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A View From the Bevy – 4Q24

Market Review

U.S. stocks generally rose during the fourth quarter, capping off another impressive year. In fact, the S&P 500 recorded its first back-to-back +20% years since the 1990s. The major concern entering the quarter – uncertainty over the election and its aftermath – quickly dissipated when the election went off without a hitch and with few legal challenges. Stocks enter 2025 with momentum, despite a pullback during the last few days of the year, but as always, we will keep a close watch on any developments which could impact our outlook.

As shown in the chart below, the U.S. once again led the world, followed by other developed countries; emerging markets continued to underperform. The technology-heavy NASDAQ, led by Artificial Intelligence (AI) stocks, continued its outperformance as well.

Stock Market Indices	4th Quarter 2024	Year-to-Date
S&P 500	2.41%	25.02 %
S&P 500 (Equal-Weight)	-1.87%	13.01 %
Dow Jones Industrial Average (DJIA)	0.93%	14.99 %
NASDAQ Composite	6.17%	28.64%
Russell 2000	0.33%	11.54 %
MSCI World	-0.16%	18.67 %
MSCI World ex U.S.	-7.60%	5.53%
MSCI Emerging Markets	-8.01%	7.50%

Source: AJO. Data supplied by FactSet Research Systems.

The U.S. Federal Reserve (Fed) lowered short-term interest rates for the third time in 2024 as expected, but surprised markets by indicating that there would likely only be two interest rate cuts in 2025. This announcement caused a pullback in stocks, but momentum picked up through Christmas, again before a pullback during the low-volume period leading to the end of the year.

The so-called “Trump trade” during November and December ignited a rally in financials, energy, and industrials, which are perceived as primary beneficiaries of his expected pro-business policies and deregulation. Bank stocks also climbed on the expectation of a lighter regulatory burden, while small-cap stocks gained on anticipated tax reforms and investment-friendly policies.

Cryptocurrencies such as Bitcoin and crypto-related stocks rallied after the election as President-Elect Trump is seen as being very pro-crypto; Bitcoin topped $100,000 for the first time.

Market Outlook

The markets enter 2025 with positive momentum but as always will face some headwinds that can either derail this momentum or provide to be less impactful than feared.

On the positive side, the economy continues to do well as does the outlook for corporate profits. While concern over inflation did prompt the Fed to slow its anticipated rate cutting path, on a positive note the Fed's favorite inflation indicator – the core Personal Consumption Expenditures (PCE) Index - which strips out food and energy costs, rose only 0.1% in November, its slowest pace since May. (This was announced after the Fed meeting.)

And while the Republicans do control both houses of Congress and the Presidency, the margins in the House of Representatives are so slim, and the Republican caucus so divided, gridlock is expected in Washington, which has historically been good for markets.

What are the headwinds? First, President-elect Trump's threats to enact major tariffs on Canada, Mexico and China. Tariffs would increase costs for American consumers and likely lead to the forementioned fear of inflation re-igniting. The hope is that the tariffs are just being used as a negotiating tool and will not be enacted, or certainly not at the levels being talked about.

The last Congress also pushed the can down the road in late December by passing a funding bill that only approved government funding through March, setting-up a fight, both between Democrats and Republicans and within the different factions within the Republican Party.

The Senate confirmation hearings on many of the selections for the new cabinet will tell us a lot about whether there will be any bipartisanship likely in the new Congress. President-elect Trump has promised many things that would be divisive, including the mass deportations of illegal immigrants, and the downsizing of many government agencies. Whether he follows through on many of his promises will also go a long way toward influencing the tone in Washington.

Growing geopolitical tensions in the Middle East, the continuation of the war in Ukraine as well as how a Trump Administration interacts with Russia and China will likely impact market sentiment throughout the year as well.

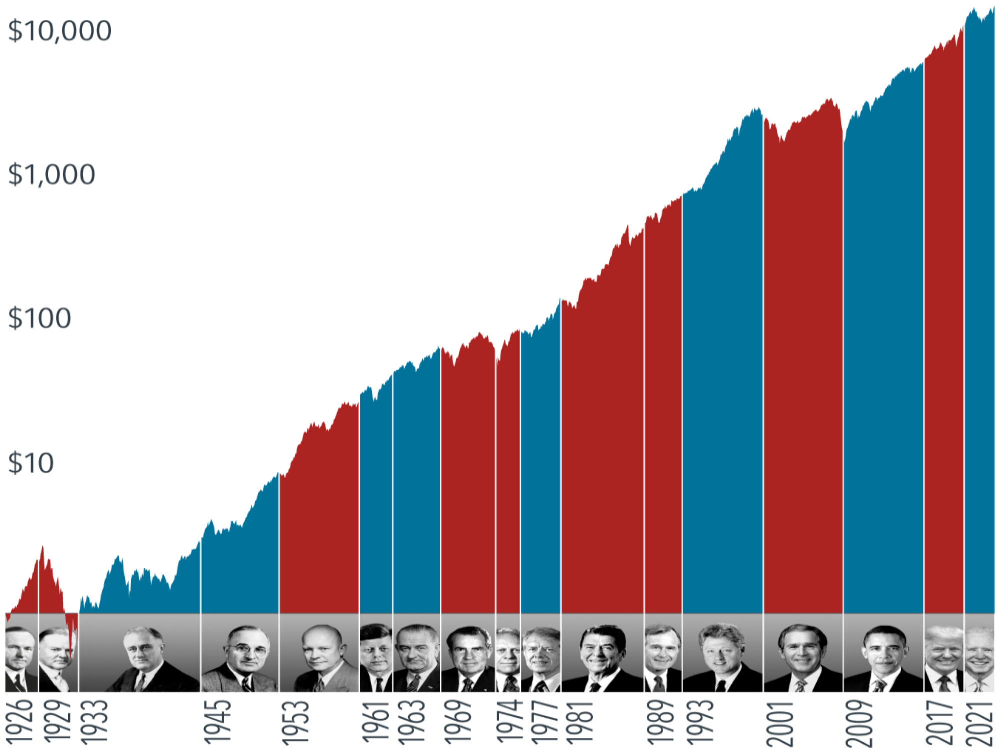
Bottom line, there are a lot of positives propelling stocks as we enter 2025 as well as several things we must keep our eyes on. Also, it is important to remember, especially after a year as good for stocks as 2024, that one or perhaps two market corrections should be expected and should be viewed as healthy and normal part of a bull market and as buying opportunities.

Happy New Year to all – and please don't hesitate to contact us with any questions.

Of Interest: The Election is Over – Now What?

The U.S. presidential election has concluded, and stocks rallied after an undisputed result. But what comes next for stocks? As shown below, stocks have rewarded disciplined investors historically through both Democratic and Republican presidencies.

Growth of $1 Invested in the S&P500, 1926 – 2023



Source: Dimensional Fund Advisors

It's natural for investors to look for a connection between who wins the White House and which way stocks will go. But regardless of who wins:

- Shareholders are investing in companies which focus on serving their customers and growing their businesses, regardless of who is in the White House.
- US presidents may have an impact on market returns, but so do many other factors—the actions of foreign leaders, interest rate changes, changing oil prices, and technological advances, just to name a few.

Interestingly, the analysis remains the same if you are talking about which party controls Congress. According to studies conducted by Dimensional Fund Advisors, nearly a century of U.S. stock market data suggests that making investment decisions based on which party controls the House of Representatives, or the Senate is unlikely to lead to better outcomes.

Making investment decisions based on the outcome of elections, or how investors think they might unfold, is unlikely to result in reliable excess returns. On the contrary, it may lead to costly mistakes. Accordingly, there is a strong case for investors to rely on a consistent approach to asset allocation and to making a long-term plan and sticking to it.

We would caution investors against making changes to a long-term plan in a bid to profit or avoid losses from changes in the political winds. Markets are a powerful information-processing machine. The combined impact of millions of investors placing billions of dollars' worth of trades each day results in market prices that incorporate the collective expectations of those investors. This makes consistently outguessing market prices very difficult if not impossible.

Control what you can control. Developing an investment plan that you can stick with through the ups and downs of the market can help you tune out the noise during periods of economic and political uncertainty.