DVI
DAVID VAUGHAN INVESTMENTS

Capital Markets Commentary

12/31/2025

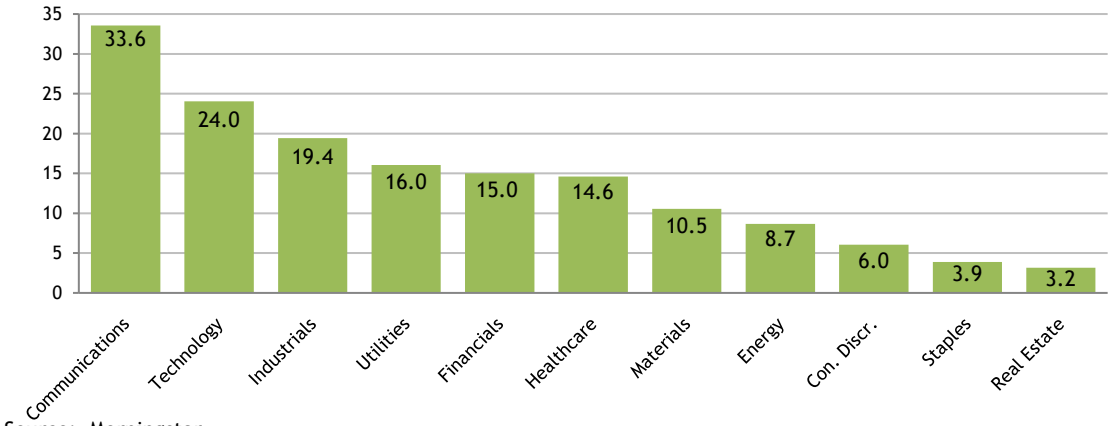
U.S. equities delivered gains in the fourth quarter, extending the market's rally to a third straight quarter and marking a third consecutive positive calendar year. Economic data remained mixed: the unemployment rate climbed to 4.6%, while disinflation continued to gain traction, with November CPI at 2.7% year-over-year. Against this backdrop, the Federal Reserve leaned further toward easing—cutting rates by 25 basis points in December to a 3.50%–3.75% target range. Trade developments were broadly supportive as the U.S. and China extended their trade truce for another year, and additional selective tariff relief helped sentiment at the margin. Meanwhile, corporate earnings and sustained enthusiasm around artificial intelligence remained key pillars for investors.

The S&P 500 Index advanced 2.66% in the quarter. Health Care and Communication Services led performance, while Real Estate and Utilities lagged as affordability pressures weighed on rate-sensitive areas. Seven sectors posted double-digit positive returns year-to-date, and all eleven sectors recorded positive returns year-to-date.

The ICE U.S. Dollar Index firmed during the quarter after declining double digits during the first half of the year. Both international and emerging-market equities benefited from this backdrop, each posting returns of more than 30% year-to-date.

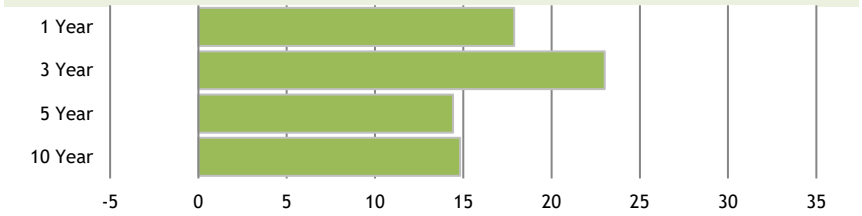
Treasury markets were mixed, with the yield on the 2-year note declining 13 basis points to 3.48% while the 10-year Treasury yield edged up 2 basis points to 4.17%.

S&P 500 Index: Sector Returns Percent Year-to-Date

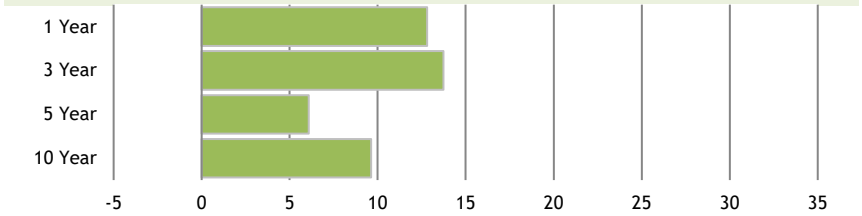


Source: Morningstar

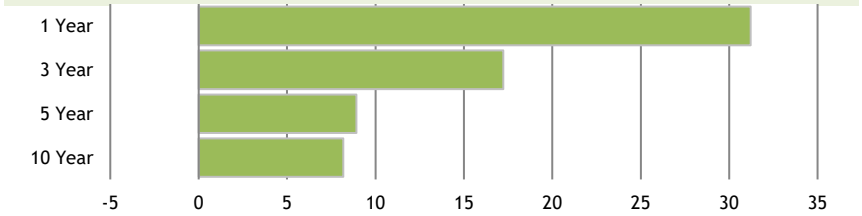
S&P 500 Index — **Average Annual Percent Total Return**



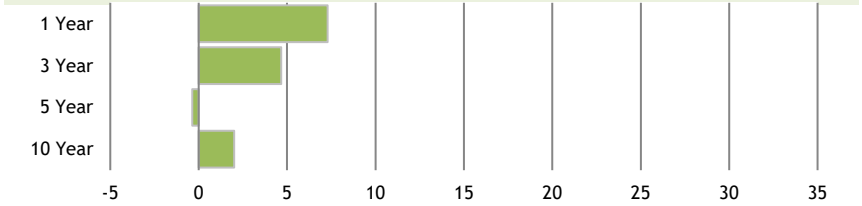
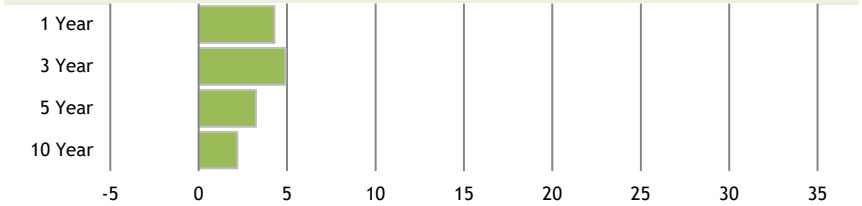
Russell 2000 Small Cap Index



MSCI EAFE International Index



Bloomberg US Aggregate Bond Index



Bloomberg US Treasury Bill 1-3 Month Index