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Market Perspectives: A Year in Review and What to Watch In 2025

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MARKET PERSPECTIVES: A YEAR IN REVIEW AND WHAT TO WATCH IN 2025

"I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years."

~Warren Buffett

- The conclusion of 2024 was strong from an economic and market perspective.
- The S&P 500 Index ended the year up 25%, international developed markets (represented by the MSCI EAFE Index) ended up 4.3% and emerging markets (represented by MSCI Emerging Markets Index) ended up 8.1%.
- The fixed income arena was a bit more volatile, and the late-year rise in interest rates cut into the gains seen earlier in the year. The primary market gauge, the Bloomberg Aggregate Bond Index ended the year up 1.3%.
- As we prepare for the beginning of a new Presidential administration, there is much to watch on the fiscal policy front.

Time inevitably marches on. Incredibly, the 2020's are now approximately half-way complete — what a decade it has been so far! Americans, and citizens around the world, have experienced high political drama, war in the Middle East and Europe, an inflationary environment that has not occurred since the 1980's with U.S. inflation up 23% cumulatively, and of course the first global pandemic in a century.

Through all the ups and downs, the American economy has remained resilient, yet the question of what may come in the years ahead remains at the forefront. As Warren Buffett suggests, investing is not about a day, a week or even a year. With the benefit of time, and despite broad global markets at one point falling over 30% in the last five years, the MSCI ACWI Index (which includes developed and emerging markets around the world), is now 48.8% higher (price return). Once again, the Oracle of Omaha (i.e., Warren Buffett) bestowed the greatest wisdom about investing. In the world of investing, time is our friend.

Before we look forward to what may impact the years ahead, let's reflect on 2024. The global equity markets were generally strong, led by the U.S. markets, specifically the mega-cap stocks. The chart below shows the total return performance of the major global indices.

Report Date	12/31/2024	2024 First Quarter	2024 Second Quarter	2024 Third Quarter	2024 Fourth Quarter	2024 Return	2023 Return
Broad Markets							
ACWI World Equity Index		8.2%	2.9%	6.4%	(0.8%)	17.5%	22.3%
S&P 500 (Market Cap Weight)		10.6%	4.3%	5.9%	2.4%	25.0%	26.3%
S&P 500 (Equal Weight)		7.9%	(2.6%)	9.6%	(1.9%)	13.0%	13.9%
US Large Cap Value		9.0%	(2.2%)	9.4%	(2.0%)	14.4%	11.5%
US Large Blend		10.3%	3.6%	6.1%	2.7%	24.5%	26.5%
US Large Cap Growth		11.4%	8.3%	3.2%	7.1%	33.4%	42.7%
US Mid Cap Value		8.2%	(3.4%)	10.1%	(1.7%)	13.1%	12.7%
US Mid Cap Blend		8.6%	(3.3%)	9.2%	0.6%	15.3%	17.2%
US Mid Cap Growth		9.5%	(3.2%)	6.5%	8.1%	22.1%	25.9%
US Small Cap Value		2.9%	(3.6%)	10.2%	(1.1%)	8.1%	14.6%
US Small Cap Blend		5.2%	(3.3%)	9.3%	0.3%	11.5%	16.9%
US Small Cap Growth		7.6%	(2.9%)	8.4%	1.7%	15.2%	18.7%
Intl Developed Markets Value		4.7%	0.4%	9.0%	(7.1%)	6.4%	19.8%
Intl Developed Markets		5.9%	(0.2%)	7.3%	(8.1%)	4.3%	18.9%
Intl Developed Markets Growth		7.1%	(0.6%)	5.7%	(9.1%)	2.4%	18.0%
Emerging Market Equity		2.4%	5.1%	8.9%	(7.8%)	8.1%	10.3%

Data Source: YCharts as of 12/31/2024

Indicates best performing asset class in time period

Indicates worst performing asset class in time period

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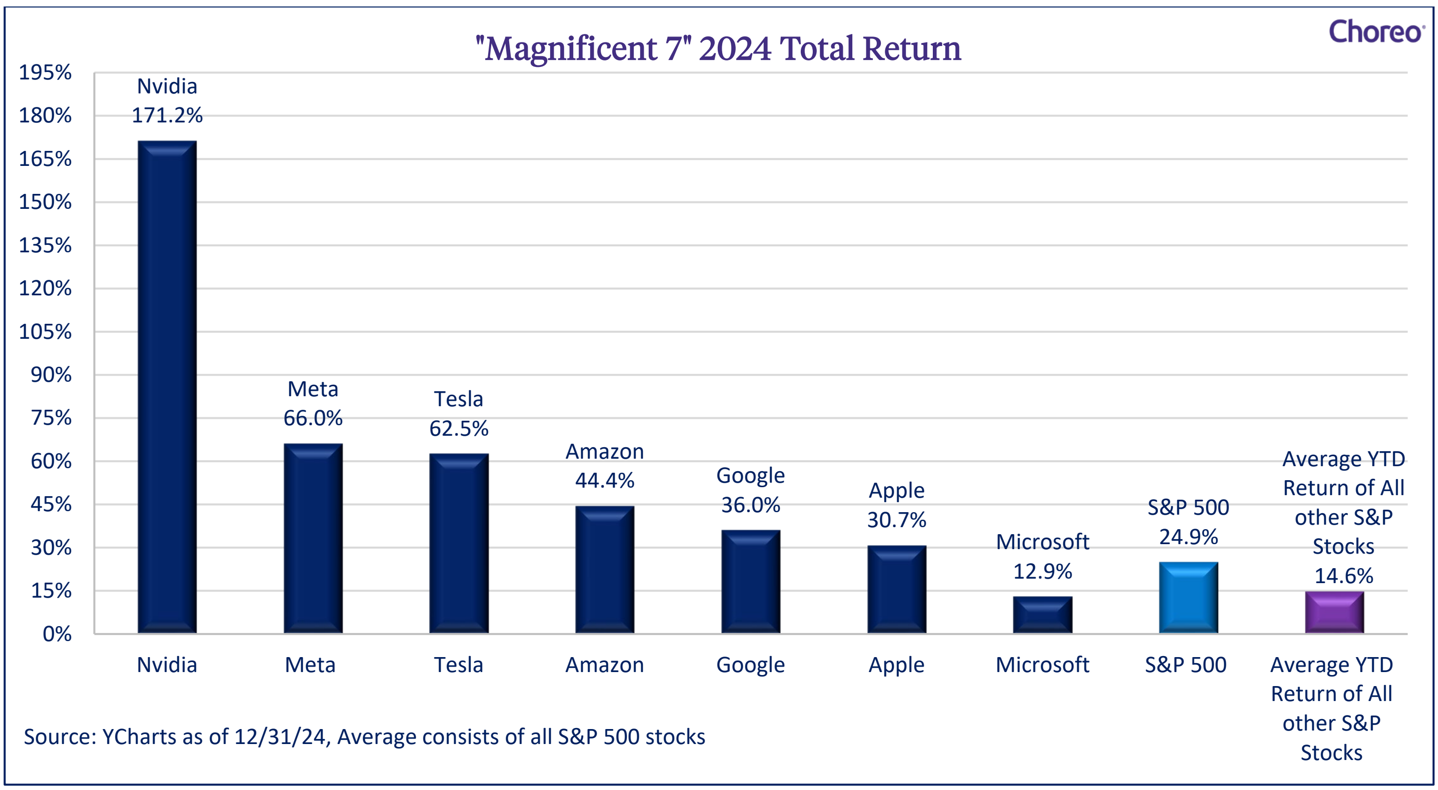
Strong performance was once again dominated by a handful of mega-cap stocks as shown in the graph below. As a reminder, the S&P 500 is a market cap weighted index, meaning that the largest companies have the greatest impact on index performance:



The bond markets experienced another volatile year with the 10-year Treasury Note trading between 3.63% and 4.70% yields, a dramatic move considering the Federal Reserve (the "Fed") cut interest rates 3 times for a total of 100 basis points.

The chart below shows the total return of various segments of the bond market.

Report Date 12/31/2024	2024 First Quarter	2024 Second Quarter	2024 Third Quarter	2024 Fourth Quarter	2024 Return	2023 Return
Bond Market Proxies						
Barclays Corporate Bond Index	(0.8%)	0.1%	5.2%	(3.1%)	1.3%	5.5%
Short Term Treasuries	0.3%	0.8%	2.9%	(0.1%)	3.9%	4.2%
Intermediate Term Treasuries	(0.7%)	0.5%	4.4%	(2.3%)	1.8%	4.4%
Long Term Treasuries	(3.7%)	(2.0%)	7.9%	(9.7%)	(8.1%)	2.8%
Treasury TIPs	(0.1%)	0.8%	4.1%	(3.0%)	1.7%	3.8%
Short Term Corporates	0.5%	0.9%	3.8%	(0.4%)	4.9%	6.2%
Intermediate Corporates	(0.3%)	0.4%	5.9%	(2.7%)	3.2%	9.0%
Long Term Corporates	(1.6%)	(1.8%)	8.4%	(6.3%)	(1.9%)	11.2%
High Yield Bonds	1.5%	1.1%	5.3%	0.2%	8.2%	13.4%
Short Term Municipal	0.5%	0.8%	1.7%	0.2%	3.2%	4.0%
Intermediate Term Municipals	0.0%	0.0%	2.7%	(1.0%)	1.8%	5.9%
Long Term Municipals	(0.1%)	0.4%	2.9%	(1.3%)	1.9%	7.6%
Emerging Market Bonds	1.5%	(0.1%)	7.1%	(2.9%)	5.5%	10.6%

Data Source: YCharts as of 12/31/2024

Indicates best performing asset class in time period

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Overall, mid-way through the decade, resilience has been the core message. As we look forward, several themes may impact the immediate future with others worth monitoring in the years to come.

What to Watch in 2025

Tariffs

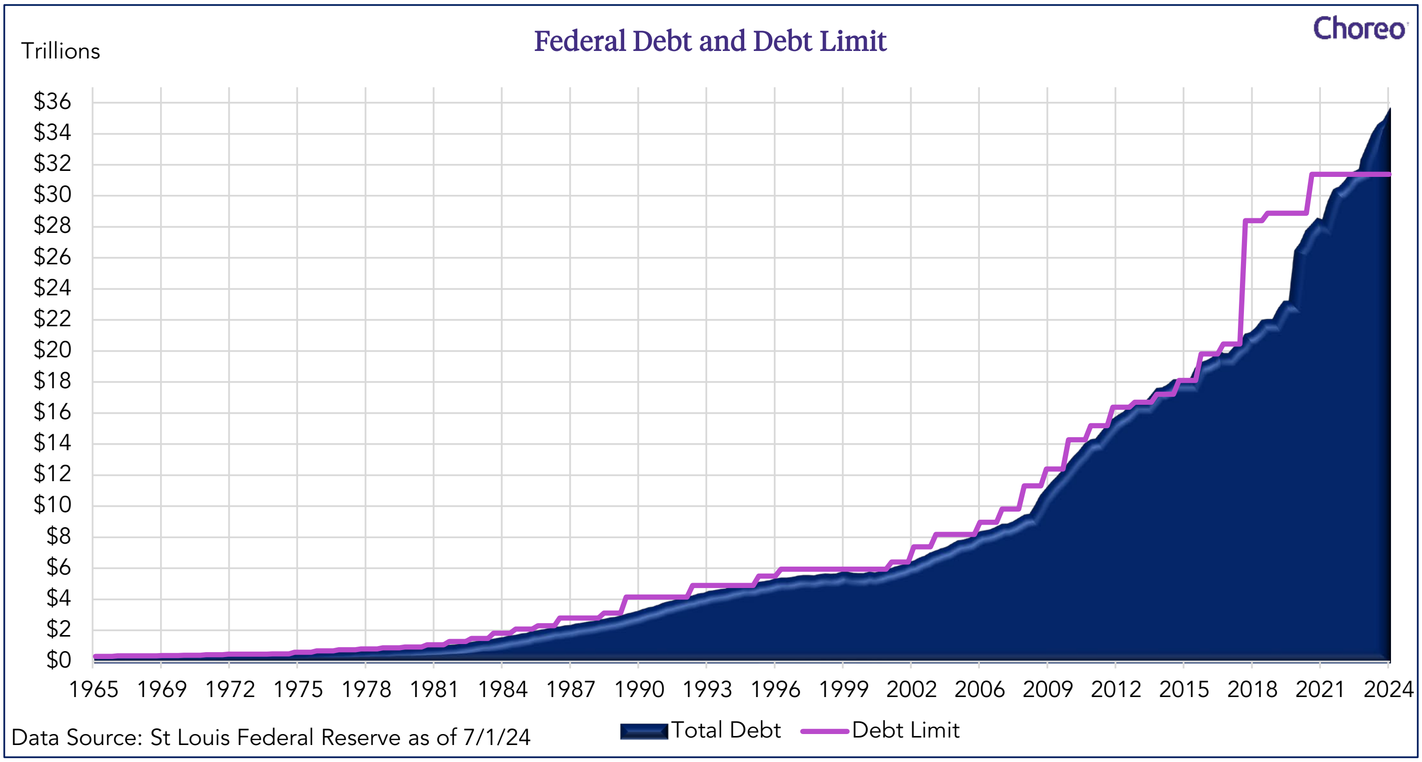
As President-elect Trump prepares to step back into the White House, tariffs are high on the priority list of near-term issues to watch. Over the last several decades, globalization has been a progressively important trend. "Globalization refers to the process of connecting the world economy more closely through the flow of goods, services, investment, technology, data, ideas, and workers. It began around 1870 and took off in the decades after World War II as countries started reducing restrictions on capital and trade flows in anticipation of benefits to growth and welfare[1]." For a variety of reasons, globalization has strong economic and fundamental rationale including (but not limited to these as the list is lengthy on both sides of the argument): potentially lower production costs of goods, potentially stronger economic growth, and cross-border trade improvements. On the other hand, these gains come with the risks of lower job growth domestically, and more competition (amongst other issues). Tariffs can serve as a potential equalizer for nations attempting to favor domestic growth and job creation by making it more expensive for foreign goods to be imported, thereby making domestically produced goods more competitive, albeit with the risk of inflating prices above a global free market outcome.

In reality, tariffs can make global trade less efficient, and in many cases, the additional costs of the tariffs will be passed along to the end consumer, increasing domestic inflation. This could potentially reverse the recent advance in the efforts to slow U.S. inflation. President Trump has stated he wishes to pursue higher tariffs, particularly on China. This is not the first time we have seen this analogue which occurred during the last Trump Administration in the 2018-time frame. The outcome will ultimately depend on the details (which should be revealed soon), and understanding the full impact may take some time to parse through.

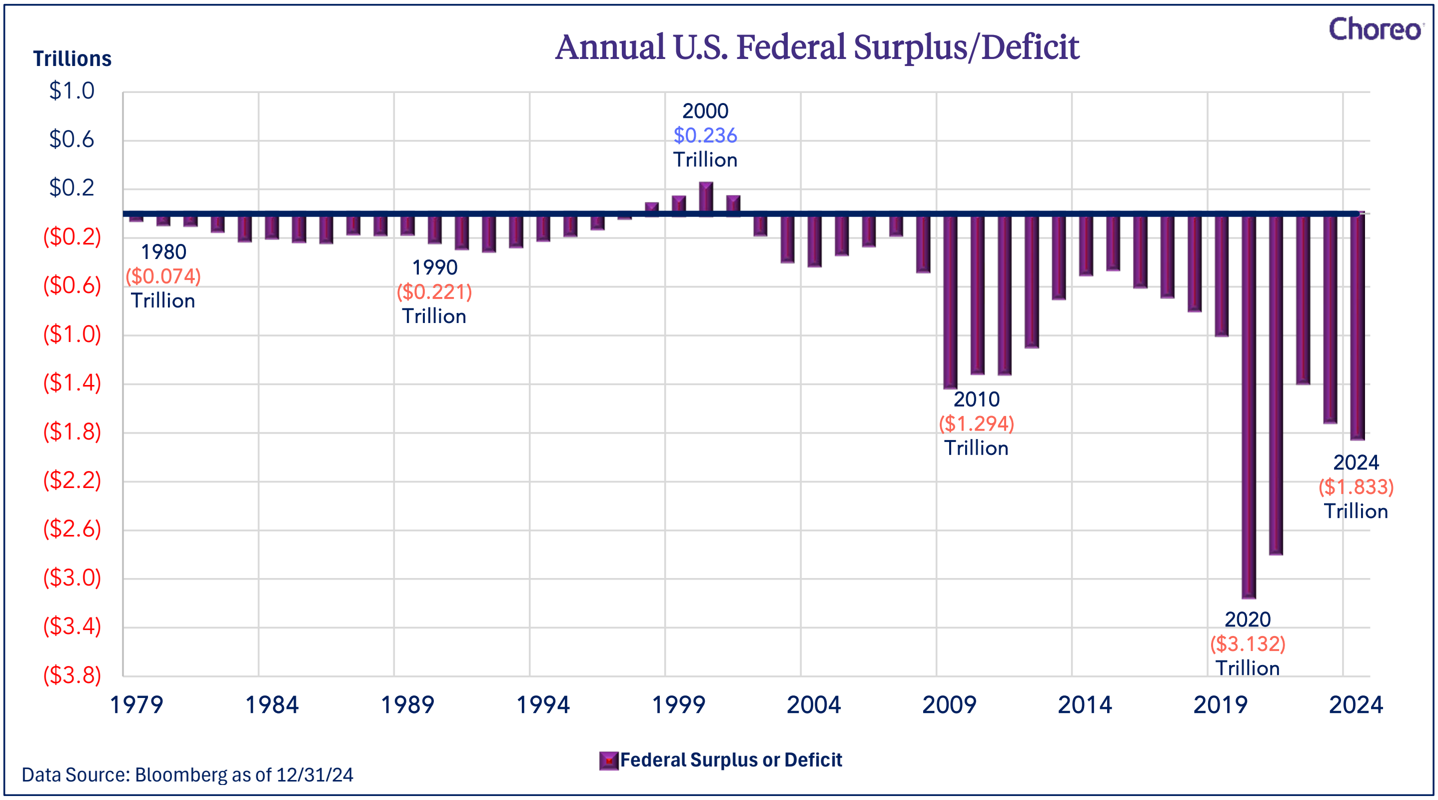
[1] Back to Basics: Globalization Today

Budget Battles and Deficits

We saw this in December with yet another debate on funding the government and the debt ceiling discussion coming to the forefront. Very few would argue that our nation, and in fact many nations around the globe, have spent too much of the first half of the decade relying on debt fueled growth. This was a lot easier to swallow when interest rates were close to zero percent. As rates have risen, and economic growth ensued, governments have kept spending and deficits have mostly grown, along with the growing national debt and the cost associated with servicing that debt. The total debt is shown along with the debt ceiling during those times in the graph below.



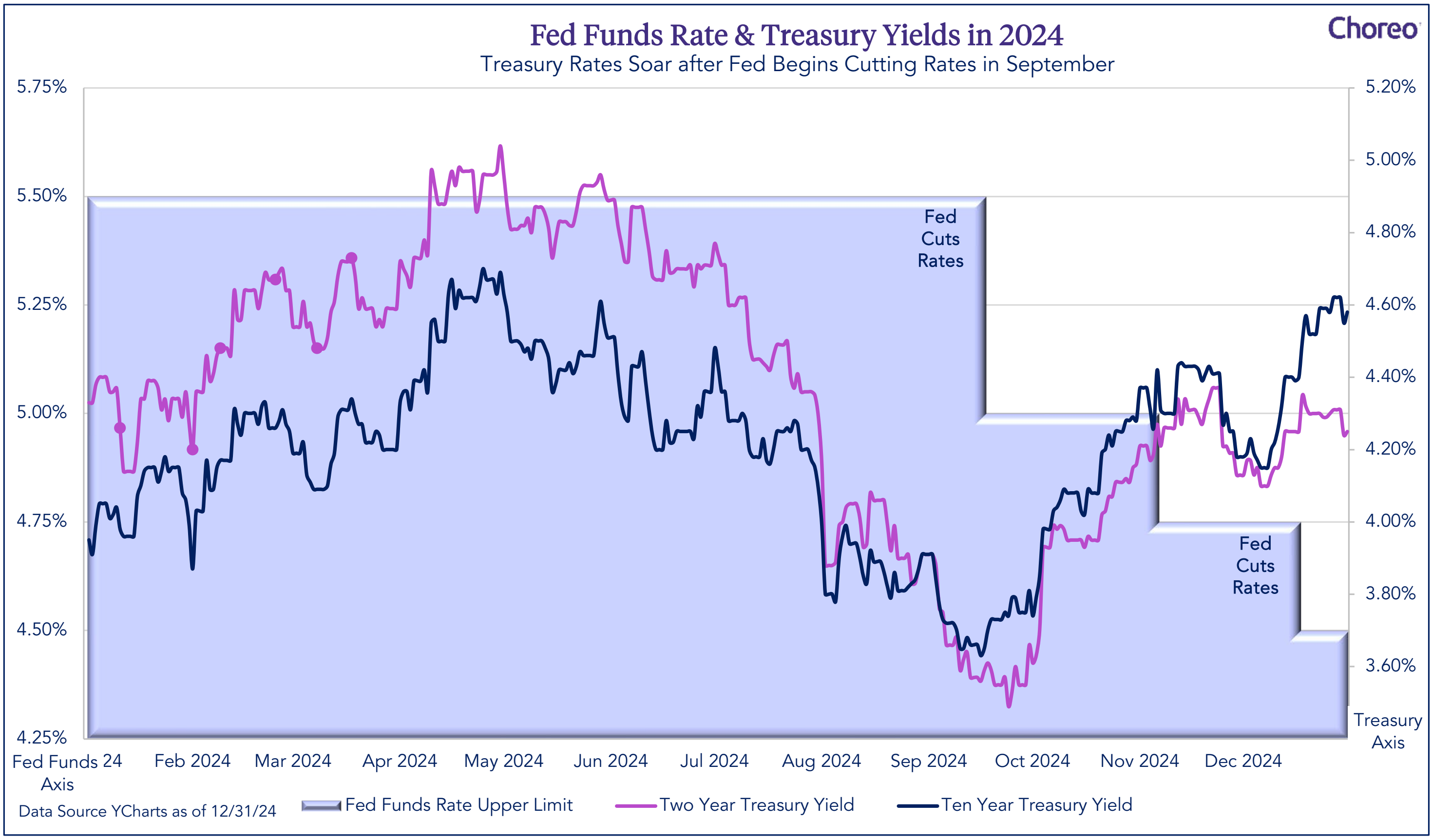
Narrow majorities in Congress and factions within both political parties may drive further budget battles as the U.S. grapples with deficits. President Trump has a stated agenda involving significant spending so it remains to be seen what can be accomplished. More near-term spending could continue to stoke inflationary fears. Deficits remain high as shown in the graph below. We will be closely monitoring the debt ceiling and budget battles in the months ahead.



<u>Other near-term items to watch</u>

The list of all market and economic factors is too numerous to list, but a sample includes:

- Immigration reform- President Trump was re-elected based in part on immigration reform, so one might expect material changes to current practices, including the potential deportation of many illegal immigrants. To the extent this occurs, it could limit the supply of labor, which could put upward pressure on inflation.
- Fed activity- The debate over where the Fed will move interest rates in the coming months remains highly uncertain and will be a function of labor markets and the ongoing inflation battle. Current expectations are for several more rate cuts but none for the next few meetings. Essentially, the Fed remains highly data dependent.
- Bond market activity- We have seen and continue to see relatively violent movement in the bond market. The implications of the current interest rate environment are significant, impacting everything from mortgage rates, car loans and credit card interest rates, to the interest cost on the national debt. This has the potential to limit (or stimulate) economic growth depending on where rates head. The chart below shows the Fed's interest rate changes (in the light purple), along with the corresponding actual market movements of both the 2- and 10- year Treasury yields. This might be counter to what many would expect, but it illustrates the market's forward-looking behavior and likely reflects concern for future interest rate movements.



Longer-term data points

While some of the above list may carry over to longer-term impacts, a small sample of some key longer-term items to watch are as follows:

- **Inflation-** Keeping inflation in check and heading towards the Fed's 2% target is likely to have chain reaction-type impacts on the broader economy. Controlled inflation can be positive in that it supports spending and is predictable, whereas out-of-control inflation can produce a host of challenging economic outcomes.
- **Global geopolitics-** There are several disruptive global conflicts ongoing and longer-term it would not be surprising if more hot spots flared up. With new leadership in several key countries expected in 2025, the posturing may change. While geopolitics generally does not dictate market performance, uncertainty regarding geopolitics can create economic shifts.
- **Earnings outcomes-** Earnings have been strong for several years. Ultimately, companies are valued (at least in part) based on expectations for future cash flows. Longer-term earnings and cash flow growth should be the key determinant of longer-term market direction.

Conclusion

A new year brings with it change and 2025 figures to be more transformative than the typical year with leadership changes and several critical economic pivot points. As Buffett suggests, investment strategy is determined by more than one year and the short-term mindset. Please reach out with any questions. From all of us at Choreo, we hope you have a healthy and prosperous New Year!

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