Quarterly Market Review

December 31, 2024

	S&P 500	NASDAQ	DJIA
Q4	+2.4%	+6.4%	+0.9%
1 Yr	+25.0%	+29.6%	+15.0%

Key Takeaways

- U.S. equities advanced in the fourth quarter, driven by optimism over Donald Trump's election victory and Republican control of Congress.
- International equities largely declined in Q4. In the Eurozone, stock prices fell due to recession fears and political instability in France and Germany. In emerging markets, shares retreated on concerns over Trump's tariffs and U.S. fiscal policies.
- The Fed cut rates by 25 bps twice in Q4. U.S. markets reacted negatively following December's reduced rate cut expectations for 2025 due to persistent inflation.

U.S. Equities

	Q4	1 Yr
Large Caps	+2.4%	+25.0%
Mid Caps	+0.3%	+13.9%
Small Caps	+0.3%	+11.5%

- Although U.S. equities advanced in Q4, the S&P 500 ended its 5-month winning streak in October.
- Sectors like Technology and Consumer Discretionary outperformed, driven by AI innovations and resilient consumer spending.
- Large-cap growth stocks dominated, reflecting confidence in sectors driving productivity advancements.
- Strong earnings growth continued to support elevated valuations and bolster investor confidence.
- The Magnificent 7 accounted for more than 33% of the S&P 500 in 2024 and returned +63%.

Non-U.S. Equities

	Q4	1 Yr
Developed	-8.1%	+3.8%
Global ex-US	-7.6%	+5.5%
Emerging Mkts	-8.0%	+7.5%

- International stocks underperformed their U.S. counterparts in Q4 due to currency headwinds and U.S. mega-cap strength.
- Eurozone shares declined due to recession fears and political instability in France and Germany, while U.K. equities fell amid rising bond yields and macroeconomic concerns.
- Japanese stocks advanced in Q4 as weakness in the yen boosted the earnings outlook for large-cap exporters.
- Emerging markets and Asia ex-Japan equities declined amid tariff fears from Trump's re-election.

Fixed Income

	Q4	1 Yr
U.S. Aggregate	-3.1%	+1.3%
U.S. Corporate	-3.0%	+2.1%
U.S. High Yield	+0.2%	+8.2%
U.S. Municipals	-1.2%	+1.1%
U.S. TIPS	-2.9%	+1.8%
Global ex-USD	-1.5%	+2.5%
Emerging Mkts	-2.3%	+6.2%

- Rising Treasury yields weighed on fixed income returns in Q4.
- Investment-grade corporate bonds experienced their largest quarterly price loss since Q3 2022.
- High yield bonds outperformed their investment-grade counterparts due to lower interest rate sensitivity and pro-business sentiment.
- Volatility in global bonds was driven by geopolitical tensions, inflation, and central bank actions.

U.S. Equities: *Large Caps are represented by the S&P 500 Index. Mid Caps are represented by the S&P 400 Midcap Index. Small Caps are represented by the Russell 2000 Index.*
Non-U.S. Equities: *Developed is represented by the MSCI EAFE Index. Global ex-US is represented by the MSCI ACWI ex-US Index. Emerging Markets are represented by the MSCI EM Index.*
Fixed Income: *All markets are represented by their respective Bloomberg Indexes with the exception of Emerging Markets, which are represented by the JPM EMBI Global Core Index.*

Quarterly Market Review (Continued)

December 31, 2024

Economic Highlights

- **Interest Rates**

4.5%

The Federal Reserve cut rates by 0.25% in both November and December to a range of 4.25% to 4.5%. The Fed indicated just two additional rate cuts in 2025.

- **Inflation**

2.9%

The Consumer Price Index (CPI) jumped 0.4% from November to December and was up 2.9% year over year, reflecting a slight increase from the previous quarter.

- **Unemployment**

4.2%

Although the unemployment rate saw a slight uptick in November, the U.S. labor market demonstrated remarkable resilience, adding 227,000 new jobs and exceeding forecasts.

- **Gross Domestic Product**

3.1%

Real GDP rose at an annual rate of 3.1% in Q3, up slightly from Q2. The increase primarily reflected continued growth in consumer spending.

- **10-Year Treasury Yield**

4.6%

The 10-year Treasury yield rose to 4.62% in December, marking its highest level in over six months, as markets adjusted to the Fed's cautious rate cut outlook and growing fiscal concerns.