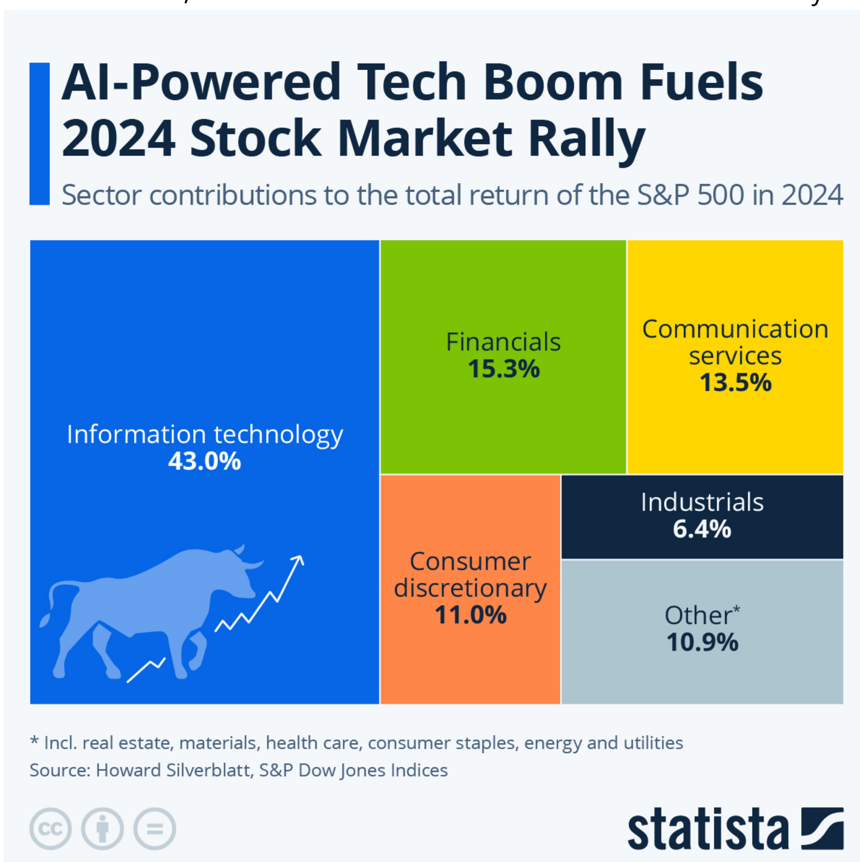
# Fourth Quarter 2024 Market Commentary

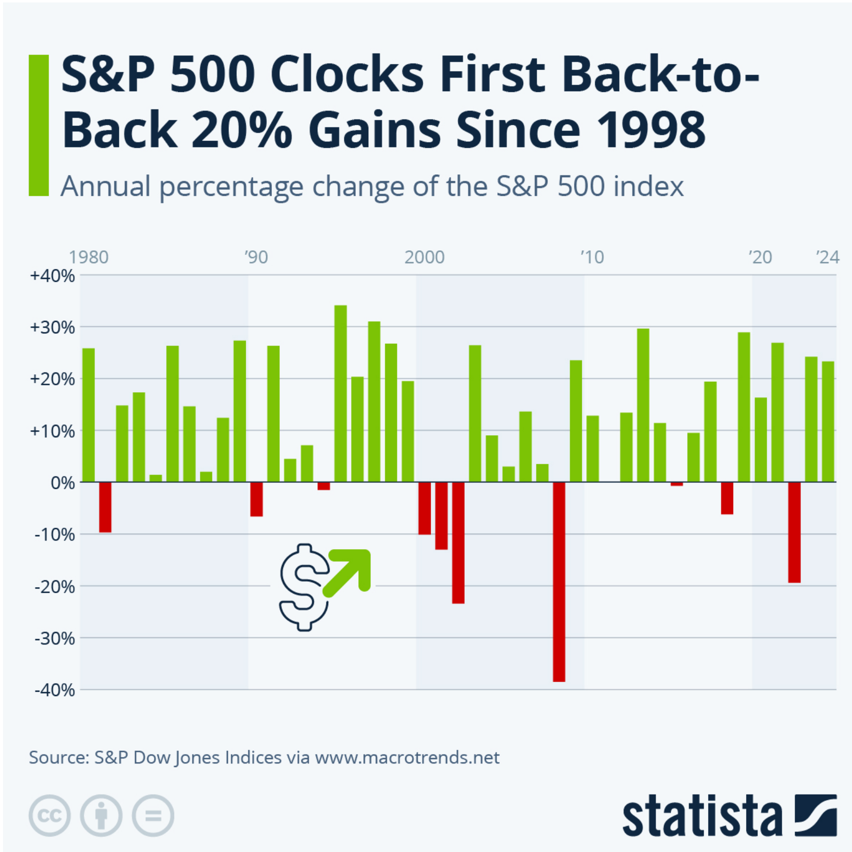
Despite election uncertainty and economic discontent caused by persistent price inflation, the US stock market reached new highs in 2024. And again, the so-called "Magnificent Seven" – Apple, Amazon, Microsoft, Meta, Alphabet, Tesla and Nvidia – were the main drivers behind the rally, as they accounted for more than half of the S&P 500's 23% return for the year. Driven by the ongoing AI investment cycle, Nvidia alone saw its share price surge 171%, contributing more than 20% to the market capitalization-weighted index's full-year return.

"Tech" stocks were responsible for over half of the S&P 500's total return in 2024. Excluding IT and communication services, the index would have returned about 11% last year.




Source: Statista

Last year marked the fourth year of 20%-plus gains out of the past six years for the benchmark index. But such exceptional returns shouldn't be considered typical. To wit, 2023 and 2024 were the first back-to-back years where the S&P 500 gained more than 20% in over two decades.

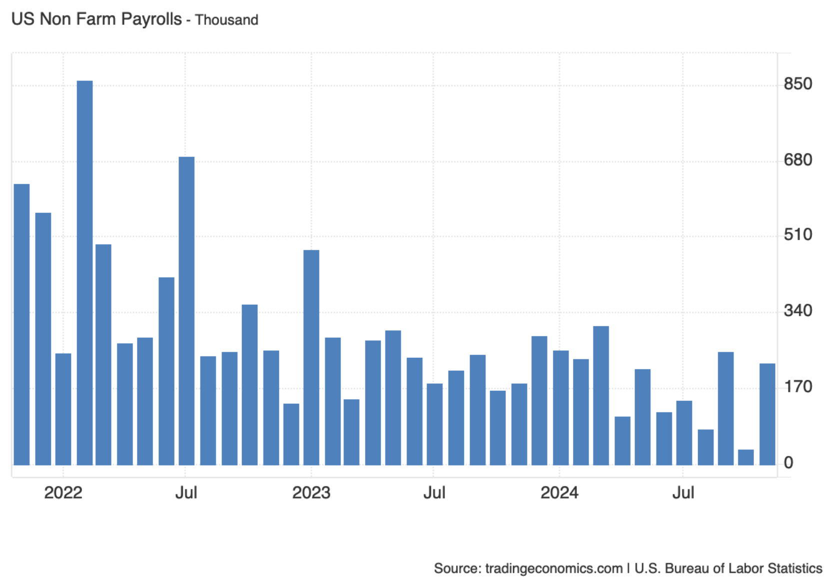



Source: [Statista]

## The Economy

The US economy added 227,000 jobs in November 2024, a strong rebound from the (upwardly revised) 36,000 gain in October, which was heavily influenced by Boeing strikes and the disruptions caused by Hurricanes Helene and Milton. The November figure was better than the market's expectation of 200,000.

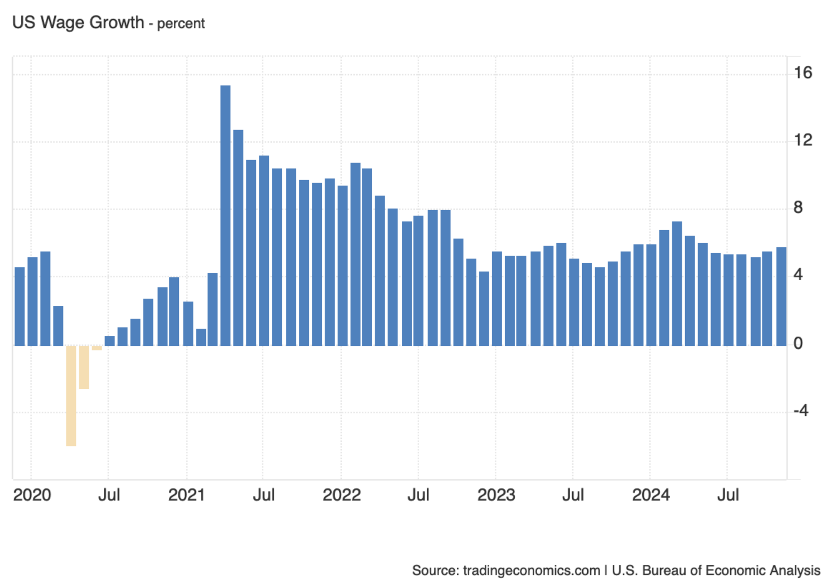
The chart below shows jobs added per month over the past three years.




Source: [Trading Economics]

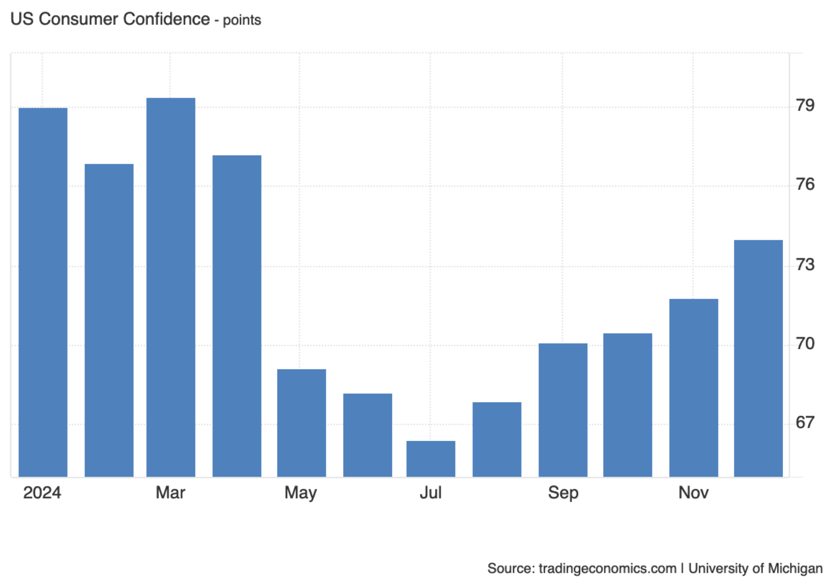
Annual wage growth in the US was 5.8% in November 2024. Wage growth has been outpacing inflation for some time, meaning real wages have been rising.

The chart below shows annualized wage growth by month over the past five years.




Source: [Trading Economics]

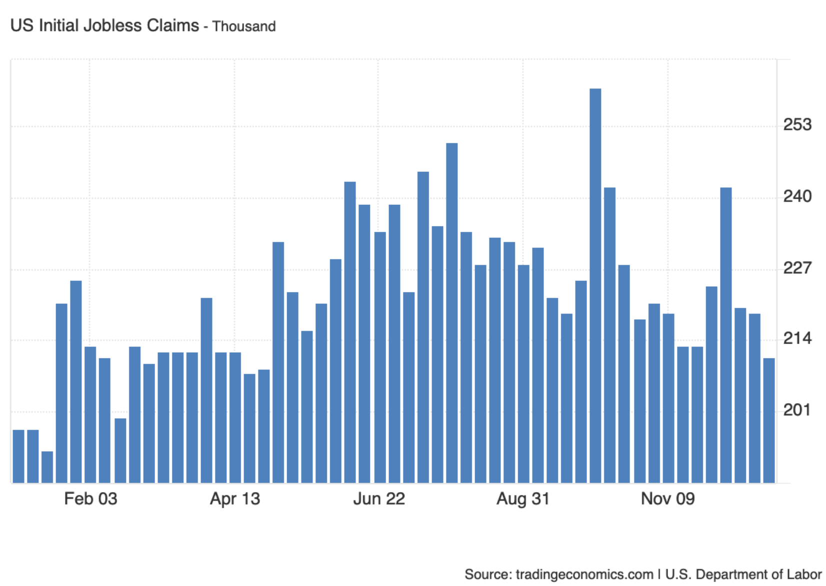
The University of Michigan gauge of consumer sentiment for the US was confirmed at 74 in December, the highest level since April, and compared to 71.8 in November.




Source: [Trading Economics]()

## The Labor Market

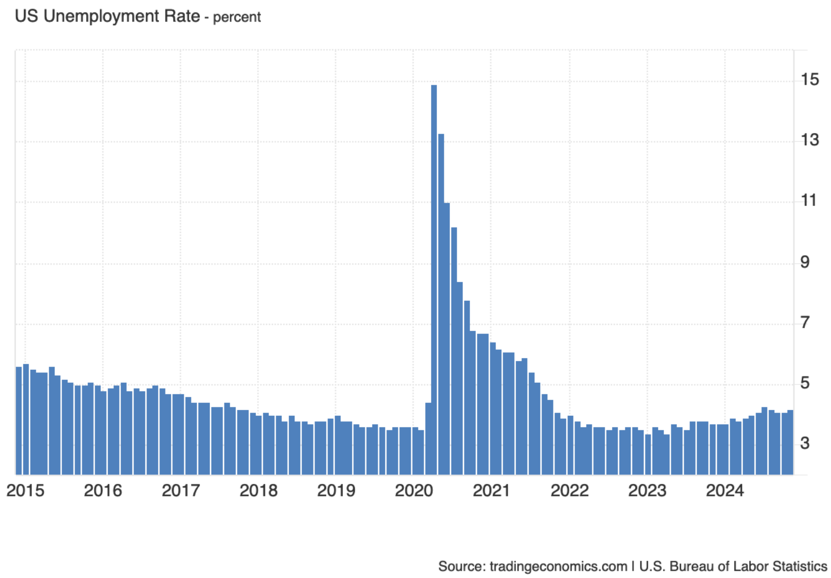
The number of people claiming unemployment benefits fell 9,000 from the previous week to 211,000 for the last week of 2024. This was well below the market's expectation of an increase to 222,000 and marked the lowest level of initial claims in eight months.




Source: [Trading Economics]()

The US unemployment rate rose slightly to 4.2% in November 2024 from 4.1% in the prior month, in alignment with the market's expectations.

The chart below shows the unemployment rate over the past ten years.

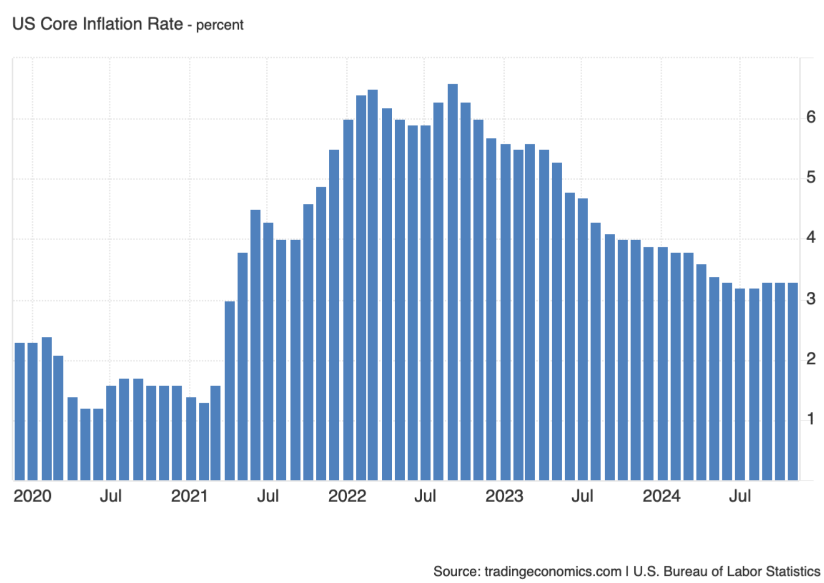



Source: [Trading Economics]

## Inflation & Interest Rates

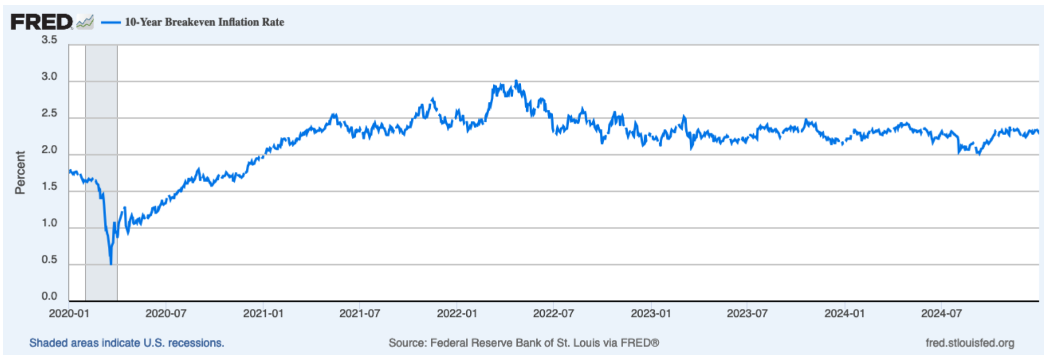
Core PCE, which is the Fed's preferred measure of inflation and which excludes volatile food and energy prices, was 3.3% in November, unchanged from September and October.  This was in line with the market's expectation.

The chart below shows the annualized Core PCE inflation rate over the past three years.




Source: [Trading Economics]

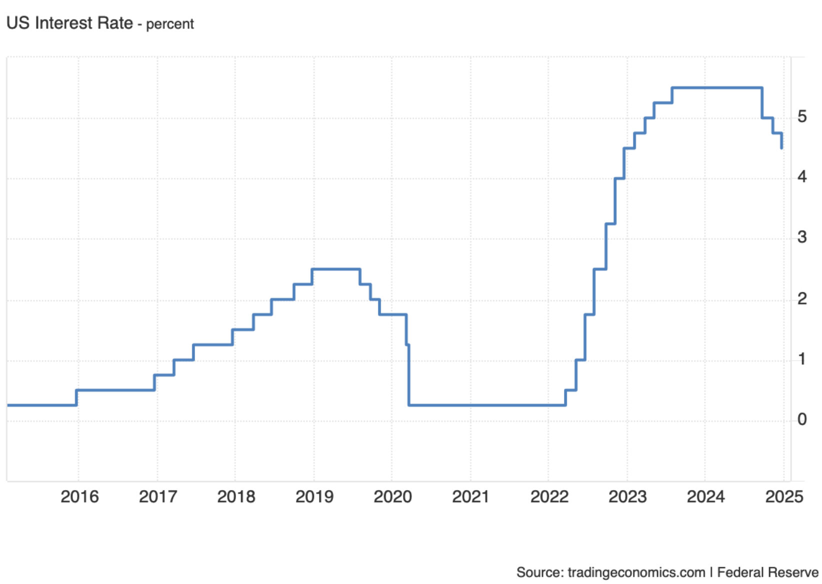
The markets remain confident that the Fed will succeed in keeping inflation down, with the 10-year breakeven inflation rate hovering around the 2.3% level, where is has been for over two years.




Source: [Federal Reserve]

The Federal Reserve announced another 0.25% reduction in the federal funds rate in December, marking the third consecutive rate cut for the year and bringing borrowing costs to the 4.25-4.50% range, in line with expectations. The so-called dot plot indicates that policymakers now anticipate just two rate cuts in 2025, totaling 0.50%, compared to the full percentage point of reductions projected in the previous quarter.

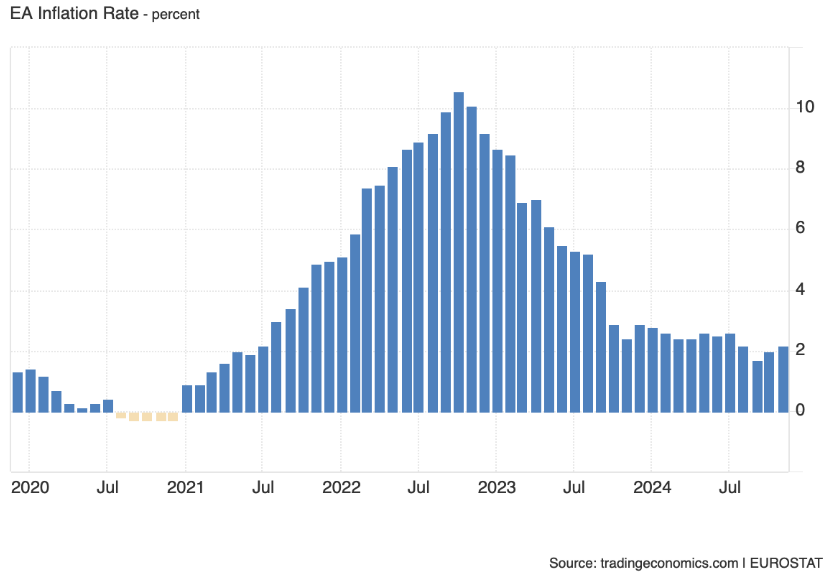
The chart below shows the Fed Funds rate over the past ten years.




Source: [Trading Economics]

In the Eurozone, the annual inflation rate increased to 2.2% in November from 2.0% in October. This year-end increase was largely expected due to the so-called "base effect", as last year's sharp declines in energy prices are no longer factored into the annual rate.

The chart below shows inflation in the Eurozone over the past five years.




Source: [Trading Economics]

## The US Dollar

The value of the Euro against the US Dollar fell to $1.03 at the end of 2024, its weakest level since November 2022, due to concerns about Europe's economic prospects and optimism around the US economy as the markets prepare for Trump's return to the White House. Europe faces subdued growth expectations, with political instability and structural issues in Germany and France.

Additionally, Trump's potential trade tariffs heighten the risk of a trade war, further dampening Europe's outlook. In addition, a dovish stance by the European Central Bank has reduced support for the Euro, while the Federal Reserve is expected to cut interest rates less aggressively than anticipated due to inflationary risks from Trump's policies, supporting the Dollar.

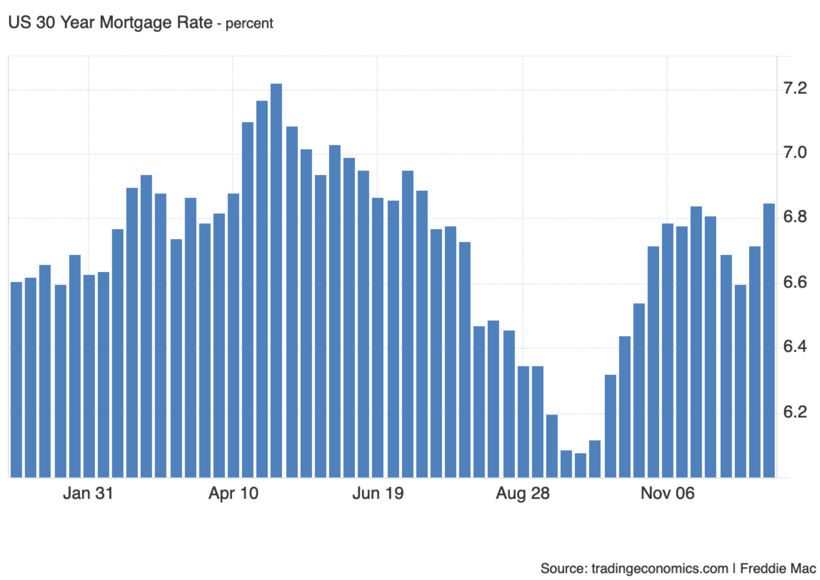
The chart below shows the USD/EUR exchange rate over the past year.


Source: [Trading Economics]()

## Mortgage Rates

The average rate on a 30-year fixed mortgage jumped up to 6.85% as of December 26, rising to the highest level since early June.  The increase aligned with rising US Treasury yields, as the markets adjust expectations for fewer Fed interest rate cuts. A year ago, the average rate on a 30-year fixed mortgage was 6.61%.

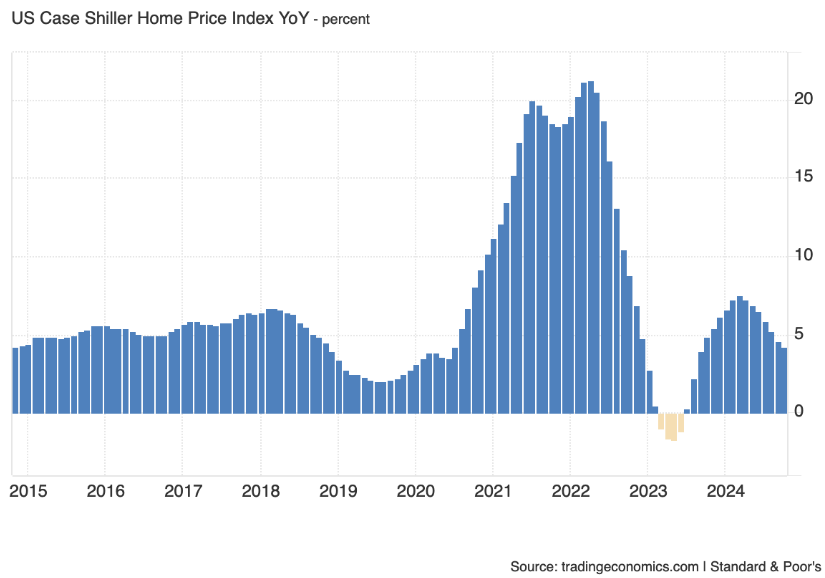
The chart below shows the benchmark 30-year fixed mortgage rate over the past year.




Source: [Trading Economics]()

## The Housing Market

The S&P CoreLogic Case-Shiller 20-city home price index in the US went up 4.2% year-on-year in October 2024, more than the market's expectation of a 4.1% rise. This followed a 4.6% increase in September. New York again reported the highest annual gain among the 20 cities with a 7.3% increase in October, followed by Chicago and Las Vegas with annual increases of 6.2% and 5.9%, respectively.




Source: [Trading Economics]

## The Markets

<u>US Stocks</u>

US stocks closed the year's final trading day slightly negative, as investors reacted to the latest comments from the Federal Reserve.

The benchmark S&P 500 index - a proxy for large US companies – closed the fourth quarter on a negative note.  However, over the past year it was up 23.3%.

The chart below shows the performance of the S&P 500 index over the twelve months to December 31, 2024.


Source: Trading Economics

The tech-heavy Nasdaq similarly closed the fourth quarter on a down note. But over the past year it was up 29.0%.

The chart below shows the performance of the Nasdaq index over the twelve months to December 31, 2024.


Source: Trading Economics

International Stocks

The EU Stoxx 600 - a proxy for large European companies - closed the fourth quarter up slightly.  For the full year it was up 5.9%.

The chart below shows the performance of the Stoxx 600 index over the twelve months to December 31, 2024.

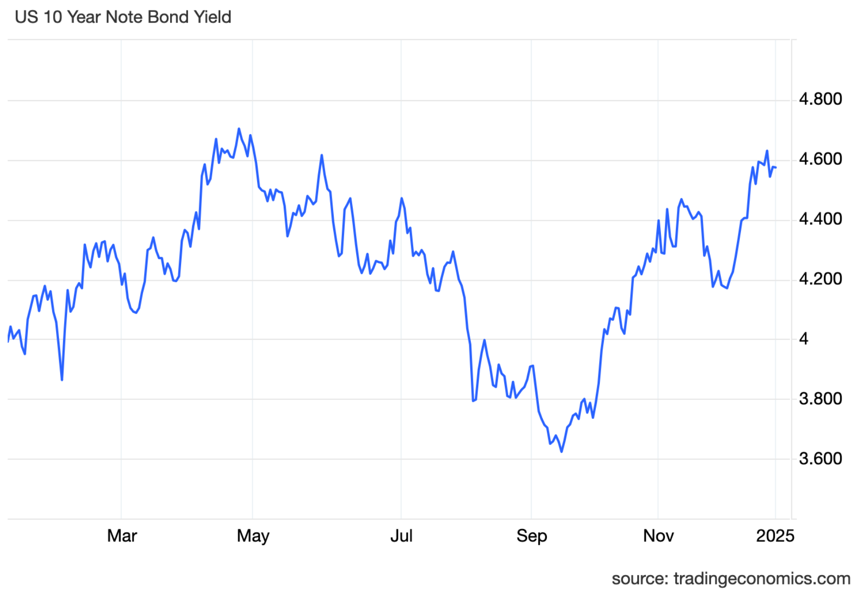

Source: [Trading Economics]

<u>The Bond Market</u>

The yield on the benchmark US 10-year Treasury note held below the 4.55% mark on the final trading day of 2024. For the year, the 10-year note's yield rose 0.50% on the back of slowing disinflation and concerns about the inflationary risk from the incoming Administration's stated policies.

Investors continue to assess the policy outlook for the Fed. Hawkish signals from some Fed members, together with upward revisions to projections on PCE inflation and the target funds rate, drove bond traders to "price in" only two rate cuts in 2025. Still, uncertainty remains on whether the economy will drift into a soft recession that might justify additional reductions in interest rates.

The chart below shows the yield on the benchmark 10-year US Treasury note over the twelve months to December 31, 2024.




Source: [Trading Economics](#)

Oil

Futures contracts for the benchmark West Texas Intermediate product closed up about 1% at just below $72 per barrel on the last day of the fourth quarter. Oil prices fell around 3% in 2024, slipping for a second straight year, as the post-pandemic demand recovery stalled, China's economy struggled, and the US and other non-OPEC producers pumped more product into a well-supplied global market.

The chart below shows the performance of the benchmark WTI contract over the twelve months to December 31, 2024.


Source: [Trading Economics](#)

Gasoline
US gasoline futures hovered around $2.02 per gallon at the end of December, not far from the three-year low of $1.88 reached earlier in the month. Persistent concerns about poor demand compounded with expectations of increased crude oil supply.

Prices rose 5.8% in December, but fell 4.7% for the year to December 31.


Source: Trading Economics

## Benchmark Returns

For comparative purposes, the S&P 500 index (a proxy for large US stocks) rose 23.3% for the twelve months to December 31, and gained 2.1% in the fourth quarter.

The Russell 2000 (a proxy for small US stocks) rose 11.5% for the twelve months to December 31, and climbed 0.3% in the fourth quarter.

The Wilshire 5000 index (a proxy for the broad US stock market) rose 23.8% for the twelve months to December 31, and gained 2.6% in the fourth quarter.

The MCSI EAFE index (a proxy for large international stocks) rose 1.2% for the twelve months to December 31, but fell 8.4% in the fourth quarter, as measured in USD.  Because the USD strengthened during the quarter versus the EUR, the picture was different when measured in the local currency, with the index gaining 7.9% for the 12 months to December 31, but falling 1.3% for the fourth quarter.

Finally, the MSCI Emerging Markets index rose 5.1% for the twelve months to December 31, despite falling -8.2% in the fourth quarter.

In the fixed income segment, the Bloomberg Barclays US Aggregate Bond Index returned just 1.4% for the twelve months to December 31, as a December sell-off of Treasuries pushed yields up and prices down.

## Looking Forward

Despite the objectively excellent performance of the US stock market over the past two years, there are some "red flags" on the horizon for investors that should temper enthusiasm.

For one, according to one leading analyst the difference between the "forward price-to-earnings ratio" – effectively the price an investor pays for $1 of expected future earnings – for US and European stocks can seemingly only be justified if investors believe that the last decade of tech-driven earnings growth in the US can carry on for an awfully long time. Put another way, US stocks seem relatively expensive now.

And investors have also had to reduce their expectations for interest rate cuts in 2025 and 2026. With US inflation still above the Fed's stated 2% target, it's unlikely that investors will be as exuberant in early 2025 as they were at the start of last year. Indeed, when the Fed announced in December that interest rates are likely to fall less in 2025 than they previously hoped, the S&P 500 index had its worst stretch in four months and pushed benchmark down 2.5% for the month.

We would remind our clients and other interested readers that investing is a marathon rather than a sprint.  Bouts of volatility – which sometimes drive down the price of stocks by 30%, 40% or even 50% in a short amount of time – are the price that one pays for growth of capital over time.

But a properly designed portfolio – one that is diversified within and across a broad range of asset classes – gives investors the best chance of earning appropriate risk-adjusted rerturns and, more importantly, meeting their long-term objectives.

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