

PDS WEALTH MANAGEMENT



Quarterly Investment Report – Q4 2025

2026 is off to a wild start, picking up right where 2025 left off. The headlines are dizzying and exhausting. Wading through the geopolitical and tariff news, however, reveals a landscape which should prove favorable for markets in 2026. Many of the tailwinds that benefited risk assets in 2025 remain in place, including the extension of tax cuts, lower interest rates, deregulation, and an administration hell-bent on running a hot economy into the mid-term elections.

But for now, we'll look back at 2025 which turned out to be a solid year for stock and bond investors, both in the US and abroad. Please follow along as we review last year's market performance and highlight what we feel are some relevant factors to keep in mind as we move through 2026. Don't hesitate to reach out if we can help in any way.

Markets

Stocks

US Stock Indices YTD – S&P 500, Dow Jones Industrial Average, Nasdaq Composite



Source: FactSet; as of December 31, 2025

Stocks posted modest gains in Q4 to cap off a solid year - the DJIA added 4% while the S&P 500 and Nasdaq Composite both gained 2.7%. For the full year, those indices delivered total returns of 14.9%, 17.9%, and 21.1%, respectively.

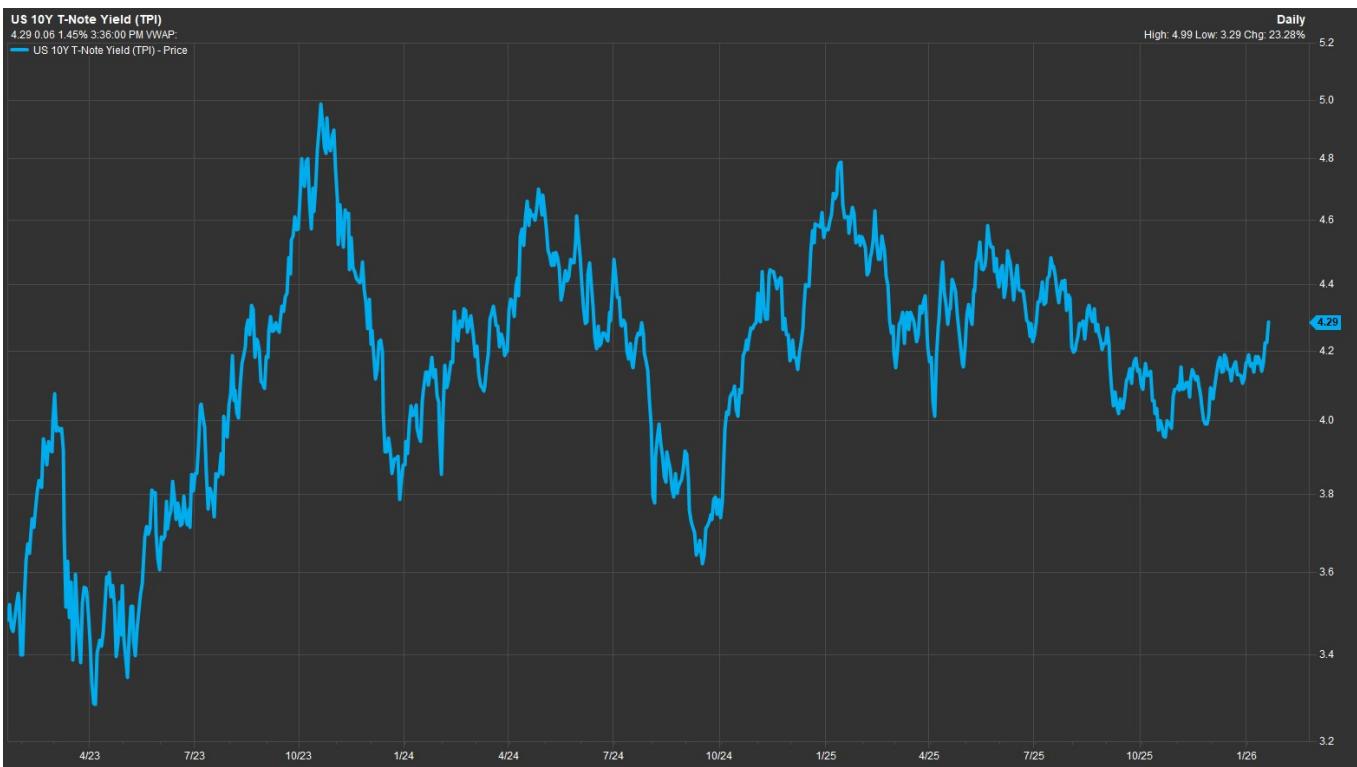
While growth sectors led performance overall in 2025, the 4th quarter saw a broadening out as lagging groups played catchup. The healthcare sector made up the most ground in Q4, tacking on 11.7% and closing the year with a +14.6% return. Communication services gained 7.3% and finished the year as the best performing sector at +33.6%. Materials, Technology, Energy, and Financials all added between 1-2% in Q4 with full year returns of 10.5%, 24%, 8.7%, and 15%, respectively. Industrials, Consumer Discretionary, and Consumer Staples were fractionally (<1%) higher in Q4 with respective 2025 gains of 19.4%, 6%, and 3.9%. Real Estate and Utilities fell between 1-3% in Q4, closing out the full year with 16% and 3.2% gains.

After years of underperformance, many international stock markets outperformed those of the US last year. The MSCI EAFE index increased 31.9% with US investors benefiting from the ~10% slide in the value of the US Dollar.

Bonds

Prices for treasury securities maturing between 0-5 years were buoyed in the fourth quarter by a drop in yields following two 25bp cuts to the Fed Funds rate. However, treasuries maturing in 5 years and beyond traded flat to down as longer-term rates held steady or rose, i.e. a steepening yield curve. For the quarter, the yield on the 10-Year Treasury Note rose 3bps to 4.15% during Q4 and has continued higher thus far into 2026.

10-Year US Government Note Yields

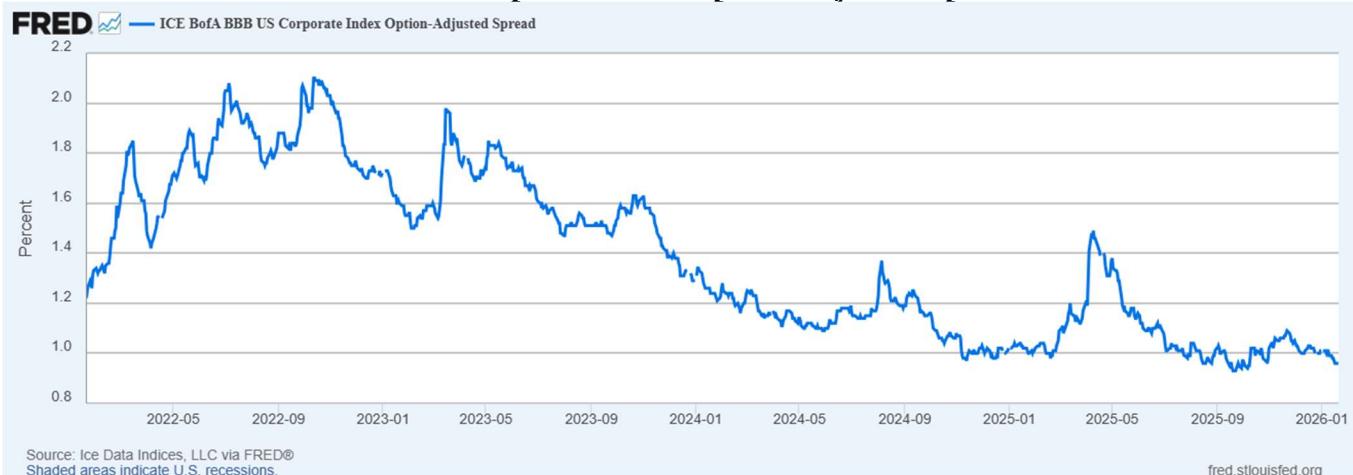


Source: FactSet; as of January 20, 2024

The Barclays Aggregate Bond Index returned 1.2% in Q4 and 7.3% for the full year. The S&P 500 Bond Index (investment-grade corporate bonds) added 0.73% in the quarter and the S&P 500 High Yield Corporate Bond Index rose 0.93%. Those indices delivered total returns of +7.4% and +8%, respectively, in 2023.

There were a handful of high-profile credit defaults in Q4 in the private lending markets, which have attracted significant inflows in recent years. While this led to some handwringing about potential contagion, those fears have subsided for now. In fact, as we reported last quarter, corporate bond spreads remain at historically low levels.

BBB US Corporate Bond Option-Adjusted Spread



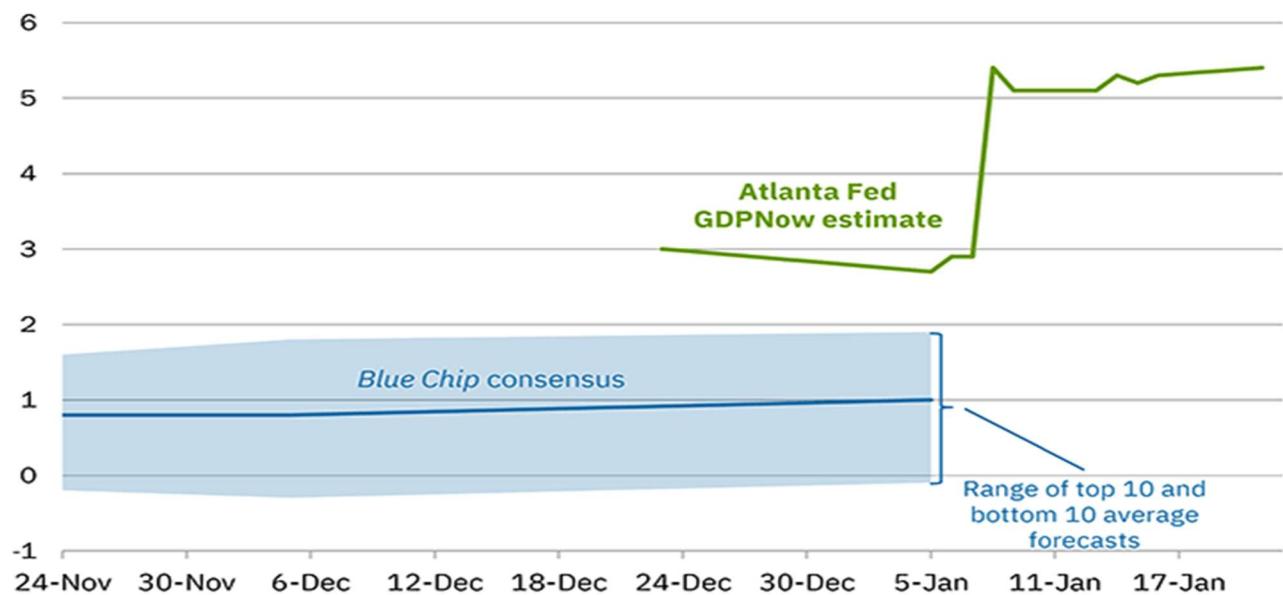
Source: St. Louis Federal Reserve; as of January 21, 2024

Economics

GDP growth has been strong in recent quarters - the preliminary Q3 reading of 4.3% handily beat consensus expectations of 3%. The most recent estimate for the 4th quarter is an even more impressive 5.4%, well above economists' forecasts.

GDPNow Estimate

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q4 Quarterly percent change (SAAR)

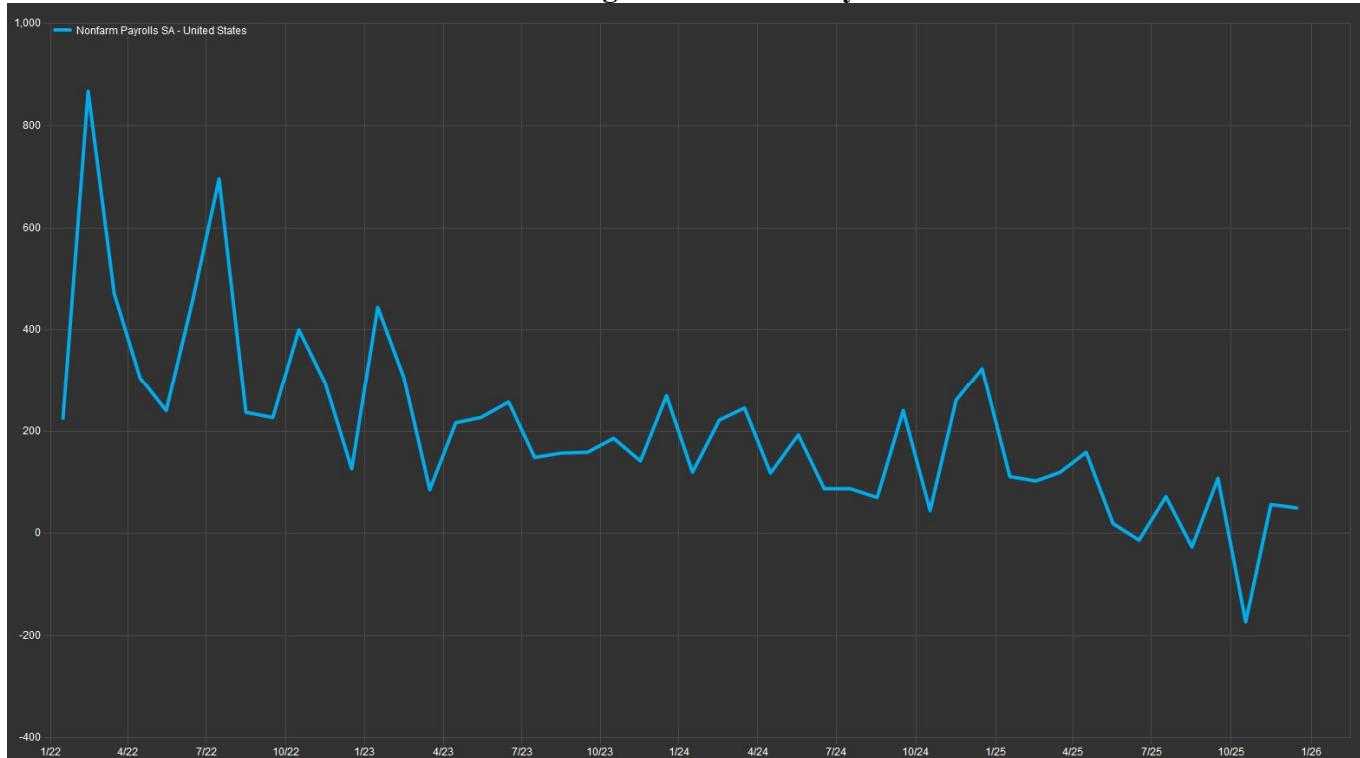


Date of forecast

Source: Federal Reserve Bank of Atlanta; as of January 21, 2026

Job growth has remained positive, albeit at a moderating pace. Steady employment coupled with in-line inflation readings allowed the Fed to cut interest rates twice in the fourth quarter.

M/M Change in Nonfarm Payrolls



Source: FactSet; as of January 9, 2026

Current expectations are for two 25bp cuts in 2026, but the timing will depend on future jobs and inflation reports. And if growth remains robust and unemployment doesn't suddenly rise, fears of inflation will likely keep the Fed on hold.

The PDS team sends our best wishes for 2026!



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Director

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