



Market Overview

Fourth Quarter
2025



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There's something quietly special when you sit down and open a new book - the crisp feel of the pages, the subtle scent of fresh print, and the quiet excitement of immersing yourself in a story or exploring a subject that sparked your curiosity. One of the hallmarks of a well-curated book is that it creates an experience that makes it hard to put down, driven by the promise of what the next page may reveal.

As the investing landscape in 2025 unfolded in what at times felt like a market thriller, the steady stream of unwieldy news flow kept investors locked into the details of every headline. Pages from the year centered on the impact of global trade and tariffs, tax policy, labor market dynamics, advances in artificial intelligence (AI), inflation trends, and Federal Reserve policy.

Together, these themes created an environment of heightened uncertainty and constant reassessment but reinforced the importance of staying fully invested as the story continued to unfold.

THE MARKETS: A CHAPTER TO REMEMBER

This year's chapter marks one of the most volatile markets on record. Global stocks fell nearly -16% from peak to trough and rebounded within a span of 2 months to end the year up 22.9%¹.

Among the developments that surprised investors in 2025 was the magnitude of gains in international equities. As global investors reassessed concentration risk amid sweeping policy changes from the new administration, capital rotated away from U.S. markets toward regions perceived to offer more predictable policy and growth prospects. This shift followed a prolonged period of underperformance for international stocks, which had lagged U.S. equities for much of the past decade—largely reflecting attractive fundamentals by U.S. companies during that time.

International equities finished the year up 33.2%² led by strong performance in countries including Japan, the United Kingdom, and Canada. Additionally, the dollar fell -9.4%³ further enhancing returns for stocks abroad. Policy shifts in areas such as Germany increased expectations for higher fiscal spending, particularly regarding defense. In Japan, ongoing corporate governance reform and shareholder friendly initiatives are attracting global capital flows.

In the Emerging Markets, China delivered strong gains as the government

introduced a package of fiscal and monetary stimulus targeted to support areas of the economy including the consumer and ailing property sector. While equity markets moved higher, trade tensions weighed on consumer demand and manufacturing activity throughout the year. Manufacturing remained under pressure during the year as U.S. businesses continue to reassess supply chains and diversify sourcing away from mainland China. The Producer Price Index (PPI) declined 2.2%⁴ while manufacturing PMI oscillated near 50 for much of the year.

In the U.S., equities finished the year up approximately 17.9%⁵ with every sector of the market ending in positive territory. Information Technology, Communication Services, and Industrials were up double digits in 2025. Weaker areas of the market, including Real Estate and Consumer Staples, lagged as investors rotated away from defensive sectors.

The AI trade positioned the markets higher, as the technological arms race continues to benefit businesses tied to every aspect of the build-out. While tech and other AI related companies continue to invest in growth capex, most businesses have funded spending through internally generated cash flow. In J.P. Morgan's universe of 28 AI stocks, 50% of S&P 500 market

INDEX RETURNS (AS OF 12/31/2025)

INDEX	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500 Index	2.7	17.9	23.0	14.4	14.8
Dow Index	4.0	14.9	15.3	11.6	13.1
NASDAQ Index (Price Change)	2.7	21.2	31.4	13.4	17.7
Russell 2000 Index	2.2	12.8	13.7	6.1	9.6
Russell 3000 Value Index	3.8	15.9	13.9	11.3	10.5
Russell 3000 Growth Index	1.1	18.5	31.1	15.3	18.1
MSCI EAFE Index	4.9	31.2	17.2	8.9	8.2
MSCI Emerging Markets Index	4.7	33.6	16.4	4.2	8.4
Barclays U.S. Aggregate Index	1.1	7.3	4.7	-0.5	2.0
U.S. Corporate High Yield	1.3	8.6	10.0	4.5	6.5
BBG/Barclays Muni Index	1.6	4.2	3.9	0.8	2.3

Source: Bloomberg, data as of December 31, 2025, Annualized returns if longer than 1 year

¹ MSCI ACWI Index total return for period 12/31/24 – 12/31/25

² MSCI ACWI ex US Index total return for period 12/31/24 – 12/31/25

³ Bloomberg U.S. Dollar Index 12/31/24 – 12/31/25

⁴ <https://tradingeconomics.com/china/producer-prices>

⁵ S&P 500 index total return for period 12/31/24 – 12/31/25

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capitalization represents only 5% of the index's net debt⁶. More importantly, the share of capex and dividends financed by debt in the Russell 3000 is well below that of the tech bubble in the late 90s⁷.

The fixed income markets participated in the rally as yields declined and spreads tightened. The Bloomberg Barclays Aggregate Bond Index returned 7.2% for the year. Easing inflation and a less restrictive, data-dependent Fed drove yields lower and fueled the bond market rally.

THE ECONOMY: A STORY OF RESILIENCE

Despite the added friction from trade and tariffs, economic activity in the U.S. remained relatively strong. The GDPNow real GDP growth model is projecting 5.1%⁸ for the fourth quarter and, based on consensus estimates, approximately 2% for the full year. The U.S. consumer remains resilient with retail sales up 3.5%⁹ and household net worth hitting an all-time high at \$181.6 trillion¹⁰.

Trends in the labor market were a key focal point in 2025 as the unemployment rate moved higher over the course of the year, rising to 4.4%¹¹ by year-end. For the full year, the U.S. economy added roughly 584,000¹² jobs, well below the nearly 2.0 million jobs added in 2024. Companies largely maintained a cautious "no hire/no fire" stance as businesses explored ways to incorporate more technology and automation into their operations. Reflecting these shifts, the unemployment rate for recent college graduates increased to around 5.8%¹³, suggesting that employers may be relying more on technology and automation for entry-level roles while demand for experienced talent remains uneven.

As inflation continued to moderate, the Federal Reserve shifted from a restrictive stance toward a more balanced, data-dependent approach, navigating the crosscurrents of a resilient economy and a cooling labor market. At its December meeting, the Fed reduced policy rates by 25 basis points to a target range of 3.50%–3.75% and ended balance sheet runoff, removing a source of tightening and supporting system liquidity.

As policy rates move lower and liquidity conditions stabilize, the relative attractiveness of money market funds may diminish. While cash will continue to play an important role in portfolios, declining short-term yields and improved liquidity may gradually reduce the incentive to remain heavily allocated to money markets and encourage redeployment into stocks and bonds over time.

⁶ J.P. Morgan – Eye on the Market (1/1/26), Michael Cembalest

⁷ J.P. Morgan – Eye on the Market (1/1/26), Michael Cembalest, Capex financing vs. capex cycle

⁸ <https://www.atlantafed.org/cqer/research/gdpnow> (1/9/26)

⁹ <https://www.census.gov/retail/sales.html>

SECTOR PERFORMANCE (AS OF 12/31/2025)

SECTOR	INDEX WEIGHT	4Q RETURN	2025 RETURN	FORWARD P/E	20-YEAR AV. P/E
Energy	2.8%	1.5%	8.7%	15.8x	13.7x
Materials	1.8%	1.1%	10.5%	19.0x	15.6x
Financials	13.4%	2.0%	15.0%	16.4x	12.9x
Industrials	8.2%	0.9%	19.4%	23.9x	16.8x
Consumer Disc.	10.4%	0.7%	6.0%	28.8x	20.5x
Technology	34.4%	1.4%	24.0%	26.7x	18.6x
Comm. Services	10.6%	7.3%	33.6%	22.2x	18.7x
Real Estate	1.8%	-2.5%	2.7%	16.6x	17.3x
Health Care	9.6%	11.7%	14.6%	18.3x	15.1x
Consumer Staples	4.7%	0.0%	3.9%	20.8x	17.9x
Utilities	2.2%	-1.4%	16.0%	17.9x	16.0x
S&P 500	100.0%	2.7%	17.9%	22.0x	16.2x

Source: JPMorgan "Guide to the Markets"; data as of 12/31/2025

VALUATIONS AND THE PATH FORWARD

As we close the chapter on 2025 and turn the page to 2026, elevated market valuations remain a central theme for investors. With current market valuations at 22x earnings and above historical averages, markets have experienced extended periods of appreciation while at elevated levels. We generally view market valuations as part of but not the complete story when assessing the outlook of the market. Today's companies are meaningfully more productive than they were decades ago, generating higher returns on invested capital, stronger margins, and more durable profit profiles. These improved profitability measures help in part to substantiate current valuations.

¹⁰ <https://www.reuters.com/world/us/us-household-wealth-hit-record-third-quarter-2025-fed-data-shows-2026-01-09/>

¹¹ <https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm>

¹² <https://www.bls.gov/news.release/pdf/empsit.pdf>

¹³ <https://www.newyorkfed.org/research/college-labor-market#>

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While uncertainty remains heading into 2026, one area that leaves us constructive is the outlook for corporate earnings. When market narratives become noisy, earnings growth has historically been the most reliable guide for long-term investors. In 2026, S&P 500 earnings are expected to grow approximately 15.0%¹⁴, driven in large part by technology and communication services, where earnings growth is expected to exceed 20%. Excluding technology, earnings growth across the broader market is expected to climb 9%¹⁵, highlighting improving participation beyond a narrow group of companies. For perspective, long-term earnings growth for the S&P 500 has averaged 7.3%¹⁶ annually since 2001.

The underlying drivers of earnings growth continue to show resilience. Productivity improvements and operating efficiency have helped push net profit margins of 13.9%, near historical highs. As companies increasingly incorporate AI-driven tools and automation into their business models, these efficiency gains are likely to persist, supporting continued earnings growth over time.

Against this backdrop, several factors reinforce our long-term constructive view of the economy and markets:

- Unemployment remains below its historical average.
- Household balance sheets are healthy, with net worth reaching historic levels.
- Inflation (CPI) is slightly higher than the Fed target, but remains contained.
- The economic expansion remains intact, with no meaningful signs of late-cycle stress.
- Corporate earnings are expected to grow at a double-digit pace, supported by capex cycle, productivity gains, and margin strength.
- Ongoing deregulation to support business investment and growth.

FOLLOWING THE PROCESS, NOT THE HEADLINES

Like a timeless book, our investment philosophy at Market Street remains unchanged. We continue to focus on long-term investing in areas of the market offering a favorable return profile, diversification across asset classes and geographies, thoughtful risk management, and tax efficiency - allowing portfolios to compound wealth over time. This disciplined approach served families well during the year, as we remained fully invested, maintained strategic asset allocation targets, and stayed the course through market volatility—focused on our long-term approach rather than reacting to short-term market downturns.

We continue to favor global diversification, with a deliberate tilt toward the U.S. and an emphasis on large- and mega-cap companies exhibiting high returns on capital, strong balance sheets, and durable free cash flow generation. Within fixed income, we remain biased toward investment-grade exposure and maintain a more limited allocation to high yield, reflecting historically tight credit spreads. This positioning is complemented by continued exposure to private markets, where we believe select opportunities offer more attractive risk-adjusted returns relative to public markets.

Thank you for the confidence placed in our investment team as we navigate the ever-changing investment environment. We remain committed to serving as a trusted steward of your capital and always welcome the opportunity to discuss any questions you may have.

¹⁴ https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_010926.pdf

¹⁵ <https://www.nasdaq.com/articles/broad-based-earnings-growth-expected-2026>

¹⁶ <https://am.jpmorgan.com/us/en/asset-management/protected/adv/insights/market-insights/guide-to-the-markets/>

¹⁷ <https://am.jpmorgan.com/us/en/asset-management/protected/adv/insights/market-insights/guide-to-the-markets/>

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