Dimensional

PERSPECTIVES

Market Review 2025: US Stocks Ride Rocky Road to a Third Straight Year of Gains

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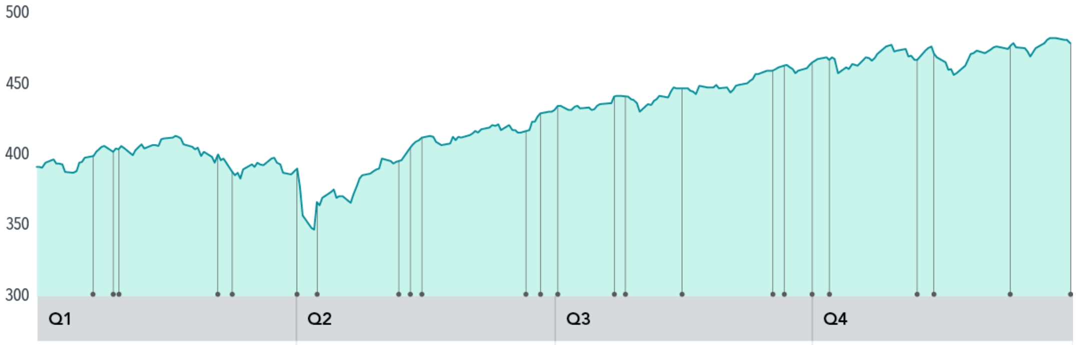
KEY TAKEAWAYS

- US stocks continued climbing in 2025, with the S&P 500 gaining almost 18%, while international stocks soared nearly 32%.
- The Fed reduced interest rates by 0.75 percentage points even as it coped with stubborn inflation, citing labor market worries.
- Value lagged growth in the US, but international small value was among the best-performing asset classes of the year.

US stocks notched their third year in a row of double-digit gains, but it wasn't the smoothest ride. The S&P 500 hit records in the winter that were followed by a spring swoon. After powering past that to new highs in the fall, the markets cooled a bit along with the temperatures.[1] Still, the S&P 500 was up 17.9% for the year and closed near record levels.[2] The climb came despite tariff uncertainty, interest rate changes, and concerns about the durability of AI's gains—not to mention the longest government shutdown in US history.[3] Global stocks rose (see **Exhibit 1**), with returns in developed international and emerging markets better than those in the US. In the bond market, US Treasuries were higher for the year, and the benchmark 10-year yield fell to just above 4%.[4]

Please see the end of this document for important disclosures.

Exhibit 1
Uphill Climb
MSCI All Country World Index (net) in 2025



Q1		Q2		Q3		Q4	
1/20/25	"Trump Sworn In, Declares New 'Golden Age' for America"	4/2/25	"Trump Unveils Sweeping Tariffs in Stark Shift in US Trade Policy"	7/3/25	"President Trump's Megabill Passes House Vote"	10/1/25	"Government Shutdown Begins as Funding Lapses"
1/27/25	"Tech Stocks Sink in Broad AI Rout Sparked by China's DeepSeek"	4/9/25	"Stocks Stage Furious Rally as Trump Pauses Some Tariffs"	7/23/25	"US and Japan Reach Trade Deal"	10/7/25	"Gold Prices Top $4,000 for First Time"
1/29/25	"Fed Stands Pat on Rates, Entering New Wait-and-See Phase"	5/8/25	"US and UK Unveil Framework for Trade Deal"	7/27/25	"Trump and EU Reach Tariff Deal, Avoiding Trade War"	11/7/25	"Nasdaq Has Its Worst Week Since April"
3/5/25	"Stocks Extend Tumble as Trump's Tariffs Spark Retaliation"	5/12/25	"Stocks Soar on Temporary US-China Tariff Rollback"	8/16/25	"Trump-Putin Summit Ends Without Breakthrough"	11/13/25	"Trump Signs Spending Bill, Ending Longest Shutdown in US History"
3/10/25	"Tech Shares Lead Stock Slide as Recession Talk Roils Markets"	5/16/25	"US Loses Last Triple-A Credit Rating"	9/17/25	"Fed Cuts Rates by Quarter Point and Signals More Are Likely"	12/10/25	"Fed Cuts Rates Again, Signals It May Be Done for Now"
		6/22/25	"Massive US Strikes Target Iranian Nuclear Sites"	9/22/25	"A Deal Between AI Powers Lifts Stock Market to a Record"	12/31/25	"Stock Markets Close Out a Record-Setting Year"
		6/27/25	"Historic Rebound Sends S&P 500 to New Highs"				

Past performance is not a guarantee of future results.

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Technology companies were below earlier highs at year's end, but the tech-heavy Nasdaq still advanced 20.9% in 2025. Just months after reaching $4 trillion, NVIDIA became the first public company to reach a market capitalization of $5 trillion, though it wouldn't hold that level. The headline names associated with artificial intelligence have been strong performers in recent years.[5] But diversified equity portfolios don't need to chase a few big names to have exposure to AI—the technology touches many types of businesses. Broad diversification can help investors avoid missing out on these winners, wherever they show up.

The US Federal Reserve cut the federal-funds rate by a quarter point three times, in September, October, and December, to a range between 3.5% to 3.75%, the lowest level in three years.[6] In its December statement, the Fed cited labor-market worries as it lowered rates while also noting rising inflation and that not all members supported the rate decrease. But while investors may worry about the impact of Fed rate changes, market interest rates and the federal-funds rate don't always move as one—the 10-year

Treasury yield, for example, hasn't always gone in the same direction as the fed-funds rate.

Market fluctuations coincided with trade talks throughout the year, most notably with the global tariff announcement from the US in April, after which stocks took a downward turn. But as tariffs were delayed and talks progressed—and with the US reaching a number of trade deals—the market rebounded.[7] Still, questions remained about tariffs elsewhere. In a high-stakes case, the Supreme Court appeared skeptical about the legality of tariffs but has yet to rule on whether any recently imposed levies can remain in place.[8] Adding to uncertainty late in the year, the government shut down in October and November for 43 days. But markets continued to post gains, as they often have during extended closures. Congress reached a deal in mid-November to reopen the government, but only through the end of January.[9]

LOOKING ABROAD

In a departure from recent years, developed international stocks fared better than their US counterparts. The MSCI World ex USA Index gained 31.9%, outpacing the S&P 500 by the widest margin since 1993 and serving as a reminder of the potential benefits of an internationally diversified portfolio. Emerging markets fared even better than developed markets, with the MSCI Emerging Markets Index rising 33.6%. Global equities, as measured by the MSCI All Country World Index, rose 22.3% for the year.[10]

Developed market international stocks outdid their US counterparts by the widest margin since 1993.

Likewise, investors who targeted value stocks outside the US were rewarded; however, value lagged growth in the US. Large caps outperformed small caps in the US and globally, but international small value was among the best-performing asset classes of the year. Longer term, US small value has been one of the best-performing asset classes since 2000. That has included a period of strong performance for the large cap S&P 500: Over the past 10 years, it returned 14.8% annually. That's a notable deviation from large caps' long-term average, whereas the returns of small caps have been more in line with their historical performance over that same period. Elsewhere, high profitability stocks were outpaced by low profitability stocks in global developed markets in 2025, while the opposite was true in emerging markets.[11]

In the bond market, US Treasuries returned 6.3%, sending the yield on the benchmark 10-year Treasury down to 4.18%.[12] The broader bond market also posted gains during the year, with the Bloomberg US Aggregate Bond Index up 7.3%, its best annual return since 2020. The Bloomberg Global Aggregate Bond Index (hedged to USD)—a broad benchmark of sovereign and corporate debt—rose 4.9% for the year.[13]

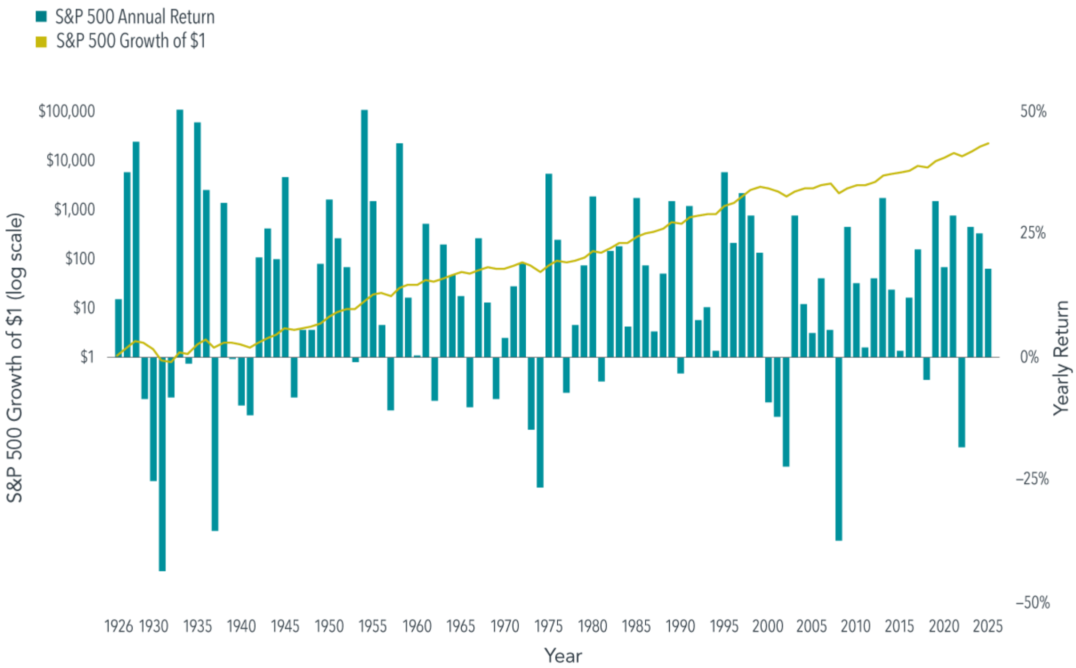
Investors showed increased appetite for gold in 2025, pushing prices up more than 50% to above $4,000 per ounce for the first time.[14] Some market participants view gold as a hedge during economic downturns or against inflation. But since 1970, gold has often experienced large price swings relative to annual inflation. Over the same period, gold prices showed little relation to fluctuations in the US GDP. Whether gold was up or down doesn't appear connected to what was happening in the economy. Since markets tend to reflect expectations for the economy in advance, it's not clear holding gold provides additional protection against adverse economic developments.

MIND OVER MATTERS

A better way to cope with market volatility may be to simply pay less attention. Just this past year, if you had gone to sleep on April Fools' Day and checked your investment portfolio a month later, you might have assumed the market had been relatively calm. But for investors who spent the month tracking daily returns, the experience likely felt more disruptive. April 2025 turned out to be one of the most volatile months in recent history, as market participants were processing new information about tariffs and trying to make sense of what the developments might mean for businesses, investors, and the global economy.

The same thinking can guide investors' approach over longer time periods—especially when looking at data across many years or even decades. With reliable stock data stretching back to 1926, we are, as of this year, now able to consider a full century of stock returns. Doing so gives further credence to the merits of focusing on the long run. A short-term view of yearly gains and losses shows what may appear as wild swings in the market, as seen in **Exhibit 2**, but a long-term view reveals a fairly steady growth of wealth over the 100-year period.

Exhibit 2
Two Views of Markets
S&P 500, Growth of Wealth vs. Annual Returns, January 1, 1926–December 31, 2025



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It is natural to want to stay informed about what's going on in the world. And when markets are volatile, it may be hard to resist the urge to do something. But doing nothing can be a fine course of action. Thinking about investments over the long term might ease the urge to make hasty asset allocation changes. An investor who stayed the course over the long term—riding out the ups and downs of economic shocks, wars, and other crises—would have seen exponential gains in their investment. Declines can be painful in the moment, but markets have shown resilience throughout history. Last year was another example: Investors who stayed in their seats were in a great position to be rewarded.

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Dimensional's Takes on Industry Topics in 2025

The Informed Investor: Five of Our Favorite Episodes from 2025

A Look Back at 2025's Stock Market Predictions

When the Crystal Ball Is a Little Cloudy

1. Joe Rennison, "Late Rally Pushes Stocks Back Near Record High," *The New York Times*, November 28, 2025.

2. S&P data © 2025 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio; Ben Levisohn, "S&P 500 Hits a Rare Christmas Eve Record," *Barron's*, December 24, 2025.

3. Martin Baccardax, "One Earnings Report Can't Erase the Stock Market's AI Bubble Concerns," *Barron's*, November 20, 2025; Rachel Treisman, "The Government Shutdown Is Now the Longest in US History. See How It Compares," NPR, November 5, 2025.

4. Returns are based on the Bloomberg US Treasury Bond Index as of December 31. Bloomberg data is provided by Bloomberg Finance LP. Source for US Treasuries: US Department of the Treasury.

5. Cade Metz, "The AI Boom Has Found Another Gear. Why Can't People Shake Their Worries?" *The New York Times*, November 20, 2025.

6. The federal-funds rate is the overnight interest rate at which one depository institution (like a bank) lends to another institution some of its funds that are held at the Federal Reserve. Source: "Federal Reserve Issues FOMC Statement," US Federal Reserve, December 10, 2025.

7. Chao Deng and Drew An-Pham, "What to Know About Trump's Latest Tariffs," *The Wall Street Journal*, October 30, 2025.

8. Lawrence Hurley, "Supreme Court Appears Skeptical of Trump's Tariff Argument," NBC News, November 5, 2025.

9. Kaia Hubbard and Caitlin Yilek, "Government Shutdown Now Over as Federal Agencies Reopen and Employees Return to Work," CBS News, November 13, 2025.

10. MSCI data © MSCI 2025, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

11. The MSCI World ex USA Value Index gained 42.2%, while the MSCI World ex USA Growth Index rose 21.9% as of December 31, 2025; the Russell 3000 Value Index added 15.7%, while the Russell 3000 Growth Index rose 18.2%; the Russell 2000 Index added 12.8%, while the Russell 1000 Index gained 17.4%; the MSCI All Country World Small Cap Index advanced 19.7%, while the larger cap MSCI All Country World Index rose 22.3%; the MSCI World ex USA Small Value Index was up 38.6% as of December 31, 2025; the Fama/French Developed High Profitability Index rose 19.3% versus 30.0% for its low profitability counterpart as of December 31, 2025; the Fama/French Emerging Markets High Profitability Index rose 32.6%, and its low profitability counterpart rose 20.8% as of December 31, 2025. **Past performance is no guarantee of future results. Actual returns may be lower.** The Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. See "Index Descriptions" in the Appendix for descriptions of the Fama/French index data.

12. "Daily Treasury Par Yield Curve Rates," US Department of the Treasury. Data as of December 31, 2025.

13. Bloomberg data provided by Bloomberg Finance LP. Data as of December 31, 2025.

14. Spencer Kimball, "Gold Price Reaches $4,000 an Ounce for the First Time Ever," CNBC, October 7, 2025.

APPENDIX

Index Descriptions

Results shown during periods prior to each index's inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

Fama/French Developed High Profitability Index: Provided by Fama/French from Bloomberg data. Includes stocks in the upper 30% operating profitability (OP) range in each region; companies weighted by float-adjusted market cap. Rebalanced annually in

June. OP for June of year *t* is annual revenues minus cost of goods sold; interest expense; and selling, general, and administrative expenses, divided by book equity for the last fiscal year-end in *t* – 1.

Fama/French Emerging Markets High Profitability Index: July 1991–present: Fama/French Emerging Markets High Profitability Index. Courtesy of Fama/French from Bloomberg and IFC securities data. Includes stocks in the upper 30% operating profitability range in each country; companies weighted by float-adjusted market cap; rebalanced annually in June. OP for June of year *t* is annual revenues minus cost of goods sold; interest expense; and selling, general, and administrative expenses, divided by book equity for the last fiscal year-end in *t* – 1.

Fama/French Total US Market Research Index: July 1926–present: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: Ken French website.

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