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Investment Insights Monthly

From the Desk of Bill Hornbarger, Chief Investment Officer

December 2025

The Fed Does It Again

The Federal Open Market Committee (FOMC) lowered rates in December for the third consecutive meeting after standing pat through the first nine months of the year. The overnight federal funds rate has now been reduced by a total of 75 basis points (bps) since mid-September and currently stands at 3.50% (lower bound). The move was made despite the absence of the latest employment and inflation data—casualties of the government shutdown.

One of the challenges the Federal Reserve (Fed) has faced has been the lack of real-time data with which to gauge the impact, necessity and path of interest rate cuts. The latest Consumer Price Index (CPI) data indicates that core inflation is lower than it was in September 2024 (when the Fed began cutting rates in the current cycle), while both the benchmark 10-year Treasury yield and unemployment are higher. The most recent CPI data (from November) was released after the last Fed meeting but shows inflation still above "target" but lower than the previous report.

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The Fed released its updated projection materials at the most recent meeting, and those, coupled with comments from various Fed officials, show that the Fed is not completely unified in the path going forward. The median of the FOMC's projection for 2026 is 3.75%, while futures indicate an implied rate of 3.125%. The range of forecasts from various Fed members was wide with one respondent at 2.125% and multiple observations of 3.875%. That dispersion was also apparent in the voting itself, with nine members voting for the quarter-point cut, one advocating for a larger half-point cut and two members voting for no change. In summary, the outlook for the number of 2026 rate cuts is unclear, with the consensus Fed view at a single quarter-point cut and market participants slightly more dovish pricing in two cuts.

FOMC participants' assessments of appropriate monetary policy:
Midpoint of target range or target level for the federal funds rate
Number of participants with projected midpoint of target range or target level

Midpoint of target range or target level (%)	2025	2026	2027	2028	Longer run
4.00					
3.875	6	3	2	2	1
3.75					1
3.625	12	4	2	2	1
3.50					1
3.375	1	4	3	2	2
3.25					1
3.125		4	6	6	2
3.00					5
2.875		2	3	3	1
2.75				1	1
2.625		1	2	3	3
2.50					
2.375			1		
2.25					
2.125		1			
2.00					

As of November 30, 2025
Source: Board of Governors of the Federal Reserve

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With that as a backdrop, the Fed finds itself in a difficult position. The Fed's dual mandate is to promote maximum employment and stable prices. The Fed's longer-run projection for maximum unemployment is 4.2%, very close to where it currently stands, and the Fed targets 2% core inflation over a market cycle. Core personal consumption expenditures have consistently stayed above that level, and both market and survey-based inflation expectations also indicate the belief of higher levels going forward. At the same time, the employment situation has deteriorated with the rate of change in unemployment consistent with previous soft patches/recessions, while wage pressures have eased. During the third quarter, the Fed shifted the balance of its risk assessment with the implication that it now sees deterioration in the labor market as a larger risk than higher inflation. Compounding the uncertainty is the end of Jerome Powell's tenure as Fed Chair in May and President Trump's desire for lower rates.

Where rates ultimately land will be contingent on several factors, most notably: can the Fed achieve the 2% inflation goal, and how is "neutral" monetary policy defined? In the latest projection materials, the consensus longer-run forecast for federal funds was 3%, which we interpret as the 2% long-run inflation target plus 1%. With inflation expected to be somewhat sticky, we think the risk is that the Fed doesn't lower rates quite as much or as quickly as the consensus forecast unless a new dovish Fed Chair can sway the voting members to cut more aggressively.

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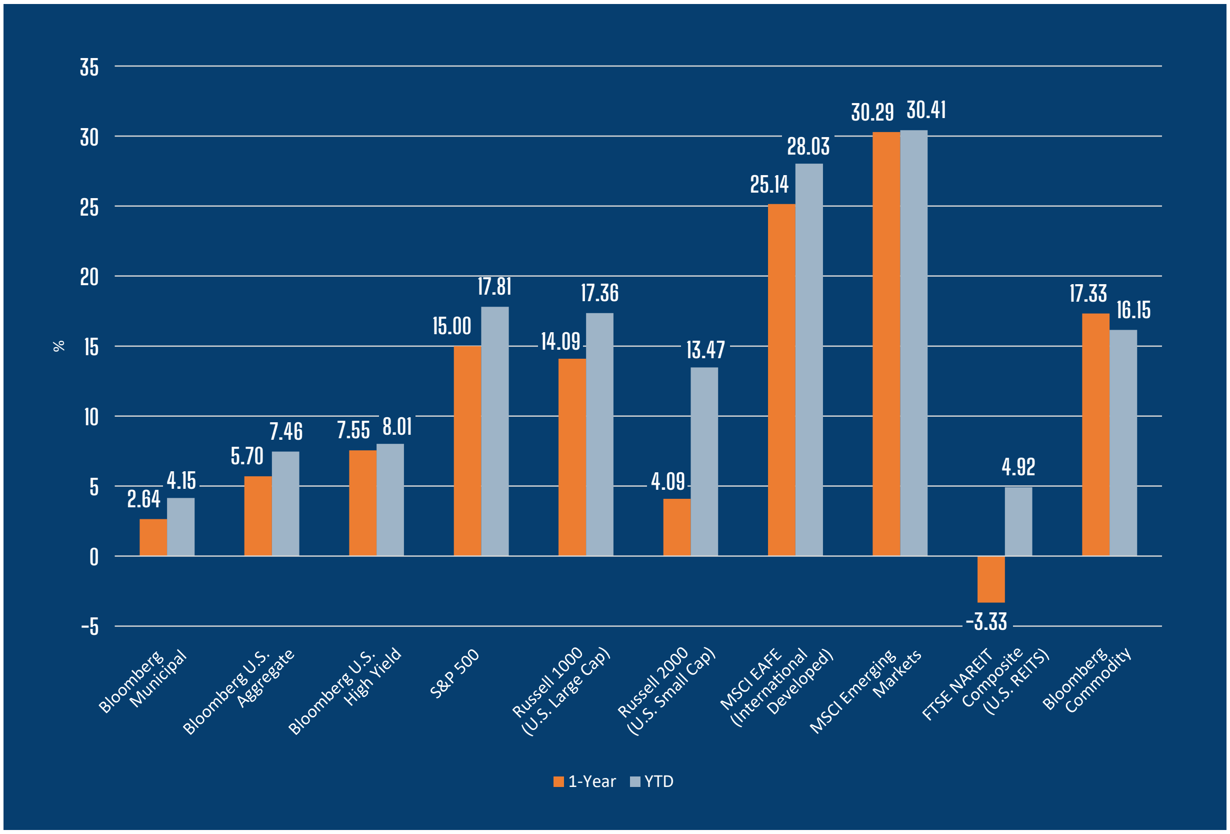
Asset Class Returns

Comparing Recent 1-Year and Year-to-Date Total Returns



As of November 30, 2025
Source: Conway Investment Research

Fixed Income

- Fixed income across the globe benefited from lower interest rates and modest spread tightening in November.
- Core fixed income and municipal bonds gained ground along with all credit sectors that benefited from coupon clipping at higher starting yields.
- Bonds outside the United States saw an added boost from a slightly weaker U.S. dollar during November.

Equities

- U.S. equities eked out small gains last month, led by small caps and value stocks.
- U.S. equities lagged other developed markets outside the United States in November.
- Small caps beat large caps, and value stocks outperformed growth stocks across all market capitalizations.
- Stocks outside the United States posted modest gains with some outsized losses from emerging markets.
- Within Europe, Australasia and Far East (EAFE) markets, small caps beat large caps, and value stocks outpaced growth stocks. Value-driven Europe also outperformed Japan.
- Within emerging markets, most of the weakness stemmed from China and other Asian emerging-market countries. Emerging-market small caps also fell 1.4%.
- The weaker U.S. dollar boosted EAFE returns by 7 bps in November, but U.S. dollar strength versus emerging-market currencies cost emerging-market investors 79 bps.

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November 28, 2025	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
Fixed Income Indices							
Bloomberg U.S. Treasury Bill 1-3 Month	0.30%	0.66%	3.93%	4.34%	4.92%	3.17%	2.14%
Bloomberg Municipal	0.23%	1.47%	4.15%	2.64%	3.94%	0.91%	2.41%
Bloomberg US Govt/Credit Intermediate	0.47%	0.81%	4.98%	5.21%	4.72%	1.92%	2.04%
Bloomberg U.S. Aggregate	0.62%	1.25%	7.46%	5.70%	4.56%	-0.31%	1.99%
Bloomberg U.S. High Yield	0.58%	0.74%	8.01%	7.55%	9.63%	4.78%	6.20%
Bloomberg Global Aggregate	0.23%	-0.02%	7.89%	5.57%	4.08%	-1.94%	1.29%
U.S. Equity Indices							
DJ Industrial Average	0.48%	3.08%	13.88%	8.03%	13.42%	12.12%	12.83%
S&P 500	0.25%	2.59%	17.81%	15.00%	20.57%	15.28%	14.63%
NASDAQ Composite (Price)	-1.51%	3.11%	21.00%	21.58%	26.77%	13.88%	16.42%
Russell 1000	0.24%	2.41%	17.36%	14.09%	20.31%	14.53%	14.38%
Russell 1000 Growth	-1.81%	1.75%	19.30%	20.35%	27.98%	16.51%	18.03%
Russell 1000 Value	2.66%	3.11%	15.13%	7.25%	12.09%	12.01%	10.21%
Russell Mid Cap	1.27%	0.44%	10.90%	3.10%	12.36%	9.73%	10.74%
Russell 2500	1.45%	2.13%	11.81%	3.39%	11.41%	8.83%	9.94%
Russell 2000	0.96%	2.79%	13.47%	4.09%	11.43%	7.99%	9.12%
Russell 2000 Growth	-0.68%	2.53%	14.48%	5.11%	13.54%	5.31%	9.18%
Russell 2000 Value	2.81%	3.07%	12.39%	3.02%	9.17%	10.51%	8.66%
Non-U.S. Equity Indices							
MSCI World	0.31%	2.34%	20.59%	17.48%	19.65%	13.42%	12.45%
MSCI ACWI	0.02%	2.27%	21.56%	18.73%	19.19%	12.49%	11.96%
MSCI ACWI Ex-U.S.	-0.01%	2.03%	29.21%	26.74%	16.51%	8.96%	8.42%
MSCI EAFE	0.64%	1.84%	28.03%	25.14%	16.71%	9.82%	8.25%
MSCI EAFE Growth	-1.46%	0.12%	19.01%	15.74%	12.43%	5.39%	7.53%
MSCI EAFE Value	2.75%	3.55%	37.48%	35.06%	21.10%	14.19%	8.72%
MSCI Europe	1.49%	2.26%	31.12%	27.95%	17.48%	11.15%	8.49%
MSCI Japan	-0.69%	2.68%	24.36%	23.96%	17.86%	7.74%	7.99%
MSCI AC Asia	-2.11%	1.93%	27.66%	27.67%	16.51%	5.99%	8.23%
MSCI EAFE Small Cap	1.23%	0.42%	29.51%	26.57%	15.06%	7.04%	7.78%
MSCI ACWI Ex-U.S. Small Cap	0.79%	1.01%	27.35%	24.68%	15.49%	8.45%	8.39%
MSCI Emerging Markets	-2.38%	1.71%	30.41%	30.29%	15.30%	5.54%	8.30%
MSCI EM Asia	-3.23%	1.55%	29.09%	29.46%	15.97%	4.89%	8.92%
MSCI China	-2.50%	-6.21%	33.04%	36.62%	14.22%	-2.26%	5.70%
MSCI EM Eastern Europe	2.70%	7.91%	66.24%	65.06%	37.07%	-10.53%	-0.82%
MSCI EM Latin America	6.09%	7.09%	53.83%	44.58%	13.45%	11.44%	8.66%
MSCI EM Small Cap	-1.44%	0.82%	18.07%	16.90%	15.28%	10.40%	8.66%
MSCI Frontier Markets	1.04%	1.69%	40.67%	40.95%	19.56%	10.24%	7.77%
Hedge Fund Indices							
IQ Hedge Multi-Strategy	-0.09%	0.75%	8.60%	7.11%	8.62%	4.02%	3.82%
Real Assets Indices							
FTSE NAREIT Composite	2.36%	0.19%	4.92%	-3.33%	5.19%	5.73%	6.06%
Alerian MLP	6.22%	5.50%	11.57%	3.55%	18.74%	27.00%	8.63%
Bloomberg Commodity	3.20%	6.19%	16.15%	17.33%	3.21%	11.79%	5.43%
S&P Global Infrastructure	3.33%	3.05%	23.40%	17.87%	14.04%	11.77%	9.21%
Other							
Oil Price Brent Crude	-2.87%	-5.70%	-14.41%	-12.90%	-9.56%	5.84%	3.54%
CBOE Market Volitility (VIX)	-6.25%	0.43%	-5.76%	21.02%	-7.38%	-4.49%	0.14%

Source: Morningstar

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