SoFi

Market Lookback
December 2025

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Macro

- The Federal Reserve lowered the fed funds rate by 25 basis points to a target range of 3.50%-3.75%.
- The Fed's Summary of Economic Projections showed the median official expects higher growth, similar unemployment, and lower inflation in 2026, driven in part by higher productivity expectations.
- The latest Employment Situation report showed 105k jobs *lost* in October (driven by government layoffs) and 64k jobs added in November with an unemployment rate of 4.6%, above consensus expectations.
- Though November CPI came in well below expectations at 2.7% y/y, a big portion of this downside surprise was driven by unrealistic assumptions regarding missing October data in key areas like shelter.
- Oil prices finished the month below $60 a barrel, the fourth such month since early 2021.
- Powered by a supply-driven squeeze in silver prices, precious metals rose 7.8% in December.
- The U.S. Dollar depreciated 1.1% against a basket of major currencies, the biggest decline since August.

Equities

- The S&P 500 ended the year with a total return of 17.9%, its third straight year of above-average returns and sixth year of at least 17% returns out of the last seven (the first such occurrence since 1955).
- Cyclical stocks outperformed defensives by 2.3 percentage points, the most since May.
- Value stocks beat growth stocks by only 1.2 percentage points, the narrowest spread between the two since November 2024.

Fixed Income

- Investment Grade and High Yield corporate bond spreads remained well contained, hovering between 76-80 and 264-283 basis points, respectively.
- Beginning the month at 4.03%, the yield on a 10-year Treasury rose 14 bps to 4.17%, the first monthly increase since July.
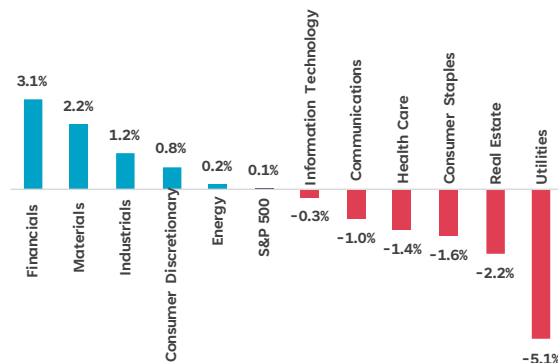- The MOVE Index, a proxy for interest rate volatility, ended the year at 64.0, the lowest since October 2021.

Equities	Level	Month Return	QTD Return	YTD Return	1-Yr Return	3-Yr Return
S&P 500	6,846	0.1%	2.7%	17.9%	17.9%	86.0%
Nasdaq	23,242	-0.5%	2.7%	21.2%	21.2%	127.2%
Dow Jones	48,063	0.9%	4.0%	14.9%	14.9%	53.5%
Russell 1000 Value	2,072	0.7%	3.8%	15.9%	15.9%	47.6%
Russell 1000 Growth	4,765	-0.6%	1.1%	18.5%	18.5%	125.6%
Russell 2000 Value	2,717	0.2%	3.2%	12.6%	12.6%	39.4%
Russell 2000 Growth	1,652	-1.3%	1.2%	13.0%	13.0%	54.4%
MSCI EAFE	2,893	3.0%	4.9%	32.0%	32.0%	64.2%
MSCI EM	1,404	3.0%	4.8%	34.3%	34.3%	59.9%

Fixed Income	Yield	Month Return	QTD Return	YTD Return	1-Yr Return	3-Yr Return
US Treasurys	3.89%	-0.3%	0.9%	6.3%	6.3%	11.3%
US IG Corporates	4.81%	-0.2%	0.8%	7.8%	7.8%	19.4%
US HY Corporates	6.53%	0.6%	1.3%	8.6%	8.6%	33.3%

Commodities	Level	Month Return	QTD Return	YTD Return	1-Yr Return	3-Yr Return
Oil ($/barrel)	$57	-1.9%	-7.9%	-19.9%	-19.9%	-28.5%
Gold ($/oz)	$4,319	1.9%	11.9%	64.6%	64.6%	136.8%
Copper ($/mt)	$12,453	10.9%	21.8%	43.9%	43.9%	48.9%

Currencies	Level	Prior Month	Prior Quarter	Prior Year	1-Yr Ago	3-Yr Ago
EUR ($/€)	$1.17	$1.16	$1.17	$1.04	$1.04	$1.07
JPY (¥/$)	¥157	¥156	¥148	¥157	¥157	¥131
GBP ($/£)	$1.35	$1.32	$1.34	$1.25	$1.25	$1.21

December S&P 500 Sector Total Returns

- Financials: 3.1%
- Materials: 2.2%
- Industrials: 1.2%
- Consumer Discretionary: 0.8%
- Energy: 0.2%
- S&P 500: 0.1%
- Information Technology: -0.3%
- Communications: -1.0%
- Health Care: -1.4%
- Consumer Staples: -1.6%
- Real Estate: -2.2%
- Utilities: -5.1%

Black Ice in the Data

If you've ever driven in a snowstorm, you know that it's unnerving. Visibility is poor and the roads are slick, so you go slow and stay extra vigilant. The thing is, the heightened danger doesn't go away once the weather improves — black ice can make driving deceptively dangerous, maybe even more so than during the storm itself.

In some ways, there's a parallel for investors. Even though there's a calm after the government shutdown storm, there are reasons to tread carefully.

We're getting caught up with economic data, the Federal Reserve delivered the interest rate cut markets were looking for last month, and investors are ready to hit the ground running after the usual end-of-year lull in activity. Though some of the data we've gotten has looked like an economic all-clear signal, there are reasons to be careful.

This is most evident in the surprisingly low November inflation reading, which was driven by a big deceleration in housing inflation. Looking under the hood, however, shows us the headline reading was probably a headfake. It gets wonky, but it stems from the fact that [Consumer Price Index data wasn't collected in October, so the government had to carry forward prior data on some items](#). And because the CPI relies on rent data over a period of six months, inflation readings through April will be skewed lower too. (And for similar reasons, they will eventually be skewed *higher* a year later due to base effects).

Illustration of Base Effect Impact
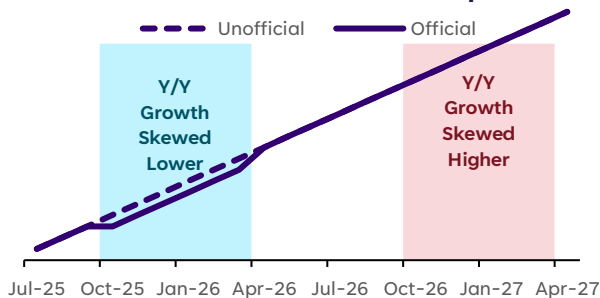
Source: SoFi. The above chart is a hypothetical illustration of the base effect impact.

The Price of Perfection

Despite these statistical mirages, it's important to take stock and acknowledge the sheer magnitude of the run we've just witnessed. The S&P 500 has now logged three consecutive years of returns that are nearly two standard deviations above the long-term historical average.

S&P 500 3-Year Trailing Return
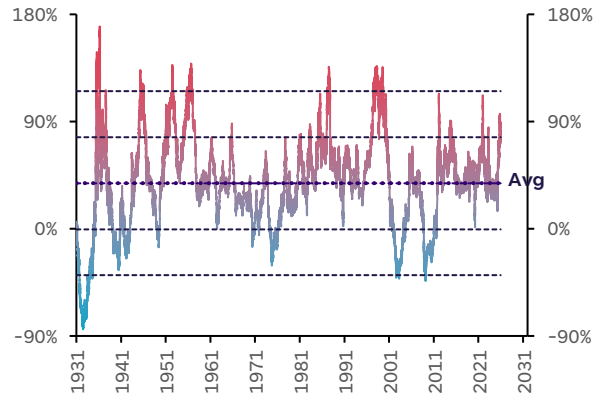
Source: SoFi, Bloomberg. Lines above/below the long-term average represent standard deviations.

While investors who've benefited certainly won't complain about the gains, the market's performance can be seen as pulling forward future returns. And with stock valuation multiples pricing in near-perfection, that leaves little buffer for the disappointment that distorted data might eventually reveal. The same goes for the high expectations attached to artificial intelligence.

History suggests that such extreme deviations rarely sustain themselves without an eventual consolidation phase. This doesn't necessarily imply a crash. After all, we are in a bull market that has largely been driven by AI and the promises of a future radically different from the one we currently occupy — a future that is, at least for now, unfalsifiable.

Though the prudent move isn't to chase a stock market after three years of outlier performance, a return to statistical normalcy might not be in the cards quite yet. Instead, volatility is likely to be the price of admission in 2026, as it's been the last few years.