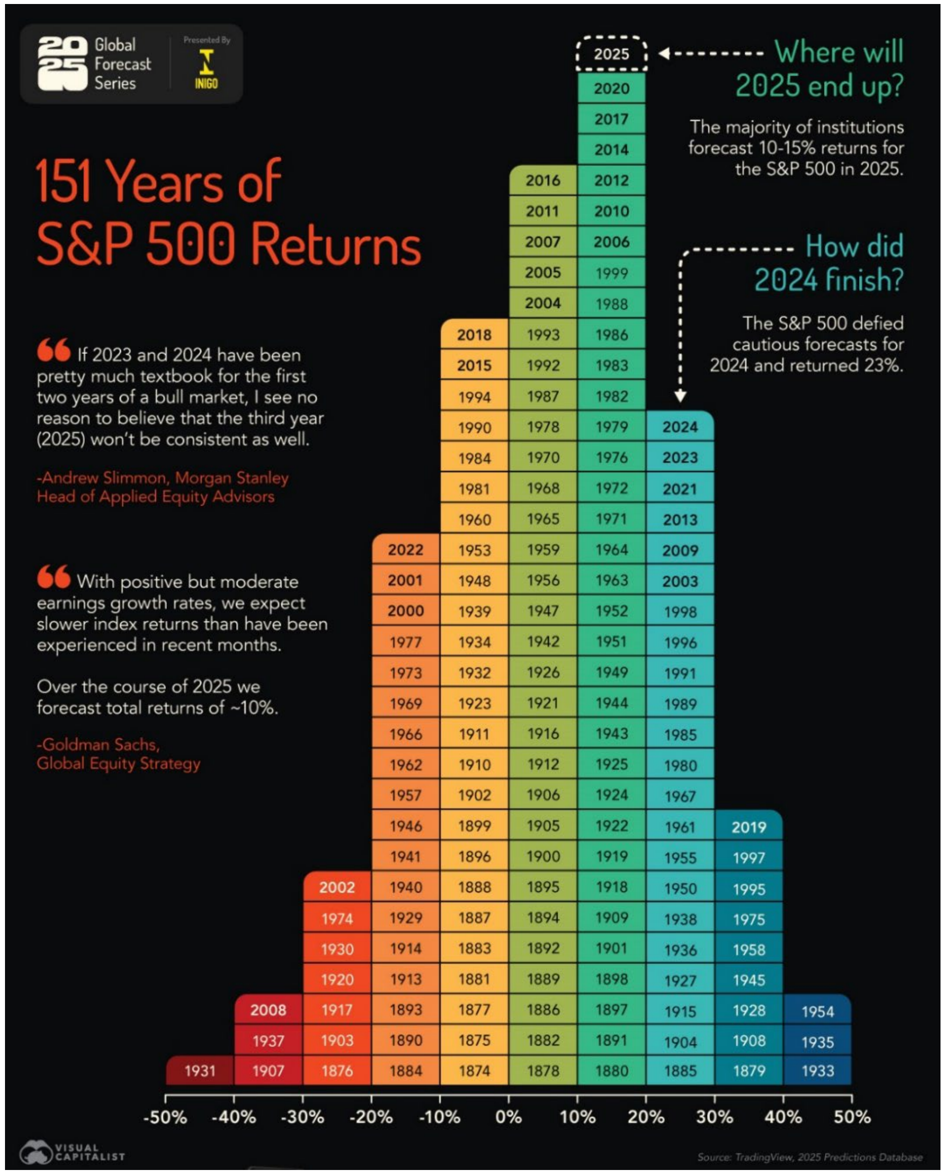
Annual Observation-- Looking Back at Full Year 2024

Market Finishes Up Over 23% on the Year as Rates Continue to Drop & A New Cabinet Prepares for Office:



The S&P500 index, which tracks 500 of the largest US stocks, finished with a gain of 23.3% in 2024. This is the first time since 1998 that we saw back-to-back years of over 20% gains and only the fifth time ever in the history of the stock market. We saw fifty-seven fresh daily highs during that time, which averaged out to us reaching a new all-time high more frequently than once out of every 5 days. Although the US still outperformed, the MSCI All-Country World Index also returned upwards of 18%.

Inflation has fizzled down from to 9.1% in June 2022 to 2.7% in November 2024. After the most intense interest-rate hike cycle the country has seen since the 80's, we are officially on the other side of the peak. We have already seen Jerome Powell and the Fed cut the federal funds rate three times totaling a 100 basis point, or 1%, drop from the peak federal funds rate after the last rate hike in July of 2023 (5.25 – 5.50% to 4.25 to 4.50%). So as investors, this means we're getting paid less to lend our money than we were a year ago, meaning one would be more likely to invest in stocks versus lending our money for a return than they were a year ago (after all, would you rather be paid 5.5% on an investment or 4.5%?). This, big picture-wise, is the main reason why lowering interest rates is considered "bullish", or optimistic, for the stock market. In addition, this is why the price of existing bonds go up when rates go down—if a piece of paper (a bond) that you bought a year ago promises you a 5%

return, and now the paper they ("they" being either the government or corporations) are offering only promises a 4% return, your old piece of paper just got more valuable because people will pay you for that higher income stream. Add a few details on money supply and inflation in there, and that pretty much sums up the first week of any college Macroeconomics course you'll take!

Source: NBC News

The outcome of the presidential election in November created an additional surge in the market as President-elect Donald Trump defeat Kamala Harris in the race for the white house. There was no shortage of drama this cycle with a failed assassination attempt on Trump and Joe Biden being pressured to step down towards the end of his campaign. Ultimately, investors liked the outcome. The market saw a 4.7% jump in the week following election night as optimism surrounding potential deregulation and tax cuts caused a surge of inflows into the stock market. Small cap companies saw the largest increase, mainly due to the belief that domestic small businesses will now face decreased competition caused by potential tariff policies. Trump's formation of the Department of Government Efficiency (DOGE) co-led by Elon Musk and Vivek Ramaswamy sends a clear message—it is starting to be cool again to be financially prudent. The timing and sheer attention that the formation of this group is receiving goes to show that the growing long-term debt burden caused by our government's runaway spending is at the forefront of the incoming administration's agenda.

Where did this growth in the market come from specifically?

Now it is time to break down where this 23.3% gain in the S&P500 stems from—spoiler alert, its mainly from a few outperformers that just so happen to already be some of the biggest companies in the world.

We have talked about the S&P500 weighted (SPX) vs. equal-weighted index (SPXEW) before, so here is a little reminder. The SPX and SPXEW track the same five hundred companies, but the effect each individual company has on the overall performance of the index is different. The SPX is weighted by how big the company is—the bigger the market cap, the larger effect that company will have on the overall index performance. In the SPXEW, all companies have an equal weighting and because of this, a positive or negative move will have the same level of effect regardless of the size of the company.

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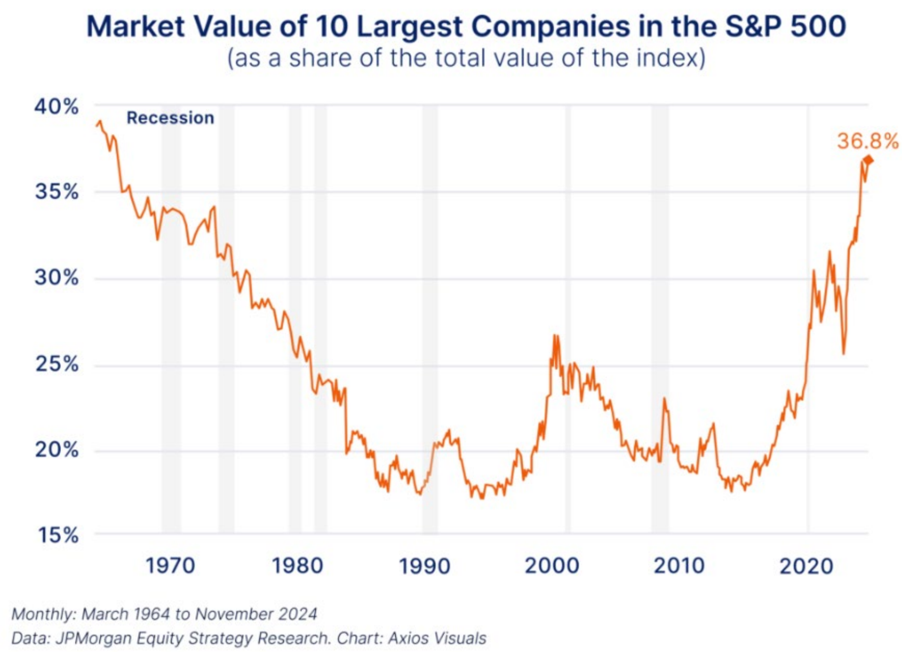

Cool… so why does this matter? It matters because as of today (12/24), we have seen the largest gap we have ever seen since the equal weight index's inception in 2003—the market-cap weighted S&P index is up 26% verses the equal weight index up 13.5%. This 12.5% outperformance can be contributed to the biggest companies in the SPX index contributing the most to overall market returns. As we enter 2025, we are looking for participation to expand to the remainder of the stocks within the index and returns to broaden out from just a few stocks to the plenty.

All eleven sectors within the market finished higher in 2024. Communication services led the way this year by returning over 38% and technology came in second with a gain of 35.7%. The consumer discretionary, financials, and utilities sectors all three had strong years returning 29.1%, 28.4%, and 19.6%, respectively. Industrials and Consumer Staples also both beat the market's long-term annual average by returning over 10%. Energy, Real Estate, and Health Care all returned less than 3% on the year and the only negative sector was materials finishing down 1.8%.

So which companies specially contributed? The chipmaker Nvidia's stock rose 171% on the year. META, the social media giant, saw a value increase of over 65% and Amazon, the digital retailer, gained 44%. Elon Musk's Tesla also gained over 62% in 2024, with most of these returns coming after the presidential election since Elon was highly involved in the Trump campaign. A couple of other companies that are not a part of the "Magnificent Seven" but saw massive surges upwards were Palantir Technology (+340%) and

As of 12/31/24

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Vistra Energy (+258%). Both companies' growth was contributed to Artificial Intelligence—Palantir saw massive revenue increases in the sale of its AI software, and Vistra has benefited from the large-scale buildout of data centers to power the AI revolution and meet the country and world's growing electricity demand. The largest decliners of the year include Intel (-60.1%), Walgreens (-64.3%), Moderna (-58.2%) and Estee Lauder (-48.7%).

Closing Thoughts

It has been an interesting couple of years in the market. January 3rd of 2022 was the beginning of what a textbook considers a "bear market". At the time, the level of the SP500 index was right below 4,800. Over the ten months, the market plummeted, and bottomed at a level of 3,583 on October 14th.

On the final trading day of this year, almost exactly three years later, the index sits right above 5,880—a gain of 22.5% from the beginning of the bear market in January 2022 and a gain of 64% from the market's bottom in June of 2022.

This is impressive enough as is, but even more so when you add that just about every analyst, economist, and investment manager predicted you read about in the news or saw on the TV was predicting there to be a recession during this period. On top of that, the money an investor would have been paid to save (instead of investing) was the highest it has been in 15 years. That 5% coupon always looks good until the market returns over 4x during the same period.

Not all signs are bullish. Discussions between money managers and analysts continue to center around the market being potentially overvalued. Although inflation has dropped over the past two and a half years, the past few monthly numbers have shown some stubbornness. Jerome Powell has hinted that they don't expect as many or as large of rate cuts in 2025. The war in the Middle East saw Lebanon enter the arena, Syria is in a state of (welcomed) disarray, and Ukraine continues to struggle with depleting men and resources. All these things are worth keeping an eye on.

My moral of the story is not that the stock market will never go down, or that I knew all the other forecasts were wrong, or that going the fixed income route during this time made no sense for any investor. It is this—no one ever knows what the market will do during any period. We believe staying in the market and investing during down periods and following a prudent financial plan that is consistent in the best of times and the worst of times is imperative to financial success.

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The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation.

There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise.

It is not possible to directly invest in an index.

The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.

Investing involves risk and you may incur a profit or loss regardless of strategy selected.

MSCI All Country World Index (ACWI): A free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The index consists of 47 country indices comprising 23 developed and 24 emerging market countries. Developed markets are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom and United States. Emerging markets are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

Image Sources:

Image 1: https://www.voronoiapp.com/markets/151-Years-of-SP-500-Returns--3550

Image 2: https://www.nbcnews.com/politics/donald-trump/donald-trump-jd-vance-relationship-rcna171181

Image 3: https://www.tipranks.com/news/newswire/the-top-heaviness-of-the-stock-market-and-how-real-estate-can-help

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