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Quarterly markets review - Q4 2025

A look back at global equity and bond markets in the fourth quarter of 2025, as many markets posted strong returns for the year and showed signs of broadening beyond a narrow group of technology stocks.

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The quarter in summary

Global markets posted steady gains during the fourth quarter of 2025, with several equity indices finishing the year near record or multi-year highs and capping a strong period for risk assets overall. For the first time in several years, non-US equities significantly outperformed the US market for the full year. A number of factors drove that break from American market dominance, including a weaker US dollar, attractive valuations outside the US and a rotation by some investors away

from US technology stocks. All these trends contributed to strong gains in Europe, Asia and emerging markets.

Overall, equity markets were also supported by solid earnings growth, easing inflationary pressures and expectations that major central banks—led by the US Federal Reserve (Fed)—would continue to lower interest rates in 2026.

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Global equities

Over the fourth quarter of 2025, global equity markets delivered modest but steady gains. That left major indices near cycle—and, in many cases, at all-time—highs. The MSCI World Index (comprising 23 developed market countries) returned 21%, in US dollar terms, for the full year. Global markets overall outperformed US equities, with a broad-based advance across regions. Some year-end profit-taking damped momentum late in the quarter, but investor sentiment remained broadly positive. Solid aggregate earnings growth supported that optimism, along with the continued enthusiasm for companies benefitting from the capabilities of artificial intelligence (AI).

Throughout 2025, performance leadership remained heavily concentrated in technology and other growth-oriented sectors, but there were signs late in the year of market broadening, particularly in value-tilted and international markets where cheaper valuations and improving fundamentals attracted investor interest. Expectations that the Fed and other major central banks could deliver further, albeit moderate, policy easing in 2026 helped sustain investors' risk appetite and provided a supportive backdrop for equities as the year drew to a close.

US

Over the fourth quarter of 2025, US equities registered a gain, even amid the longest government shutdown on record and rising job cuts. That quarterly gain helped the market to deliver a double-digit return for the third straight year. Even after the steep selloff in April, following the Trump Administration's tariff announcements, the S&P 500 Index posted a nearly 18% increase for the year. The market did fail to deliver a "Santa Claus" rally as it experienced some volatility at year-end, but that seemed to stem mostly from investors' profit-taking and not a decline in underlying fundamentals.

Market leadership during the quarter remained concentrated in the communication services and technology sectors, but there were some signs of market broadening. Several cyclical and defensive sectors—including industrials, financials, healthcare and utilities—posted strong, double-digit gains for the year.

Two members of the “Magnificent 7” delivered stellar returns for the year as Google (Alphabet) rose by 65% and Nvidia increased by more than 39%. The other four tech stocks in that group [Apple, Amazon, Meta (Facebook), and Microsoft] did not outperform the broader market, however. That may suggest that AI enthusiasm alone may no longer be driving returns for the technology sector.

The market reacted positively to the interest rate-cutting cycle the Fed continued in December, with indications that more cuts could be coming in 2026, especially if inflation continues to fall. The market also responded favorably to signs that the Trump Administration remains flexible with its imposition of tariffs. The new stance stands in stark contrast to the harsh line taken on “Liberation Day” in April.

Still, amid all the positive sentiment, investors remain concerned about the high valuations of technology stocks, and some also continue to question the durability and scope of the market’s AI-driven gains.

Eurozone

Eurozone shares delivered positive performance during the fourth quarter of 2025. Markets showing resilience through year-end, and major benchmarks finished the period near multi-year highs, supported by broad-based equity strength across the region. With the MSCI EMU Index delivering a more than 40% annual return in US dollar terms, Eurozone shares also significantly outperformed US stocks. Investor confidence was bolstered by the continued Fed rate cuts, which helped ease global financial conditions and reduce risks for European assets. Financials performed particularly well, benefiting from lower interest rates that improved lending prospects and asset quality, while the relatively stable cash flows and dependable dividends of healthcare and utilities stocks attracted interest from more cautious investors. At the same time, enthusiasm for growth and technology stocks waned somewhat amid concerns about elevated valuations and sector-specific risks.

Economic conditions across the eurozone remained mixed. Manufacturing activity, especially in Germany, continued to contract, and that negatively affected export-focused sectors. Services activity stayed strong, however, and that helped overall business activity expand modestly. Employment trends were generally stable, with hiring remaining strong in services even as the manufacturing jobs market softened. Inflation pressures eased, and the European Central Bank (ECB) kept policy rates unchanged in December, while vowing to maintain a careful watch on growth and price trends. The ECB's December 2025 projections revised the real GDP growth forecast for the eurozone to 1.4% for the full year 2025, up from its previous estimate of 1.2%. This improved outlook, coupled with resilient labor markets and slowly recovering bank lending, boosted investor confidence.

UK

UK equities performed well during the fourth quarter of 2025, building on gains earlier in the year and ending 2025 at close to multi-year highs. Performance was led by large, internationally focused companies, particularly in financials, mining, defence and other commodity-linked sectors. These areas benefited from strong

global demand, elevated commodity prices, and a slightly weaker pound. In contrast, companies more exposed to the domestic UK economy lagged, as consumer spending remained under pressure and cost challenges persisted.

The full year proved to be one of the strongest for UK equities in more than a decade. The FTSE All-Share Index rose by 33%, in US dollar terms, with prices supported by global earnings exposure, attractive valuations relative to US markets, and steady demand for dividend-paying stocks. Despite ongoing concerns about UK economic growth, the market benefited from its international makeup and from investors seeking opportunities outside the US.

Japan

The Japanese equity market extended its rally, with the TOPIX Total Return rising 8.8% and the Nikkei 225 up 12.0%, in local currency terms, during the fourth quarter of 2025. Globally, expectations of strong growth in generative AI and defence spending supported related stocks and broader sentiment. Domestically, Sanae Takaichi's election as prime minister and the formation of a coalition government between the Liberal Democratic Party (LDP) and the Japan Innovation Party (JIP) were interpreted as signs of greater political stability and more proactive fiscal stimulus.

The Bank of Japan raised rates in December and signalled possible further hikes in 2026. That added to optimism about domestic growth and supported share prices. Toward the end of the quarter, mounting valuation concerns increased volatility in AI and defence-related names and the wider market.

While aggregate valuations now sit near the high end of historical ranges, a solid trend in corporate earnings and ongoing governance reforms—confirmed by first-half fiscal year 2025 results released during the period—helped underpin the broader market.

Emerging markets

Over the fourth quarter of 2025, emerging market (EM) equities generated positive returns and the EM index outperformed the MSCI World Index, driven by gains from the technology-oriented markets of Korea and Taiwan. The EM index's returns came against a backdrop of loosening US monetary policy as the Fed lowered interest rates three times between September and December.

Korea was the best-performing market in the EM index for the quarter, driven by strong demand for AI memory technology and industrials, as well as a new trade agreement with the US that involves tariff reductions and major direct investment. The Chilean index market was up strongly over the quarter, supported by strength in commodity prices. South Africa also posted double-digit returns in US dollar terms, helped primarily by rising precious metals prices but also by an interest rate cut in November and a medium-term budget statement that was well-received by the market.

Taiwan's outperformance was driven by sustained investor appetite for technology stocks throughout the quarter, particularly those related to the artificial intelligence theme. The Brazil index market finished ahead of the broader EM index, despite a mixed macro backdrop and political uncertainty ahead of the 2026 presidential election. Mexico outperformed, too. The Indian index market performed broadly in line with the EM index as improving macro data indicators and an interest rate cut proved supportive.

China declined in US dollar terms. Having performed well for much of 2025, the final quarter of the year saw the market give back some gains as investors took profits. Softer macro data and heightened concerns about ongoing weakness in the property market, particularly following the near default in December of the country's largest property developers, weighed on the market at the end of the year. Saudi Arabia posted the biggest losses in US dollar terms over the quarter.

Asia ex Japan

The MSCI AC Asia ex-Japan Index gained 4.3% in the fourth quarter of 2025 in US dollar terms. For the entire year of 2025, the index saw a substantial gain of 32%. Performance during the quarter continued to be anchored by technology- and AI-related themes, particularly in North Asia, where markets with significant exposure to semiconductors, hardware and data-centre infrastructure benefited from sustained end-demand. South Korea was a standout contributor, supported by its heavy concentration in globally competitive chipmakers, while performance across Chinese and broader regional technology stocks was more mixed but remained influential in shaping overall sentiment.

Several Southeast Asian markets, including Indonesia, Malaysia and the Philippines, posted solid gains on the basis of resilient domestic demand and improving local economic conditions, while Thailand and Singapore delivered more muted returns amid softer external demand and ongoing trade-related uncertainty. India also advanced during the quarter, supported by favorable domestic growth dynamics, policy continuity, and a market structure less reliant on a narrow group of highly valued megacap technology stocks.

The macroeconomic environment remained a more mixed story. In China, targeted stimulus measures aimed at industrial upgrading and green sectors provided selective support despite persistent challenges in property and household demand.

December closed the quarter on a positive note, with a year-end risk rally lifting most regional markets despite thin holiday trading. That reinforced investors' appetite for Asia ex-Japan equities heading into 2026 even as concerns about policy, growth and valuation risks remain.

Global bonds

There was marked divergence across global government bond markets during the final quarter of 2025. Despite volatility, UK gilts were the notable outperformer. November's Budget was well received by markets, as the government announced a larger-than-expected fiscal headroom and a smaller-than-expected gilt remit for the year. That assuaged fiscal concerns. The Bank of England, following a dovish hold, cut the base rate by 25 basis points at its December meeting in what was a close (5-4) vote.

Returns were more muted in US Treasuries. The yield curve steepened, with yields rising in longer maturities, but falling in the shorter, interest-rate-sensitive part of the curve. The Federal Open Market Committee cut interest rates by 25 basis points when they met in October and again in December, taking the federal funds rate to 3.5-3.75%. Following the reopening of the US government, delayed labour market data suggested a moderation—but not a collapse—in labour demand, with the low-hire, low-fire trend continuing.

In contrast, Japanese government bonds experienced a significant selloff, with yields rising to multi-decade highs. Sanae Takaichi became prime minister in October and later announced a 21.3-trillion-yen fiscal stimulus package. The sheer size of the package raised investors' concerns over Japan's already substantial debt burden at a time when interest rates are rising. The Bank of Japan delivered a 25-basis-point rate hike in December, taking the policy rate to 0.75%.

There was some divergence across eurozone markets, where peripheral markets, particularly Italy, outperformed. German yields rose across the curve as the European Central Bank (ECB) upgraded its forecasts for growth and core inflation. Interest rates were left on hold, as expected.

Total returns were positive across investment-grade credit markets. After initially widening on concerns about US regional bank exposures to non-bank financial institutions (NBFI), US credit spreads later compressed on improved market sentiment, leaving excess returns over government bonds flat over the period. Euro- and sterling-denominated investment grade outperformed government bonds.

Commodities

Precious metals were the clear standout performers across the commodities complex in 2025. Gold rose by more than 60% for the year, while silver posted gains exceeding 140%. Both metals are considered "safe-haven" assets and benefited from investors' concerns about ongoing geopolitical uncertainty, a weaker US dollar, moderating but still elevated global inflation, and expectations of slower global growth. Silver's price gains were also driven by a tight supply of the metal and its critical role in the production of solar energy technologies, electric vehicles, and AI-related infrastructure such as data centres.

Industrial metals also had strong performance. Copper climbed to record highs and closed out a landmark year, supported by persistent supply constraints, a softer US dollar, and rising demand linked to electrification, grid investment and data-centre expansion, particularly in China. Lithium likewise ended the year higher, reflecting continued growth in battery storage and electric vehicle demand.

In contrast, energy markets underperformed. Oil prices declined steadily through the year, with West Texas Intermediate crude ending 2025 at \$57 per barrel. That represented a nearly 20% drop for the year, the sharpest annual decline in oil prices since 2020. The weakness reflected a combination of global oversupply, expanding production from both OPEC and non-OPEC producers, and softer demand growth amid slowing economic momentum.

Digital assets

The fourth quarter of 2025 opened with record October inflows into crypto exchange-traded products (ETPs) and ended with the asset class nursing one of its most volatile quarters of the cycle. November saw further stress as global crypto ETPs registered about US\$3.0 billion of net outflows and basis/funding compressed across majors, reinforcing a defensive tone. By year-end, Bitcoin was set to post its first annual decline since 2022, trading about US\$87,000 on 31 December, after peaking above US\$126,000 in early October, with volatility elevated relative to earlier in the year.

Overview

Total returns (net) % – to the end of December 2025

Equities	3 months			12 months		
	USD	EUR	GBP	USD	EUR	GBP
MSCI World	3.1	3.2	3.2	21.1	6.8	12.8
MSCI World Value	3.3	3.4	3.4	20.8	6.5	12.5
MSCI World Growth	2.8	2.8	2.9	21.1	6.8	12.8
MSCI World Smaller Companies	2.8	2.9	2.9	19.9	5.7	11.6
MSCI Emerging Markets	4.7	4.8	4.8	33.6	17.8	24.4
MSCI AC Asia ex-Japan	4.3	4.3	4.4	32.3	16.6	23.2
S&P 500	2.7	2.7	2.8	17.9	3.9	9.8
MSCI EMU	5.1	5.1	5.2	40.3	23.7	30.6
FTSE Europe ex UK	6.4	6.4	6.5	37.4	21.1	27.9
FTSE All-Share	6.3	6.3	6.4	33.2	17.4	24.0
TOPIX*	2.5	2.6	2.6	25.8	10.9	17.1

	3 months			12 months		
	USD	EUR	GBP	USD	EUR	GBP
Government bonds						
JPM GBI US All Mats	0.9	1.0	1.0	6.2	-6.3	-1.1
JPM GBI UK All Mats	3.1	3.1	3.2	12.8	-0.6	5.0
JPM GBI Japan All Mats**	-7.9	-7.8	-7.8	-6.0	-17.1	-12.5
JPM GBI Germany All Traded	-0.5	-0.4	-0.4	12.0	-1.3	4.2
Corporate bonds						
BofA ML Global Broad Market Corporate	0.6	0.7	0.7	10.3	-2.7	2.7
BofA ML US Corporate Master	0.8	0.8	0.9	7.8	-5.0	0.4
BofA ML EMU Corporate ex T1 (5-10Y)	0.1	0.1	0.2	16.9	3.1	8.9
BofA ML £ <u>Non-Gilts</u>	2.4	2.5	2.5	14.7	1.1	6.8
Non-investment grade bonds						
BofA ML Global High Yield	1.2	1.2	1.2	10.8	-2.3	3.2
BofA ML Euro High Yield	0.5	0.6	0.6	19.0	4.9	10.8

Source: LSEG DataStream. Local currency returns in Q4 2025: *8.8%, **-2.2%. Past performance is not a guide to future performance and may not be repeated.



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