

MARKET SIGHTLINES



Important Insights: 2025 Equity Performance

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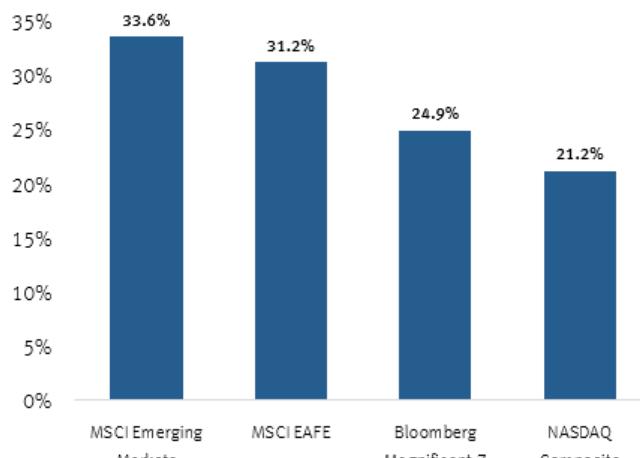
As we start the new year, this is a good time to look back and reflect on global equity market performance last year. 2025 proved to be a dramatic year. U.S. markets declined through early April on tariff and trade worries but rebounded on optimism around artificial intelligence, a stronger-than-expected economy, and resilient company earnings. Given the nature of this topic, in this SightLines 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.

2025 Strong Market Performers



U.S. Cap-Weighted vs Equal-Weighted Benchmarks



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.

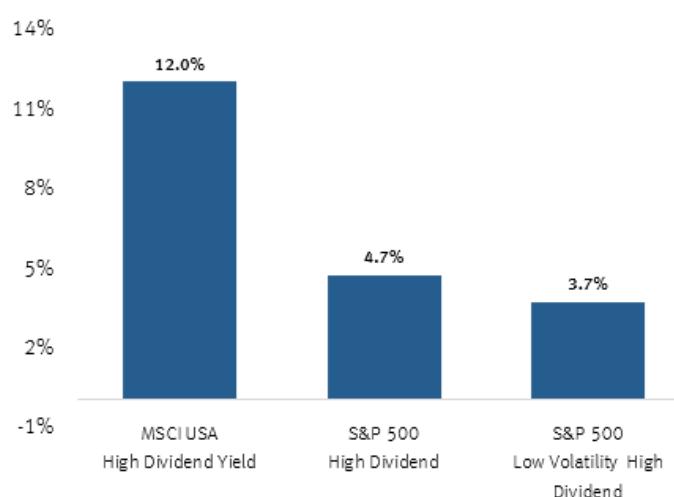
FAVORED STRATEGIES – YIELD AND QUALITY – LAGGED

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%.

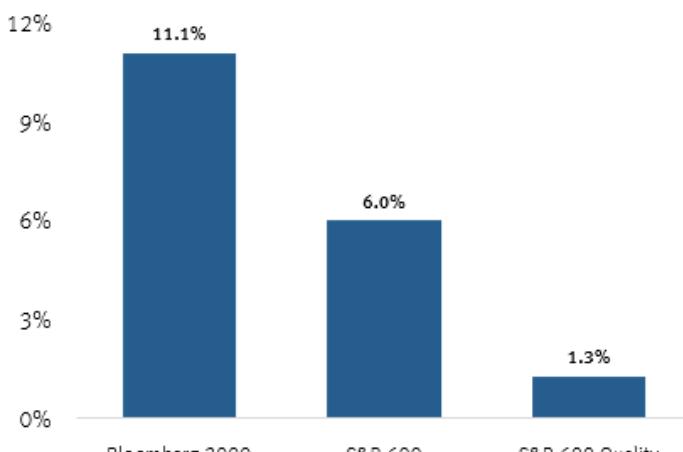
The same pattern showed up in small caps. The Bloomberg 2000, which represents diversified exposure to the small cap market, returned 11.1% in 2025. The S&P 600 index, which also has a quality bias, returned 6%. The S&P 600 Quality index, which focuses on even higher quality, returned just 1.3%.

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.

U.S. Large Cap Yield and Quality Focused Returns



U.S. Small Cap vs Small Cap Quality Returns



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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Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. Investing involves risks, including the possible loss of principal invested. Past performance is no guarantee of future results. The Standard & Poor's 500 index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The NASDAQ Composite Index is a capitalization-weighted index that is comprised of all stocks listed on the National Association of Securities Dealers Automated Quotation System stock market, which includes both domestic and foreign companies. The S&P 600 Index is a capitalization-weighted index that represents the U.S. small capitalization market, including 600 domestic stocks chosen for market size, liquidity, and industry representation. The S&P SmallCap 600® Quality Index is designed to measure the 120 highest-quality stocks in the S&P SmallCap 600 on the basis of their quality score, which is calculated using three fundamental measures: return on equity, accruals ratio, and financial leverage ratio. The Bloomberg Magnificent 7 Total Return Index is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 widely-traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by Bloomberg Industry Classification System (BICS). The Bloomberg U.S. 1000 Total Return Index is a float market-cap-weighted benchmark of the 1,000 most highly capitalized U.S. companies. The Bloomberg U.S. 2000 Total Return Index is a float market cap-weighted benchmark of the lower 2,000 in capitalization of the Bloomberg U.S. 3000 Index. The S&P 500 High Dividend Index serves as a benchmark for income seeking equity investors. The index is designed to measure the performance of 80 high yield companies within the S&P 500 and is equally weighted to best represent the performance of this group, regardless of constituent size. The S&P 500 Low Volatility High Dividend index measures the performance of the 50 least-volatile high dividend-yielding stocks in the S&P 500. The index is designed to serve as a benchmark for income-seeking investors in the U.S. equity market. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The DJIA was invented by Charles Dow back in 1896. The MSCI USA High Dividend Yield Index is based on the MSCI USA Index, its parent index, and includes large and mid cap stocks. The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent. The MSCI EAFE index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options. Index returns include the reinvestment of dividends but do not include adjustments for brokerage, custodian, and advisory fees. Indices are unmanaged and are not available for direct investment.