2024 was a busy year for the US and global economies and their related investment markets. In the US, the highly anticipated presidential election cycle resulted in a Republican sweep. We see a second Trump term's potential impact -positive or negative- on markets as negligible on a long-term basis. Market participants have expressed optimism around Trump tax cuts and deregulation but proposed mass deportations and tariffs could prove inflationary. In markets, 2024 was the second consecutive year the S&P 500 generated greater than 20% returns. The last time stocks posted back-to-back 20% annual gains was 1997-1998. The Aggregate bond index yielded 1.37% on the year marking another volatile year in the bond market. Despite muted returns in bonds 2024 saw another year of strong aggregate returns.

The US stock market's 2024 performance was not dissimilar to that of 2023 as markets boasted high returns yet narrow breadth. The gains in the equity markets in 2024 were once again dominated by the performance of the Magnificent 7. The 7 largest tech companies in the world accounted for over 50% of the S&P 500's return in the year. The Mag 7 closed the year making up an astronomical 34.6% of the S&P 500 weighting. The high concentration in these mega-cap companies is thanks in large part to robust earnings growth and bullishness surrounding AI. Outside of mega-cap tech, performance in 2024 for small-caps, mid-caps and value stocks lagged considerably. This is an area to monitor going forward as elevated interest rates and rich valuations (in growth stocks) could weigh on investor appetite for growth stocks. Our outlook for equities going into 2025 remains constructive as we see increased importance for a tilt toward companies with inelastic demand and strong balance sheets.

2024 was a wild ride for the bond market. With yields on the US 10-yr ranging from a low of 3.6% in September to current levels of around 4.75%. One of the most important stories of 2024 was the Fed's shift in monetary policy. Entering 2024 markets were expecting several rate cuts from the fed with additional cuts in 2025. These predictions proved to be premature as economic data throughout the year continuously came in hotter than expected, showing evidence of a healthy US economy with a resilient labor market. This strength in the economy eventually led the Fed to pause its easing cycle after three cuts totaling a 1% reduction in the fed funds rate. This shift has led to a significant jump in rates in the fourth quarter, which can be seen in the US 30yr which is now yielding almost 5% (levels not seen since a cycle peak in October of 2023). There is speculation as to whether the Fed will cut rates at all in 2025. The US economy has performed surprisingly well in 2024. Unemployment rose modestly over 2024, ending the year at 4.1%, a level seen as healthy. Inflation has declined slowly throughout 2024 ending the year at a 2.7% annualized rate. Progress on the inflation front has stalled somewhat of late, with signs of stickiness in areas like services, insurance, and wages. US Real GDP has grown at a steady pace over the first three quarters of the year, highlighting the resiliency of the consumer. We expect interest rates to remain elevated until there is a softening in economic conditions.

Looking ahead, the stock market will need continued earnings growth to remain at current valuations. The S&P 500 forward price to earnings (P/E) ratio of roughly 23 which is a premium over its historical average of roughly 20. Potential for widening of breadth and AI related growth will serve as key tailwinds for equities. In the bond market, heightened interest rates will test the strength of the consumer and ultimately financial markets. High interest rates are once again making a case for bullishness in fixed income as the equity risk premium currently sits at depressed levels. Issues abroad, seen with a dormant Eurozone economy, conflicts in the middle east, and a Chinese housing crisis have boosted investor demand for US assets, especially US Tech stocks. Inflation and employment trends will be vital for markets going forward as the Fed will continue to remain reliant on incoming economic data and base their policy stance accordingly. Sentiment among investors and analysts has grown very positive this year, with most analysts calling for another strong year for stocks ahead. Barring an unforeseen event, the likelihood of a recession in the medium-term appears slim.

In the final months of 2024, we added a position in Nike Inc. We believe Nike to be significantly undervalued, seeing it as a compelling turnaround story with solid fundamentals and high brand-awareness. In the bond space we continue to favor securitized credit, specifically CLOs as their floating rate nature and low correlation remains appealing. With the recent upswing in rates, we have newfound interest in the corporate bond space. Investment grade corporate bonds are once again yielding north of 6% returns, we see these yields as compelling on a risk-reward basis. Overall, we are moderately optimistic going into 2025, with the view that positive momentum in stocks should lead indices to another year of gains although not to the extent of recent years. As always, please do not hesitate to contact us if you have any questions or concerns, or to schedule a portfolio review.

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