W A I N W R I G H T   I N V E S T M E N T   C O U N S E L , L L C

FINANCIAL MARKETS HIGHLIGHTS

Fourth Quarter 2024

The fourth quarter of 2024 had no shortage of headlines in the financial markets. Two Federal Reserve ("Fed") interest rate cuts, the long-awaited conclusion of the election cycle, mergers and a major airline bankruptcy kept busy journalists and shareholders alike. The implications of President-elect Trump's second term saw widespread effects across many sectors, with the markets pricing in the impact of potential tariffs, immigration reform, tax cuts and deregulation promised by the Trump campaign. Fed Chairman Jerome Powell urged patience in a press conference after the December Federal Open Market Committee ("FOMC") meeting, stating "We need to take our time, not rush," and see how the economy reacts to the policies, if enacted.

Powell's press conference followed the FOMC's third interest rate cut of 2024, reducing the Fed Funds target rate to a range of 4.25% to 4.50%, down one percentage point during 2024. Cooling inflation and a resilient economy have increased the Fed's confidence in achieving its dual mandate of price stability and full employment. Nonetheless, and despite improving conditions, the Fed signaled that the pace of future interest rate cuts might slow, as inflation remains sticky above desired levels. As described below, 10-year US Treasury yields rose by almost the same amount as the cuts in the short-term Federal Funds rate, thereby dampening fixed income returns.

A fourth quarter gain of 2.4% saw the S&P 500 index of large and mega-cap stocks up 25.0% for 2024. The last two calendar years being the best two-year stretch since 1997-1998 thanks to solid economic growth and strong corporate earnings. There was little market breadth during the quarter, though. Outside of Financials and broadly defined Technology, most sectors were down. S&P 500 Financials gained 7.1% and Technology 4.8%, but the other profitable sectors, Consumer Discretionary and Communication Services, were goosed by their significant exposure to the "Magnificent Seven" tech and tech-related stocks – they surged 15.1% during the quarter. Conversely, Consumer Staples, Energy, Healthcare, Industrials, Materials and Utilities were all down. The stocks of mid and small-sized companies were up less than 1% during the quarter and the broad Russell 3000 Value index declined 1.9% while its Growth counterpart rallied 6.8%. For the full year, the Russell 3000 Value and Growth indexes returned 14.0% and 32.5%, respectively.

Internationally, the MSCI EAFE index of developed market stocks and MSCI Emerging Market index declined 8.1% and 8.0% during the quarter and were up only modestly for the year. Many of these economies are not growing as briskly as the US. The weakness was also attributable to the continued strength of the US dollar, hitting a two-year high and up over 7% during the quarter

Selected Index Returns (%) as of December 31, 2024 (Source: Morningstar Direct). 3, 5, 10 year returns are annualized.

	October	November	December	QTR	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	-0.91	5.87	-2.38	2.41	25.02	25.02	8.94	14.53	13.10
S&P 400	-0.71	8.81	-7.12	0.34	13.93	13.93	4.87	10.34	9.68
Russell 2000	-1.44	10.97	-8.26	0.33	11.54	11.54	1.24	7.40	7.82
Wilshire US REIT Index	-2.49	5.05	-7.29	-5.03	9.11	9.11	-2.47	4.55	5.70
MSCI EAFE	-5.44	-0.57	-2.27	-8.11	3.82	3.82	1.65	4.73	5.20
MSCI Emerging Markets	-4.45	-3.59	-0.14	-8.01	7.50	7.50	-1.92	1.70	3.64
Bloomberg US Aggregate Bond	-2.48	1.06	-1.64	-3.06	1.25	1.25	-2.41	-0.33	1.35
Bloomberg High Yield	-0.54	1.15	-0.43	0.17	8.19	8.19	2.92	4.21	5.17

relative to a basket of major currencies as measured by the DXY US Dollar index. Between 30% and 40% of revenue of large US companies comes from overseas. As the dollar strengthens those sales are consequently worth less due to the exchange rate conversion, so a very strong dollar can be a headwind for Corporate America, too.

As alluded to above, The Bloomberg Aggregate Bond Market index was down 3.1% during the quarter and up only 1.3% for the year. Longer-term interest rates moved sharply higher during the quarter as inflation remains sticky at ~3% and the bond investors are collectively concerned with the *potential* inflationary impact of President-elect Trump's policies and the enormous deficit funding needs of the US. The 10-year Treasury rate increased from 3.8% to 4.6% and national average 30-year fixed rate mortgage from 6.1% to 6.9%. For the year, high yield corporate bonds led the pack up 8.2%, followed distantly by short-term bonds (ICE BofA US 3 Month Treasury Bill index +5.3%).

Commodity prices were mixed during the quarter. West Texas crude oil oscillated around $70 per barrel while natural gas prices increased ~30%. Master Limited Partnerships, which are in the business of oil and gas storage and transport, returned 4.9% during the quarter and 24.4% for the year. Gold and silver were little changed during the quarter but appreciated ~25% for the year. Not to be outdone, Bitcoin rallied over 150% for the year including 47.5% during the fourth quarter.

As we look forward to 2025, the stock market is somewhat expensive relative to its historical earnings, but 2025 earnings *are* expected to grow briskly. S&P 500 earnings growth forecasts from Factset, Yardeni Research and LSEG (formerly Refinitiv) are all above 14%. There will be a tug-of-war between valuation and growth, and which side wins remains to be seen. A very reasonable expectation is for more volatility in market prices over the next few months as the investors collectively grapple with valuation, growth, Trump administration policies amongst other things, plus the fact that we have not had a meaningful selloff in some time. Our advice – hold a diversified portfolio.

A very happy holidays from all of us here at Wainwright, and we wish you a healthy and prosperous 2025. Please reach out should you require anything.

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