Your Weekly Investment
Insights
January 6, 2025

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CAPITAL ADVISORS

Key **Takeaways:**

- Reviewing some of the biggest market themes from 2024.
- Fed delivers cuts later than anticipated.
- Inflationary pressures remain stubborn.
- U.S. equity markets outperform global counterparts by most since 2021.
- Gold hits a record high.

2024 Market Recap

Despite a mixed economic picture, geopolitical tensions, stubborn inflation and heightened equity valuations, 2024 was another steller year for global equities. The MSCI AC World Index was higher by double-digits for the second straight year, and fifth time in the last six. However, long-dated U.S. Treasury yields climbed as the progress against inflation stalled. Commodities were supported by precious metals for the second year in a row. In this weekly insights, we provide a few market themes we witnessed from an asset class and economic perspective.

- **Theme #1 – Fed delivers but not as soon as expected:** At the beginning of 2024, the market priced in 6-7 rate cuts in 2024 starting as early as 1Q24. The Fed cut by a total of 100bps but they did not cut until September 2024.
- **Theme #2 – Stubborn inflationary pressures:** Inflation remained persistent throughout the year led by services costs. Inflation as tracked by the headline Consumer Price Index even showed signs of heating up as the year ended, running at a ~2.7% annual pace up from 2.4% in September 2024.
- **Theme #3 – Consumer resiliency:** Despite stubborn inflation, rising unemployment and higher interest rates, consumers continued to drive U.S. economic growth.
- **Theme #4 – Deficit worsens:** The outlook for the U.S. fiscal health worsened in 2024. The U.S. fiscal deficit is now ~7% of GDP and according to the Congressional Budget Office, it should stay near that level for the next decade.
- **Theme #5 – Year of records; the good and bad:** The S&P 500, the Dow Jones Industrial Average, the Nasdaq, the MSCI AC World Index and gold prices hit a record high. However, credit card debt and credit card rates hit a record high.
- **Theme #6 – U.S. dominance:** U.S. equity markets, as tracked by the S&P 500 Index, outperformed the MSCI AC World ex U.S. Index by over 20% for the year.
- **Theme #7 – Mega-cap leads U.S. equities:** Mega-cap (especially growth) carried U.S. equities in 2024. The “Magnificent 7” (i.e., Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) all posted at least double-digit returns. Nvidia alone (~+170%) was responsible for ~10% of the S&P 500’s return. This concentration was seen with the S&P 500 Market Cap Weighted Index outperforming the S&P 500 Equal Weighted Index by 1,200 bps. Lastly, the “Magnificent 7” made up 95% of the S&P 500 total return.
- **Theme #7 – Fixed income displays weakness:** The Bloomberg Aggregate Index was modestly higher in 2024. However, duration made a difference as long-term bonds declined due to stubborn inflation. However, risk appetite remained strong as seen by the rally in high yield and emerging market debt.
- **Theme #8 – Precious metals and soft commodities lead performance:** The Bloomberg Commodity Index rallied in 2024. Drought conditions sent coffee prices to a record high. Cocoa prices hit a record on production disruptions and adverse weather conditions. Gold prices also hit a record high on inflation uncertainty, geopolitical tensions, and fears of rising global debt.

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Past performance is not indicative of future returns.

Key Takeaways:

- Home sales increase despite higher borrowing costs.
- Fed cash reserves fall by most in over two-and-a-half years.
- Manufacturing activity increases, but still in contraction.
- Global equities fall to start the new year.
- Safest areas of fixed income outperform as yields remain flat.
- Commodities higher led by oil and gold prices.

Weekly Economic Recap –

Manufacturing Activity Climbs to Highest Level since March

Pending home sales increased for the fourth straight month to the highest level since February 2023 despite higher borrowing costs. The monthly advance was carried by sales in the South, which contributed the most to the headline advance.

Home prices as tracked by the S&P Case-Shiller Index were higher in October, but the pace of annual gains moderated from the previous month (4.2% YoY vs. 4.6% YoY). Home prices in New York, Chicago, and Washington DC increased by the most.

Mortgage demand, as measured by mortgage applications, ended the year falling sharply. Total applications fell 13% from two weeks ago, and were 17% lower than a year ago. Applications to refinance a home, which are the most sensitive to changes in interest rates, fell 36% from two weeks ago.

US banking system reserves fell by the largest weekly amount in more then two-and-a-half years to less than $3 trillion. The decline was attributed to banks paring balance sheet intensive items, in order to prepare for the potential for increased regulatory requirements.

Manufacturing activity in the U.S. increased to its highest level since March (49.3) according to the ISM Manufacturing Index. The New Orders Index posted its strongest reading since May 2022 (52.4). The employment index fell by the most since July as producers reduced staffing levels at a faster pace.

Weekly Market Recap –

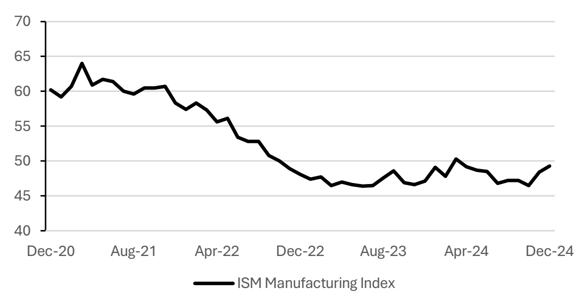
Global Equities Fall to Start the Year as Large-Cap Growth a Drag

Equities: The MSCI AC World Index was lower for the third time in the last four weeks in a volatile start to the new year. In the U.S., large-cap growth stocks led the weakness as technology and consumer discretionary sectors underperformed. However, small cap stocks, as measured by the Russell 2000 gained for the week as investors rotated out of sectors with stretched multiples (e.g. large cap growth, technology).

Fixed Income: The Bloomberg Aggregate Index was relatively flat to start the new year as Treasury yields were relatively unchanged given a muted economic data week. Municipal bonds were the best sector of fixed income, followed closely by high yield bonds.

Commodities/FX: The Bloomberg Commodity Index was higher for the second straight week. Crude oil prices were higher for the second straight week as investors expect more economic stimulus in China. Crude oil rose to a three month high.

Manufacturing Activity Moving Higher



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

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Global Equities Weak to Start 2025

U.S. Equities

	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	42,732	-0.6%	-4.3%	2.2%	16.3%	0.5%
S&P 500	5,942	-0.5%	-1.7%	4.6%	28.0%	1.0%
Russell 1000 Growth	4,101	-0.6%	0.8%	10.0%	38.6%	1.4%
Russell 1000 Value	1,838	0.0%	-5.1%	-0.4%	15.8%	0.8%
Russell Midcap	3,577	0.3%	-5.4%	3.0%	19.6%	1.2%
Russell 2000	2,268	1.1%	-6.0%	4.4%	17.4%	1.7%
Nasdaq	19,622	-0.5%	0.8%	9.7%	35.5%	1.6%

International Equities

	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	847	-0.5%	-2.3%	0.8%	20.4%	0.7%
MSCI EAFE (USD)	2,255	-0.9%	-3.9%	-6.6%	5.8%	-0.3%
MSCI Europe ex UK (USD)	2,449	-1.2%	-3.6%	-8.6%	2.0%	-0.6%
MSCI Japan (USD)	3,925	-0.6%	-4.0%	-2.8%	10.2%	-0.2%
MSCI UK (USD)	1,213	-0.4%	-3.5%	-5.6%	8.9%	-0.3%
MSCI EM (USD)	1,073	-0.8%	-2.0%	-8.3%	9.6%	-0.1%
MSCI Asia ex Japan (USD)	701	-1.0%	-2.1%	-8.6%	14.0%	-0.3%

Fixed Income

	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.9%	0.2%	-1.6%	-2.9%	1.6%	-0.1%
U.S. Govt/Credit	4.8%	0.2%	-1.7%	-2.9%	1.5%	-0.1%
U.S. 10 Year Treasury	4.6%	0.3%	-2.5%	-4.9%	-1.5%	-0.1%
U.S. TIPS (1-10YR)	4.6%	0.2%	-1.0%	-1.7%	3.1%	-0.1%
U.S. High Yield	7.4%	0.4%	-0.3%	0.6%	9.5%	0.3%
EM Bonds (USD)	6.7%	0.2%	-1.1%	-1.2%	7.7%	0.1%
Municipal Bonds	3.7%	0.6%	-1.4%	-1.2%	1.4%	0.3%

Commodities

	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	238	0.4%	1.4%	-2.6%	5.4%	-0.2%
Crude Oil (USD/bbl)	$74.2	5.1%	7.0%	-0.2%	0.4%	2.5%
Gold ($/oz)	$2,640.2	0.8%	0.3%	-0.5%	29.1%	0.6%
Copper	$407.4	0.4%	-1.5%	-10.9%	7.1%	1.3%
Wheat	$529.3	-2.2%	-3.3%	-15.5%	-19.7%	-4.0%
U.S. Dollar	109	0.9%	2.7%	6.3%	6.4%	0.4%
VIX Index	16.1	1.1%	21.3%	-21.3%	14.9%	-7.0%

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