

# DECEMBER MARKET UPDATE

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**DID THE SANTA CLAUS  
RALLY DELIVER?**  
UNWRAPPING DECEMBER  
STORYLINES

As of  
**December 31st, 2025**



**American  
National Bank  
& Trust**

## From Reassessment to Resolution: Markets Close the Year with Caution, Confidence, and Clarity

December closed out the year with modest gains across most major asset classes, though equity returns fell short of historical seasonal averages. The S&P 500 gained 0.58% during the month, underperforming its long-term December average of approximately 1.5%. Despite this, the S&P 500 finished 2025 with strong year-to-date gains of 18.12%, while fixed income delivered a solid 7.26% return for the year as measured by the US Aggregate Bond Index.

Investor sentiment remained steady but cautious, reflecting ongoing uncertainty surrounding interest rates, inflation trends, and the durability of economic growth. While markets showed resilience into year end, expectations for monetary policy remained a central driver of asset prices.

## The Big Picture

### Inflation Remains Stubborn

Market participants continue to anticipate a lower policy rate over the next twelve months, though confidence around the timing and magnitude of rate cuts remains limited. Current consensus expectations call for an approximately 55-basis point reduction in the Fed Funds rate, reaching roughly 3.05% by February 2027. Importantly, market-implied expectations remain below the Federal Reserve's own dot-plot projections, underscoring a persistent disconnect between policymakers and investors.

This divergence reflects competing economic signals. Inflation has moderated but remains above the Fed's long-run target, while labor market data continues to show strength alongside emerging signs of cooling. As a result, markets remain sensitive to incoming data and shifts in policy communication.

## What the Economic Data is Telling Us

### Inflation is improving, but still above the Fed's target

Inflation continued its downward trend, with November CPI coming at 2.74%. While this represents meaningful progress, inflation remains above the Federal Reserve's 2.5% target. PCE data tells a similar story, with moderation from earlier highs but levels that continue to challenge the case for aggressive easing.

Progress on inflation has been welcomed, but recent data suggests that inflation may stabilize above target as economic data revisions are released. This dynamic reinforces the Fed's cautious approach heading into early 2026. **(See *Chart Book*)**

### Employment remains strong, with early signs of cooling

Nonfarm payrolls continued to trend higher, signaling ongoing strength in hiring. At the same time, the unemployment rate increased to 4.60%, up from 4.10% one year ago. This combination highlights the complexity of the current labor market environment. **(See *Chart Book*)**

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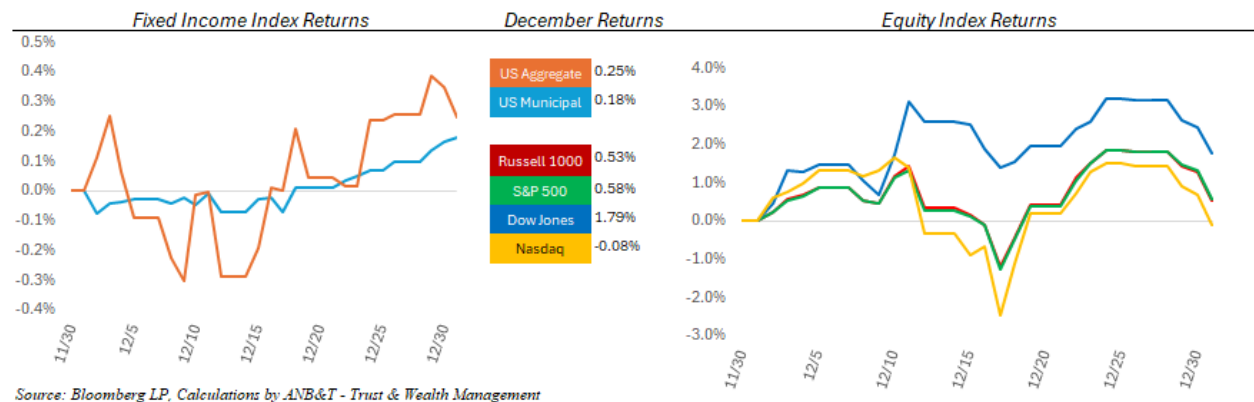
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While robust payroll growth typically supports tighter policy, rising unemployment may indicate emerging macroeconomic softness. This balance complicates the Federal Reserve's dual mandate of maintaining price stability while supporting maximum employment.

## Investors expect two 25-basis point rate cuts in 2026

The Federal Reserve cut short-term interest rates by 25-basis points at their December 10<sup>th</sup> FOMC meeting. This brings the Upper Bound to 3.75% and the Lower Bound to 3.50%. Based on the current market implied probability model, the first rate cut of 2026 is projected to come at the June 2026 meeting with one more cut projected at the September or October 2026 meeting. **(See *Chart Book*)**

## Market Performance in December



### Stock market indices benefited from:

- Continued optimism around earnings resilience despite heightened sensitivity to sentiment shifts
- December earnings results were broadly supportive of valuations, with 69% of Russell 100 companies reporting higher than expected sales and 83% reporting stronger than expected earnings
- Expectations for eventual policy easing, even as uncertainty around timing persisted

Equity markets reached record highs late in the month, which supported optimism but also increased sensitivity to earnings results and macroeconomic developments. Energy and Industrials delivered the strongest results, reinforcing the view that corporate earnings remain more resilient than consensus estimates heading into 2026.

### Bond market indices benefited from:

- Ongoing demand for high quality bonds
- Market environment offering attractive yields relative to recent history
- Risk premium spreads remaining little to unchanged month over month

Volatility remained somewhat elevated but supportive of total returns as yields drifted lower.

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## What We Are Watching and How We Are Positioning

Key Themes Guiding Market Behavior:

- Inflation trends as progress continues toward, but remains above, target
- Labor market strength alongside rising unemployment
- Federal Reserve policy direction and 2026 Fed Chair nomination
- Trade policy developments and fiscal dynamics affecting long-term rates
- The impact of a “split” economy on consumer health

We continue to emphasize:

- **Quality U.S. equities** as the core of long-term appreciation, with particular focus on infrastructure and power companies supporting AI adoption
- **Government and Investment-grade credit** for stability and dependable income
- **Strategic global allocations** to diversify macro and policy risk
- **Liquid alternatives**, including selective exposure to assets such as gold, to enhance portfolio responsiveness

Our approach balances growth opportunities with defensive positioning, allowing portfolios to remain resilient amid shifting policy expectations and evolving economic conditions.

## Final Thoughts

December capped a strong year for both equity and fixed income markets, even as short-term performance lagged seasonal norms. While uncertainty around inflation, interest rates, and policy remains elevated, economic resilience and constructive earnings trends continue to support the long-term outlook.

Our investment approach balances opportunity with discipline. We seek to blend value and growth investments across stocks and seek relative value in the bond market. As we begin 2026, occasional volatility is likely – yet these periods can create opportunities to capture relative value and attractive yields, rebalancing portfolios at favorable levels. Even with strong earnings and easing interest rates, the government shutdown has continued to delay the distribution of important data. This has created some uncertainty in the markets, but we believe a disciplined and diversified investment approach is well positioned for the path ahead.

**Thank you for your continued trust in American National Bank & Trust for your financial needs.**

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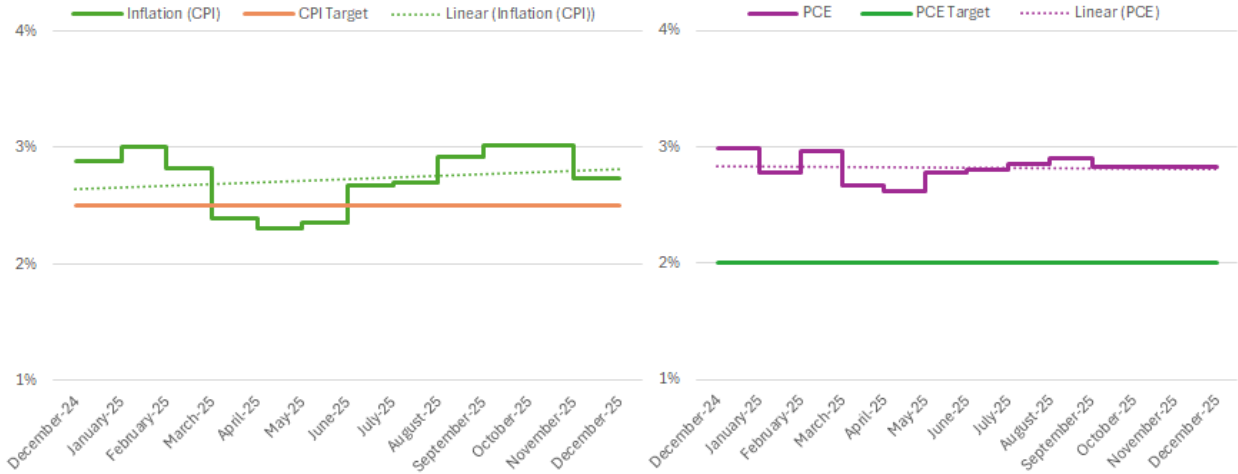
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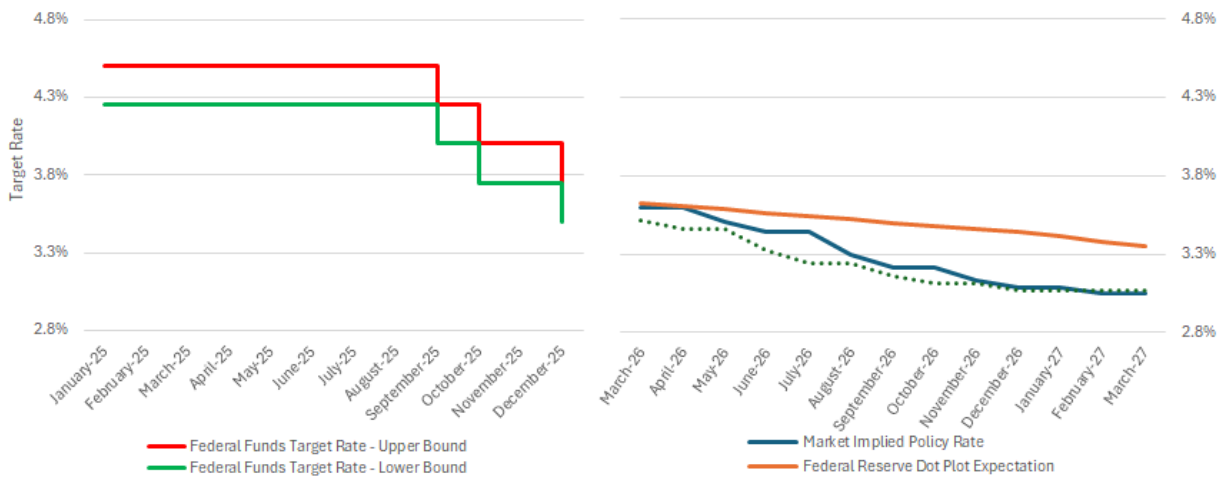
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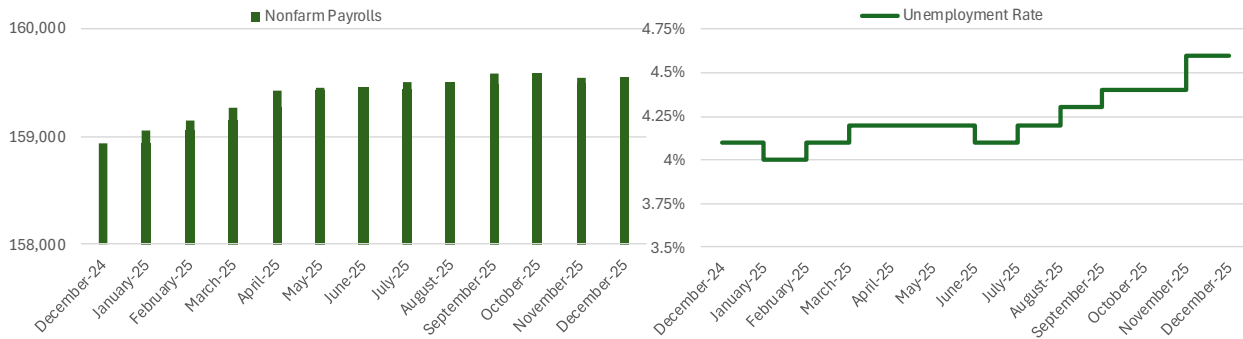
## Chart Book



Source: Bloomberg LP, Calculations by ANB&T - Trust & Wealth Management



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