U.S. stocks had another great year with the S&P 500 up 25% in 2024 after a 26% return in 2023. This represents the best two-year performance since 1997-1998. It is important to note, however, that index returns have been propelled by the performance of artificial intelligence (AI) and technology related stocks while the majority of stocks in the Index have advanced less dramatically. Concurrently, a substantial rise in the price of Bitcoin leaves open the question of whether investors are becoming increasingly speculative. Bonds (except for long term) were positive for the year after a negative fourth quarter. For the year, the S&P 500 was up 25%, NASDAQ was up 28%, DJIA was up 15% and the Bloomberg Aggregate Bond Index was up 1.3%. Large and small cap growth continued to outpace value stocks. International stocks were positive as well with the exception of Latin America.

The Federal Reserve cut interest rates as expected in December but signaled that there may be fewer rate cuts in 2025 due to the ongoing stickiness of inflation (goods inflation is moderating but services inflation remains high) and a strong job market. This precipitated a sharp pullback in equity prices while the yield on the 10-year Treasury moved higher. Higher rates on the 10-year directly impact borrowing costs for consumers (mortgages) and small businesses. Higher long-term rates reflect the markets concern that inflation may remain elevated in spite of the Fed’s efforts and concerns about the growing US deficit. Higher interest rates may also negatively impact stock market valuations.

On the geo-political front, ongoing international conflicts remain prominent. The tide seems to have turned in Israel’s favor while Ukraine remains a stalemate. The fall of the government in Syria may present either a risk of further instability or an opportunity-it remains to be seen. However, oil and gas prices remained stable throughout it all largely as a result of the ability of the US to increase production. China continues to provoke incidents in the South China sea and threatens a move against Taiwan. (A conflict here would pose a significant risk to semi-conductor chip production.)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending**  **12/31/2024** | **12 MONTHS Ending**  **12/31/2024** | **THREE YEARS Ending**  **12/31/2024** | **FIVE YEARS Ending**  **12/31/2024** |
| **DJIA** | 0.9% | 15.0% | 7.6% | 10.6% |
| **S & P 500** | 2.4% | 25.0% | 8.9% | 14.5% |
| **NASDAQ Composite** | 6.2% | 28.6% | 7.3% | 16.6% |
| **Bloomberg Agg. Bond** | -3.1% | 1.3% | -2.4% | -0.3% |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
| *Large Cap* |  |  |  |  |
| Growth | 5.4% | 29.0% | 6.7% | 15.4% |
| Value | -1.5% | 14.3% | 6.1% | 9.3% |
| *Small Cap* |  |  |  |  |
| Growth | 1.7% | 15.0% | -1.3% | 8.5% |
| Value | 0.1% | 8.9% | 4.5% | 9.3% |

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| --- | --- | --- | --- | --- |
| International |  |  |  |  |
| Europe | -8.1% | 3.2% | 0.1% | 4.9% |
| Latin America | -17.4% | -26.5% | 0.0% | -5.7% |
| Japan | -2.7% | 11.5% | 5.5% | 5.9% |
| Pacific ex Japan | -6.0% | 11.0% | -1.9% | 2.8% |
| China | -6.7% | 9.7% | -11.1% | -1.6% |
| India | -7.4% | 12.2% | 6.1% | 11.9% |

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|  | **QUARTER Ending**  **12/31/2024** | **12 MONTHS Ending**  **12/31/2024** | **THREE YEARS Ending**  **12/31/2024** | **FIVE YEARS Ending**  **12/31/2024** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
| Long | -5.5% | -1.2% | -6.5% | -1.9% |
| Intermediate | -2.9% | 1.7% | -2.3% | -0.2% |
| Short | -0.1% | 5.1% | 1.8% | 1.9% |
| Government Bond |  |  |  |  |
| Long | -8.6% | -6.6% | -12.4% | -5.4% |
| Intermediate | -3.1% | 1.0% | -2.3% | -0.7% |
| Short | -0.1% | 4.0% | 1.0% | 1.0% |
| Municipal Bond |  |  |  |  |
| Long | -1.4% | 2.3% | -1.2% | 0.8% |
| Intermediate | -1.0% | 1.9% | -0.4% | 0.9% |
| Short | -0.1% | 2.6% | 1.1% | 1.2% |

**Market Outlook**

Consumer spending remains strong while the jobs openings trend has been falling, overall; the current outlook for domestic economic growth in 2025 is projected to be 2.0%. Upside risks to this projection could be continued strong consumer spending as well as a recovery in housing and business investment. Business investment particularly in AI technology could boost productivity growth. Finally, a pause or resolution of ongoing geopolitical conflicts could boost investment and lower commodity prices. Major downside risks include trade wars, tax hikes and cuts in government spending as well as an expansion in geopolitical conflicts leading to a spike in food and energy prices.

The Conference Boards’ Leading Economic indicators reversed in November turning positive for the first time in two years. While this measure is updated monthly-for now, it is positive.

All that being said, market valuations remain at historically high levels so there could be increased volatility during the year. Therefore, we recommend that asset allocation targets be maintained, and new fixed income investments should remain in short term maturities for now.

**MSM FINANCIAL STRATEGIES**

**January 8, 2025**

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