

DECEMBER: A MIXED END TO A STELLAR YEAR 2025 YEAR-END MARKET PERFORMANCE REVIEW

Figure 1: 12/31/2025 Returns (source: FactSet)
Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	QTR	1YR	vs. 52-wk	
					High	Low
US Aggregate Fixed Income	AGG	-0.3%	0.9%	7.2%	-1.5%	4.3%
Investment Grade Corp Bonds	LQD	-0.7%	0.3%	7.9%	-2.4%	6.5%
U.S. 20+ YR Treasuries	TLT	-2.7%	-1.0%	4.2%	-7.4%	4.6%
Muni Bonds	MUB	0.2%	1.7%	3.8%	-0.6%	6.8%
US High Yield	HYG	0.5%	1.2%	8.6%	-0.9%	7.4%
Non-US Corp Bonds	IBND	1.1%	0.4%	16.2%	-2.4%	16.0%
Emerging Markets Bond LC	EMLC	1.4%	3.3%	18.8%	-0.7%	12.5%
Global Equity						
ACWI Global Equity	ACWI	0.9%	3.3%	22.4%	-1.2%	39.7%
ACWI Global Equity ex US	ACWX	2.6%	4.9%	32.6%	-0.9%	37.0%
International Developed	EFA	2.7%	4.7%	31.6%	-1.4%	33.1%
Emerging Markets	IEMG	1.9%	3.8%	32.6%	-3.2%	42.1%
Global Equity by Region						
United States	VTI	0.0%	2.5%	17.1%	-1.5%	41.8%
Europe	IEUR	3.3%	5.5%	35.7%	-0.7%	33.5%
Asia ex-Japan	AAXJ	1.8%	3.4%	31.5%	-3.6%	44.8%
China	MCHI	-2.2%	-7.7%	31.0%	-10.8%	37.5%
Japan	BBJP	1.1%	4.7%	26.5%	-6.7%	34.4%
Latin America	ILF	0.1%	8.0%	52.7%	-5.0%	46.2%
US Equity						
US S&P 500	IVV	0.1%	2.7%	17.8%	-1.4%	41.5%
NASDAQ 100 QQQ	QQQ	-0.7%	2.5%	20.8%	-3.6%	52.7%
US Large Growth	IWF	-0.6%	1.1%	18.3%	-4.0%	53.3%
US Large Value	IWD	0.7%	3.8%	15.7%	-1.5%	28.9%
US Eqwt S&P 500	RSP	0.4%	1.4%	11.2%	-2.0%	27.4%
US Mid Cap	IJH	0.0%	1.6%	7.4%	-3.3%	31.6%
US Small Cap	IJR	-0.1%	1.6%	5.9%	-4.5%	34.7%

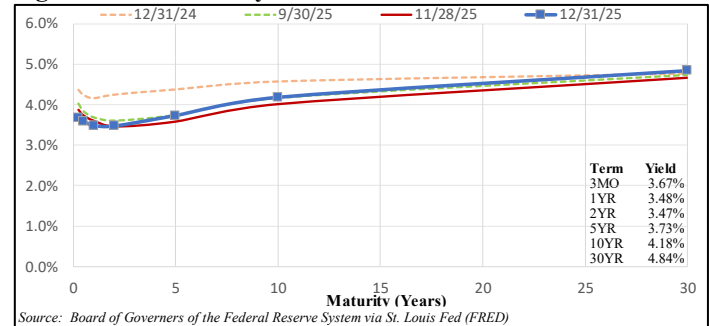
Stocks and bonds posted mixed results in December as the Fed cut short-term interest rates for the third time this year but signaled patience regarding the timing and magnitude of future cuts. Performance highlights for the month and fourth quarter (Q4) are below; calendar 2025 returns are discussed on page 2.

- **Bonds:** US bonds (AGG) fell 0.3% this month (+0.9% Q4). Long-term Treasuries (TLT) are very sensitive to interest rates, losing 2.7% (-1.0% Q4). Corporate bonds (LQD) lost 0.7% (+0.3% Q4), but high yield (HYG) rose as credit spread tightened. Non-US bonds outperformed as the dollar weakened.
- **Global equity:** ACWI gained 0.9% this month (+3.3% Q4).
- **US Equity:** The broad market (VTI) was flat this month (+2.5% Q4); the S&P 500 (IVV) gained 0.1% (+2.7% Q4). Small stocks, which are highly sensitive to US economic growth and interest rates, underperformed amid on-going uncertainty (IJR -0.1%, +1.6% Q4). Sector returns were mixed for the month, ranging from +3.1% for financials to -5.1% for utilities. Health care stocks rebounded strongly in Q4 (XLV +11.7% Q4) as costs soared for millions of Americans.
- **Non-US Equity:** Stocks outside of the US continue to outperform. Developed market stocks (EFA) gained 2.7% in December (+4.7% Q4); Europe (IEUR) rose 3.3% (+5.5% Q4) and Japan (BBJP) gained 1.1% (+4.7% Q4). Emerging market stocks (IEMG) rose 1.9% (+3.8% Q4), led by gains in South Korea (EWY+9.4%, +24.1% Q4) as AI spending supercharged their large semiconductor manufacturers (Samsung and SK Hynix). China lagged (MCHI -2.2%, -7.7% Q4) after rebounding strongly earlier this year from multi-year lows.

Interest Rates and the Economy

The yield curve (Figure 2) plots interest rates for various US Treasury maturities. Short-term rates moved lower this month after the Federal Reserve (the Fed) cut rates for the third consecutive meeting to a new range of 3.50-3.75% (three-year low). Longer-term yields inched higher after Fed officials and Chairman Powell stated their intent to be patient regarding the need and timing of further cuts. The two elements of their dual mandate are in conflict: inflation remains elevated, but the labor market has weakened. Economists and investors will monitor all incoming economic data closely. US 10-year Treasuries now yield 4.18%.

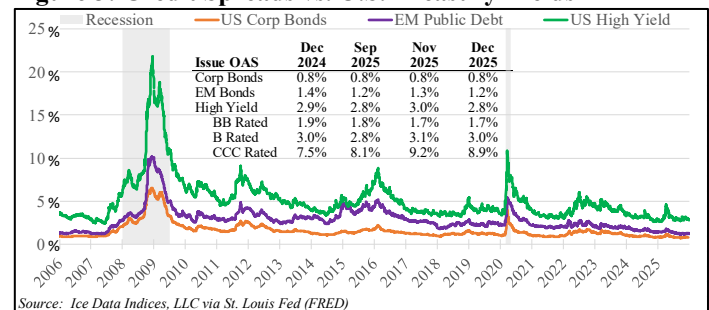
Figure 2: US Treasury Yield Curve



For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism; high or widening spreads signal fear. Spreads tightened in December, confirming investors' appetite and tolerance for risk.

- Investment grade corporate bond spreads were steady at +0.8% and have been relatively stable over the past year.
- High yield (non-investment grade) spreads narrowed to +2.8% and have remained historically low after spiking during April's "tariff tantrum". Spreads of the riskiest bonds (rated CCC & below) narrowed to +8.9% but are wider than last a year ago.
- Emerging market spreads narrowed to +1.2% and have been stable over the past year; investors see low risk in EM debt.

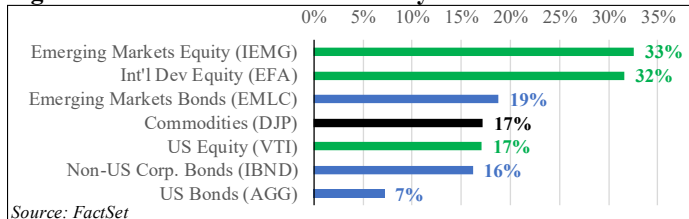
Figure 3: Credit Spreads vs. U.S. Treasury Yields



2025 Market Performance Review

US and global financial markets logged yet another stellar year despite elevated uncertainty (tariffs, trade, growth, employment and inflation) and a drop of nearly 20% during the March-April “tariff tantrum”. After posting gains of over 20% in 2023 and 2024, US stocks rose 17% in 2025 but were nowhere near the top of the leaderboard. Figure 4 plots the total returns (price appreciation plus dividends) for various public market asset classes.

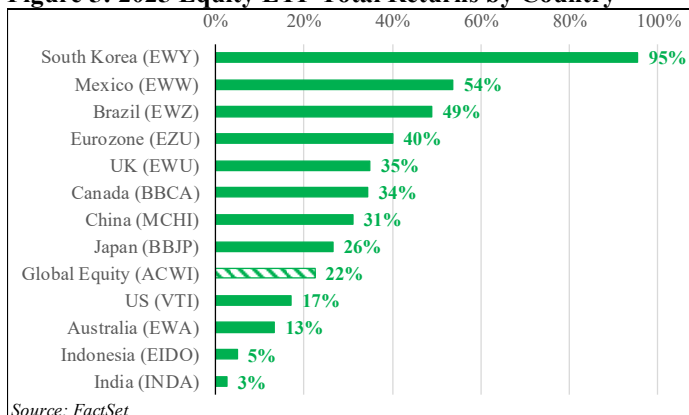
Figure 4: 2025 ETF Total Returns by Asset Class



Investors rediscovered non-US assets in 2025, and the sharp decline in the value of the dollar served as a tailwind for investment returns outside of the US. The dollar impact is most obvious when comparing US bond returns (+7%) to international corporate bonds (+16%) and emerging market debt (+19%). Commodities posted solid gains (+17%), but returns varied; precious metals soared with gold (ETF: GLD) up 64% and silver (SLV) up 145%, but oil (USO) fell 8% on easing Middle East tensions, global over-supply and concerns over future growth and demand.

The dollar tailwind helped non-US equity outperform in 2025, with 33% gains for emerging markets (primarily developing Asia and Latin America) and 32% gains in developed markets (Europe, Japan, Australia, Canada). Figure 5 ranks the equity returns for the world’s largest economies which, in aggregate, comprise nearly 80% of global GDP and over 90% of the global stock market as defined by the MSCI All Country World Index (ACWI).

Figure 5: 2025 Equity ETF Total Returns by Country



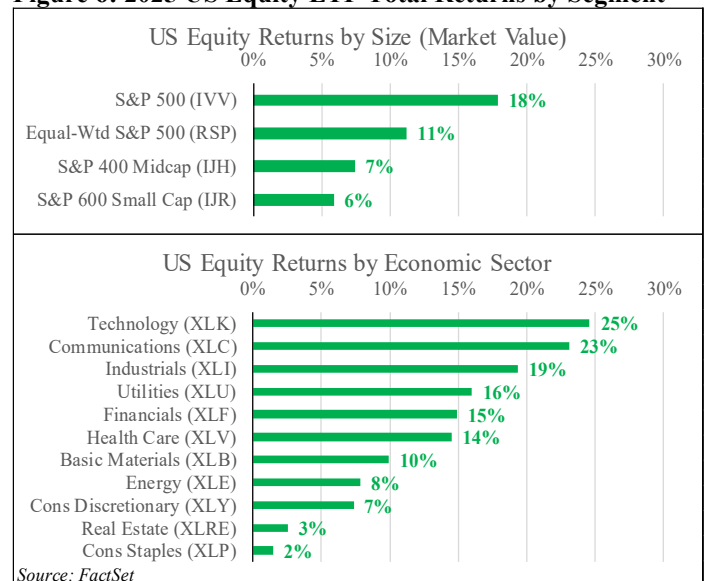
The artificial intelligence (AI) investment theme went global this year. South Korean stocks soared 95%, powered by huge semiconductor manufacturers Samsung and SK Hynix, which together represent about 40% of the KOSPI index weight. Tech companies led market gains of 31% and 26% in China and Japan, respectively, and were the primary drivers of US returns as well.

Interestingly, the draconian tariff and trade war rhetoric coming out of Washington, DC, did not result in global economic and market weakness (yet) as “Liberation Day” tariffs were reduced or delayed, and countries were able to diversify trade relationships. In fact, stock markets in all of our most significant trading

partners outperformed US stocks this year despite the rancorous negotiations: Mexico +54%, Canada +34%, China +31%, Japan +26%. Eurozone stocks (dominated by Germany and France) gained 40% as the euro increased in value versus the dollar, interest rates fell, and fiscal spending increased (military build-up).

A granular view of US stock market returns (Figure 6) illustrates the on-going dominance of the AI theme. Tech and communications stocks gained more than 20% this year and have been the clear market leaders since late 2022. The solid gains in industrial and utility sectors were largely driven by data center construction and increasing electricity demand. Most other sectors logged solid gains for the year, but returns continue to be top-heavy, disproportionately driven by the largest stocks. The capitalization-weighted S&P 500 rose 18% while the average stock in the index was up only 11%. Small and mid-sized companies continued to underperform; these tend to be more sensitive to US economic growth (erratic this year) and borrowing costs (interest rates).

Figure 6: 2025 US Equity ETF Total Returns by Segment



Bottom Line

Despite global economic fears and panic selling that drove markets down sharply in the wake of the “Liberation Day” tariff announcements, stocks posted stellar returns for the third year in a row, powered by falling interest rates, aggressive AI spending. After years of underperformance, non-US asset returns surged this year as the US dollar weakened amid resilient global growth. As we look toward to 2026, we remain cautiously optimistic but focused on several key themes and metrics:

- **Interest Rates:** The Fed will likely pause but eventually move toward a terminal rate of 3.00% (two more 0.25% cuts); lower rates boost growth and especially benefit smaller stocks.
- **Profits:** Earnings growth, the key driver of stock returns, has been concentrated in the tech sector; expect growth to broaden as AI productivity gains are realized and fiscal stimulus kicks in (lower taxes and favorable capital spending treatment).
- **Recession Risks:** After spiking in the wake of “Liberation Day” tariff announcements, global recession risks have moderated.
- **US Dollar:** Dollar weakness greatly benefited non-US investments this year; continued dollar weakness is likely given falling interest rates and the US trade and manufacturing goals.



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