This month's Market Minute reflects the views of our Research Team and was composed by
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OVERVIEW

The economic data released in December painted a picture of an economy that was humming along nicely. The U.S. economy added 227,000 jobs in November, a stronger showing than October's revised total of 36,000. Although the November unemployment rate ticked up to 4.2% from 4.1%, the rise was attributable to more people entering the workforce and not due to large corporate layoffs.[1] The CPI inflation index came in as expected in November, but it showed that inflation accelerated marginally last month—climbing to 2.7% year-over-year (YoY), up from October's 2.6% YoY figure. Core-CPI, which removes volatile food and energy prices, was unchanged at 3.3% YoY in November from October.[1] Such a positive economic environment appears to have the consumer in good spirits as the University of Michigan's December Index of Consumer Sentiment improved for the fifth consecutive month, rising from November's 71.8 to 74.0, its highest reading in seven months.[1]

As usual, a Fed meeting was the highlight for the month, and they implemented monetary policy changes as expected by cutting its main policy rate by -25 basis points. Somewhat surprisingly, the Fed set the stage for a rate cutting pause at their next meeting in late January 2025 and only signaled that two additional cuts are likely in total next year as progress towards their 2% inflation target has slowed in recent months.[2]

Although the economic outlook is positive, the market's response to the less favorable monetary outlook roiled markets and, after weeks of low volatility and steady gains, markets sold off sharply beginning just minutes after the Fed's decision was announced.

U.S. EQUITY MARKETS As of December 31, 2024

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-5.1%	0.9%	15.0%	15.0%
S&P 500	-2.4%	2.4%	25.0%	25.0%
Russell 2000	-8.3%	0.3%	11.5%	11.5%
Russell 1000 Growth	0.9%	7.1%	33.4%	33.4%
Russell 1000 Value	-6.9%	-2.0%	14.3%	14.3%

In short, December was a month to forget. Despite coming into the month with momentum and the hopes of a Santa Claus rally firmly in place, December disappointed and Santa never made an appearance to rally the markets. After reaching a new record high—the 57th of the year—early in the month, the S&P 500 and most other US equities broadly traded lower for the next three weeks. The S&P 500 finished the month down only -2.4%, but the index was buoyed by the Magnificent Seven—NVIDIA, Meta, Apple, Microsoft, Alphabet (Google), Amazon, and Tesla—which finished the month collectively +6.3%.[1] Excluding the Magnificent Seven, the rest of the S&P 500 was down -5.2%.[1] Given this, there should be no surprise that growth-oriented stocks strongly outperformed their value-oriented peers (Russell 1000 Growth Index +0.9% vs the Russell 1000 Value Index -6.9%. Small- and mid-cap stocks also badly underperformed in December with the Russell 2000 Index (small caps) down -8.3% and the Russell Mid-Cap Index down -7.0%.

Overall, the markets gave back much of the November post-election bounce as they digested the Fed's latest guidance that highlighted the slow progress to seeing inflation return to normal levels and the possibility that few, if any, additional Fed cuts would materialize in 2025. The impact of fewer rate cuts next year negatively impacted more rate sensitive sectors in December. Only the technology (+1.2%), communication services (+3.6%), and consumer discretionary (+2.4%) sectors managed any gains in December, while materials (-10.7%), energy (-9.5%), utilities, (-7.9%) and real estate sectors (-8.6%) were the worst performing. While the lack of a December Santa Claus rally disappointed many, most US equities ended the final quarter of 2024 with gains and capped off another strong year for US stocks.

INTERNATIONAL EQUITY As of December 31, 2024

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-1.9%	-7.6%	5.5%	5.5%
MSCI EAFE	-2.3%	-8.1%	3.8%	3.8%
MSCI Emerging Markets	-0.1%	-8.0%	7.5%	7.5%
MSCI EAFE Small Cap	-2.3%	-8.4%	1.8%	1.8%

There was no place to hide overseas in December as well. International developed equities (MSCI EAFE Index) lost -2.3% which were dragged down, in part from continued strengthening of the US dollar. Meanwhile, emerging market equities (MSCI EM Index) lost -0.1%. Unlike in the in the US, there was little difference between small caps and large caps—MSCI ACWI ex US index lost -1.9% vs the MSCI ACWI ex US Small Index -2.1%—or between growth and value stocks—MSCI ACWI ex US Growth Index -2.1% vs the MSCI ACWI ex US Value Index -1.4%. Non-US equites generally traded close-to-flat in local currencies terms as markets awaited to see US trade policy evolve with the inauguration of President-elect Trump in mid-January. In contrast to the US, the final quarter of 2024 was not kind to international equities, and 2024 will mark the second year in a row that international equities underperformed their US peers.

FIXED INCOME As of December 31, 2024

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
Bloomberg US Aggregate	-1.6%	-1.3%	1.3%	1.3%
Boomberg Global Aggregate	-2.1%	-5.1%	-1.7%	-1.7%
Bloomberg US High Yield	-0.4%	0.2%	8.2%	8.2%
JPM Emerging Market Bond	-1.5%	-2.1%	5.7%	5.7%
Bloomberg Muni	-1.5%	-1.2%	1.1%	1.1%

December was also not a kind month for fixed income investors. The fact that the Fed's monetary policy has gone from market friendly to market neutral has investors questioning their long-term outlooks for the direction of rates. Interest rates rose across the curve as 2-year U.S. Treasury yields increased by 9 basis points to 4.24%, while 10-year yields went up by 40 basis points to 4.57%.[1] As such, fixed income markets, across the board, posted poor returns in December. There was some comfort to be found in short-term investments (Bloomberg 1-3 year Government Credit index was up 0.21%) and the best that can be said for high yield was that it lost less (Bloomberg High Yield Index -0.43%) than the higher quality Bloomberg Aggregate index (-1.64%). Unlike the U.S. equity markets, 2024 was not a memorable year for fixed income investors.

CONCLUSION & OUTLOOK

While 2024 delivered positive returns for most asset classes, it was a year that significantly rewarded risk takers – be that growth over value, tech over energy, or high yield over investment grade. A possible explanation for such an outcome is that, even in the face of higher interest rates, Corporate America and the U.S. consumer continued to perform well and drive the U.S. economy upward; as such, those who believe in American exceptionalism were rewarded for their positive outlook while those that fretted about the downside risk lagged behind.

From a macro perspective, 2025 appears to be in a strong position to be a repeat of 2024 – solid labor market, stable inflationary environment, and strong households and corporate balance sheets. Valuations could be the challenge to the 2024 winners repeating in 2025 – P/E ratios of growth stocks are at extreme levels, energy companies' dividend yields are very attractive, and high yield corporate spreads are at historical lows. 2025 could once again deliver attractive returns for investors in general, but the underperformers in 2024 may be the outperformers in 2025. Please see our forthcoming Q4 letter for a broader 2025 outlook.

SOURCES

1 *Bloomberg LP*
2 *https://www.federalreserve.gov/12/18/2024*