

# Monthly Download

## December 2025

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### Summary

- ◆ **Markets delivered** mixed results in December, with muted performance from the U.S. while international markets led performance to finish off a strong 2025. Despite a Federal Reserve rate cut in December, easing inflation, and stronger than expected Q3 GDP growth, markets failed to produce the traditional “Santa Claus rally”. Cyclical sectors led gains, while defensive sectors lagged. Treasury yields moved higher, and credit spreads remained tight, reflecting expectations for a slower pace of rate cuts in 2026 amid a constructive macro backdrop characterized by robust economic data, lower interest rates, and a stable labor market.

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### By Summit Trail Investment Team

David Romhilt, CFA  
Seth Katz  
Ben Johnson, CFA  
Michelle Zeng, CFA  
Chris Hopkins, CAIA  
Charu Lahiri, CFA  
Isabelle Kane  
Kevin Dawson, CFA  
Louis Filippelli  
Ryan Gell, CFA  
Tobit Powell  
Darryl Frank  
Blake Peters

### Market Overview

- ◆ **Equity markets** delivered modest positive performance in December as non-US markets posted stronger performance while U.S. equities lagged. Cyclical sectors outperformed defensive sectors across both Large Cap and Small Cap, though smaller cap stocks underperformed their large cap counterparts in the US. European markets rallied to close a stellar year with Financials and Mining leading the gains. Emerging Markets advanced on strength from South Korea and Taiwan.
  - US Large Cap stocks (S&P 500) ended December with a small gain of 0.1%. Cyclical sectors such as Financials, Materials, and Industrials led performance, while defensive sectors including Utilities and Healthcare struggled. Technology and Communication Services also underperformed as concerns persisted regarding the durability of AI-related investment cycles and financing structures. The equal-weight S&P 500 index outperformed, rising 0.5% for the month, benefiting from its lower exposure to the “Magnificent Seven” stocks. For the full year, the S&P 500 returned 17.9%.
  - US Small Cap stocks (Russell 2000) fell 0.6%. Gains from Financials, Materials and Communication Services were more than offset by weakness in Healthcare and Technology. Year 2025 gains closed at 12.8%.
  - Non-US stocks (MSCI EAFE Net) were up 3.0% for the month with strong contribution from Europe and the United Kingdom. Financials stocks, especially banks and the Materials sector were among the leading drivers of performance. Year 2025 was the best performance for the index since 2009 at 31.9%.
  - Emerging Markets (MSCI Emerging Markets Net) rose 3.0% as well, driven primarily by strength in technology names such as Samsung, SK Hynix and TSMC. Robust demand for digital memory, coupled with limited production capacity, pushed these stocks higher. Emerging markets won the global equity performance race for 2025 at 34.4%.
- ◆ **Interest rates** moved higher across the yield curve in December, with modest curve steepening. The 10-Year US Treasury yield increased from 4.02% at the start of the month to 4.17% at month-end, while the 2s-10s yield spread widened by 11 basis points. This shift reflects market expectations for a slower pace of Federal Reserve rate cuts in the near term, supported by stronger macroeconomic data. U.S. real GDP expanded at an annualized rate of 4.3% in Q3 and the unemployment rate rose only slightly, remaining near historically low levels. For the full year, interest rates had a meaningful decline that supported fixed income performance, with the 10-Year yield starting at 4.57% to begin the year.

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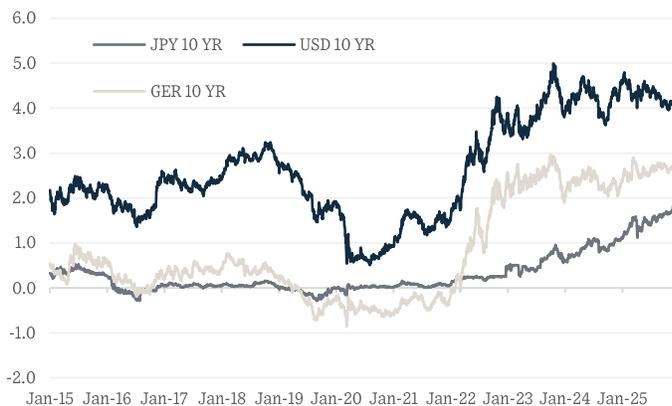
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- High Grade Taxable bonds (Bloomberg US Aggregate) were down 0.2% as modestly higher yields weighed on longer duration bonds and credit spreads were marginally tighter. Year 2025 gains finished at 7.3%.
  - Municipal bonds (Bloomberg 1-10 Year Muni Bond) added 0.3%, with stable yields supported by slower issuance and steady demand. Municipal bonds returned 5.0% for 2025.
  - Corporate credit delivered mixed results. Investment Grade bonds (Bloomberg US Corporate Investment Grade) were down 0.2% for the month, pressured by rising yields, while High Yield bonds (Bloomberg US Corporate High Yield) rose 0.6%, driven by higher coupon income. For the full year, Investment Grade Bonds returned 7.8% and High Yield bonds gained 8.6%.
- ◆ **Commodities** (Bloomberg Commodity Index) declined 0.3% in December, driven primarily by weakness in Energy while strength in precious metals and industrial metals failed to fully offset losses in the energy complex. Gold extended its multi-month rally but was outshined by silver, which surged 24% in December amid heightened uncertainty over potential U.S. tariffs, social media rumors, and strong industrial demand. Copper climbed 10%, supported by growing demand linked to AI and concerns over tightening supply. In contrast, WTI crude oil declined 1.7% amid weaker supply/demand dynamics. Year 2025 brought strong commodity performance overall at 15.8%.
- Bitcoin futures (which are not part of the Commodity index) fell 4% in December, ending the year in negative territory and well off recent price highs.

### Economic Commentary

**The Bank of Japan (“BOJ”) raised its policy rate target to 0.75% in December, its highest level in 30 years.** The hike stands in contrast with other major economies such as the U.S. and Eurozone which are either cutting or maintaining current policy levels after a rapid series of hikes between 2022 and 2024. In Japan, the recent rise in inflation has finally ended decades of persistent deflation, marking a significant shift in the country’s economic trajectory. Economic growth, wages and inflation are all finally pointing to a sustained reflation cycle. The Nikkei 225 index has reached an all-time high and nominal GDP expanded by 4.1% in 2025 based on Q3 annualized data. The BOJ’s action signals confidence in Japan’s economic strength and their December meeting summary showed that there could be more possible hikes to come in 2026.

Japanese 10-Year Government bond (JGB) yields rose from 1.81% to 2.07% in December, well above increases in other major government bond yields. Continued rate hikes in Japan could have meaningful impacts for U.S. markets. Japan remains the largest foreign US Government debt holder, accounting for about 12.4%<sup>1</sup> at the end of 2024 and foreign investors collectively hold roughly 30% of publicly held US federal debt. After a recent decade of zero negative interest rates in JGBs, Japanese savers may begin repatriating funds onshore, which could create less demand for US bonds. After the BOJ announcement, US Treasury yields moved slightly upward in tandem with JGBs. Japan remains



US, Japan, German Government Bond 10- Year Yields  
Source: Bloomberg

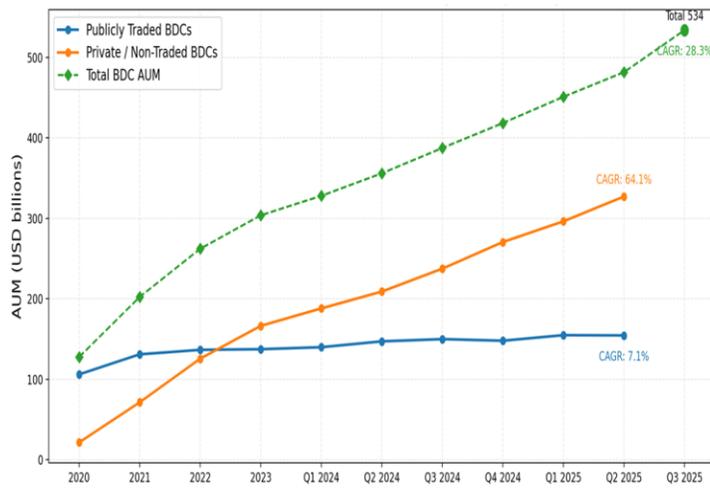
<sup>1</sup> Source: Congress.gov

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one of our preferred economies for 2026, especially for US investors given growth, the sector makeup of Japanese stock indexes, valuations, and likely JPY vs. USD currency appreciation.

**BDCs (Business Development Companies)** have experienced significant growth over the last five years as private credit gained prominence and goes mainstream. Established under the Investment Company Act of 1940 in 1980, BDCs are designed to provide capital to small and mid-sized companies that often lack access to traditional bank financing. Following the Financial Crisis in 2008, banks pulled back from middle-market lending, creating an opportunity for BDCs and other sources of private capital to fill the gap as major asset managers entered the space. Total assets under management (“AUM”) for BDCs expanded from \$127b in 2020 to over \$534b by Q3 2025 becoming a major player in the \$2 trillion private credit market. While private BDCs

grew far faster in assets over the period, publicly traded BDCs remain the primary access point for retail investors seeking exposure to private credit. However, a combination of lower interest rates, credit quality concerns and investor demand for liquidity has driven publicly traded BDCs to trade at significant discounts to their Net Asset Value (“NAV”) with some private BDCs suspending redemptions. Historically, publicly traded BDCs have exhibited volatility during risk-off events such as Covid-19



**BDC AUM Growth: Public vs Private (2020 - Q3 2025)**  
Source: Houlihan Lockey BDC Monitor

or 2025’s Liberation Day, as their shares trade like equities despite the underlying investments being primarily private loans with limited secondary markets. The current discount to NAV reflects heightened concerns about credit quality following credit events including First Brands Group and Tricolor in Q3, raising questions about whether BDCs can sustain the double-digit returns that investors have come to expect amid anticipated rate cuts in 2026. This underperformance contrasts sharply with equity markets reaching new highs and traditional high-yield bonds returning over 8% for the year. The Cliffwater BDC index, which tracks 41 direct lending-oriented, exchange-traded BDCs, declined 4.1% in 2025, the worst year of relative performance of BDCs to the S&P 500 since 2020. One structural challenge for publicly traded BDCs is the liquidity mismatch of their underlying loans to their shares trading in the open market. When illiquid assets are packaged into liquid products, heavy selling by holders can cause trading prices to diverge sharply from NAV, even if the underlying assets are relatively unimpaired. Although several large private credit managers have emphasized that the recent defaults are isolated events, investor concerns persist. Default rates remained low in BDCs but Payment In Kind (“PIK”) interest, a mechanism allowing borrowers to defer cash interest payments and effectively accrue income, accounts for roughly 8% of current interest, up from 3% in 2019, according to publication Private Debt Investors. Elevated PIK levels can signal liquidity stress among borrowers and may impair a BDC’s ability to pay cash dividends. Given substantial growth in less liquid investments for retail clients, BDC performance is a reminder that more access to investment products may not always equate to better outcomes for those investors over the long term.

**Silver’s parabolic rise** captured significant investor attention in December. The spot price surged 27% during the month, far outpacing gold’s 2% increase, and silver returned 148% for 2025. Remarkably, a troy ounce of silver now exceeds the price of a barrel of crude oil, a rare occurrence seen only a handful of times in the past five decades. On a

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relative basis, the silver-to-oil ratio has reached its most extreme levels since 1979<sup>2</sup>. While silver rallied alongside gold amid expectations for interest rate cuts and concerns over fiscal deficits and inflation, “the devil’s metal” rapid ascent was driven by additional factors. Industrial demand for silver, used in electric vehicles, solar panels, and defense applications, has consistently outstripped supply since 2021. Speculation around potential U.S. tariffs on silver imports earlier this year prompted a shift of physical holdings into vaults linked to the Comex Commodities Exchange, contributing to October’s price spike when Indian holiday demand coincided with low inventories in London’s commodity exchange. During Diwali, traditionally a gold-buying season, elevated gold prices redirected demand toward silver as a more affordable

alternative. In November, silver was officially added to the US Geological Survey’s critical minerals list, reflecting its strategic importance. The U.S. imports roughly 66% of its silver consumption. With addition to the list, the Department of Commerce’s ongoing investigation on critical minerals according to Section 232 initiated in April 2025, could result in significantly higher tariffs on silver imports<sup>3</sup>. Anticipation of this decision, expected in January 2026, has fueled inventory hoarding and speculative

activities. Exchange-traded funds (ETFs) tracking physical silver saw massive inflows in 2025, adding 150 million ounces according to Bloomberg, nearing the record levels of 2021 during the short-lived “silver squeeze”. Silver’s rally significantly outpaced Gold since November, amplified by thinner liquidity compared to Gold which has contributed to heightened volatility and sharp price swings. It also appears there is a coordinated effort on social media to move the silver price higher. Numerous posts on X and Reddit are referring to legitimate, semi-legitimate, and completely made-up factors with specific urgency on timing that should make the price of silver go higher. There are numerous fundamental factors that do support precious metals in the current environment, but we would encourage silver social media speculators to pull up the threads on AMC, GameStop and Beyond Meat to see what happens when you stick around too long in a market frenzy driven by social media.



Gold and Silver Returns YTD 2025

Source: Bloomberg

### Important information

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<sup>2</sup> Nour Al Ali, *Macro Markets & Squawk*, London

<sup>3</sup> Section 232 of the Trade Expansion Act of 1962 grants the U.S. President authority to impose trade restrictions on imports deemed a threat to national security.

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