Q4 2025

Quarterly Perspectives

MEEDER

A Strong Finish to 2025

Broadening Participation, Resilient Earnings, and a Shifting Policy Conversation

The fourth quarter of 2025 capped another strong year for financial markets, continuing a rally that has been supported by a powerful combination of earnings growth, improving market breadth, and a policy environment that continues to move gradually toward easier monetary conditions.

For long-term investors, the most important takeaway may not be the quarter's final returns—but the character of the market's advance. Into year-end, market leadership broadened beyond the largest technology stocks, participation improved meaningfully across sectors and market caps, and underlying trends remained constructive even amid periodic volatility and ongoing macro uncertainty.

EQUITIES

Strong Year, Strong Quarter, and a Healthier Market Internally

U.S. equities finished 2025 with gains for the third consecutive year. But what stood out most in Q4 was how the market advanced.

Much of the year's early strength had been driven by mega-cap technology and AI-related leadership, but the final two months of the year saw a notable shift: mid-cap and small-cap stocks began to outperform, helping drive a broadening of participation and improving overall market health.

A key confirmation came from market breadth measures such as the New York Stock Exchange Advance/Decline Line, which moved to new highs alongside major equity indexes, signaling that the rally was supported by thousands of stocks rather than a narrow set of large-cap names.

This broadening is meaningful because healthy bull markets are more likely to persist when leadership rotates and participation expands, and this year-end transition may represent the beginning of a more balanced market environment heading into 2026.

EARNINGS

Growth Was the Real Driver

While valuations remained elevated in 2025, the year's market gains were not driven primarily by multiple expansion. Instead, returns attribution analysis showed that the majority of 2025's equity gains were explained by earnings growth, supported by both margin expansion and revenue growth, with a modest contribution from rising valuation multiples and dividends.

This trend was reinforced during the fourth quarter, as third quarter earnings reports surprised to the upside and beat rates reached historically high levels. With growth around 13–14% year-over-year, earnings easily surpassed initial forecasts of 7–8%.

Corporate profit margins remained near cycle highs, with expectations for continued stability into early 2026—a supportive factor for equity fundamentals and one that may also help insulate the labor market from a more severe downturn.

RATES & POLICY

The Fed Cuts Again But a Pause is Likely Coming

Monetary policy remained a central theme during the quarter. Markets entered the fourth quarter focused not only on the likelihood of another rate cut but also on what the Fed would signal about the longer path toward neutrality.

Throughout the fall, expectations for a December rate cut shifted meaningfully, with markets repeatedly repricing the probability of Fed action as inflation and labor market data were released inconsistently due to the earlier government shutdown. This "back and forth" contributed to heightened volatility at times—including one of the largest intraday reversals since April's tariff-driven market turbulence.

By December, the market once again strongly favored a Fed cut, and attention turned toward the Fed's updated projections and how quickly policy easing might continue in 2026.

Markets and the Fed are aligned on the likelihood of a pause early in 2026, but they diverge on the expected number of rate cuts over the full year. The market's implied path points toward two cuts in 2026, while the Fed's median projection reflects one cut.

This debate underscores a key theme for 2026: policy is transitioning from a predictable tightening regime to a more complex environment where incoming inflation data, labor resilience, and future central bank leadership may all influence the pace of easing.

INFLATION

Improving—But Data Distortions Create Uncertainty

Inflation trends continued to improve during the quarter, which provided support to both equity and bond markets. In multiple reports, inflation came in below expectations, and the market responded favorably with yields moving lower and risk assets strengthening.

However, much of the quarter's inflation interpretation came with an important caveat: the government shutdown created gaps in economic data collection, forcing statistical agencies to estimate missing components, particularly around rent assumptions.

Economists also expressed concerns that some of these adjustments may have biased inflation readings downward, and that clearer insight will emerge only after a few more "clean" releases in 2026.

This tension—improving inflation trends but imperfect data—has contributed to the Fed's careful tone and reinforces the likelihood of a measured and highly data-dependent policy path going forward. We also observed interest rates moving higher toward the end of the quarter.

THE LABOR MARKET

Slowing Hiring, Limited Firing

Labor market trends during Q4 remained mixed. Some reports showed softening employment growth and rising layoff announcements—including a notable spike in Challenger layoffs during October.

At the same time, jobless claims fell to their lowest levels in three years by early December, suggesting layoffs were not spreading broadly throughout the economy. This supported the "don't fire, but don't hire" framing: firms appear reluctant to expand payrolls aggressively, but also reluctant to reduce them materially.

The earnings and margin backdrop is an important part of that story. Healthy profit margins may help companies avoid widespread layoffs even if hiring slows—historically an important distinction, since recessions typically coincide with significant job losses and sustained unemployment increases.

FIXED INCOME

Yields Fall—and Diversified Bond Exposure Matters

Fixed income performance was positive during the first part of the quarter as yields declined, especially in the intermediate and long end of the curve. By late October, the 10-year Treasury yield fell to its lowest level of the year, influenced by expectations for Fed cuts, tariff uncertainty, and a potential "flight to safety" effect stemming from shutdown-related economic disruptions.

Late in the quarter, the yield curve steepened, with long-term yields moving higher while short-term yields remained anchored to expectations of additional Fed cuts this year. This reflects both the market's near-term rate-cut expectations and lingering concerns around inflation and Treasury issuance pressures on the long end.

LOOKING AHEAD

A Constructive Market—with New Questions for 2026

As 2026 begins, the overall weight of evidence remains constructive:

- Earnings growth continues to provide a strong fundamental foundation.
- While concerns remain about AI-spending and mega-cap equity valuations, market breadth improved meaningfully into year-end, suggesting broad participation.
- Monetary policy is moving in a more accommodative direction, but cautiously. Inflation progress matters, but the market will demand cleaner data as shutdown distortions fade and potential changes in Fed leadership occur.

In our view, a market environment characterized by broadening participation, resilient earnings, and gradual policy easing provides a supportive backdrop—but discipline remains essential. As always, Meeder's investment process will continue to emphasize diversification, risk management, and systematic adaptation to evolving market conditions.

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