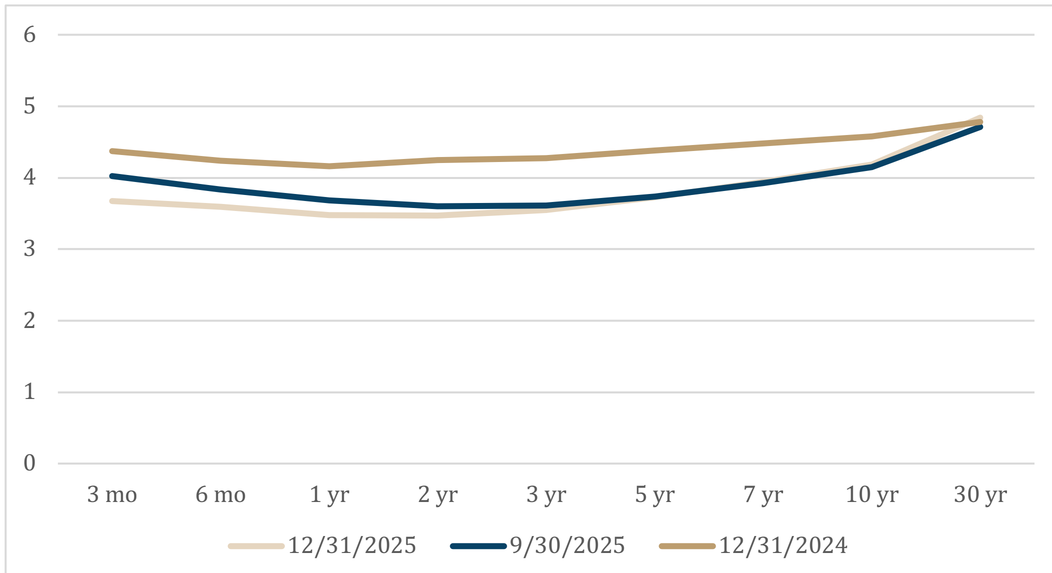
US Treasury Yields

Short-end lower while long-end ticks up…

Comparing year-end 2025 yields with those at the close of 2024 reveals a broad downward shift in rates, with one notable exception at the long end. A flight to safety amid tariff-related turbulence earlier in the year briefly pushed 30-year Treasury yields below 4.50%. Since then, improving growth expectations and the Fed's resumption of rate cuts have pulled most yields lower, while 30-year rates have drifted back toward where they began the year.



Data from U.S. Treasury

Commodities

Commodities muted, held back by energy…

Broad commodity returns, as measured by the CRB, were largely unchanged in the quarter. While the headline number didn't show much in the way of gains, under the hood the action was more telling.

Oil continued its slide, with crude ending the year under $60/barrel. Even more telling was gasoline, which fetched $1.71/gallon on the final day of 2025. This is the lowest reading since early 2021, when demand was just recovering following Covid lockdowns.

Metals, by contrast, shone. Gold became a favorite for investors, sovereign wealth funds, and central banks. While the gain in gold got most of the headlines, it was downright pedestrian compared to silver's nearly 150% gain, riding a parabolic run higher beginning at the end of March.

Commodity	Qtr. 4 '25	Year to Date '25
CRB (broad index)	0.43%	4.96%
Oil	-8.10%	-19.94%
Gold	11.94%	64.60%

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Economic Overview

Consumers feeling depressed…

If one were simply to ask the consumer, they would conclude that the U.S. economy is gripped by recession. The University of Michigan's December readings extended a year-long stretch of deeply pessimistic results. Consumer sentiment fell 18.8 points over the course of the year, ending at 52.9, while the Current Economic Conditions Index dropped nearly 25 points to 50.4. Consumer expectations fared slightly better, finishing the year at 54.6—still down meaningfully from where the year began.

Consumers still spending, with help on the way…

With such downbeat sentiment, it would follow that consumer spending would also show signs of constraint. Instead, U.S. consumers continue to open their wallets, with spending showing growth in both the service sectors and goods. A steady labor market and pay growth exceeding inflation have been the keys to consumers' ability to continue to spend. Looking out to 2026, consumers will begin to feel the benefits of the omnibus tax and spending bill passed by Republicans with $150 billion in incremental tax relief coming to consumers.

Growth strong while inflation remains contained…

While releases of many economic data points were delayed or canceled during the government shutdown, a key reading was announced on December 23rd. The first estimate of third-quarter GDP showed annualized growth of 4.3%, exceeding expectations and accelerating from the second quarter's 3.8% pace. With some thought that the growth witnessed in the second quarter was simply a rebound from tariff related weakness to start the year, the reported strength in the third quarter was a welcomed development.

Growth was driven by stronger consumer spending, exports, and government outlays. Inflation, as measured by the PCE, remained higher than the Fed's target with a reading of 2.8% (2.9% excluding food and energy). Encouragingly, this reading has remained well anchored and is below the growth witnessed in average hourly earnings at 3.8%.

Muted, but steady, growth for the rest of the world…

One of the primary concerns surrounding the passage of the "One Big Beautiful Bill" was that additional stimulus on top of higher tariffs could lead to a resurgence in inflation. Early signs have been encouraging. Productivity rose at a 4.9% annualized rate in the third quarter, up sharply from 1.9% a year earlier. Sustained productivity gains allow for non-inflationary growth and may represent an early indication that artificial intelligence is beginning to have a measurable impact on the broader economy.

Looking beyond domestic borders, the global economy proved resilient, absorbing a year of upheaval as global trade had to recalibrate in the face of changing U.S. policy. International growth mirrored the U.S. experience, with resilient consumer spending (aided by easing inflation) helping to offset tariff-related trade shocks. For the year, the United Nations expects global GDP growth to register an acceptable 2.8%, compared to an average of 3.2% annual growth in the years before the Covid pandemic.

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Investment Implications

Push/pull from macro forces…

While the year began with heightened volatility, a partial walk back by the administration regarding tariffs ultimately laid the groundwork for a strong rally over the final three quarters of 2025. As the calendar turns to 2026, investors are likely to be confronted with a lengthy list of potential trip wires. On the positive side, economic growth remains solid, profit margins are healthy, and productivity gains have begun to show. Offsetting those supports are elevated valuations, aggressive investor sentiment, questions surrounding the sustainability and circular nature of AI-related spending, and a federal government that continues to operate without meaningful fiscal restraint. Fiscal and monetary policy, along with inflation itself, remain genuine wild cards capable of breaking in either direction.

Winners sold off, while laggards take the lead…

Stock performance during the final quarter of 2025 marked a sharp departure from what investors experienced earlier in the year. The highest-performing stocks through the first three quarters became relative laggards in Q4 as investors sold winners and bought laggards. This resulted in the bottom decile of stocks in the Russell 1000 outperforming the next-best decile by more than two percentage points. Whether this shift proves to be a short-lived head fake, or the early stages of a more durable leadership change will depend largely on how the competing macroeconomic forces unfold in the year ahead.

Investors have plenty to navigate…

Stimulus is coming for both consumers and corporations, though higher healthcare costs tied to the expiration of enhanced Obamacare subsidies may offset some of that benefit. Investors will also need to navigate an evolving policy backdrop, including the appointment of a new Federal Reserve Chair and renewed debate around the pace and ultimate extent of future rate cuts. Midterm elections add another layer of uncertainty, with odds of a "Blue wave" increasing.

Fed decisions with the potential for an outsized impact…

Interest rates remain the final—and potentially most consequential—variable for both stock and bond markets. The Fed appears likely to deliver one or two additional cuts in 2026 as inflation and inflation expectations remain above target but steady and a softening labor market becomes the focus of policy makers. Those cuts would push money-market yields toward, or below, the 3% level. With more than $7 trillion currently parked in such vehicles, even a modest reallocation could provide meaningful fuel for risk assets. At the same time, markets have struggled in recent years when the 10-year Treasury yield rises meaningfully above 4.5%. Policymakers appear acutely aware of this threshold, with Treasury concentrating issuance at the short end of the curve and the Fed continuing to reinvest into longer-dated maturities. In our view, the primary risks to higher long-term rates would be an overheating economy or the appointment of a Fed Chair perceived as insufficiently independent.

Potential for continued international leadership…

International markets delivered notable outperformance in 2025, supported by a more aggressive mix of fiscal and monetary stimulus than was pursued in the U.S. Central banks abroad moved more quickly to cut rates, while governments embraced deficit spending to help offset tariff pressures. As 2026 begins, those tailwinds appear less durable, with many central banks signaling a pause in easing and limited appetite for further fiscal expansion.

As long as the U.S. government remains unwilling to meaningfully address its fiscal imbalance, we expect continued interest in precious metals—particularly gold—as global capital seeks to diversify Treasury exposure and favor assets viewed as more stable stores of value.

Taken together, the investment landscape entering 2026 is one defined less by a single dominant narrative and more by a balance of powerful crosscurrents. While risks are plentiful, so too are sources of support. In this environment, discipline, diversification, and a focus on long-term fundamentals remain essential as markets work through what is likely to be another year of elevated uncertainty.

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