Market Commentary – Fourth Quarter of 2024

U.S. Stocks continued a bullish run in 2024, with the S&P 500 and Nasdaq making record highs. However, the quarter ended with a series of declines as investors opted for some profit taking. The top three performing sectors for the year were Communication Services, Financials, and Consumer Discretionary. The worst performing sectors for the year were Materials, Healthcare, and Real Estate.

The table below shows fourth quarter and year-to-date returns as of 12/31/2024 (percentages are for total returns):

Time Period	Dow Jones Industrial Average	S&P 500 Index	Nasdaq Composite	Barclays U.S. Aggregate Bond
Fourth Quarter	0.9%	2.4%	6.3%	-3.1%
Year of 2024	15.0%	25.0%	29.6%	1.3%

2024 in Review

The fourth quarter ended a year of notable growth and volatility. Investors had a lot to celebrate in 2024, growth in the equity markets was driven by optimism centered around Artificial Intelligence (AI), anticipated federal reserve rate cuts, and deregulatory policy with the incoming president in early 2025. Inflation fell to normal rates, GDP growth was strong, and corporate profits grew. The S&P wrapped up its two best consecutive years since 1997 and 1998. It is important to note that equity valuations are high, corporate profits are expected to grow to 15% in 2025 compared to 9.5% in 2024. Valuations are especially high in the Magnificent Seven stocks. These seven stocks accounted for 55% of the returns. If these seven stocks were excluded from the S&P 500, the return would have been only 10%, compared to the 25% which was achieved in the S&P 500. As we have mentioned in past commentary, such concentration in a few stocks is a rise for concern, but we do expect the market to continue to broaden. We continue to invest in stocks with healthy balance sheets, strong earnings, positive cash flow, and low debt. We will focus on more defensive sectors in 2025 as a hedge against market uncertainty should we see troubling times ahead.

The Economy and Current Trends

This year was a very impressive year for the economy, consumers continued spending. As a result of lower inflation and the softer job market the Federal Reserve (the FED) cut interest rates by 100 basis points or 1 percentage point. In 2025, a more gradual path of rate cutting is expected but will depend on incoming economic data. At the end of the year, mortgage application rates dropped nearly 22% to end 2024, as a result from an uptick in borrowing rates. The corporate bond market rallied in 2024 fueled by strong economic activity and solid corporate earnings growth. After going up strongly this year as of last quarter, the fourth quarter experienced a modest pullback as it was no longer expected that the Fed would be as aggressive in cutting interest rates. Interest rates remain favorable in the 4-5% range which has helped savers and investors earn a good return to beat inflation.

2025 Outlook

We are cautiously optimistic about 2025. Uncertainties are at an all-time high with a newly elected administration in place and the potential shifting of economic policy. Inflation should continue its downward trend but will ultimately depend on policy change. Housing and auto insurance prices should normalize, which will put more money in consumers' pockets, but inflation is still high in the services sector. However, aggressive tariffs could lead to higher inflation, reduced economic output, and a lower standard of living. Job growth is healthy but could be negatively impacted by stricter immigration policies, which would lead to corporations forced to pay higher wages to workers. All this uncertainty could lead to periods of volatility in the markets throughout 2025.

We thank you for your ongoing confidence and trust. We look forward to connecting with you soon via a live meeting, voice, or video call.