4Q 2024 Market Summary

Markets were volatile during the last quarter of 2024 as investors reacted to President-elect Trump's election victory along with evolving interest rate expectations. Despite this added volatility, markets capped off a robust year and impressive two-year run. Looking forward, markets should be supported by strong economic conditions, but high valuations should dampen expectations somewhat. In this environment, maintaining an appropriate asset allocation is paramount to meeting your financial goals.

US markets reacted positively immediately following Trump's early November election victory, as stocks began pricing in campaign promises such as lower corporate tax rates and deregulation. This rally mostly reversed in December as the prospect of higher-for-longer interest rates began setting in.

The Federal Reserve cut its key Fed Funds rate by 25 basis points in both November and December, but then hinted during its December meeting towards a potential ending of its rate-cutting cycle, sooner than some expected. In total, the Fed Funds rate has been reduced by 100 basis points, to a range of 4.25%-4.50% since the rate cutting cycle began in September.

While the Fed cut rates in the very front-end of the maturity spectrum, longer-term rates increased sharply. For example, 10-year Treasury yields jumped 80 basis points during the quarter to end the year just under 4.6%.

As we look to 2025 and beyond, we continue to expect equities to provide long-term capital investing and for prudent bond investing to preserve capital while generating income. However, investors should manage expectations in the near-term given the rapid growth in markets over the past two years resulting in stretched valuations in some areas.

The S&P 500 Index currently trades at 21.7 times forward earnings, a valuation level that historically has led to lower returns going forward. And while rising bond yields provide opportunities for income-seeking investors, the recent jump in intermediate- and longer-term rates suggests ongoing uncertainty around where interest rates may ultimately settle.

Given a wide range of outcomes, we believe the core principles around asset allocation and diversification can help you to participate in market upside while still managing risks to meet your near- and long-term financial goals.

Equities

The S&P 500 Index rose 2.4% during the fourth quarter of 2024, resulting in a 25.0% return for the full year, following a 26.3% return in 2023. The largest companies continue to drive most of the performance for the S&P 500, counting for more than half of the index's annual return. An equal-weighted version of the index fell 1.9% during the fourth quarter and rose only 13.0% for the full year.

Growth stocks drove almost of all the return during the quarter, as the Russell 1000 Growth Index rose 7.1%, while the Russell 1000 Value Index fell 2.0%. Mid-sized and small-capitalization companies also squeaked out modest quarterly gains of 0.6% and 0.3%, respectively.

A strong US dollar wreaked havoc on international markets during the quarter, with the MSCI EAFE Index down 8.1% during the quarter in US dollars, but down only 0.6% in local currency. For the full year, the MSCI EAFE rose a modest 3.8%. Emerging markets similarly plunged 8% in US dollar terms in the quarter and finished the year with a 7.5% gain. When looking globally, the MSCI ACWI Index—which incorporates large cap stocks in the US developed foreign markets, and emerging markets together—returned 17.5% in 2024. The US makes up 67% of this benchmark's total value.

Fixed Income

Bonds struggled during the quarter due to volatility in interest rates. The Bloomberg US Aggregate Bond Index fell 3.1% during the quarter, wiping out all but 1.3% of the index's return for the full year. Shorter-term bonds held their value better than longer-maturity bonds due to their lower interest rate sensitivity, and the Bloomberg 1-3 Year Treasury Index returned 4.0% for the year.

Below investment grade, or high yield bonds, fared better during the rising rate environment due to strong underlying economic conditions. The Bloomberg US Corporate High Yield benchmark generated a 0.2% return for the quarter and posted a respectable 8.2% return for the full year.

Commodities

Gold prices fell 0.8% during the quarter but still posted an impressive 26.1% return for all of 2024. Oil prices nudged up a little during the quarter to $72 per barrel. Overall, the Bloomberg Commodity Index fell slightly during the quarter but returned 5.4%

during all of 2024.

Important Information:

The Bloomberg Commodity Index is a broadly diversified commodity price index distributed by Bloomberg Index Services Limited.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The Bloomberg US Government/Credit 1-3 Year Index is an unmanaged index considered representative of performance of short-term US corporate bonds and US government bonds with maturities from one to three years.

The Bloomberg US High Yield Corporate Bond Index is a rules-based, market-value-weighted index engineered to measure publicly issued non-investment grade USD fixed-rate, taxable and corporate bonds.

The Core Personal Consumption Price Index measures the changes in the price of goods and services purchased by consumers for the purpose of consumption, excluding food and energy.

The LBMA Gold Price Index is the global benchmark for unallocated gold and silver delivered in London.

The Morningstar US Semiconductor Index measures the performance of companies that operate in the semiconductors industry in the US. This Index does not incorporate Environmental, Social, or Governance (ESG) criteria.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

The MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries

The MSCI Emerging Markets Index is an index designed to measure equity market performance in global emerging markets.

The Russell 1000 Growth Index is a broadly diversified index predominantly made up of growth stocks of large US companies.

The Russell 1000 Value Index is a broadly diversified index predominantly made up of value stocks of large US companies.

The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.

The Russell Midcap Index is a market capitalization-weighted index comprised of 800 publicly traded U.S. companies with market caps of between $2 and $10 billion.

The Standard & Poor's 500 Index, often abbreviated as S&P 500, is an American stock exchange market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.

The S&P 500 Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The S&P 500 Energy Index comprises those companies included in the S&P 500 that are classified as members of the GICS energy sector.

The S&P 500 Momentum Index is designed to measure the performance of securities in the S&P 500 universe that exhibit persistence in their relative performance.

The West Texas Intermediate (WTI) oil, also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.