



QUARTERLY INVESTMENT REVIEW & OUTLOOK– Q4 2024

Q4 was full of action, not the least of which was the long-awaited election. Markets responded positively to the GOP sweep and there were hopes for a Santa Claus rally, but the Fed came bearing gifts of coal at their December meeting, causing stocks to decline from their highs. Sticky inflation caused bond yields to rise, while geopolitical tensions remained elevated.

- **Equities:** Stocks were mixed, as a strong rally in November was followed by a softer December. Stocks retreated after the December Fed announcement to pause rate cuts, resulting in about a 3% decline that day and a shift back to growth outperformance over value for Q4. U.S. stocks (S&P 500 +2.4% in Q4) continued dominance over international (-8.1% for developed and -8.0% for emerging in Q4). Despite this volatility, equity markets finished the year with strong positive returns as large caps (S&P 500 +25.0%) led the way. Of note, there was continued narrow market performance with only 28% of stocks beating the index after only 27% beat the prior year. This marked the second narrowest year since the extreme market concentration of 1998 and 1999 (the tech bubble burst in 2000), however that period saw significant broadening out over the following years. Still, the influence of the Magnificent 7 on the S&P 500 Index remains high (over 30% weight of the index) – the highest concentration ever recorded. The S&P 500 trades at a forward P/E of 22x, which is 35% above the historical average, and 2025 earnings growth expectations are high (+16%). As such, we may see elevated volatility as we enter year three of the bull market.
- **Fixed Income:** The Fed continued cutting rates after a 50 basis-points cut in September was followed by 25 basis-points cuts in November and December. The Treasury yield curve shifted from inversion to flattening with longer rates trending higher (10-year rose from 3.8% to 4.6% while the 2-year rose from 3.7% to 4.3%), although the short end remained relatively constant (6-month declined from 4.4% to 4.2%). At its December meeting, the Fed showed renewed concerns about inflation and indicated a slower path of cuts going forward. The markets responded with expectations of higher rates for longer and rising longer rates. With rates rising, bond values declined (-3.1% in Q4) after a strong Q3 and finished the year with a modest return (+1.3%). As such, balancing between bonds of longer duration with those of shorter duration (“barbelling”) continues to be an appealing strategy. Credit spreads (i.e. incremental rewards for accepting lower credit quality) remain historically tight, so the emphasis on higher quality over lower quality appears to remain prudent.
- **Economy:** There has been rising interest in the implications of government deficits. In the US, the federal deficit is projected to rise from 6.5% of GDP in 2025 to 7.0% by 2035



under current policies. Under the new administration's proposed policies, this could rise to 9.6%. Spending policies will be evaluated closely by the bond vigilantes. While the US economy continues to exhibit mixed data, the trend seems to be toward continued growth, including anticipated double-digit corporate earnings growth through 2026. The ISM Manufacturing PMI (49.3) increased in December, beating consensus but showing contraction for the 25th time in the past 26 months. The ISM Services PMI (54.1) showed solid growth (beating consensus) and the Labor Market finished 2024 on a strong note with more jobs, lower unemployment, and solid wage growth. US GDP growth expectations are currently at 2.2% with Leading Economic Indicators no longer signaling an impending recession, supporting views of a soft landing. Inflation has generally moderated with Core PCE stabilizing around 2.8%. That said, CPI has trended higher from 2.4% in September to 2.7% in November and 2.9% in December (although core CPI was slightly below consensus for December). With inflation still above the Fed's 2% target, there are renewed concerns that the Fed may not be able to continue cutting and might be forced to reverse course. As such, a balanced view and positioning continues to be prudent.

2024 PERFORMANCE – BENCHMARK INDEXES

Index	Quarter	YTD	5 Yr Ann	10 Yr Ann	15 Yr Ann
<i>S&P 500 (US large cap stocks)</i>	+2.4%	+25.0%	+14.5%	+13.1%	+13.9%
<i>S&P 400 (US mid cap stocks)</i>	+0.3%	+13.9%	+10.3%	+9.7%	+11.9%
<i>Russell 2000 (US small cap stocks)</i>	+0.3%	+11.5%	+7.4%	+7.8%	+10.3%
<i>MSCI EAFE (devel int'l large cap) - US\$</i>	-8.1%	+3.8%	+4.7%	+5.2%	+5.2%
<i>MSCI EM (emerging mkts int'l) - US\$</i>	-8.0%	+7.5%	+1.7%	+3.6%	+3.0%
<i>Bloomberg US Aggregate (US bonds)</i>	-3.1%	+1.3%	-0.3%	+1.4%	+2.4%

Data as of 12/31/24. Returns represent total returns (dividends & capital appreciation/depreciation). Past performance is NOT predictive of future performance.