Economic and Market Review Q4 2024

IM&R Update

Steve Mayhew, CFA®, Chief Investment Officer

Economic Review

A new agenda in Washington D.C. is set to take hold with the transition to the Trump administration on January 20, 2025. Policy decisions from tariffs, taxes, deregulation, immigration and international relations will be at the forefront, with varying impact on the markets and economy.

The U.S. economy continues to expand at a solid pace, as real gross domestic product (GDP) grew above expectations during the third quarter at an annual rate of 3.1%, according to the Bureau of Economic Analysis. In the second quarter, GDP increased 3.0%.

The Conference Board Leading Economic Index (LEI) rose in November for the first time since February 2022. The LEI calculates ten key variables to anticipate turning points in the business cycle and anticipates where the economy is headed. The rise in LEI is a positive sign for future economic activity in the U.S.

The Federal Reserve lowered interest rates for the third consecutive meeting in December, lowering the federal funds rate by one-quarter percentage point to a range of 4.25%-4.50%. Inflation has made progress toward the Committee's 2% objective but remains somewhat elevated. The Summary of Economic Projections, known as the "dot plot," indicates additional interest rates reductions in 2025, with two more cuts by year end to a range of 3.75%-4.00%. Another two interest rate cuts are penciled in for 2026 to a range of 3.25%-3.75%.

The Fed's preferred inflation measure, the PCE (personal consumption expenditures), increased slightly to 2.4% in November from 2.3% the previous month. The Core PCE, at 2.8% has been stuck in a range between 2.6% and 2.9% since December 2023.

The unemployment rate and the number of unemployed people were little changed at 4.2%, and 7.1 million in November. These measures are higher than a year earlier, when the jobless rate was 3.7%, and the number of unemployed people was 6.3 million. The Job Openings and Labor Turnover Survey (JOLTS) has declined from a high of 12.2 million job openings in March 2022 to 7.7 million currently.

Sales of existing homes rose 6.1% from a year ago, according to the National Association of Realtors. Meanwhile, the median home-sale price, at $406,100, is up 4.7% year-over-year.

The Conference Board's Consumer Confidence Index pulled back in December as consumers were more pessimistic about future business conditions and employment prospects.

Financial Markets Review: Domestic Stock Market

The S&P 500 pulled back in the last two weeks of the year but still collected 57 record closes in 2024 and ended the fourth quarter 2.41% higher at 5,881.63. The S&P 500 is up more than 20% in each of the last two calendar years. Riding the artificial intelligence (AI) wave, the NASDAQ Composite gained 6.35% in the quarter to 19,310.79. And the Dow Jones Industrial Average managed a gain of 0.93% for the fourth quarter, ending the period at 42,544.22.

Six of the seven AI technology stocks regarded as the "Magnificent Seven" advanced for the quarter, with Microsoft as the exception, down -1.8%. Tesla soared 54.36%, followed by Amazon (17.74%), Alphabet (14.26%), NVIDIA (10.59%), Apple (7.58%) and Meta (2.37%).

With respect to investment styles, growth stocks outperformed value stocks in the fourth quarter. The AI boom has kept a significant spread between large growth versus large value at 18.99% year-to-date, and large caps have outperformed small caps by 10.14% over this time frame.

The DJIA top performers for the fourth quarter were Salesforce, advancing 22.29%, followed by Amazon, gaining 17.74% and Boeing, rising 16.42%. The worst performers were Amgen, tumbling -18.41%, Nike, dropping -13.95% and UnitedHealth Group, losing -13.12%.

Of the 11 S&P 500 sectors, consumer discretionary was the leader, gaining 14.25%, followed by communication services, ahead 8.87% and financials, adding 7.09%. Materials trailed the group with a loss of -12.42%, along with health care, down -10.30% and real estate, off -7.94%.

Among industries, top performers included automobiles (+49.20%), airlines (+31.86%) and multiline retail (+17.35%). Laggards included metals & mining (-23.95%), leisure products (-21.82%) and household durables (-18.65%).

According to FactSet, analysts are anticipating fourth quarter earnings growth of 11.9% for the S&P 500, full year earnings growth of 9.4%, and revenue growth of 5.1%. Analysts expect the S&P 500 to record double-digit earnings growth of 14.8% in 2025 on revenue growth of 5.8%.

Our current outlook is that a recession will be avoided in 2025 and inflation will continue to moderate. The economy is on solid footing and corporate earnings are strong. With signs of slowing consumer spending, rising credit card delinquencies, extended equity valuations and global tensions, we expect more market volatility ahead. Additional concerns are rising federal debt and deficits, fiscal policy, reflation risk, the ongoing wars in Ukraine and the Middle East and other potential flash points in Asia.

	Total Returns* (12/31/24)			Annualized Returns (12/31/24)		
Category/Style	**4th Quarter**	**Year-to-Date**	**One Year**	**Three Years**	**Five Years**	**Ten Years**
S&P 500	2.41	25.02	25.02	8.94	14.53	13.10
S&P Midcap 400	0.34	13.93	13.93	4.87	10.34	9.68
S&P Small Cap 600	-0.58	8.70	8.70	1.91	8.36	8.96
Russell 1000 Large Cap Growth	7.07	33.36	33.36	10.47	18.96	16.78
Russell 1000 Large Cap Value	-1.98	14.37	14.37	5.63	8.68	8.49
Russell 2000 Small Cap Growth	1.70	15.15	15.15	0.21	6.86	8.09
Russell 2000 Small Cap Value	-1.06	8.05	8.05	1.94	7.29	7.14

Source: Standard and Poor's, Morningstar, Inc, * returns include reinvested dividends

International Stock Markets

The International Money Fund's *World Economic Outlook* expects global growth to remain stable yet underwhelming at 3.2% in 2025. The global manufacturing sector fell back into contraction at the end of 2024. Manufacturing production rose in just 13 of the 30 countries in which PMI data were available for December.

The MSCI EAFE Index of developed markets dropped -8.11% in the fourth quarter. The MSCI Emerging Markets Index fell -8.01% and the MSCI Frontier Markets Index slipped -1.16%.

Within the eurozone, Spain's manufacturing sector continued to expand robustly at the end of the year. Spain accounts for about 12% of the eurozone's GDP. Meanwhile, the three largest eurozone countries-Germany, France and Italy, which are Spain's top three export destinations-are stuck in an industrial recession.

Most markets lost ground in the fourth quarter. The Stoxx Europe 600 Index dropped -2.22% to 504.85. In local currencies, Germany's DAX Index rose 3.02% to 19,909.14, France's CAC-40 lost -4.44% to 7,313.56 and the London FTSE 100 declined -1.41% to 8,121.01.

In Asia-Pacific markets, the latest PMI results paint a picture of a near-stabilization in the Japanese manufacturing sector conditions in December. The headline reading moved closer to neutrality amid a softer reduction in production. For the quarter, Japan's Nikkei stock index climbed 5.18% to 39,894.54.

In emerging markets, supply and demand grew at a slower pace in December. Still, China manufacturing production expanded for the fourteenth consecutive month. The China Shanghai Composite Index soared 14.83% for the quarter to 3,407.33. India's manufacturing sector had a strong 2024. However, the data showed a slowing trend with December's rate of expansion the slowest in the year. The S&P BSE Sensex Index declined -7.18% to 78,248.13.

The U.S. Dollar Index (DXY) strengthened in the fourth quarter by 7.74%, to 108.58. The dollar gained 9.32% against the yen to $157.03 (JPY/USD) and was 6.89% higher vs. the euro at $1.0369 (USD/EUR).

World Bond Markets

With the third consecutive interest rate cut by the Fed, the U.S. 3-month T-Bill fell to 4.31% at the end of the fourth quarter. Further out the yield curve, the 2-year note climbed to 4.24% and the U.S. 10-year treasury bond rose to 4.57%, as inflation concerns rekindled.

With interest rates rising, bond returns were negative for the quarter. The Bloomberg Aggregate Bond Index was down -3.06%. The Bloomberg Municipal Index dipped -1.22% and the Barclays U.S. Treasury TIPS Index declined -2.88%. Following the Fed moves, money market yields declined to 4.28%, as reported by the Crane 100 Money Fund Index.

According to Value Line, yields on 10-year government bonds climbed in general in the fourth quarter. For major markets, The United Kingdom 10-year rose to 4.55%, Canada to 3.32%, Germany to 2.33% and Japan went over 1% to 1.07%.

At its December meeting, the European Central Bank cut the deposit facility rate by 25 basis points to 3.0%, further easing restrictive monetary policy. ECB president, Christine Lagarde stated that the disinflation process is well on track. The ECB staff projects headline inflation to average 2.1% in 2025, and 1.9% in both 2026 and 2027.

Commodities

Commodities were ahead in the fourth quarter by 1.07% to close at 1,022.39 according to the DJ Commodity Index. Oil prices gained $3.55 (5.21%) to $71.72/barrel. And, according to AAA, consumers saw prices at the pump dropped another 14 cents to $3.06/gallon. Gold ended essentially flat for the quarter down, $6.90 (-0.26%) to $2,629.20/troy oz.

Mutual Funds/Exchange-Traded Funds

The popularity of exchange traded funds continues to grow. According to the Investment Company Institute, assets in exchange-traded funds (ETFs) surpassed 10 trillion in 2024 to 10.547 trillion for a gain of 38.29% over the past year. And the number of ETFs grew by 468 funds to 3.544.The total number of mutual funds continued to contract with a loss of 209 funds over the past year to 7,040. Money market fund assets to $6.7 trillion.

MUTUAL FUNDS OVERVIEW AS OF DECEMBER 31, 2024

	Total Returns			Annualized Returns		
Category	**4th Quarter**	**Year-to-Date**	**One Year**	**Three Years**	**Five Years**	**Ten Years**
Municipal Bond Interim-Term	-1.02	1.91	1.91	-0.37	0.95	1.83
Short-Term Taxable Bond	-0.10	5.07	5.07	1.80	1.91	1.98
Intermediate Taxable Bond	-2.89	1.67	1.67	-2.29	-0.20	1.29
Long-Term Taxable Bond	-5.46	-1.18	-1.18	-6.51	-1.85	1.68
High Yield Bond	0.25	7.63	7.63	2.78	3.73	4.33
Global Bond	-4.31	-0.76	-0.76	-2.73	-1.19	0.07
Small-Cap Blend	-0.08	11.15	11.15	2.58	8.63	7.95
Mid-Cap Blend	-0.07	14.36	14.36	4.06	9.79	8.91
Large-Cap Blend	1.27	21.26	21.26	7.24	12.89	11.57
Global Stock Large Blend	-2.50	13.38	13.38	3.85	8.61	8.29
Foreign Large Blend	-7.36	4.82	4.82	0.77	4.45	4.97
Natural Resources	-10.12	-4.18	-4.18	0.68	9.01	5.43
Real Estate	-6.99	5.90	5.90	-4.25	2.95	4.96

Source: Morningstar Category Returns, Morningstar, Inc.

Important Definitions and Disclosures

The opinions and material presented are provided for informational purposes only. No person or system can predict the market. Past performance is no guarantee of future results. This material includes forward-looking statements that are subject to certain risks and uncertainties. Actual results, performance or achievements may differ materially from those expressed or implied. No predictions or forecasts can be guaranteed. Companies mentioned are for informational purposes only. It should not be considered a solicitation for the purchase or sale of the securities. Any investment should be consistent with your objectives, time frame and risk tolerance. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the risk of principal loss. There is no assurance that the investment goals and process described herein will consistently lead to successful investing. The investment return and principal value of an investment will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost. Funds that invest in stocks of small-cap or mid-cap companies involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies. Funds that invest in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments. An investment in a money market fund is not insured or guaranteed by the FDIC, or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.

The information shown does not constitute investment advice and does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact with respect to any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. Nothing contained herein should be construed as a recommen1dation to buy or sell any individual securities. It should not be assumed that an investment in any of the securities identified was or will be profitable.

The Bureau of Economic Analysis (BEA) of the United12.01 States Department of Commerce is a U.S. government agency that provides official macroeconomic and industry statistics, most notably reports about the gross domestic product (GDP) of the United States and its various units such as states, cities, towns, townships, and villages*.* **Gross Domestic Product** (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by U.S. companies in foreign markets. **Real Gross Domestic Product** (real GDP) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). **Purchasing Managers' Index™ (PMI™)** is a survey-based economic indicator designed to provide a timely insight into business conditions. Flash PMI data are published by S&P Global and are early estimates of the company's final PMI numbers. The Flash PMI data are published approximately one week before final PMI data each month and are typically based on 85%-90% of total PMI responses received each month. Flash manufacturing, services and composite indices are published for: Australia, Eurozone, France, Germany, Japan, United Kingdom, and the United States. **The Conference Board Leading Economic Index® (LEI)** for the U.S. are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components. **Personal Consumption Expenditures** (PCE) is a measure of price changes in consumer goods and services and consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services. The **Federal Reserve System** (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. The **Federal Open Market Committee** (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). The **unemployment rate** percentage of total workforce who are unemployed and are looking for a paid job. Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of weakening economy that may call for cut in interest rate. A falling rate, similarly, indicates a growing economy, which is usually accompanied by higher inflation rate and may call for increase in interest rates. Labor force participation rate is the percentage of working age population that is part of the labor force. It is a measure of what proportion of a country's population is employed or actively looking for employment. The index of leading economic indicators is intended to predict future economic activity. Typically, three consecutive monthly LEI changes in the same direction suggest a turning point in the economy. **Inflation** is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times. A **recession** is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP); although the National Bureau of Economic Research (NBER) does not necessarily need to see this occur to call a recession. **Treasury Yield Curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. The **International Monetary Fund (IMF)** is an international organization that was initiated in 1944 at the Bretton Woods Conference and formally created in 1945 by 29-member countries. Each survey contains approximately 50 core questions, and each respondent is contacted again for another survey six months after completing the first one. The answers to these questions form the basis of the index. An **exchange-traded fund (ETF)** is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Indexes are unmanaged and investors cannot invest directly in an index.

Morningstar Category Returns are composed of the average return for the funds in each Morningstar category over the indicated time period. Categories are defined by Morningstar based on holdings statistics. The category returns are adjusted for survivorship bias, meaning they include all investments even if liquidated, merged or otherwise now obsolete. The returns also include funds that were in a given Morningstar category but have since changed to another category.

Benchmark Definitions

The **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the U.S. from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. **The S&P MidCap 400** provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. **The S&P SmallCap 600** seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The **Russell 2000** Index is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small-cap securities market. The **Russell 1000** Index is a subset of the Russell 3000 Index that includes approximately 1,000 of the largest companies in the US equity universe, representative of the US small-cap securities market. **Russell Large Cap Growth Index** measures the performance of those Russell 1000 Index securities with higher price-to-book ratios and higher forecasted growth values, representative of US securities exhibiting growth characteristics. **Russell Large Cap Value Index** measures the performance of those Russell 1000 Index securities with lower price-to-book ratios and lower forecasted growth values, representative of US securities exhibiting value characteristics. **MSCI EAFE Index** is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. The **MSCI Frontier Markets Index** provides a broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The **CAC 40 Index** is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. **S&P BSE Sensex index**, is the benchmark index of the Bombay Stock Exchange (BSE). It is composed of 30 of the largest and most actively-traded stocks on the BSE, providing an accurate gauge of India's economy. **Bloomberg Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The **Bloomberg Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital U.S. Government Inflation-Linked Bond Index** (U.S. TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from $1000 to $1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. The **10-year Treasury** Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. The **Crane 100 Money Fund Index** measures the average yield of the 100 largest taxable money market funds. **The Dow Jones Commodity Index**℠ is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. The index is designed to minimize concentration in any one commodity or sector. Due to market fluctuation, the commodities represented by this index may experience loss of invested principal and are subject to investment risk. The **U.S. dollar index (DXY)** is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.