Market commentary

Market highlights, Q4 24

- Despite the year-end sell-off, all three major U.S. indices finished the quarter and year in positive territory.
- Bond markets declined as the Fed updated its guidance.
- The jobs report and consumer spending offered positive signs for the economy.

Mixed month for markets

December was a mixed month for markets, as investors pulled back from most U.S. stocks due to concerns over rising interest rates and economic uncertainty. Despite the year-end sell-off, all three major U.S. indices finished the quarter and year in positive territory. The S&P 500 lost 2.38 percent in December but managed a 2.41 percent gain for the quarter and an impressive 25.02 percent gain for the year. The Dow Jones Industrial Average dropped 5.13 percent in December but was up 0.93 percent for the quarter and 14.99 percent over the full year. The technology-heavy Nasdaq Composite led the way with a 0.55 percent gain in December, which contributed to a 6.35 percent gain for the quarter and a 29.57 percent rise for the year.

International equities experienced a challenging end to the year. The MSCI EAFE Index fell by 2.27 percent in December, leading to an 8.11 percent decline for the quarter and just a 3.82 percent gain for the year. Emerging markets held up a bit better but also saw a year-end drop. The MSCI Emerging Markets Index lost 0.09 percent in December and fell 7.84 percent in the fourth quarter; however, the index was up 8.05 percent for 2024. A strengthening dollar and rising political upheaval contributed to the year-end declines for international stocks.

Bonds fall as Federal Reserve updates guidance

The stock market weakness was echoed by bond markets, which were also down to end the year. Long-term interest rates rose notably in December as the 10-year Treasury yield rose from 4.17 percent at the end of November to 4.57 percent at year-end. The Bloomberg Aggregate Bond Index lost 1.64 percent for the month and 3.06 percent for the quarter; however, the index managed to eke out a 1.25 percent gain for the year.

The rising interest rates during the month were due in part to updated guidance from the Federal Reserve following the conclusion of the Fed's December meeting. The Fed lowered short-term interest rates by 25 basis points at this meeting. What was less expected was the updated economic projections that showed the average Fed member expected to see just two more 25-basis-point rate cuts through the end of 2025, which was less than previously forecast. This means that the Fed remains cautious about the economy and inflation, and that it will be making decisions on a meeting-by-meeting basis in 2025.

Positive economic updates

Despite the volatility to end the year, the economic updates released in December continued to point toward solid economic growth. The November job report showed an encouraging rebound in hiring during the month following a weather-driven slowdown in October.

Consumer sentiment also showed signs of improvement, with the University of Michigan Consumer Sentiment survey improving for the fifth consecutive month in December. And November retail sales and personal spending reports came in strong, indicating solid consumer spending during the important holiday season.

Risks to Monitor

While the solid economic updates released in December were welcome, the stock market turbulence during the month served as a reminder that markets face real risks in 2025.

Domestically, the primary risk is political. With a new administration and Congress, investors will be keeping a close eye on any policy proposals that could impact markets, especially when it comes to the inflation outlook. Part of the rise in long-term interest rates at year-end has been attributed to rising investor concerns about inflation in 2025 due to the policy uncertainty from Washington.

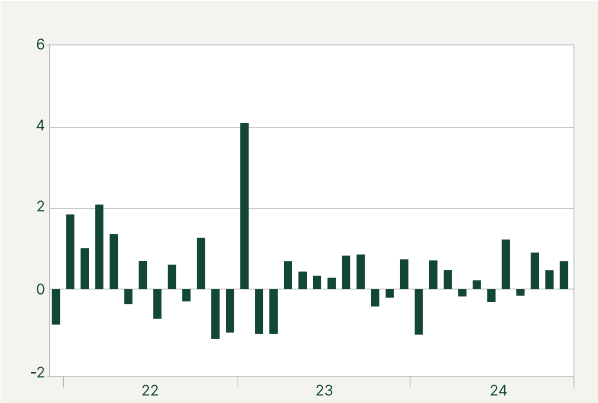
Foreign risks also remain. The wars in Ukraine and the Middle East, as well as the recent political turmoil in France and South Korea, are prime examples of the geopolitical uncertainty that could impact markets.

Outlook for the new year

Markets fundamentals were impressively resilient throughout 2024, and this momentum is expected to carry over into 2025. Analysts expect to see continued earnings growth throughout the year, supported by a strong job market and rising consumer confidence.

Looking ahead, we believe the most likely path forward for the economy and markets is further growth and appreciation. But December's mixed results are a valuable reminder that we may face short-term setbacks along the way.

Figure 1: Retail Sales, Monthly Percentage Change, December 2021–Present



Source: Census Bureau/Haver Analytics, as of December 17, 2024

Disclosure

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All information according to Bloomberg, unless stated otherwise.

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