

QUARTER ENDING DECEMBER 31, 2024

Market Update

Quick Hits

1. Mixed Month for Markets

December was a mixed month for equity markets.

2. Bonds Fall as Federal Reserve Updates Guidance

Rising interest rates caused bond prices to fall at year-end.

3. Positive Economic Updates

The economic updates released in December showed continued economic growth.

4. Risks to Monitor

Markets face a number of risks both domestically and abroad.

5. Positive Outlook for the New Year

We believe the most likely path forward is for continued market appreciation and economic growth.

Mixed Month for Markets

December was a mixed month for markets, as investors pulled back from most U.S. stocks due to concerns over rising interest rates and economic uncertainty. Despite the year-end sell-off, all three major U.S. indices finished the quarter and year in positive territory. The S&P 500 lost 2.38 percent in December but managed a 2.41 percent gain for the quarter and an impressive 25.02 percent gain for the full year. The Dow Jones Industrial Average dropped 5.13 percent in December but was up 0.93 percent for the quarter and 14.99 percent over the full year. The technology-heavy Nasdaq Composite led the way with a 0.55 percent gain in December, which contributed to a 6.35 percent gain for the quarter and a 29.57 percent rise for the year.

Despite the mixed results in December, fundamentals were supportive. Per Bloomberg Intelligence, the average earnings growth rate for the S&P 500 in the third quarter was 9.1 percent. This is well above analyst estimates at the start of earning's season for a 4.2 percent increase and highlights the continued fundamental health of U.S. companies. Over the long run, fundamentals drive market performance, so the continued earnings growth during the quarter was encouraging. Looking forward, analysts

expect to see continued earnings growth in the fourth quarter and throughout 2025.

Technical factors were supportive as well to end the year. All three U.S. indices spent the entire month well above their respective 200-day moving averages. (The 200-day moving average is a widely monitored technical signal, as prolonged breaks above or below this level can signal shifting investor sentiment for an index.)

International equities experienced a challenging end to the year. The MSCI EAFE Index fell by 2.27 percent in December, which contributed to an 8.11 percent decline in the fourth quarter and just a 3.82 percent gain for the year. Emerging markets held up a bit better but also saw a year-end drop. The MSCI Emerging Markets Index lost 0.09 percent in December and fell 7.84 percent in the fourth quarter. On a full-year basis, however, the emerging markets index was up 8.05 percent in 2024. A strengthening dollar and rising political upheaval contributed to the year-end declines for international stocks. Technical factors were challenging for international stocks as the MSCI EAFE Index spent most of the month below its 200-day moving average, while the emerging markets index fell below trend by the end of the month.

Bonds Fall as Federal Reserve Updates Guidance

The stock market weakness was echoed by bond markets, which were also down to end the year. Long-term interest rates rose notably in December as the 10-year Treasury yield rose from 4.17 percent at the end of November to 4.57 percent at year-end. The Bloomberg Aggregate Bond Index lost 1.64 percent for the month and 3.06 percent for the quarter; however, it managed to eke out a 1.25 percent gain for the year.

**Bloomberg
Aggregate Bond Index**

↓ **3.06%**
In the fourth quarter

**Bloomberg U.S. Corporate
High-Yield Index**

↑ **0.17%**
In the fourth quarter

The rising interest rates were due in part to updated guidance from the Federal Reserve following the conclusion of the Fed's December meeting. The Fed lowered short-term interest rates by 25 basis points, which was widely expected. Less expected was the updated economic projections that showed the average Fed member expected to see just two more 25-basis-point rate cuts through the end of 2025, which was less than forecast. This means the Fed remains cautious about the economy and inflation and that it will be making decisions on a meeting-by-meeting basis in 2025.

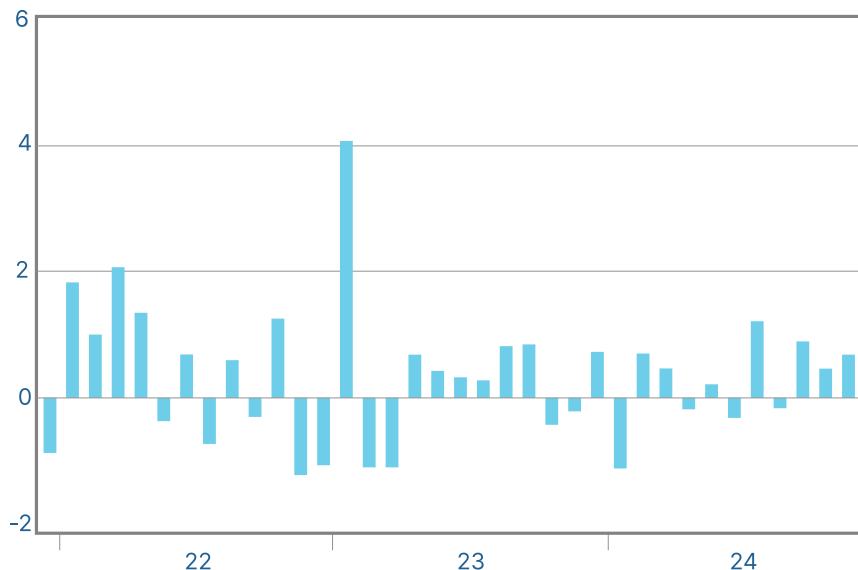
High-yield bonds were also down for the month, as the Bloomberg U.S. Corporate High Yield Index dropped 0.43 percent in December, but managed a 0.17 percent gain for the quarter and a strong 8.19 percent return for the year. High-yield credit spreads were volatile in 2024 and ended the year at 2.9 percent.



Positive Economic Updates

Despite the volatility to end the year, the economic updates released in December continued to point toward solid economic growth. The November job report showed

Figure 1: Retail Sales, Monthly Percentage Change, December 2021–Present



Source: Census Bureau/Haver Analytics, as of December 17, 2024

an encouraging rebound in hiring during the month following a weather-driven slowdown in October.

Consumer sentiment also showed signs of improvement, with the University of Michigan Consumer Sentiment survey improving for the fifth consecutive month in December. Historically, higher levels of consumer confidence have helped support faster spending growth, so this was an encouraging sign for future consumer spending.

Speaking of consumer spending, the November retail sales and personal spending reports came in strong, indicating solid consumer spending during the important holiday season. As seen in Figure 1, this now marks three consecutive months with strong retail sales growth. This is a positive sign for the health of the overall economy in the fourth quarter, given that consumer spending accounts for the majority of economic activity in the country.

Risks to Monitor

While the solid economic updates released in December were welcome, the stock market turbulence during the month served as a reminder that markets face real risks as we kick off 2025. Domestically, the primary risk is political. With a new administration and Congress, investors will be keeping a close eye on any policy proposals that could impact markets, especially when it comes to the inflation outlook. Part of the rise in long-term interest rates at year-end has been attributed to rising investor concerns about inflation in 2025 due to the policy uncertainty from Washington.

Foreign risks also remain that should be watched. The wars in Ukraine and the Middle East, as well as the recent political turmoil in France and South Korea, are prime examples of the geopolitical uncertainty that could impact markets. While the direct impact of these events has been limited so far for U.S. investors, we need to keep an eye on these potential sources of risk.

>> The Takeaway

- Political risks remain for markets both domestically and abroad.
 - While the impact on markets has so far been minimal, this could change at a moment's notice.
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Positive Outlook for the New Year

Overall, though, we are still in a pretty good place to start the year. Markets fundamentals were impressively resilient throughout 2024, and this momentum is expected to carry over into 2025. Analysts expect to see continued earnings growth throughout the year, supported by a strong job market and rising consumer confidence.

Looking ahead, we believe the most likely path forward for the economy and markets is further growth and appreciation in the upcoming months. With that being said, December's mixed results are a valuable reminder that we may face short-term setbacks along the way. Given the potential for short-term turbulence, a well-diversified portfolio that matches investor goals and timelines remains the best path forward for most. If concerns remain, however, you should speak with your financial advisor to go over your financial plans.





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and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. One basis point (bp) is equal to 1/100th of 1 percent, or 0.01 percent.

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