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Highland ReCAP

A Review of Capital Markets

December 2025

Summary

Domestic stocks faded into the year-end holiday, finishing mostly flat for the month of December, while interest rates edged higher. The Federal Reserve pushed through one final rate cut for 2025, as U.S. markets wrapped the year on a tumultuous note. International stocks finished strong, with both developed and emerging markets gaining 3% for the month. Ex-U.S. equities ended 2025 with gains in excess of 30%, outperforming U.S. stocks for the first time in eight years.

Equities

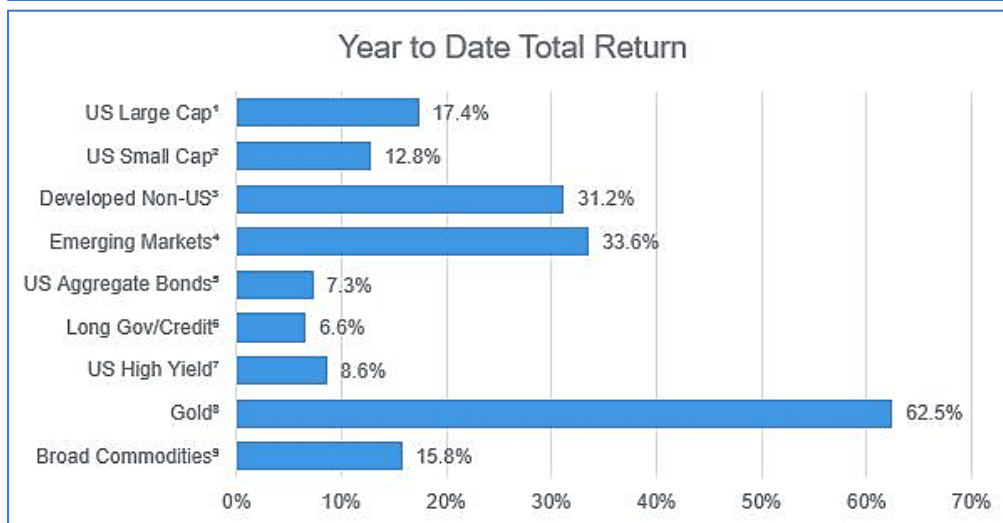
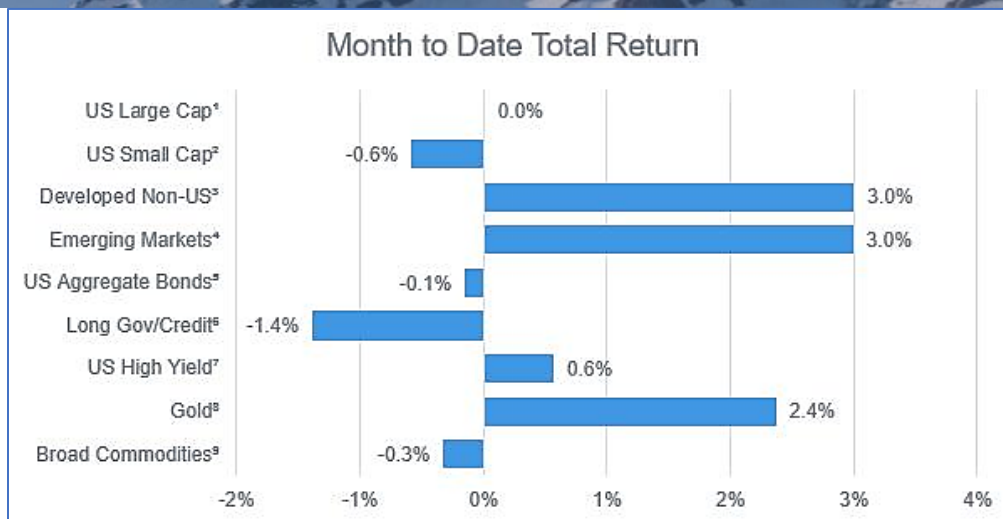
U.S. stocks traded sideways in December before fading into year-end. Large caps managed to end flat while smaller companies traded lower, declining by 0.6% for the month. Meanwhile, non-U.S. stocks finished with a flourish, gaining 3% in December. Emerging markets took home the title of top performing equity market for 2025, with a total return of 33.6%, while developed international stocks were a close second, booking a gain of 31.2% for the year.

Fixed Income

Interest rates moved higher in December, leading to losses for bonds. The yield on the US 10-year treasury rose 15 basis points month-over-month, offsetting income gains and giving core bonds a red month to finish the year. Credit held up as spreads ground tighter and short duration bonds got a boost from a Fed rate cut, and a steepening yield curve. For the full year, investment grade bonds provided a solid 7.3% return while high yield bonds gained 8.6%.

Market Trends

As of December 31, 2025



	1M	3M	1Y	3Y	5Y	10Y
US Large Cap ¹	0.0%	2.4%	17.4%	22.7%	13.6%	14.6%
US Small Cap ²	-0.6%	2.2%	12.8%	13.7%	6.1%	9.6%
Developed Non-U.S. ³	3.0%	4.9%	31.2%	17.2%	8.9%	8.2%
Emerging Markets ⁴	3.0%	4.7%	33.6%	16.4%	4.2%	8.4%
US Aggregate Bonds ⁵	-0.1%	1.1%	7.3%	4.7%	-0.4%	2.0%
Long Gov/Credit ⁶	-1.4%	0.0%	6.6%	3.1%	-4.9%	2.0%
US High Yield ⁷	0.6%	1.3%	8.6%	10.1%	4.5%	6.5%
Gold ⁸	2.4%	12.2%	62.5%	32.4%	17.1%	14.0%
Broad Commodities ⁹	-0.3%	5.8%	15.8%	4.0%	10.6%	5.7%

1 – Russell 1000, 2 – Russell 2000, 3 – MSCI EAFE, 4 – MSCI Emerging Markets, 5 – Bloomberg US Agg, 6 – Bloomberg US Long Gov/Credit
7 – Bloomberg US Corporate High Yield, 8 – Bloomberg Gold Subindex, 9 – Bloomberg Commodity

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Disclosure Statements

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FTSE Russell

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