U.S. Equity Market

January 13, 2025

Main Points

The S&P 500 set 57 all-time highs in 2024— marking the sixth most since 1928.

Large-cap U.S. growth stocks led the charge in 2024, fueled by the dominance of mega-cap companies across sectors.

Despite the year's strong performance, December ended weakly for many asset classes.

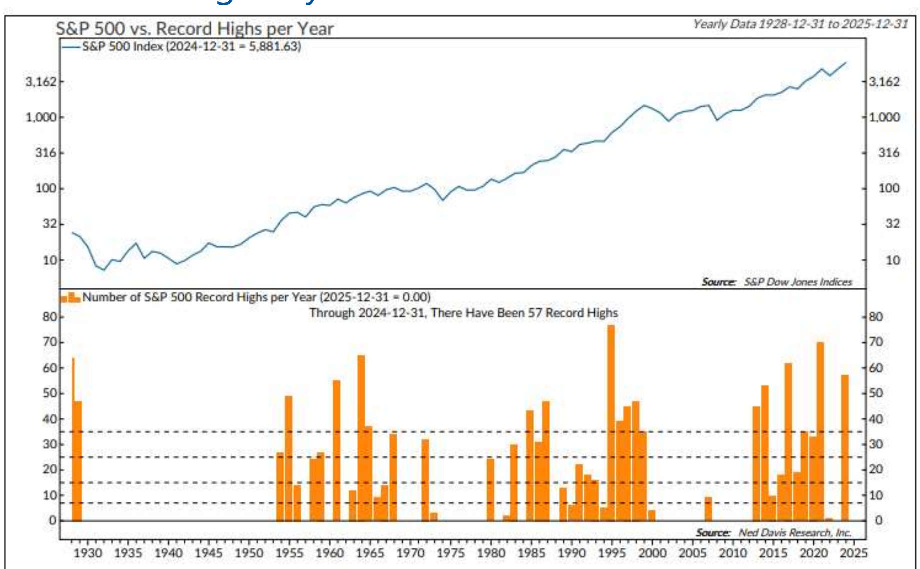
2024 was an exceptional year for investors, with most asset classes delivering returns above long-term averages. Large-cap U.S. growth stocks led the charge, fueled by the dominance of mega-cap companies across sectors and benchmarks. The S&P 500 set 57 all-time highs—the sixth most since 1928—and recorded consecutive 20% annual gains for the fifth time in history (chart right). On a relative basis, U.S. equities outperformed the rest of the world for the 13th time in 15 years, with large-cap stocks decisively outpacing small-caps and growth stocks strongly outperforming value stocks. However, long-term Treasurys, the Materials sector, and select emerging markets posted negative returns.

Growth's dominance was pronounced across all market-cap tiers. The Russell 1000 Growth outpaced the Russell 1000 Value by 19%, marking the fifth-largest spread since 1979. Mid-cap and small-cap growth stocks also delivered robust outperformance relative to their value counterparts, with spreads of 9% and 7.1%, respectively. This trend persisted in Q4, with mid-caps posting the widest growth-versus-value margin at 9.9%. The Russell 1000 outperformed the Russell 2000 for a record eighth consecutive year, achieving its largest spread since 1998.

December ended on a weaker note. Only a few sectors and asset classes managed gains, with the Dow Jones Industrial Average logging its seventh-worst December since 1900. Nevertheless, eight of nine style boxes achieved double-digit returns for the year.

While 2024 was a standout year with notable leadership from growth and large-caps, the end-of-year softness and narrow breadth in market performance signal noted caution heading into 2025. Fed policy uncertainty, EPS projection (8.4%), potential for tariffs and deportations, and the presidential cycle suggest the risks increase in the second half of the year.

57 record highs by S&P 500 in 2024



S&P 500 Performance Stats (1928 - 2024)	Records per Year					
	= 0	> 0	> 7	> 15	> 25	> 35
Year's Median % Gain	1.4	15.6	18.9	19.5	19.5	23.2
Next Year's Med. % Gain	13.4	7.1	4.5	3.5	2.0	5.8
# of Cases	51	46	40	33	26	17

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U.S. Equity Market: Sector Review

January 13, 2025

Main Points

2024 saw growth sectors dominate for the second consecutive year.

Cyclicals took the spotlight in Q4, with 24 of the top 25 performing industries coming from these sectors.

Policy under President-elect Trump is expected to shape 2025, potentially mirroring trends.

2024 saw growth sectors dominate for the second consecutive year, with Technology, Communication Services, and Consumer Discretionary leading the way. These sectors delivered exceptional returns, ranking among the best all-time performances in their respective categories. Conversely, Materials, Health Care, Real Estate, and Energy underperformed. Despite the strength of growth sectors, the S&P 500 had a bifurcated Q4. Only four sectors—Consumer Discretionary, Communication Services, Financials, and Technology—posted positive returns, yet their significant market caps lifted the index 2% for the quarter (see Sector Returns chart, last page). Materials and Health Care lagged, each falling over 10%.

Cyclicals took the spotlight in Q4, with 24 of the top 25 performing industries coming from these sectors (table right). Automobiles claimed the top spot, driven by Tesla's Q3 earnings beat and a 54% surge in its share price (table below). On the other hand, Metals & Mining struggled, with Gold and Copper dragging down performance. Over the year, Semiconductors & Semiconductor Equipment led for the second straight year, with Nvidia soaring 171% after a 239% gain in 2023. The Industrials sector also surprised, contributing three of the year's top 10 industries, despite lagging the broader index.

Policy under President-elect Trump is expected to shape 2025, potentially mirroring trends from his first term. While tariffs and immigration may take precedence, sectors benefiting from tax cuts in 2017 saw a boost in cyclical leadership, with Technology and Consumer Discretionary excelling. However, heightened volatility and balanced returns between cyclical and defensive sectors could emerge as priorities shift in 2025. Technology's dominance in the S&P 500 has grown substantially since 2017, nearing its 2000 record weight, while sectors like Energy and Consumer Staples have lost ground. This shift might limit Growth's ability to replicate outperformance.

Cyclical industries were the top performers in Q4

Top and Bottom Performing S&P 500 Industries (Q4 2024)

S&P 500 Industry		Q4 2024 Return (%)	Sector
Automobiles		49.09	Consumer Discretionary
Passenger Airlines		31.53	Industrials
Entertainment		20.83	Communication Services
Broadline Retail		17.34	Consumer Discretionary
Consumer Finance		14.95	Financials
Banks		12.20	Financials
Communications Equipment		10.26	Information Technology
Interactive Media & Services		9.10	Communication Services
Electrical Equipment		8.72	Industrials
Capital Markets	**Top 10**	8.00	Financials
Biotechnology	**Bottom 10**	-13.43	Health Care
Personal Care Products		-13.57	Consumer Staples
Life Sciences Tools & Services		-14.19	Health Care
Water Utilities		-14.87	Utilities
Automobile Components		-14.97	Consumer Discretionary
Health Care Providers & Services		-14.98	Health Care
Industrial REITs		-16.30	Real Estate
Household Durables		-18.83	Consumer Discretionary
Leisure Products		-22.69	Consumer Discretionary
Metals & Mining		-24.27	Materials

Cap-weighted, price only. Sources: NDR Multi-Cap Institutional (Universe), S&P Capital IQ and MSCI, Inc. (GICS)

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U.S. Economy & Fixed Income

January 13, 2025

Main Points

The U.S. economy is entering 2025 from a position of strength. Real GDP growth for 2024 is expected to surpass forecasts, reaching 2.7%.

The Federal Reserve has begun cutting interest rates and remains committed to an easing stance, ensuring favorable credit conditions.

December proved challenging for fixed income, with a monthly loss of 1.6% for the US. Aggregate Index, contributing to a steep 3.0% decline for Q4.

The U.S. economy is entering 2025 from a position of strength. Real GDP growth for 2024 is expected to surpass forecasts, reaching 2.7%. The labor market is near full employment, nonfarm productivity has risen above pre-pandemic trends, and real wage growth is robust, supported by stronger profits. Credit and financial conditions also improved throughout the year, contributing to this momentum.

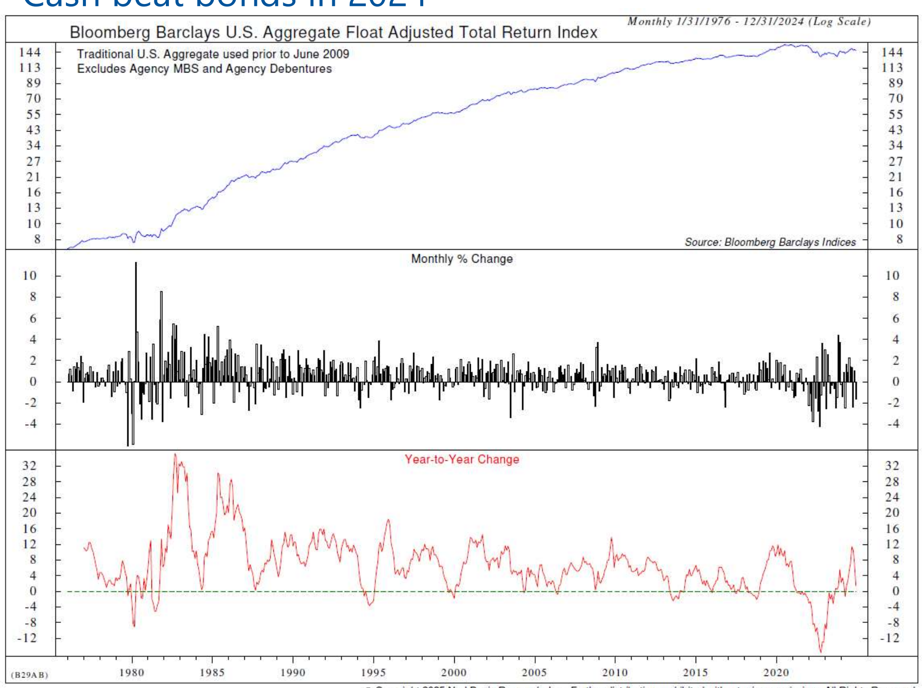
With election uncertainty resolved and optimism around pro-growth Trump policies boosting markets, both business and consumer confidence have risen. This renewed confidence is likely to provide an additional cyclical lift to the economy in early 2025. Furthermore, the Federal Reserve has begun cutting interest rates and remains committed to an easing stance, ensuring favorable credit conditions and sustaining the current economic expansion.

The bond market faced significant volatility in 2024. The 10-year Treasury yield began the year below 4.00%, peaked at 4.70% in April, dipped to 3.63% in mid-September ahead of the Fed's first rate cut, and closed the year near 4.58%. The Float Adjusted U.S. Aggregate Index struggled, returning just 1.3% for the year and underperforming cash by nearly 400 basis points (chart below).

December proved particularly challenging for the Index, with a monthly loss of 1.6%, contributing to a steep 3.0% decline for Q4. Long-duration bonds fared poorly, with maturities over 10 years losing 4.1%, while short-duration bonds (1-3 years) returned a robust 4.4%.

In contrast, lower-rated credit thrived in 2024. Leveraged loans led with a 9.0% gain, followed by High Yield bonds at 8.2%. Dollar-denominated Emerging Market debt and Non-Agency Commercial Mortgage-Backed Securities each delivered 6.6%, while Floating Rate Notes earned 6.4%. The yield curve steepened significantly over the year, shifting from a -35 basis point inversion at the start of 2024 to a positive 33 basis points by year-end.

Cash beat bonds in 2024



International & Emerging Markets

January 13, 2025

Main Points

Global growth in 2025 appears constructive, supported by widespread monetary easing.

Global risks remain relevant, with U.S. tariffs under President-elect Trump potentially targeting imports broadly.

Entering 2025, there's notably less predictability than there was ahead of 2023 and 2024.

The global economy had a solid year in 2024, with real GDP expected to grow over 3%. Growth was stronger in the first half, while Europe and China experienced a slowdown despite the U.S. showing resilience. Encouraging signs of improvement emerged late in the year, with the global composite PMI rising for two consecutive months.

Looking ahead, global growth in 2025 appears constructive, supported by widespread monetary easing, with three-quarters of central banks now in rate-cutting cycles (chart right). Lower inflation and rising real incomes should boost consumption, while fiscal policy is expected to play a stronger role. In the U.S., Republican-led tax cuts and deregulation are anticipated to be the main drivers of economic activity. Similarly, China's stimulus measures introduced in late 2024 are likely to sustain growth aligned with its government's targets.

However, global risks remain relevant. Potential U.S. tariffs under President-elect Trump could target imports broadly, including countries such as China, Mexico, and Canada. Such tariffs could noticeably slow global growth and increase inflation, particularly affecting economies heavily reliant on U.S. trade. Despite these uncertainties, robust U.S. productivity and favorable demographics—remain strong. These pillars position the U.S. for sustained outperformance among G7 economies unless disrupted by extreme policy measures like widespread tariffs or mass deportations. With bond yields rising, the inverse correlation with global equities would be likely to strengthen, as it did in 2022. And gold's long-term uptrend would be threatened, considering its inverse correlation with yields as well as the U.S. Dollar.

The bottom line entering 2025 is that there's less predictability than there was ahead of 2023 and 2024. And from a secular standpoint, there's little margin for error if a negative scenario develops.

Over half of central banks are in easing cycles