



## The S&P 500 Completes its Best 2-Yr Performance Since the Late 1990's

### **Quarterly Insights by Peter G. Carolan**

The S&P 500 rose to an all-time high in the fourth quarter and extended 2024 gains as the election results raised expectations for tax cuts and other pro-growth policies in 2025, while the economy remained on solid footing and the Fed continued to cut interest rates. The S&P 500 logged a modestly positive return for the fourth quarter and an annual return greater than 20% for the second straight year.

While the fourth quarter was positive for most of the market, it didn't start that way as anxiety over the election and an increased focus on the fiscal state of the U.S. weighed on sentiment in October. Presidential polls tightened materially in October and left the race too close to call, increasing political and policy uncertainty. Additionally, much of the financial media's focus in October was on the potentially negative fiscal consequences of both candidates' policies. Specifically, a *Wall Street Journal* article focused on possible large future increases in the deficit and national debt that could cripple future economic growth. Those fiscal concerns, along with stronger-than-expected economic data, pushed Treasury yields higher and the 10-year Treasury yield rose from 3.75% at the start of October to over 4.20% by Halloween. That rise in yields combined with political and policy uncertainty pressured stocks and the S&P 500 finished October with a modest decline, falling 0.91%.

Those headwinds on stocks were short-lived, however, as Donald Trump convincingly won re-election while Republicans took control of both houses of Congress, completing a "Red Sweep." Reminiscent of 2016, the Trump and Republican victories proved to be bullish catalysts as investors embraced the idea of future tax cuts, deregulation and a pro-business administration. That helped the S&P 500 rise above 6,000 for the first time. Shortly following the election, however, investors were reminded of the volatile nature of a Trump presidency, as the president-elect nominated several unorthodox supporters to prominent cabinet positions. These surprises caused investors to contemplate policy risks to the pro-growth agenda and stocks dipped mid-month. However, the withdrawal of Attorney General nominee Matt Gaetz and the nomination of Scott Bessent as Treasury Secretary helped to calm investor nerves about the president-elect's cabinet and stocks resumed their rally in late November and closed the month near all-time highs.

In December, renewed focus on the potential economic benefits of an incoming Trump administration combined with the "Goldilocks" economic environment of solid growth and continued Fed rate cuts to send the S&P 500 to yet another all-time high near 6,100. However, that rally stalled mid-month as President-elect Trump doubled down on his support for other unorthodox cabinet nominations and lobbed tariff threats at major trade partners including Canada, Mexico and China. Market volatility increased as the Federal Reserve cut interest rates at the December meeting but also reduced the number of expected cuts in 2025 to just two (from four). That sparked a sharp selloff in stocks that continued into year-end, causing the S&P 500 to finish slightly positive for the month, but well off the highs.

In sum, 2024 was a very strong year for the broad markets as the Fed seemingly achieved a soft economic landing and aggressively cut interest rates, while foreign and domestic political risks and drama failed to derail the rally.



## Q4 and Full-Year 2024 Performance Review

Despite the late year dip in stocks, all four major U.S. stock indices finished the quarter with a positive return. The Nasdaq was the best performing major index in the fourth quarter and outperformed the other three major indices on a combination of earnings-driven AI enthusiasm combined with growing uncertainty on when future pro-growth economic policies could actually be enacted. For the full year, the Nasdaq also was the best performing major index although it only slightly outperformed the S&P 500, as that index benefitted from the large weightings to tech stocks and financials. The Dow Industrials and Russell 2000 both also finished the year with solid gains, but they relatively underperformed the Nasdaq and S&P 500.

By market capitalization, large caps outperformed small caps in the fourth quarter and for the full year, thanks mostly to strength in large-cap tech stocks on the aforementioned AI enthusiasm and strong earnings. Small caps did see a solid rally initially in the fourth quarter on hopes for pro-growth policies from the incoming administration, but the Fed's guidance to fewer rate cuts in 2025 weighed on small caps later in December and the Russell 2000 finished the quarter with only a slight gain.

From an investment-style standpoint, growth significantly outperformed value both in the fourth quarter and for the full year. The reasons were familiar: Artificial intelligence enthusiasm powered tech-heavy growth funds early in 2024, while in the fourth quarter solid AI chipmaker earnings extended those gains. Additionally, doubts about the timeline for implementation of pro-growth policies from the incoming administration weighed on value stocks late in the year.

On a sector level, only four of the 11 S&P 500 sectors finished the fourth quarter with a positive return, although all 11 sectors ended 2024 with gains. The Consumer Discretionary sector was, by far, the best performing sector in the fourth quarter as the outlook for consumer spending remained solid, with low unemployment and the prospects of tax cuts and other pro-growth measures coming in 2025. The Communication Services and Financials sectors also performed well and benefited from expectations for less regulation given the incoming administration. For the full year, Communication Services and Financials were the best performing sectors and both benefited from strong earnings as well as general AI enthusiasm and an un-inversion of the yield curve, respectively.

Looking at sector laggards, Materials was the worst performing sector in the fourth quarter and posted a substantially negative return while Healthcare also declined sharply. Those two sectors were the worst relative performers for 2024 as the Materials sector was only fractionally positive for 2024 while Healthcare logged a small gain. Concerns about regulation and poor earnings results weighed on the Healthcare sector in 2024 while the Materials sector was consistently pressured by concerns about the Chinese economy, tariff and trade risks as well as general global demand concerns.

S&P 500 Total Returns by Month in 2024											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1.68%	5.34%	3.22%	-4.08%	4.96%	3.59%	1.22%	2.43%	2.14%	-0.91%	5.87%	-2.38%

*Source: Morningstar*

US Equity Indexes	Q4 Return	2024 Return
S&P 500	2.41%	25.02%
DJ Industrial Average	0.93%	14.99%
NASDAQ 100	4.93%	25.88%
S&P MidCap 400	0.34%	13.93%
Russell 2000	0.33%	11.54%

Source: YCharts

Internationally, foreign markets badly underperformed the S&P 500 in the fourth quarter and produced solidly negative returns thanks to lackluster growth prospects and surprising bouts of political uncertainty in developed and emerging markets. Emerging markets and foreign developed markets saw similar negative returns in the fourth quarter as the South Korean political crises and worries about Chinese growth pressured emerging markets while political turmoil in France and Germany weighed on developed market performance. For the full year, foreign markets again badly lagged the S&P 500 but did finish with modestly positive returns. Emerging markets outperformed developed markets on a full-year basis thanks to Chinese stimulus announcements in the second half of 2024, which raised investors' hopes for an economic rebound and boosted emerging market performance relative to those foreign developed markets.

International Equity Indexes	Q4 Return	2024 Return
MSCI EAFE TR USD (Foreign Developed)	-8.06%	4.35%
MSCI EM TR USD (Emerging Markets)	-7.84%	8.05%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	-7.50%	6.09%

Source: YCharts

Commodities saw mixed performance in the fourth quarter as a late surge in the U.S. dollar weighed on parts of the complex. Gold finished the quarter with a slightly negative return thanks mostly to a drop in December as the U.S. dollar rose to two-plus-year highs. Oil, meanwhile, saw a solid gain in Q4 thanks to some better-than-expected Chinese economic data, which boosted future demand expectations. For 2024, most commodities saw modestly positive returns on rising demand expectations following global rate cuts. Gold logged strong returns on the year thanks to consistent geopolitical uncertainty and sticky inflation, while oil also rose slightly on OPEC supply discipline and more optimistic global growth estimates in 2025.



Commodity Indexes	Q4 Return	2024 Return
S&P GSCI (Broad-Based Commodities)	3.81%	9.25%
S&P GSCI Crude Oil	5.24%	0.13%
GLD Gold Price	-0.38%	27.19%

Source: YCharts/Koyfin.com

Switching to fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) realized a moderately negative return in the fourth quarter as concerns about U.S. federal deficits combined with expectations for fewer rate cuts in 2025 to pressure bonds, although the benchmark did log a slightly positive gain for 2024.

Looking deeper into fixed income, longer-duration bonds declined solidly in the fourth quarter while shorter-duration debt logged a small positive return. The outperformance by shorter-duration debt was driven by continued Fed rate cuts as well as more resilient inflation and growth metrics (which weighed on longer-duration debt). Shorter-duration debt also outperformed long-term bonds on a full-year basis thanks to the start of the Fed rate cutting cycle, while U.S. fiscal concerns and the resilient growth and inflation outlook weighed on the longer end of the yield curve. Short duration debt finished the year with solidly positive returns while longer duration bonds posted a slightly negative annual return.

Turning to the corporate bond market, high-yield bonds outperformed higher-quality but lower-yielding investment grade debt in the fourth quarter as the election results boosted investor confidence for continued economic growth, resulting in investors accepting higher yields in exchange for greater risk. For the full year, high-yield bonds logged a solidly positive return while investment-grade bonds were only slightly positive, again reflecting investor preference to take on more risk in exchange for a higher yield/return, given underlying economic confidence.

US Bond Indexes	Q4 Return	2024 Return
BBgBarc US Agg Bond	-3.06%	1.25%
BBgBarc US T-Bill 1-3 Mon	1.19%	5.32%
ICE US T-Bond 7-10 Year	-4.59%	-0.52%
BBgBarc US MBS (Mortgage-backed)	-3.16%	1.20%
BBgBarc Municipal	-1.22%	1.05%
BBgBarc US Corporate Invest Grade	-3.04%	2.13%
BBgBarc US Corporate High Yield	0.17%	8.19%

Source: YCharts



## Q1 and 2025 Market Outlook

Markets begin 2025 with great expectations as anticipation of tax cuts and pro-business deregulation, a continued economic soft landing and ongoing Fed rate cuts helped propel stocks higher throughout 2024 and the S&P 500 completed the best two-year run since the late 1990's.

Starting with politics, investors are eagerly awaiting the implementation of pro-growth policies from the Republican Congress and Trump administration, which includes an extension of the 2016 Tax Cuts and Jobs Act and possible additional corporate and personal tax cuts, along with sweeping deregulation. If executed, those policies should result in increased corporate earnings, personal incomes and spending (all of which are positive for stocks).

On growth, the Federal Reserve appears to have achieved the elusive economic soft landing, as economic activity is solid, unemployment is historically low and inflation has declined substantially. That allowed the Federal Reserve to aggressively cut interest rates in 2024 and investors expect rate cuts to continue in 2025 and to further support continued economic growth.

Finally, geopolitical tensions remained high in 2024 but investors finished the year with hopes for progress on ceasefire agreements between Israel and its antagonists (Hamas and Hezbollah) and between Russia and Ukraine.

And, if all these expectations are realized, I believe we should all expect another strong year of returns in the markets.

However, as we all know, nothing in the markets is promised and while the outlook is positive as we begin 2025, there are significant risks to the outlook we must acknowledge.

Politically, Republicans hold small majorities in the House and Senate and large, complicated tax cut bills could easily be delayed (or derailed). Additionally, while investors have focused on potential positives of pro-growth policies, increased trade tensions and possible tariffs could create unanticipated market and economic headwinds.

On growth, the economy remains in a "sweet spot" with solid, but not spectacular, growth and the Fed can claim a soft landing has been achieved. However, growth can still slow as rates remain historically high and elevated stock valuations imply complacency in the markets regarding the possibility of an economic slowdown.

Geopolitically, while hope for progress on resolution of major global conflicts is high, nothing is guaranteed and the possibility exists that both conflicts spread in 2025.

Finally, global bond markets are expected to have a bigger influence on stock returns in 2025 and if bond investors think aggressive tax cuts or fiscal spending will dramatically increase the deficit or national debt, bond yields will rise and present a headwind on stocks (as we saw in 2022).

Bottom line, while the outlook for markets is positive as we start the year, we won't allow that to create a sense of complacency because as the past several years have shown, markets and the economy don't always perform according to Wall Street's expectations.



As such, while we are prepared for the positive outcome currently expected by investors, we are also focused on managing both risk and return potential because the past several years demonstrated that a well-planned, long-term focused and diversified investment plan can typically withstand virtually any market surprise and related bout of volatility, including multi-decade highs in inflation, historic Fed rate hikes, and geopolitical unrest.

To that point, at Stelvio Private Wealth, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

We remain focused on both opportunities and risks in the markets, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Sincerely,

A handwritten signature in black ink, appearing to read "P. Carolan", with a stylized flourish at the end.

Peter G. Carolan  
Managing Partner

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The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

The NASDAQ 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ Composite Index. The list is updated quarterly and companies on this Index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P SmallCap 600 Index in size: between \$1-4 billion.

The MSCI All Country World ex USA Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the USA. The Index consists of 45 country indices comprising 22 developed and 23 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

The MSCI Emerging Markets Index is designed to represent the performance of large- and mid-cap securities in 24 Emerging Markets.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The Bloomberg U.S. 1-3 Year Government Bond Index is composed of all publicly issued, non-convertible domestic debt of the U.S. government and its agencies. The Index also includes corporate debt guaranteed by the U.S. government. Only notes and bonds with a minimum maturity of one year up to a maximum maturity of 2.9 years are included.

The Bloomberg Mortgage Backed Securities Index is an unmanaged index of mortgage pools of the Government National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association.

The Bloomberg Corporate High Yield Municipal Bond Index covers the universe of fixed rate, non-investment grade debt.

The Bloomberg Municipal Bond Index is an unmanaged index of a broad range of investment-grade municipal bonds that measures the performance of the general municipal bond market.

The Bloomberg Corporate Bond Index is an unmanaged market value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more.