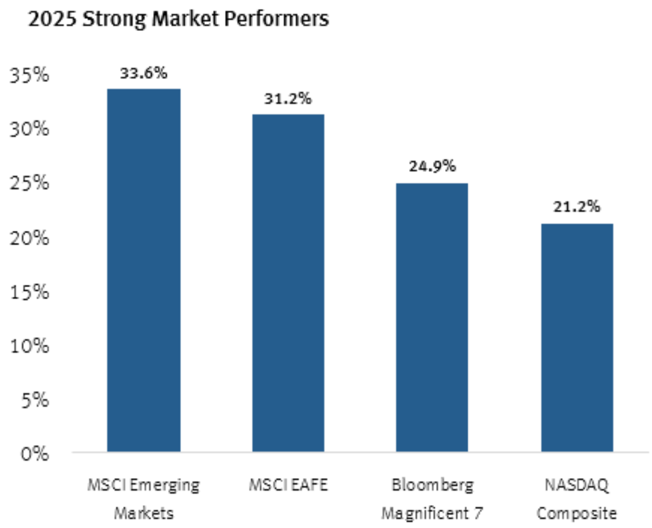
MARKET SIGHT LINES

Important Insights: 2025 Equity Performance

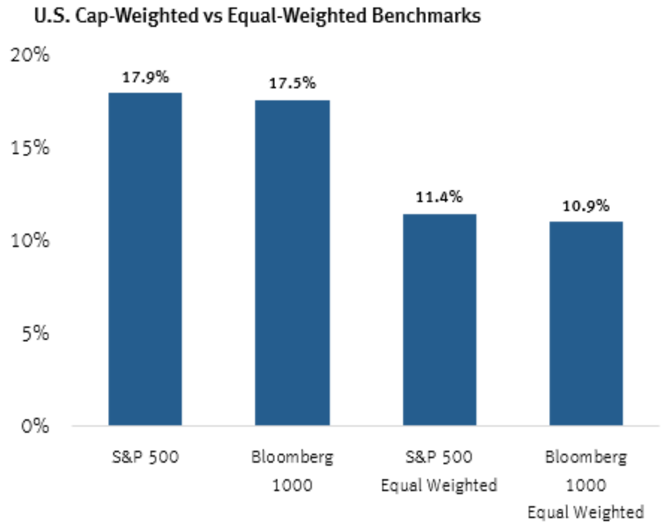
By Michael O'Keeffe, *Chief Investment Officer*

As we start the new year, this is a good time to look back and reflect on global equity market performance last year. 2025 proved to be a dramatic year. U.S. markets declined through early April on tariff and trade worries but rebounded on optimism around artificial intelligence, a stronger-than-expected economy, and resilient company earnings. Given the nature of this topic, in this Sight|Lines we will move away from our normal format to share these important insights. Let's break down 2025 performance – the winners and losers – and what we might expect going forward.



STRONG PERFORMERS – NON-U.S., BIG TECH, AND CAP-WEIGHTED U.S. MARKETS

Broader non-U.S. equity markets delivered some of the best returns in years. Developed markets (MSCI EAFE) returned 31.2% while emerging markets (MSCI Emerging Markets) returned 33.6%. A weakening U.S. dollar accounted for about one-third of these positive non-U.S. equity returns.

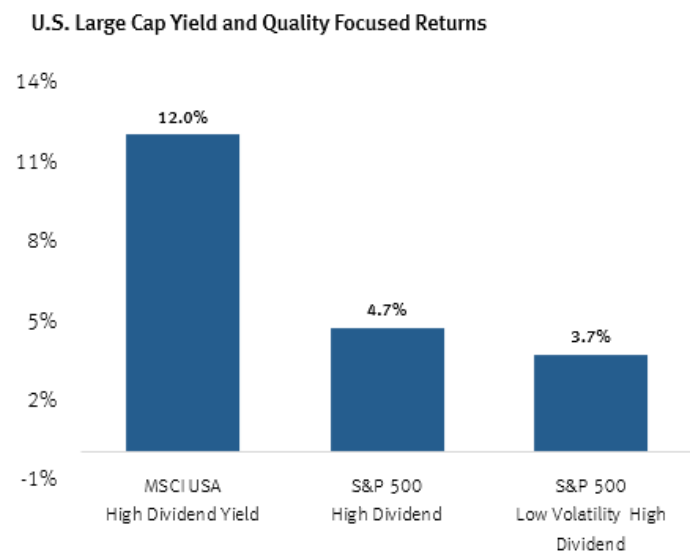


In the U.S., leadership remained concentrated in large, technology-oriented companies. The Magnificent Seven (Bloomberg Magnificent 7) – Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla – and tech stocks more broadly (Nasdaq Composite) posted returns of 24.9% and 21.2%, respectively.

As we've seen in recent years, given the Magnificent Seven's meaningful weight within cap-weighted U.S. large cap indices, their strength drove strong benchmark performance. The S&P 500 posted a 17.9% return for the year, with the slightly broader Bloomberg 1000 returning 17.5%.

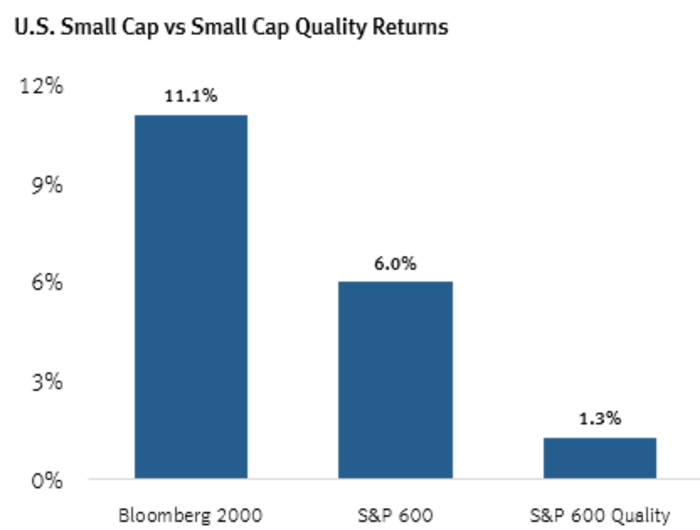
EQUAL WEIGHTED STRONG, BUT NOT LEADING

Many investors, including active managers, invest on more of an equal-weighted basis. Equal-weighted versions of major U.S. large cap indices – which reduce the influence of the largest companies – delivered positive but more muted returns. The equal-weighted S&P 500 index and the equal-weighted Bloomberg 1000 returned 11.4% and 10.9%, respectively. This gap highlights how managers with an equal-weighted tilt may have found it challenging to keep pace with cap-weighted benchmarks in 2025.



FAVORED STRATEGIES – YIELD AND QUALITY – LAGGED

Many wealth-oriented investors also favor equity strategies focused on quality companies that pay higher and growing dividends. In those areas, we saw a similar muting effect on 2025 performance. The MSCI USA High Dividend index returned 12% for the year, while the S&P 500 High Dividend index, which has a quality bias, returned 4.7%. The S&P 500 Low Volatility High Dividend index, which emphasizes even higher quality, returned 3.7%.



The same pattern showed up in small caps. The Bloomberg 2000, which represents diversified exposure to the small cap market, returned 11.1% in 2025. The S&P 600 index, which also has a quality bias, returned 6%. The S&P 600 Quality index, which focuses on even higher quality, returned just 1.3%.

Taken together, these results suggest that many active managers focused on higher yields, quality, or both may have had a difficult time matching more diversified, cap-weighted benchmarks in 2025.

CONCLUSION

The range of returns last year was wider than usual. Patterns like this often reflect a degree of mean reversion over time, where laggards can become leaders and vice-versa. We guide clients to (1) be careful not to chase hot performers, (2) maintain a diversified approach that includes exposure across these categories, and (3) evaluate managers with a longer-term lens, not just short-term performance driven much by the factor performance related to their investment style.

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