MONTHLY MARKET RECAP

January 6, 2025

Index	Asset Class	2024 Dec.	2024 YTD	2023
Equity Indexes		**Total Returns**		
NASDAQ 100	Mega Cap U.S. Growth Equity	0.5%	25.9%	55.1%
S&P 500	Large Cap U.S. Equity	(2.4)	25.0	26.3
S&P 400	Mid Cap U.S. Equity	(7.1)	13.9	16.4
S&P 600	Small Cap U.S. Equity	(8.0)	8.7	16.1
MSCI All Country World	Global Equity	(2.3)	18.0	22.8
MSCI All Country World (Ex U.S.)	International Equity	(1.9)	6.1	16.2
MSCI Europe, Asia & Far East (EAFE)	International Developed Market Equity	(2.3)	4.4	18.9
MSCI Emerging Markets (EM)	International Emerging Market Equity	(0.1)	8.1	10.3
Fixed Income Indexes				
Bloomberg U.S. Aggregate Bond	U.S. Investment Grade Bond	(1.6)	1.3	5.5
S&P National AMT-Free Municipal Bond	U.S. Investment Grade Muni Bond	(1.2)	1.3	6.2
S&P Municipal Bond High Yield	U.S. Muni Bonds (Below Investment Grade)	(1.4)	6.7	8.7
Bloomberg U.S. Corp. High Yield	U.S. Corp Bonds (Below Investment Grade)	(0.4)	8.2	13.4
Index Blends: Stock/Bond				
80%/20%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		(2.2)	14.5	19.2
60%/40%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		(2.1)	11.1	15.7
40%/60%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		(1.9)	7.7	12.3
20%/80%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Bloomberg U.S. Agg)		(1.8)	4.5	8.9
Data as of 12/31/2024. Source: Morningstar, and blended benchmark returns are based on monthly rebalancing.				

Please see important disclosures at end of this report.

Overview & Economy

While markets finished 2024 on a downtick, looking back on last year as a whole and, for that matter, the two-year period including 2023, markets have exhibited admirable strength and atypical consistency in terms of both trends and leadership. Underlying these market trends has, of course, been the continued strength of the U.S. economy -- both in absolute and relative terms (relative to the rest of world, that is). In this regard, U.S. unemployment has remained historically low for over two years. And, while inflation spiked following the pandemic, the Fed accomplished significant progress over the past year and a half to reduce inflation – albeit still shy of its mandated 2% target.

Beyond the underlying credible fundamentals, however, the equity market rally over the last two years has also been driven to a notable degree by, for lack of a better term, "*risk-on*." Evidence of this prevails among both market participants (more short-term traders),[1] as well as the character of investment performance leaders (from bitcoin to '*meme*' stocks). These characteristics have also been increasingly evident among prominent equity indexes by their expanded valuations. For example, as of December 31, 2024, the S&P 500 P/E stood at 21.5x based on estimated earnings – this compares with its 30-year average of 16.9x, and a high of about 24x in early 2000. Similarly, above-normal expanded valuations also prevail for the S&P 500 based on cash flow, book value, and yield.[2]

A compounding element has also been good ol' "*momentum*," which we respect as the most pervasive factor. What is working, continues to work until it doesn't; then something else becomes what is working, etc., etc. As such, the current trend and leadership may certainly continue. Although, what's important to recognize is that the underlying "*risk-on*" nature of this market, while it lasts, can be expected to compound volatility. For a recent example, just look back a couple weeks to the sharp market reaction which followed the FOMC's last meeting – Fed Funds rate was cut by 25 bp as expected, but equities dropped sharply due to tempered guidance regarding the pace and magnitude of future cuts.[3]

Equity Markets

The downtick in December for most global equity indexes harbored some reversals of the post-election moves, as well as the reassertion of the previous leadership which has prevailed since 2023. Most prominent remains the leadership of Mega Cap Tech (i.e., the NASDAQ 100), the only equity index with a gain in December and the overall leader for 2024 and more so in 2023. In December, U.S. Mid and Small Caps retraced most of their November post-election gains and finished 2024 well-behind their larger U.S. brethren. International stocks declined less in December than did U.S. stocks, although they finished 2024 with comparatively paltry gains.

Fixed Income Markets

Bond indexes also experienced a downtick in December, primarily attributable to an uptick in market interest rates. For 2024 overall, bond indexes exhibited the same "*risk-on*" leadership as equities, with the high yield Indexes handily outpacing investment grade indexes.

We note that we've been hearing increasing dissatisfaction among market participants and commentators with bond investment returns, with some even challenging the merit of the traditional stock/bond portfolio allocations. We translate such views along two misguided rationales: First, the primary purpose for bond is not to drive portfolio returns, but rather to moderate portfolio volatility and downside risk. Second, the attributes of risk-adjusted return from stock/bond portfolios must be considered over longer-term multi-year periods – and even through a full-market cycles – not over one or two-year periods.

Reference(s):

1) Wall Street Journal Article, "Young Men Are Making Risky Bets on Crypto and Politics…", December 7, 2024 -- https://www.wsj.com/finance/investing/young-men-investing-bitcoin-stocks-sports-betting-1d44cf8c
2) JPMorgan, Guide to the Markets, Q1 2025; S&P 500 Valuation Chart - https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/?slideId=equities/gtm-forwardpe
3) New York Times Article, "Fed Cuts Interest Rates and Markets Plunge After 2025 Forecast", December 18, 2024 - https://www.nytimes.com/live/2024/12/18/business/fed-interest-rates