

Investment Narrative

Quarter Ending December 31, 2025



The fourth quarter reflected continued progress toward a more stable environment in the United States. Inflation continued to move closer to the Federal Reserve's long-term target, though price changes remained uneven across households. Costs declined in areas such as energy and vehicles, while housing and food prices remained elevated. With inflation showing improvement, the Federal Reserve expressed confidence in the economy's direction and implemented a larger-than-expected interest rate cut, which markets viewed as a signal that policy was beginning to shift away from restriction.

U.S. financial markets responded positively to signs that inflation was easing, and interest rates were moving lower. Equities posted another quarter of gains, though U.S. stocks lagged international and emerging markets as valuations remained elevated following several strong years of performance. Market leadership broadened during the quarter, with investors rotating away from the largest growth-oriented stocks and toward smaller companies and economically sensitive areas of the market. These include businesses whose performance is more closely tied to overall economic activity, such as industrial companies, financial institutions, and consumer-oriented businesses that tend to benefit when borrowing costs decline and confidence improves. In fixed income markets, falling short-term interest rates supported bond prices and helped reinforce bonds' role as a stabilizing component of diversified portfolios. These developments were reflected in the U.S. stock market performance of 2.7% for the quarter and 17.9% for the calendar year (tracked by the S&P 500), and the U.S. bond market performance of 1.1% for the quarter and 7.3% for the calendar year (tracked by the Bloomberg U.S. Aggregate).

Internationally, economic conditions remained mixed. Growth slowed across many developed economies, but declining inflation allowed central banks, particularly in Europe, to begin cutting interest rates. Emerging markets showed stronger momentum, supported by solid year-over-year growth and improving investor sentiment. A late-quarter rebound in China, along with contributions from markets such as India and Taiwan, supported emerging market performance. While the U.S. dollar remained strong during much of the year, expectations for continued U.S. rate cuts increased the relative appeal of international equities, which outperformed U.S. markets during the quarter. The strong performance in international markets was reflected in the Developed ex-U.S. market fourth quarter performance of 4.9% and calendar year performance of 31.2% (tracked by the MSCI EAFE), as well as the Emerging Markets quarter performance of 4.7% and calendar year performance of 33.6% (tracked by the MSCI Emerging Markets).

Endowment Portfolio

The Endowment Portfolio capitalized on a stabilizing economic and market environment in the fourth quarter, resulting in a 2.6% net return against a benchmark return of 2.2%. For the full calendar year, the portfolio produced a 13.5% net return, in line with its benchmark. The main driver of performance was continued strength in public equities, specifically international equities. Attribution from other asset classes in the quarter was neutral and ranged from slightly negative to slightly positive for the full year, which resulted in performance in line with the benchmark.

Long-Term Portfolio

The Long-Term Portfolio had a 3.1% net return for the quarter, outpacing its benchmark by 0.4%. Performance for the full calendar year was very strong, producing a 16.8% net return. Performance results were supported by the portfolio's higher allocation to public equities, which were largely bolstered by strong performance in international equities. Allocations to fixed income and real assets were also additive to performance for the calendar year.

Medium-Term Portfolio

The Medium-Term Portfolio had a 2.0% net return for the quarter and an 11.3% net return for the calendar year, outpacing its benchmark by 0.2% and 0.4%, respectively. Although the portfolio has a smaller allocation to public equities, it was still able to capture another period of strong equity performance. The portfolio also benefited from meaningful performance in its fixed income allocation, which makes up a majority of the portfolio.

Intermediate-Term Portfolio

The Intermediate-Term Portfolio had a 1.2% net return for the quarter, matching its benchmark, and a 7.6% net return for the calendar year, outpacing its benchmark by 1.0%. Though solely allocated to fixed income, the portfolio still produced a strong return for the calendar year resulting from manager selection and a stabilizing fixed income environment with persistent, elevated interest rates.

Short-Term Portfolio

The Short-Term Portfolio had a 1.0% net return for the quarter and a 4.2% net return for the calendar year. The portfolio continued to benefit from elevated interest rates. Should the Federal Reserve continue to cut rates, returns are likely to revert within a range of the portfolio's long-term average.

Sustainable Endowment and Non-Endowment Portfolios

The Sustainable Endowment and Non-Endowment Portfolios had a 2.5% net return for the quarter and a 15.4% net return for the calendar year. Across both periods, the portfolios performed in line with their benchmarks, which is expected given their allocations to passive equity strategies. Following a similar theme as our other equity portfolios, these portfolios benefitted from continued strength in equity markets, especially international equity markets.