Mosaicfi *Market Insights*

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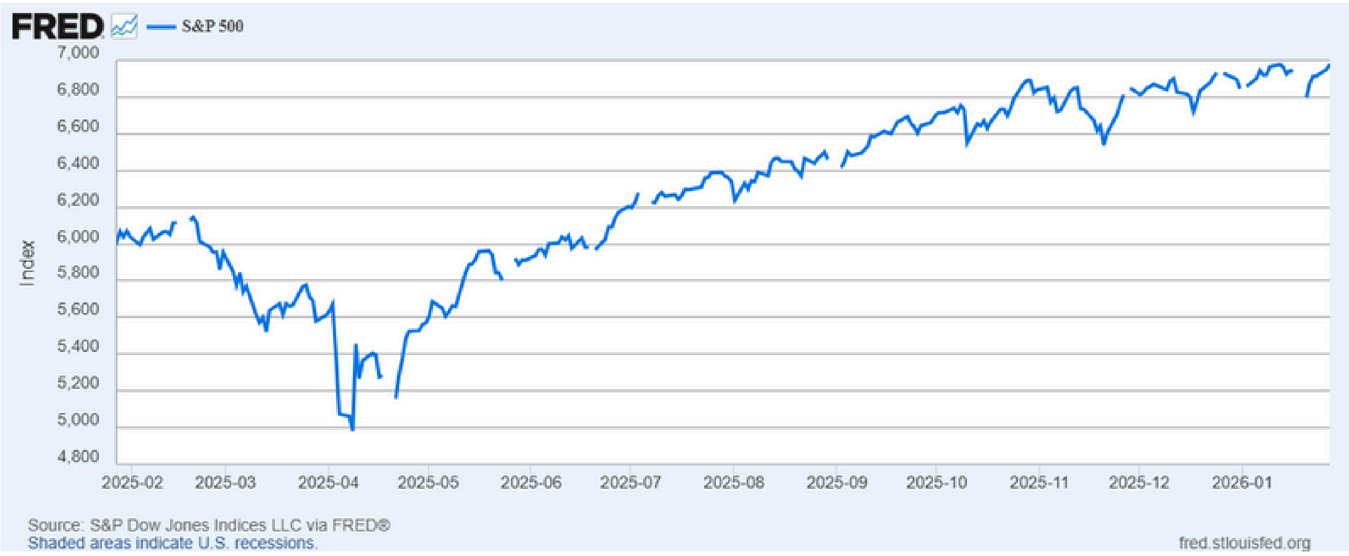

Q4 2025

WRITTEN BY JENIFER ARONSON, CFA

As we review market performance with clients, many are asking the same question: how are markets up so much amid 2025's chaos?

Don't markets prefer calm and certainty?

The truth is that the markets don't care about calm or chaos—they have no political leanings, regional biases, or moral compasses. Markets care about one thing: profits. Despite tariff wars, AI developments, rising unemployment, and shifting interest rates, the collective market has concluded that companies will be more profitable.

ALL QUARTER END RESULTS TABULATED BY DIMENSIONAL FUND ADVISORS AS OF 12/31/2025.

Q4 2025

" international and emerging market stocks outperformed U.S. markets by nearly double. ."

Whether that comes with higher rates, lower rates, or geopolitical upheaval, the only question that matters is: will companies be more or less profitable? Agreed, a little unsettling.

Two big investment themes dominated 2025: everything AI-related, and diversification away from U.S. equities into international debt and equity markets. As a result, international and emerging market stocks outperformed U.S. markets by nearly double.

The Equity Markets

Global equity markets, as measured by the MSCI All Country World Index[1], were up 3.22% in the 4th quarter and for all of 2025 were up 22.06%.

The developed international equity markets outperformed U.S.equity markets for the quarter. International developed markets were up 5.20% vs. U.S. equity markets, which were up 2.40%.

For all of 2025, international stocks significantly outperformed the U.S. markets, returning 31.85% vs. U.S. stocks, which were up 17.15%.

Emerging markets were the top-performing equity market in 2025, up 33.57%.

U.S. REITs continue to significantly underperform, down .79% in the 4th quarter and up 3.67% for the year.

The U.S. small cap market underperformed large cap stocks this quarter. Small cap stocks were up 2.19% for the quarter versus large caps, which were up 2.41%. Large cap value stocks outperformed large cap growth; value stocks were up 3.81% vs. growth stocks up 1.12%. This brought the large cap performance for all of 2025 to 17.37% and small cap performance to 12.81%.

The Fixed Income Markets

For the quarter, the yield on the 10-year UST remained in a very tight range and increased only 2 basis points, ending the quarter at a yield of 4.18%. The U.S. bond market, as measured by the Bloomberg U.S. Aggregate bond index[2], returned 1.10% for the quarter and was up 7.30% for all of 2025.

After underperforming the taxable market in the first half of the year, the municipal bond market, as measured by the Bloomberg Municipal Bond Index,[3] did well in the 2nd half, ending the 4th quarter up 1.56% and returning 4.25% for the year.

Offering slightly higher yields, corporate bonds outperformed the Treasury market in the 4th quarter. Intermediate corporate bonds were up 1.29%, with comparable treasuries up 1.15%. The high-yield market performed in line with the investment-grade market, up 1.31% in Q4 and 8.62% for the year. U.S. TIPS (inflation-protected securities) were up .13% for the quarter and for all of 2025 were up 7.01%.

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If so, what did all this mean for investors? Depending on the asset allocation and the performance of the stock and bond markets, a diversified index portfolio in the 4th quarter was up 1.5-3%.

Looking Ahead

Frequently, in this quarterly newsletter, we discuss the importance of Federal Reserve action as a particularly relevant element of economic and market performance. This year feels a little different as we look ahead to 2026; it seems there are many more impactful variables influencing the global economy than the level and trajectory of interest rates.

The geopolitical environment, for one, seems to be moving in a direction in which the United States will play a smaller role in how global trade is conducted. One could argue that this may reduce the correlations between regional and individual-country performance, making diversification of equity market exposure more beneficial for managing investment portfolio risk.

Most people who have spent a little time on an LLM (i.e. ChatGPT, Claude, Gemini, etc.) can agree that AI is here to stay. There is a lot reported about whether the equity markets are in an AI bubble.

Maybe yes, maybe no. Of greater concern to us is what all this means for the unemployment picture in the coming years.

As companies begin integrating AI into their operations, will it affect their headcount? Anecdotally, it seems many companies are trying to figure out how they can optimize their operations with AI.[4]

Does it result in a workforce headcount that is 5% smaller, 10%...? Depending on how much smaller that number is, it will have significant implications for the global economy. Or perhaps, as in the past, when new technologies arrived, obsolete jobs disappeared, and new ones took their place. Is this time different?

As always, we would love to hear from you, so feel free to contact us at any time.

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Sources

1. MSCI All Country World Index data sourced from MSCI Inc. (www.msci.com). The MSCI ACWI captures large and mid-cap representation across 23 Developed Markets and 24 Emerging Markets countries.Depending on how much smaller that number is could have significant implications on economies around the world.

2. Bloomberg U.S. Aggregate Bond Index data sourced from Bloomberg Index Services Limited. The index measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Index returns shown are for reference only and do not represent the performance of any advisor-managed portfolio. Investors cannot invest directly in an index.

3. Bloomberg Municipal Bond Index data sourced from Bloomberg Index Services Limited. The index measures the performance of the U.S. municipal bond market. This illustration is for reference only and not indicative of any client or model portfolio results.

4. McKinsey Global Survey on the State of AI, conducted June-July 2025 with 1,993 participants across 105 countries, found that 88% of organizations now use AI in at least one business function. The survey reveals that most organizations are experimenting with AI to optimize operations, though only one-third have scaled AI programs enterprise-wide. McKinsey & Company, “The State of AI in 2025,” November 2025.

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