



The S&P 500 climbed 25% in 2024, notching 57 record closes, delivering its best consecutive years of returns since 1997 and 1998. A healthy US economy, lower inflation, and an AI-fueled rally supercharged stock market returns. The S&P 500 was the top-performing equity index in 2024. The Russell 2000, benchmark for US small-and midcap stocks, gave up most of the post-election gains, ending Q4 2024 essentially flat. Despite gaining 11.54% in 2024, the Russell 2000 has underperformed its US large cap peers in eight out of the past ten years.

Mega cap technology and internet stocks contributed most of the gains of the S&P 500 in 2024. The Magnificent 7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) accounted for more than half of gains of the index's total return. However, the market showed signs of broadening in the second half of the year. Financials gained 30.6% in 2024, while utilities and industrials returned 23.4% and 17.5%, respectively. As the US economy remains healthy, and the US Federal Reserve continues to lower interest rates, market returns can continue to broaden.

Still, there are reasons to be cautious. The Federal Reserve jolted markets in December 2024 when it announced a rate cut but signaled just two additional cuts in 2025, down from its previous guidance of four cuts. This indicates that rates may remain higher for longer. Meanwhile, further progress on inflation has stalled in recent months, with headline inflation rising 2.7% year-over-year and the core measure holding steady at 3.3%. While shelter costs continue to decline, progress on returning to the 2.0% target has been slower than expected. This has likely contributed to the decision to slow down the pace of rate cuts.

Elsewhere in the equity markets, European stocks underperformed the S&P 500 by the widest margin since 1980, lagging the S&P 500 by 22.6% in US dollar terms in 2024. Weak economic growth, political uncertainty, and limited exposure to technology stocks weighed on European equities. The weak euro also hampered returns for US-based investors. Emerging market equities returned 8% in 2024; however, the returns were widely divergent. China was up 19.7% in 2024, while Latin American equities declined 26% as political uncertainty and the strong US dollar negatively impacted returns.

The yield on the 10-year US Treasury bonds has increased. The 10-year treasury bond yield ended 2024 at 4.557%, up from 3.860% at the end of 2023 and 3.685% on the day the central bank announced its first rate cut in September 2024. In the fourth quarter alone, the 10-year treasury yield rose 79 bps, the biggest quarterly increase since the third quarter of 2022. A strong US economy has resulted in fewer rate cuts be the Federal Reserve than expected which in turn lifted the treasury yield.

On the political front, stocks rallied when Republicans swept the November elections on rising hopes that easing government regulations and a lower corporation tax will further boost the equity markets. It is equally important to note that President-elect Trump has proposed significantly

Fourth Quarter Market Watch

	Date	1 Quarter Ago		1 Year Ago	
	12/31/2024	9/30/2024	% chg	12/31/2023	% chg
DJIA	42,544.22	42,330.15	0.9%	37,689.54	15.0%
S&P 500	5,881.63	5,762.48	2.4%	4,769.83	25.0%
NASDAQ Composite	19,310.79	18,189.17	6.3%	15,011.35	29.6%
Russell 2000	5,542.50	5,542.04	0.3%	5,037.79	11.5%

	Date	1 Quarter Ago		1 Year Ago	
	12/31/2024	9/30/2024	% chg	12/30/2023	% chg
Japan Nikkei 225	39,894.54	37,919.55	-4.3%	33,464.17	6.9%
MSCI EM (Emerging Markets)	1,075.48	1,170.85	-7.8%	1,023.74	8.1%
MSCI EAFE	2,261.81	2,468.66	-8.1%	2,236.16	4.3%
MSCI AC World	841.33	851.78	-0.9%	727.00	18.0%
FTSE 100	9,063.04	9,079.32	-6.8%	8,264.89	7.7%
SSE Composite Index	3,351.76	3,336.50	-3.4%	2,974.93	9.5%

US Equity Sector

	Q4	1-yr ret.
Consumer Discretionary	14.3%	30.1%
Consumer Staples	-3.3%	14.9%
Energy	-2.4%	5.7%
Financials	7.1%	30.6%
Health Care	-10.3%	2.6%
Industrials	-2.3%	17.5%
Information Tech	4.8%	36.6%
Materials	-12.4%	0.0%
Telecom	8.9%	40.2%
Utilities	-5.5%	23.4%

US Equity Style

	Q4	1-yr ret.
Russell 1000 Value	-2.0%	14.4%
Russell 1000 Growth	7.1%	33.4%
Russell 2000 Value	-1.1%	8.1%
Russell 2000 Growth	1.7%	15.2%

Economic Sentiment

	12/31/2024	1 Yr. Ago
Unemployment Rate	4.20	4.10



higher tariffs and mass deportations, both could result in higher inflation if enacted.

Despite another stellar year for equity returns, the S&P 500 skipped the widely expected year-end rally. Investors had hoped for a "Santa Claus" rally, which spans the five final trading days of the year and the first two trading days in January. On average, since 1950, the S&P 500 has gained 1.3% during the "Santa Claus" rally while finishing higher nearly 80% of the time. This time around, the S&P 500 finished 1.5% lower during this stretch of time, driven by both profit taking as well as a reduction in the expectations for rate cuts in 2025.

Turning to currencies, the US dollar has risen to a two-year high against a basket of currencies as the Federal Reserve is expected to adopt a more cautious approach to cutting rates in 2025. The euro traded close to a two-year low against the dollar ahead of Trump's second inauguration on January 20th. Trump's proposed trade tariffs are expected to weaken an already uneven eurozone economy which prompted the European Central Bank to cut interest rates extensively.

In commodities, a rally in the US dollar has pressured base metals, with copper and aluminum both down in recent weeks. Despite rising geopolitical risks over the course of 2024, oil prices were relatively unchanged from the prior year, with WTI crude oil prices ending the year at \$71.72 per barrel. Rising inventories and weaker global demand has put downward pressure on crude oil prices. However, natural gas prices climbed 33%, helped by a rally toward year-end on expectations of a colder winter.

Gold futures rise, beginning the new year on a positive note, after surging 27% in 2024, its strongest annual return since 2010. Rate cuts from global central banks boosted the appeal of gold, which is non-interest bearing, and prices were also aided by ongoing geopolitical concerns.

Bitcoin, the world's largest cryptocurrency, reached \$100,000 for the first time in December and has more than doubled in 2024. President-elect Trump has promised to market the US as the "crypto capital of the planet". Trump positioned himself as a champion of digital assets on the campaign trail and has since picked many crypto allies for senior positions in his administration.

Bond Markets

	12/31/2024	1 Qtr Ago	1 Yr. Ago
Treasury Bill, 90 Day	4.32	4.61	5.35
Treasury Note, 2 Year	4.24	3.64	4.25
Treasury Note, 5 Year	4.38	3.56	3.85
Treasury Bond, 10 Year	4.57	3.79	3.88
Treasury Bond, 30 Year	4.78	4.13	4.03

Exchange Rates (Rate per US dollar)

	12/31/24	1 Qtr Ago	1 Year Ago
Euro	0.905	0.945	0.937
British Pound	0.784	0.819	0.831
Swiss Franc	7.092	7.304	6.952
Chinese Yuan	83.214	83.041	82.730
Indian Rupee	140.980	149.225	131.945
Japanese Yen	0.905	0.945	0.937

Commodities

	12/31/24	1 Qtr Ago	1 Yr. Ago
Gold	2,641.00	2,659.40	2,071.80
Crude Oil	71.72	68.17	71.65
UD Dollar Index	108.30	100.52	101.03
Bloomberg Commodity Index	98.76	100.34	98.65

Interest Rates

	12/31/2024	1 Qtr Ago	1 Yr. Ago
PRIME RATE	7.50	8.00	8.50
FEDERAL FUNDS RATE	4.58	5.33	5.33
LIBOR RATE 30 DAY	4.24	3.64	4.25
LIBOR RATE 3 MONTHS	4.57	3.79	3.88
30YR FIXED MORTGAGE	6.91	6.12	6.61

Turning to the broad US economy, job growth rebounded from strike-related distortions, with the US economy adding 227K new jobs in November. This marked the 47th consecutive month of job gains. Business and household confidence soared after the US presidential election. Meanwhile, growth outside the US remains fragile. While China's stimulus measures have led to a slight uptick in manufacturing and services activities, the Chinese economy is still under pressure with a property market slump and weak consumer spending. The euro zone's PMI has also remained in contractionary territory for 30 consecutive months.

Looking ahead, a resilient US economy and a lower interest rate backdrop can continue to support the equity market. However, the rapid pace of advances in the past two years will be difficult to repeat. Although the US Federal Reserve has started cutting rates, the pace of future rate cuts are likely to be more gradual than some had hoped. A potentially higher-for-longer interest rate backdrop may negatively affect borrowing costs. Furthermore, the S&P 500 ended 2024 with 21.9 times its forward earnings, above a 10-year average of 18.5 times. With the market priced to perfection, it could be vulnerable to a pullback. In the past two years, multiple expansion has been a meaningful contributor to the returns of the S&P 500. In 2025, we believe earnings will be the key driver of performance. With equity risk premium near record low, it pays to be highly selective. Our investment professionals at the 1911 Trust rigorously select quality securities and investment vehicles with attractive valuations to safeguard your assets.

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