Q4 2025

NOTES ON THE MARKET

Ethos
STRATEGIC INVESTMENTS

Q4 2025 RECAP

The fourth quarter was dominated by headlines and macro headwinds. Early in October a government shutdown brought the economy to a standstill, resulting in a 43-day shutdown that disrupted economic reporting. As the quarter came to a close, it failed to deliver the historically observed “Santa Clause Rally”. While major indices posted modest returns, beneath the surface individual stocks experienced significant dispersion. Many momentum driven stocks that had generated strong year-to-date gains declined sharply, while value stocks, which had lagged for much of the year, began to gain traction.

Concerns around a potential AI bubble intensified, and companies that had invested heavily in AI faced increased volatility. Lingering uncertainty around the labor market added further pressure. Amid political scrutiny, the Federal Reserve implemented two rate cuts, bringing the target rate to 3.50-3.75%.

Geopolitical risks also escalated toward year-end, with heightened tensions across multiple regions contributing to market uncertainty. As always, markets continue to adapt amid shifting global dynamics.

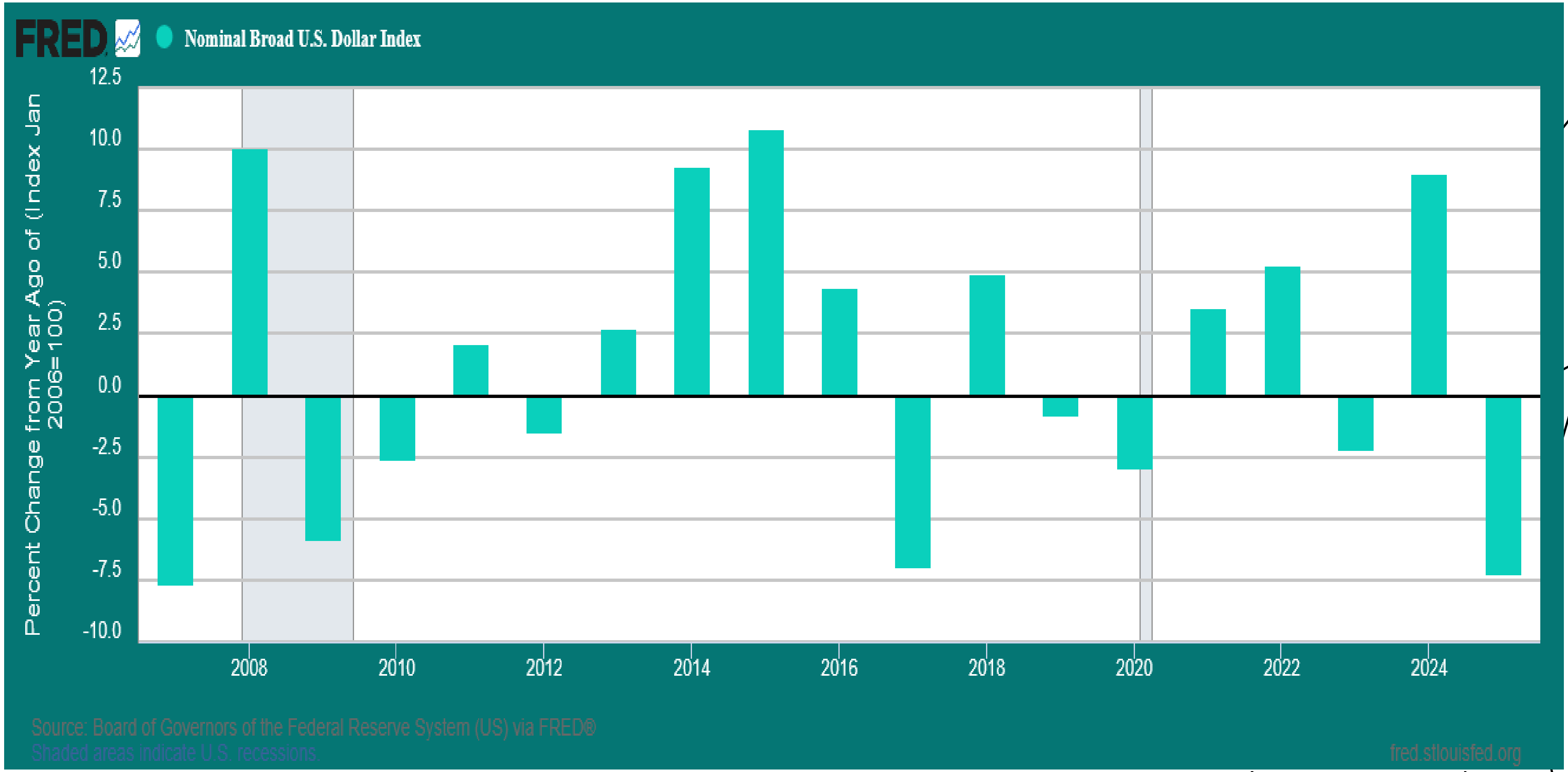
“Through discipline comes freedom.” ~Aristotle

GREENBACK IN THE RED: THE DOLLAR'S SHARPEST DROP IN DECADES

THE DOLLAR’S 2025 DETOUR

Rates, deficits, and shifting global demand.

- The broad value of the U.S. Dollar declined 7.2% in 2025, marking its steepest annual drop since 2007.
- Federal Reserve rate cuts generally reduce the relative appeal of dollar-denominated assets, while concerns over expanding fiscal deficits led some global investors to diversify away from U.S. exposure.
- Policy uncertainty related to trade and geopolitics further weighed on the currency.
- Foreign central bank demand increasingly shifted toward assets such as gold, contributing to reduced demand for U.S dollars.



Data from FRED.StLouisFed.org
Shaded areas indicate U.S. recessions.

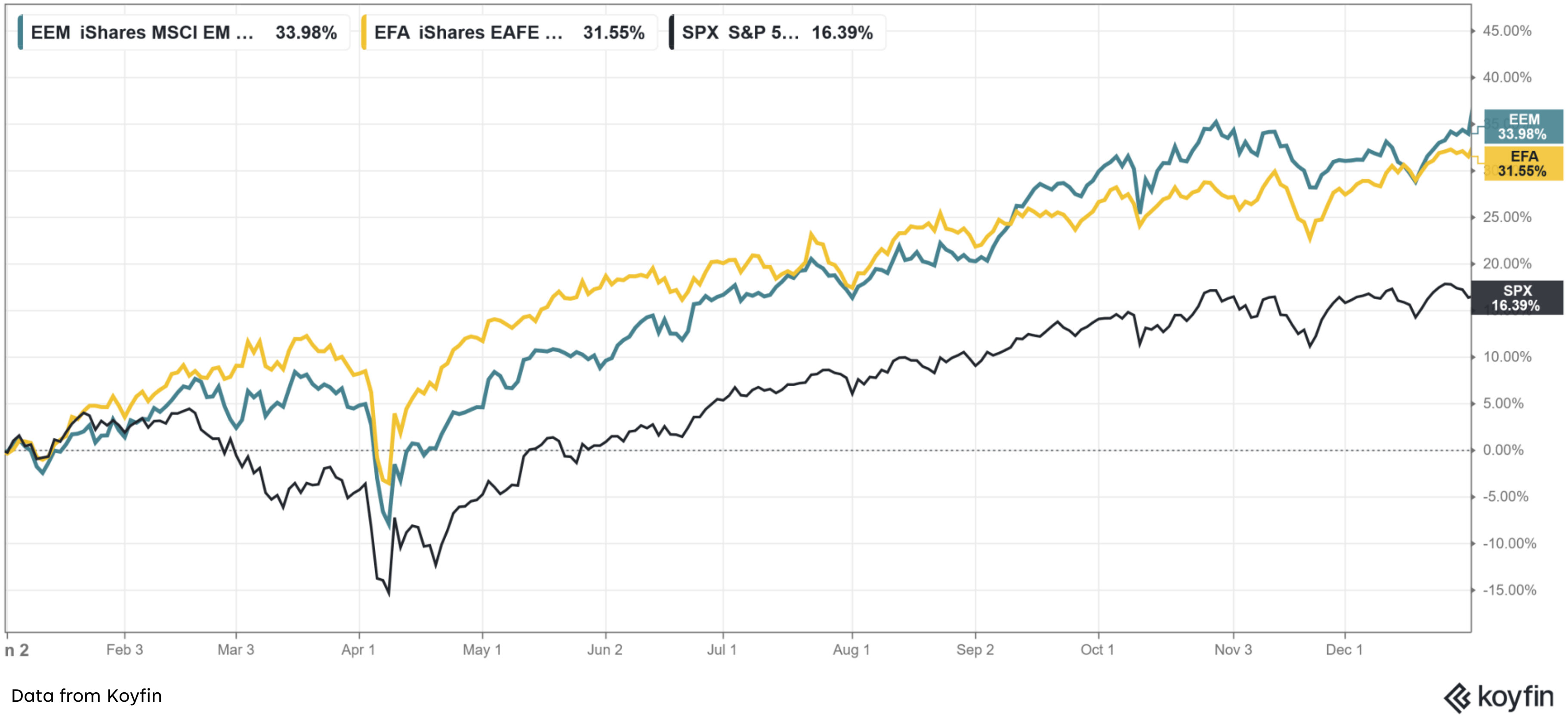
PASSPORT REQUIRED: INTERNATIONAL STOCKS TOOK THE LEAD IN 2025

LOOKING BEYOND U.S. BORDERS

International markets outpaced U.S. equities amid currency and valuation tailwinds.

- Emerging markets, including China, India, and Brazil (represented by the ETF EEM, dark green line) returned 33.98%, more than double the S&P 500's return.
- Developed markets outside the U.S. such as the E.U. and Japan (represented by the ETF EFA, dark yellow line), also delivered strong results, returning 31.55%. Increased defense spending amid geopolitics tensions contributed to performance across several regions.
- Despite periods of volatility, the S&P 500 ended the year up 16.39%, reflecting resilience amid a challenging macro backdrop.

Comparison of Domestic, Developed, and Emerging Markets in 2025

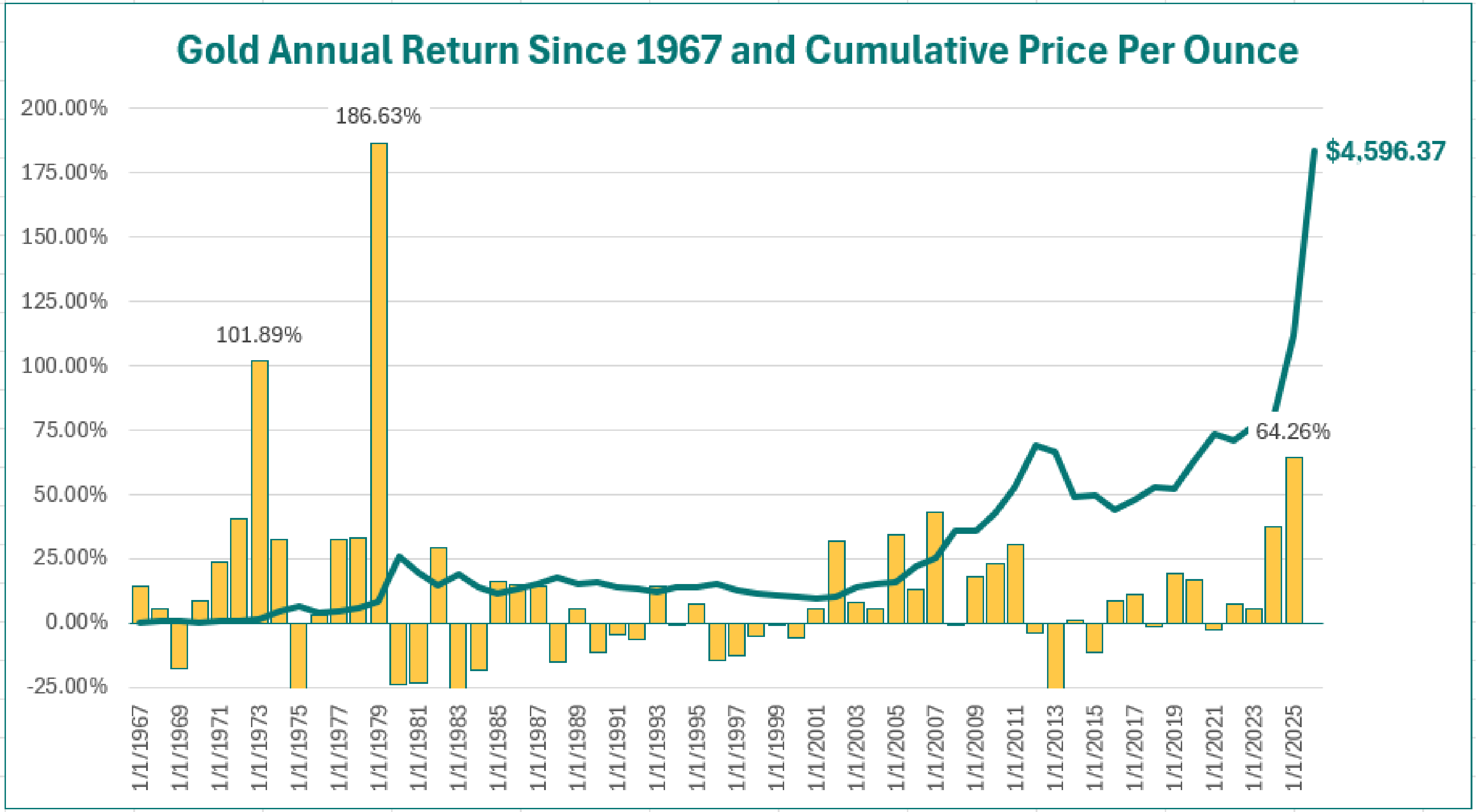


Data from Koyfin

THE GOLD STANDARD JUST GOT HIGHER

GOLD PRICES STRIKE IT RICH AT RECORD HIGHS

Investors sought stability as volatility and uncertainty rose.



Data from MacroTrends.com

Historical data for real (inflation-adjusted) gold prices per ounce.
The series is deflated using the headline Consumer Price Index (CPI) with the most recent month as the base.

- It was a banner year for gold, gaining 64.26% and hitting inflation-adjusted record highs at $4,596.37 per ounce.
- This was the third largest yearly gain since 1967, and the largest since 1979.
- Much of the demand for gold was driven by it being a safe haven asset amid high levels of geopolitical uncertainty.
- U.S. Dollar weakness contributed to gains in precious metals.

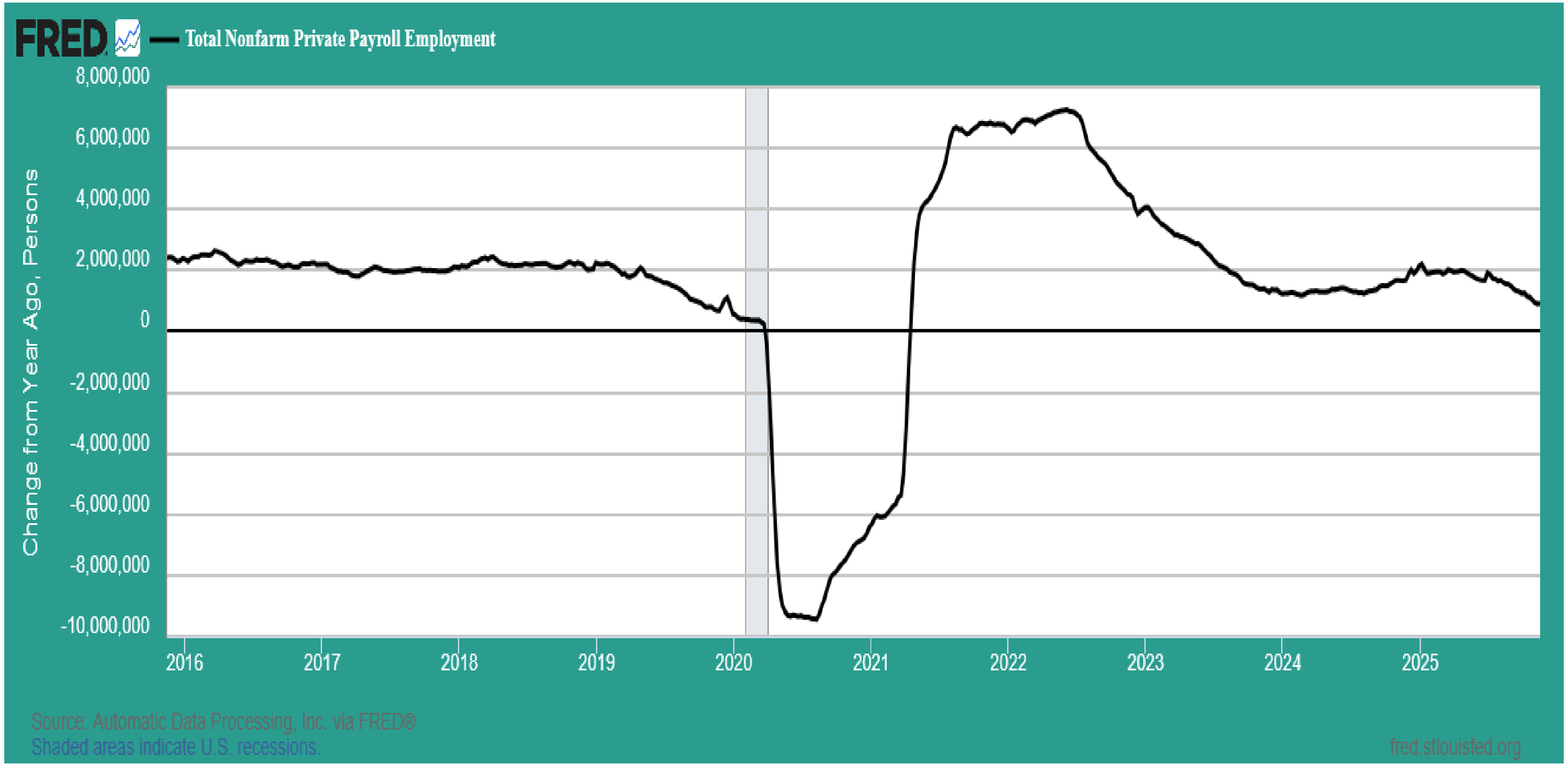
WORKING HARD OR HARDLY WORKING?

LABOR MARKET CRACKS APPEAR

HIRING LOSES MOMENTUM

Nonfarm payroll growth slowed as employers grew more cautious.

- One of the largest concerns around the economy continues to be the labor market.
- Nonfarm payrolls, which represents the monthly percent change in the number of overall people employed in the U.S., declined to lows not seen since before the pandemic. This follows a year of positive gains in 2024.
- Declines in payrolls has historically coincided with periods of economic slowing. Employers remained cautious throughout the year as policy uncertainty remained high, bringing on fewer new employees.
- With advancements in technology, specifically AI, this data may be skewed as jobs are replaced by higher productivity.

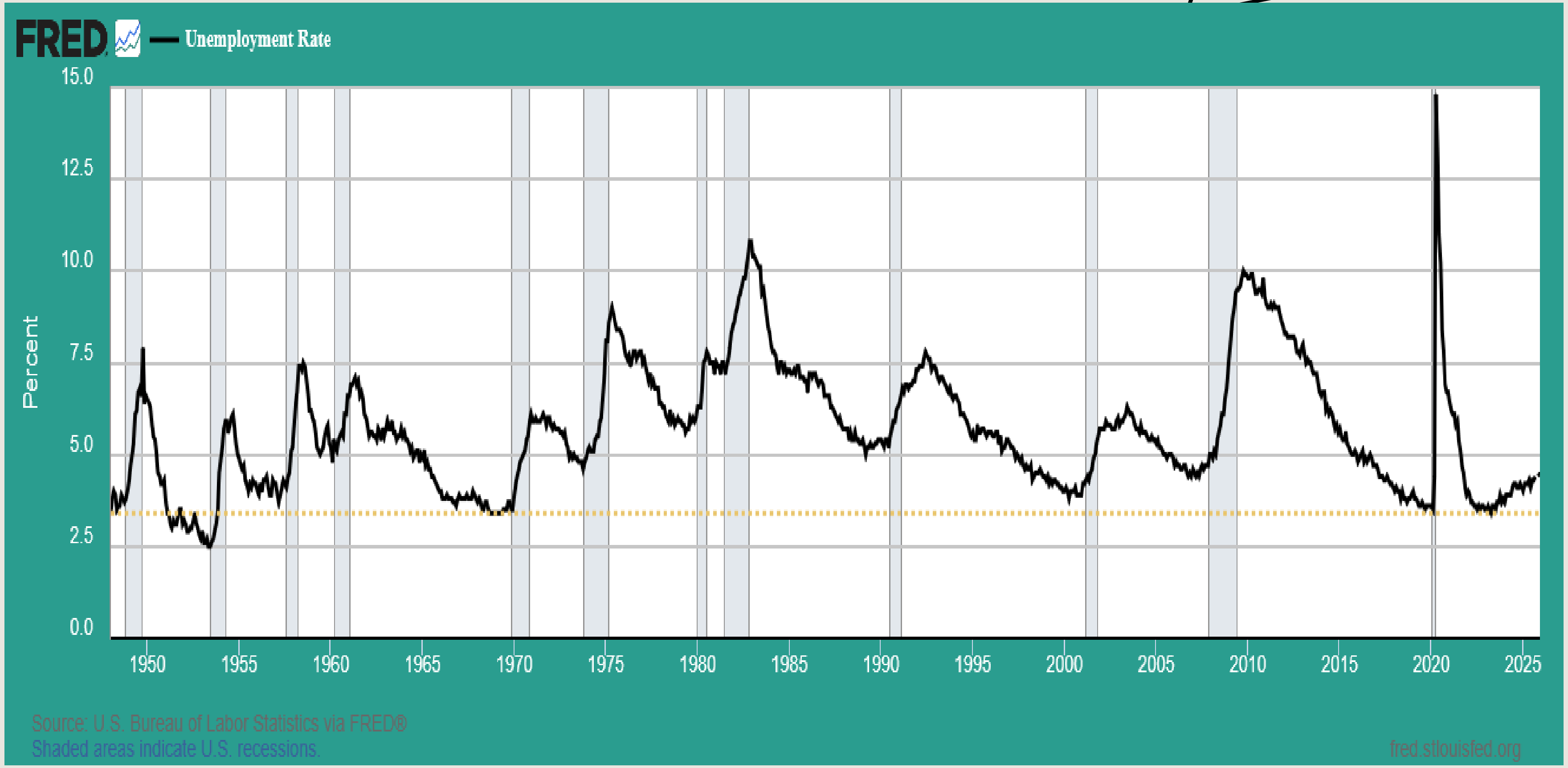


Data from FRED.StLouisFed.org

Shaded areas indicate U.S. recessions.

A MODEST UPTICK IN JOBLESSNESS

Unemployment edged higher amid cooling labor demand.



Data from FRED.StLouisFed.org

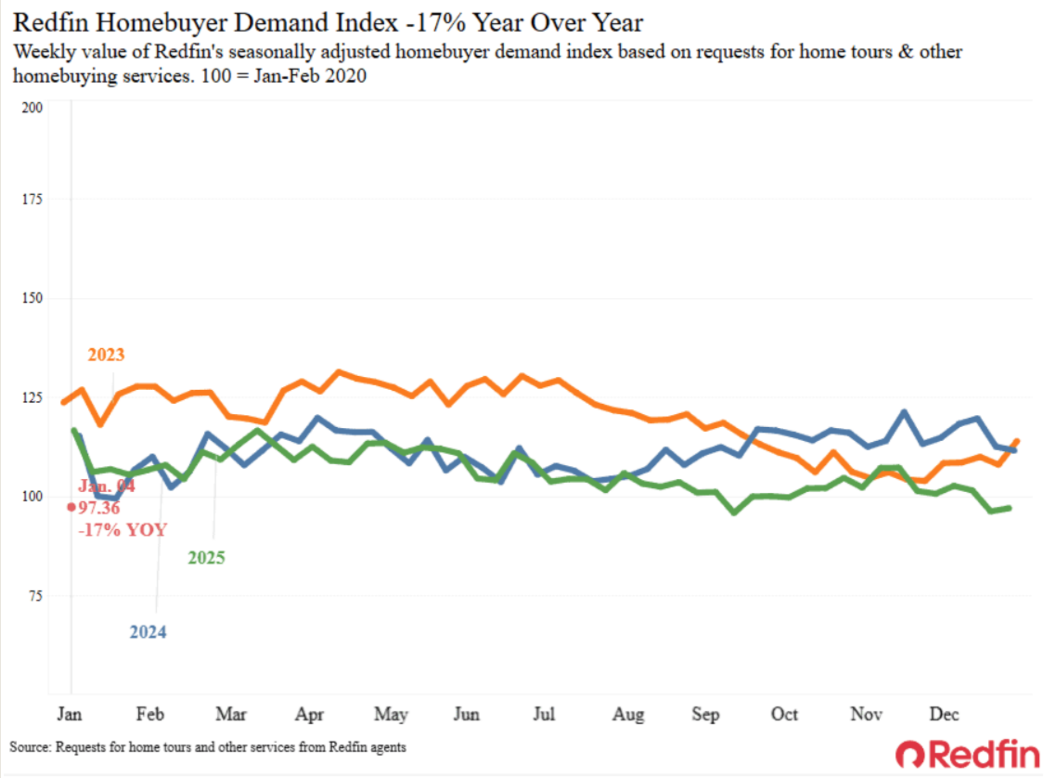
Shaded areas indicate U.S. recessions.
Yellow dotted line represents the recent low of 3.40% in April 2023.

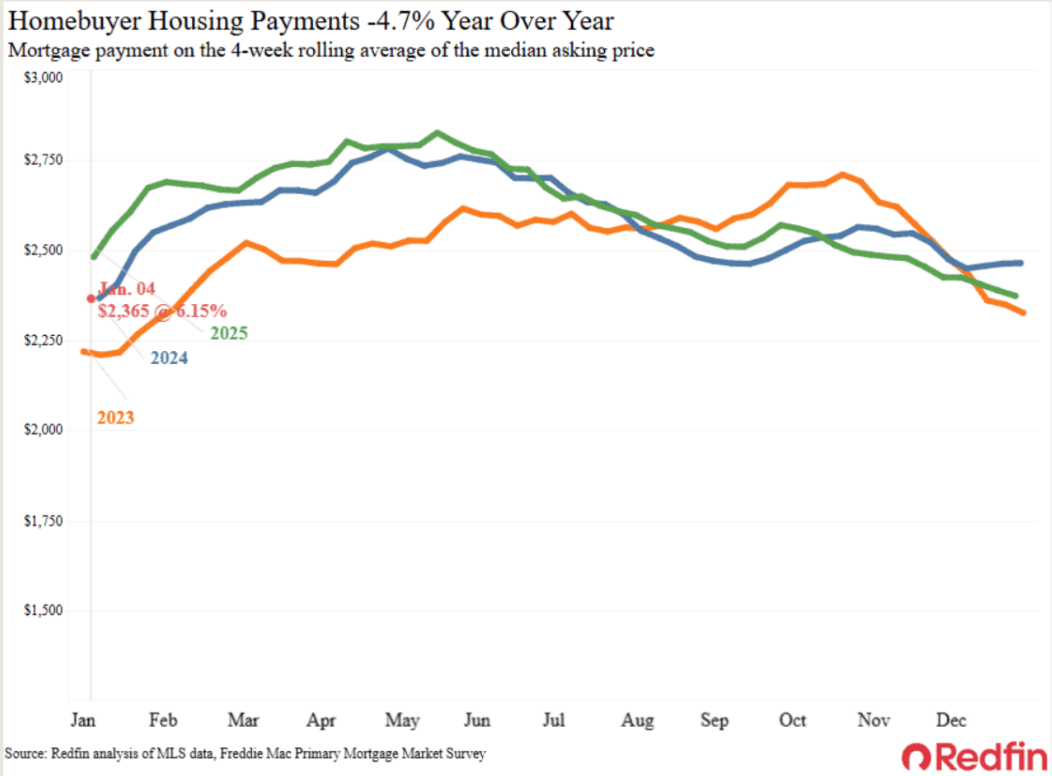
- Compounding concerns, the unemployment rate continued to increase throughout the year up to 4.4%, up from the lows of 3.4% (yellow dotted line) last seen in April 2023.
- Historically, unemployment rising from lows below 5% has resulted in a recession as demonstrated by the grey shaded areas on the chart.
- Changes in technology may also be impacting this data. Some predict that continued use of AI will further erode employment rates and drive unemployment higher.

HOME SWEET OPPORTUNITY: A SOFTER MARKET OPENS THE DOOR

HOMEBUYER DEMAND DROPS AS RATES FALL, BRINGING MONTHLY PAYMENTS DOWN

- Homes prices continue to mildly appreciate, but at a much slower pace than seen in previous years.
- Mortgage rates decreased further, hitting 6.15% in early January, the lowest level seen in more than a year. This in turn led to home payments dropping -4.7% over last year, a welcome retreat for affordability.
- Meanwhile, homebuyer demand has fallen -17% since last year, while Google searches for “homes for sale” is up 30% since last month, which may signal growing interest among prospective buyers.





Data from Redfin

WHERE DO WE GO FROM HERE?

2025 proved to be a year marked by volatility and meaningful transition across markets and global policy. As we enter 2026, investors are navigating an environment shaped by moderating inflation, evolving monetary policy, and shifting geopolitical dynamics.

Domestically, the Federal Reserve implemented three rate cuts over the past year, with markets assigning relatively low probabilities to additional cuts in the first half of 2026. Leadership changes at the Federal Reserve later this year may further influence policy expectations, underscoring the importance of remaining attentive, but not reactive, to headlines.

Globally, geopolitical uncertainty remains elevated, contributing to uneven growth prospects and ongoing currency and commodity market adjustments. While these developments can introduce short-term volatility, they also reinforce the value of diversification and disciplined portfolio construction.

From a fundamental standpoint, earnings expectations remain constructive. Continued investment in technology and artificial intelligence has the potential to enhance productivity over time, though valuations across certain segments of the market remain elevated. As innovation broadens and capital deployment becomes more selective, opportunities may emerge beyond the most crowded areas of the market.

In periods of transition, history has shown that maintaining a long-term perspective, grounded in active macro analysis rather than forecasts, remains critical. At Ethos, we continue to focus on thoughtful allocation, risk management, and aligning investment strategy with each client’s long-term objectives.

Ethos

STRATEGIC INVESTMENTS

Questions? Comments? Like what you read?
Reach out to chat or schedule a financial review:

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