Your Weekly Investment
Insights
December 23, 2024

Key **Takeaways:**

- How well did our 2024 themes do?
- Economy defies expectations.
- Fed progress on inflation stalls.
- Austerity rhetoric picks up with Trump win.
- Long term bonds underperform.

Scoring our 2024 Investment Themes

Every year we produce a list of themes that we believe will materialize for the economy and asset classes. At the end of the year we grade ourself on our accuracy. We award ourselves one point for full accuracy and partial points if we got it halfway right. We belive it is fair to say we scored a five out of six. In this weekly insights we detailed our themes and explain our scoring.

- **Theme #1 – A Soft Landing is Not a Sure Thing (1/2 Point):** At the start of 2024, we and most economists expected at least a shallow recession in 2024. Instead, the U.S. economy produced robust growth. It is difficult not to give any credit because nearly every facet of the economy was in recession aside from the consumer. In addition, we warned of cracks in the labor market which emerged.
- **Theme #2 – Fed Walking a Fine Line: Reflation Risk is High (Full Point):** We did not expect the Fed to cut interest rates until 2H24 which proved to be correct. In addition, we warned of the risk of inflation re-emerging if the Fed got too dovish on rate policy. Both scenarios unfolded in 2024. Progress on inflation has stalled and the Fed has been forced to take a more hawkish stance on interest policy for 2025.
- **Theme #3 – Fiscal Policy – Austerity Rhetoric to Heat Up (Full Point):** The is no better proof that we were correct on this theme than the creation of the Department for Government Efficiency from President Donald Trump. The burgeoning deficit is a problem that needs addressing.
- **Theme #4 – Global Equities – Bar Set High (1/2 Point):** This was a tough one because the bar for equities was set high and it still is. U.S. equity performance was highly concentrated in a select few names and sectors. In fact, the S&P 500 Market Cap Weighted Index has outperformed the S&P 500 Equal Cap Weighted Index by 12.5% in 2024. We did say that opportunities would present themselves in small and midcap stocks and international stocks. In fact, we increased our allocation in late 2024 to international equities as in our view valuations were extraordinarily attractive compared to the U.S. market.
- **Theme #5 – Unprecedented Tug of War for Bonds (Full Point):** We warned of the growing risks of increased issuance on the Treasury market. This materialized as we saw sloppy Treasury auctions and long-term bonds being the worst performing part of the fixed income market. While we avoided credit, we saw credit do well, but default rates tick higher.
- **Theme #6 – Alternatives – Diversification Comes in Many Shapes and Sizes (Full Point):** We had recommended hedge funds to protect against what was forecasted to be an increase in volatility, which materialized. Volatility, as measured by the VIX Index, is up ~50% in 2024.

The Bottom Line:

Navigating the uncertain is always difficult but we find remaining disciplined in the face of heightened valuations and economic risks is prudent. We will be back in early January with our 2025 themes . We would like to take the time to wish you and your families a happy holidays and happy new year!

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Weekly Economic Recap –

Fed Slashes Expectations for Future Rate Cuts

Retail sales increased in November at a faster-than-expected pace (+0.7% MoM) and the prior two months were revised higher. Seven of the 13 components posted monthly increases. Auto sales were the strongest category, increasing by the most in over three years amid lower interest rates and year-end discounts at dealerships. Sales at online retailers were higher on the back of Black Friday and Cyber Monday promotions.

Homebuilder optimism as tracked by the NAHB Housing Market Index was unchanged from the prior month. However, home builders' outlook for the next six months increased to the highest since April 2022 on optimism the Trump administration will help remove regulatory hurdles. Prospective buyers' traffic dipped slightly.

The Federal Reserve cut rates by 25bps at their final meeting of 2024 to a range of 4.25% - 4.50%. This marks 100bps of interest rate cuts for the year. The committee also released their economic projections in which they reduced their expectations of rate cuts in 2025 to only two (from four), increased their expectations of PCE Core inflation to a range of 2.5% - 2.7% (from 2.1% - 2.2 % in September), and increased their expectation of the neutral policy rate to 3% (from 2.9%). During his post-meeting press conference, Powell reiterated the economy remains "remarkable," and the committee "can be more cautious as they consider policy adjustments" in the future.

The Fed's preferred inflation gauge, PCE Core, increased slightly less than consensus estimates in November (+2.8% YoY vs. +2.9% YoY). Service prices remain the key driver of inflation, increasing 3.8% year over year.

Key Takeaways:

- Retail sales showcase consumer resiliency.
- Fed cuts rates by 25bps; expects fewer cuts in 2025.
- PCE Core (inflation) increases in line with estimates.
- Global equities tumble as Fed slashes 2025 rate cut outlook.
- Treasury yields continue higher on Fed outlook.
- Oil and gold prices drive losses for commodities.

Weekly Market Recap –

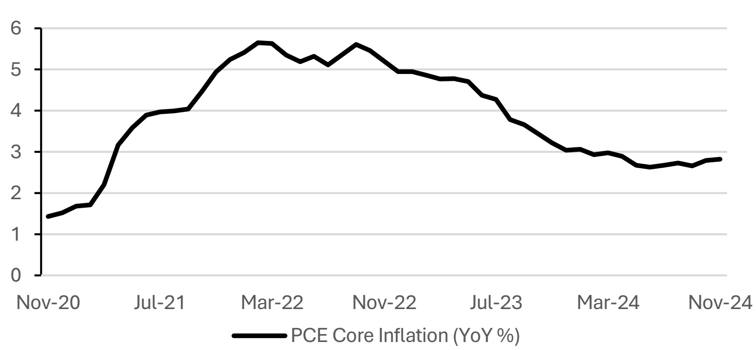
Global Equities Tumble on Fed Interest Rate Expectations

Equities: The MSCI AC World Index was lower for the second straight week and by the most since September. U.S. equities were among the worst performing markets as the Federal Reserve signaled the likelihood for fewer interest rate cuts next year. The blue-chip Dow Jones Industrial Average officially marked its worst daily loss streak (10) since 1974 last week. Small-caps, which tend to be the most sensitive to interest rates, were lower for the third straight week and by the most since September.

Fixed Income: The Bloomberg Aggregate Index was lower for the second straight week. U.S. Treasury yields surged on the Fed's rate outlook for next year. All sectors of fixed income were lower, except for floating rate instruments.

Commodities/FX: The Bloomberg Commodity Index was lower for the third time in four weeks. Crude oil prices were lower on Chinese demand and U.S. interest rate outlook. Gold prices fell for the first time in three weeks on the Fed interest rate outlook.

Fed's Preferred Inflation Gauge Remains Above Target



Footnotes: Data is as of November 2024.
Data Source: FactSet Research Systems, Verdence Capital Advisors.

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Global Equities Tumble on U.S. Rate Outlook

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	42,840	-2.2%	-1.1%	2.3%	17.7%	15.8%
S&P 500	5,931	-2.0%	0.4%	4.3%	28.0%	26.0%
Russell 1000 Growth	4,100	-1.5%	3.8%	9.5%	36.9%	35.2%
Russell 1000 Value	1,829	-2.9%	-3.8%	-0.6%	16.9%	14.6%
Russell Midcap	3,570	-3.3%	-2.9%	2.8%	18.9%	16.5%
Russell 2000	2,242	-4.4%	-3.5%	1.0%	14.7%	12.1%
Nasdaq	19,573	-1.8%	3.3%	9.2%	33.5%	31.3%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	844	-2.5%	-0.3%	1.1%	19.8%	17.9%
MSCI EAFE (USD)	2,236	-3.6%	-1.2%	-7.2%	4.1%	2.6%
MSCI Europe ex UK (USD)	2,449	-3.8%	-0.8%	-9.2%	0.5%	-0.4%
MSCI Japan (USD)	3,821	-3.5%	-0.5%	-4.7%	7.8%	5.2%
MSCI UK (USD)	1,205	-3.1%	-0.9%	-6.7%	7.5%	6.4%
MSCI EM (USD)	1,072	-3.1%	-1.9%	-2.9%	10.0%	7.1%
MSCI Asia ex Japan (USD)	699	-3.2%	-1.7%	-1.8%	14.5%	11.1%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.9%	-0.7%	-0.2%	-3.3%	1.6%	1.3%
U.S. Govt/Credit	4.8%	-0.7%	-0.3%	-3.3%	1.4%	1.2%
U.S. 10 Year Treasury	4.5%	-0.9%	-0.6%	-5.3%	-1.4%	-1.5%
U.S. TIPS (1-10YR)	4.5%	-0.8%	-0.5%	-2.0%	2.9%	2.9%
U.S. High Yield	7.5%	-0.8%	-0.1%	0.1%	8.6%	8.0%
EM Bonds (USD)	6.7%	-1.1%	-0.2%	-1.3%	7.0%	6.6%
Municipal Bonds	3.8%	-1.2%	-0.9%	-1.4%	1.0%	0.7%

Commodities	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	235	-1.0%	-0.6%	0.5%	3.6%	4.0%
Crude Oil (USD/bbl)	$69.1	-2.2%	-2.1%	-1.2%	-4.4%	-2.5%
Gold ($/oz)	$2,622.9	-1.2%	-3.5%	-0.3%	27.6%	27.0%
Copper	$404.1	-2.6%	-2.8%	-5.6%	3.6%	3.9%
Wheat	$533.0	-2.7%	-5.3%	-11.0%	-20.1%	-21.2%
U.S. Dollar	108	1.3%	0.6%	7.3%	6.4%	6.8%
VIX Index	18.4	32.9%	7.0%	13.7%	34.3%	47.5%

Footnotes: Data is as of December 20, 2024.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

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Past performance is not indicative of future returns.

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