

## December Investment Review

### Normalization Continues: Markets Close a Strong 2025 with Limited Stress

#### Overview

December closed a strong year for markets with improving macro clarity rather than rising stress. U.S. growth moderated but remained intact, inflation continued to ease, and labor-market conditions softened in an orderly way. Together, these dynamics reinforced a late-cycle environment defined by normalization rather than contraction.

Labor markets continued to rebalance beneath the surface. Job growth slowed, job openings declined, and wage pressures eased, while unemployment remained relatively contained. A clear divergence persisted between resilient services activity and weaker manufacturing conditions, reflecting sustained demand in consumer-facing sectors alongside pressure from higher financing costs and softer global trade. Importantly, slower labor-supply growth helped offset weaker hiring, allowing the economy to cool without a material rise in unemployment.

Against this backdrop, fixed income delivered a constructive year, validating its role as both an income generator and portfolio stabilizer. Core U.S. bonds produced mid-single-digit returns, materially exceeding long-term averages, while credit-oriented sectors delivered stronger results supported by carry and stable fundamentals. Municipal bonds also posted positive returns, benefiting from attractive starting yields and favorable technicals, though December highlighted lingering rate sensitivity as longer yields moved higher.

US Fixed Income	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	% Rtn	Mo.	YTD	+/-	+/-
Aggregate Bond	0.19	0.34	0.53	0.53	6.08	4.86
US Treasury	0.24	0.28	0.52	0.52	5.80	4.42
US Agencies	0.24	0.30	0.55	0.55	3.21	4.57
Corporate	0.17	0.38	0.55	0.55	6.81	5.30
Taxable Muni	0.10	0.38	0.47	0.47	7.65	5.20
US Agency MBS	0.11	0.40	0.51	0.51	6.20	5.19
Gov/Credit	0.22	0.32	0.53	0.53	6.10	4.74
TIPs	1.20	0.09	1.29	1.29	4.30	4.56
AAA Corporate	-0.10	0.34	0.23	0.23	10.16	4.97
AA Corporate	0.14	0.34	0.48	0.48	7.64	4.97
A Corporate	0.17	0.37	0.54	0.54	6.77	5.18
BBB Corporate	0.18	0.40	0.58	0.58	6.64	5.48

Equity markets delivered strong outcomes over the year, led by U.S. large-cap stocks, while emerging-market equities benefited from improving risk appetite and a weaker U.S. dollar. December performance underscored late-cycle dynamics, with technology-heavy and duration-sensitive segments posting modest pullbacks despite strong year-to-date gains.

Notably, December's volatility reflected repricing rather than stress, with no evidence of credit deterioration, liquidity strain, or disorderly risk-off behavior across markets.

Real assets stood out over the full year, particularly precious metals. Gold and silver delivered exceptional returns, supported by declining real-rate volatility, sustained central-bank demand, and a meaningful year-over-year decline in the U.S. dollar. In contrast, broader commodities and energy

prices softened in December, reflecting sensitivity to rate expectations and currency movements.

Across equities, fixed income, and real assets, many major asset classes delivered returns in 2025 that exceeded their respective 10-year averages—an outcome that reflects favorable starting conditions and disciplined risk-taking, while December's pullbacks reinforce the importance of diversification and selectivity. Our base case for 2026 is that the Federal Reserve retains flexibility as inflation continues to ease unevenly and labor conditions cool without material stress, keeping policy normalization gradual and data-dependent rather than tied to a fixed timetable.

Macro View	MTD (%)	YTD (%)	1Y (%)	10Y (%)	10Y STD (±)
DJIA	0.92	14.92	14.92	13.09	15.20
S&P 500	0.06	17.86	17.86	14.79	15.12
NASDAQ	-0.47	21.17	21.17	17.70	18.27
Equity EM Mkts.	3.00	0.07	34.25	8.85	16.52
EM Bond Mkt.	0.43	11.11	11.11	4.16	7.29
US Agg. Bond	-0.15	7.30	7.30	2.01	5.05
Municipal Bond	0.09	4.25	4.25	2.34	5.18
US High Yield	0.64	8.55	8.55	6.42	7.38
Commodity	-0.32	15.77	15.77	5.72	13.00
COMEX Silver	31.14	130.59	130.59	15.72	29.50
COMEX Gold	4.22	57.20	57.20	13.08	13.69
Brent Oil	-3.61	7.38	7.38	18.13	35.75
Dollar Index	-1.14	-9.37	-9.37	-0.31	6.57

#### Taxable Fixed Income Markets

Against a backdrop of moderating growth, easing but uneven inflation, and a yield curve adjusting to shifting policy and supply dynamics, taxable fixed income enters 2026 from a position of strength. Elevated starting yields and disciplined duration positioning allowed high-quality taxable strategies to deliver mid- to high-single-digit returns in 2025, with performance driven predominantly by coupon income rather than price appreciation.

December reinforced this dynamic. Price returns across core taxable benchmarks were negative, reflecting renewed rate sensitivity rather than weakening fundamentals. The U.S. Aggregate Bond Index declined modestly for the month despite producing a strong full-year return, underscoring how income—not duration—was the primary contributor to total return.

Yield-curve movements were central to late-year volatility. Steepening was concentrated at the long end, while short-term Treasury bill yields also moved higher, reflecting near-term inflation concerns and anticipated increases in Treasury supply. The relative stability of the two-year Treasury suggested limited change in near-term Fed expectations, reinforcing that curve dynamics were driven more by supply and term-premium considerations than by policy repricing. As noted in recent market commentary, December reinforced that supply dynamics and term-premium repricing—not credit deterioration—were the primary drivers of volatility, a distinction that favors income-focused and intermediate-duration positioning.

These conditions continued to favor intermediate duration positioning. Government and credit sectors in the 3- to 7-year range delivered strong risk-adjusted results with meaningfully less volatility than longer-dated exposures, while long-duration credit experienced larger price drawdowns late in the year.

A key risk to this outlook would be a more persistent rise in Treasury supply or a renewed near-term uptick in inflation that keeps upward pressure on longer-term yields, reinforcing our preference for income-driven returns over aggressive duration extension.

Credit fundamentals remained sound, though valuations leave less room for error. Higher-quality investment-grade sectors and securitized assets delivered consistent, income-driven returns, reinforcing the value of selectivity. Taken together, results support a portfolio emphasis on high-quality, income-oriented taxable fixed income, with a focus on intermediate maturities, selective credit exposure, and curve efficiency rather than reliance on directional rate bets.

### Tax-Exempt Markets

Municipal markets closed 2025 on stable footing, supported by resilient demand, manageable volatility, and a curve structure that continued to reward intermediate and selectively extended maturities. While December saw modest price pressure across most municipal benchmarks, coupon income offset price declines, allowing the market to finish the year with solid positive returns.

Longer-duration municipals were more sensitive to late-year rate movements, while intermediate maturities delivered the strongest risk-adjusted outcomes. Municipals in the 5- to 10-year range generated attractive year-to-date returns supported by favorable carry, roll-down, and manageable duration. At current levels, intermediate municipal yields translate into compelling federal tax-equivalent yields—approximately 4.5% to 5.5% for investors in the highest federal tax bracket (40.8% inclusive of the 3.8% Net Investment Income Tax)—supporting demand despite tighter relative valuations.

Municipal Market	Price	Cpn	Total Returns (%)		Dur	Yield
	(%) Rtn	(%) Rtn	Mo.	YTD	+/-	+/-
Municipal Agg	0.14	0.36	0.50	0.50	6.28	3.68
1-Yr Muni (1-2)	0.16	0.37	0.52	0.52	1.30	2.95
3-Yr Muni GO (2-4)	0.11	0.37	0.49	0.49	2.34	2.91
5-Yr. Muni GO (4-6)	0.24	0.36	0.60	0.60	3.60	3.01
10-Yr. Muni (8-12)	0.47	0.35	0.82	0.82	5.76	3.43
15-Yr. Muni (12-17)	0.31	0.35	0.66	0.66	7.04	3.78
30-Yr. Muni (22+)	-0.30	0.38	0.08	0.08	9.93	4.35
AAA Muni	0.20	0.36	0.56	0.56	6.43	3.52
AA Muni	0.05	0.36	0.41	0.41	6.12	3.56
A Muni	0.24	0.37	0.61	0.61	6.30	3.92
BBB Muni	0.42	0.38	0.80	0.80	7.22	4.40
Gen. Oblig.	0.10	0.35	0.46	0.46	5.93	3.47
Revenue	0.15	0.37	0.51	0.51	6.49	3.78
California	-0.22	0.36	0.14	0.14	6.12	3.51
New York	0.10	0.37	0.46	0.46	6.67	3.68

Credit quality trends remained constructive. General obligation (GO) bonds modestly outperformed revenue bonds, with state GOs outperforming local credits, reflecting strong balance sheets and essential-purpose characteristics. Sector dispersion was evident but orderly, with essential-Normalization Continues: Markets Close a Strong 2025 with

Limited Stress service sectors delivering steady income-driven returns while longer-duration and rate-sensitive segments lagged.

Looking ahead, expectations for increased issuance in 2026—particularly in longer maturities—may keep the municipal curve biased toward steepness. In this environment, disciplined maturity selection, intermediate-duration focus, and high-quality credit exposure continue to offer attractive after-tax income without assuming undue duration risk.

### Precious Metals & Digital Assets

Precious metals were among the strongest performers of 2025. Gold and silver benefited from declining real-rate volatility, sustained central-bank demand, and a weaker U.S. dollar, with gold demonstrating relative stability compared to silver's more pronounced swings in December.

December price action underscored the differing volatility profiles within real assets. Silver experienced a sharp rally followed by a meaningful pullback late in the month, highlighting its sensitivity to positioning, industrial demand expectations, and real-rate volatility, even as full-year performance remained exceptional. Bitcoin, by contrast, sold off materially in December, reflecting its higher beta to liquidity conditions and risk sentiment, despite continued longer-term institutional interest in digital asset infrastructure.

While precious metals continue to serve as diversification tools and hedges against real-rate and currency volatility, digital assets remain inherently higher-volatility exposures where disciplined sizing and risk management are essential.

### Equity Markets

Equity markets delivered another strong year in 2025, supported by resilient growth, easing inflation trends, and enthusiasm surrounding productivity-enhancing technologies. Returns, however, became increasingly concentrated, with dispersion widening beneath the surface. As valuations rose, markets became more sensitive to earnings delivery and macro surprises. Looking ahead, equity returns are likely to be driven less by multiple expansion and more by fundamentals, reinforcing the importance of selectivity as growth moderates and policy normalizes.

### Strategy Outlook

Markets enter 2026 from a position of strength. Elevated starting yields, easing inflation, and disciplined positioning supported strong outcomes across asset classes in 2025. Our base case remains constructive: growth moderates without contraction, inflation eases unevenly, and policymakers retain flexibility.

A meaningful deviation from this base case would likely require either a sustained reacceleration in inflation or a material weakening in labor-market conditions, neither of which is currently evident.

In this environment, income, quality, and selectivity matter more than broad beta. Fixed income continues to offer compelling diversification and income, tax-exempt markets provide attractive after-tax value, and equities transition toward more selective, earnings-driven outcomes. With disciplined risk management and active positioning, portfolios remain well positioned as markets adjust to a more normalized cycle.

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