Q4 2024

NOTES ON THE MARKET

Ethos
STRATEGIC INVESTMENTS

Q4 2024 RECAP

The fourth quarter did not disappoint when it came to fast moving markets and surprises. While October was choppy leading into the Presidential election in early November, the post-election rally was nearly unstoppable, leading to strong returns across most asset classes. The highly anticipated Fed meeting and ensuing hawkish rate cut rhetoric mid-December doused water over the overly exuberant markets, bringing monthly losses and tempering confidence to close out the year.

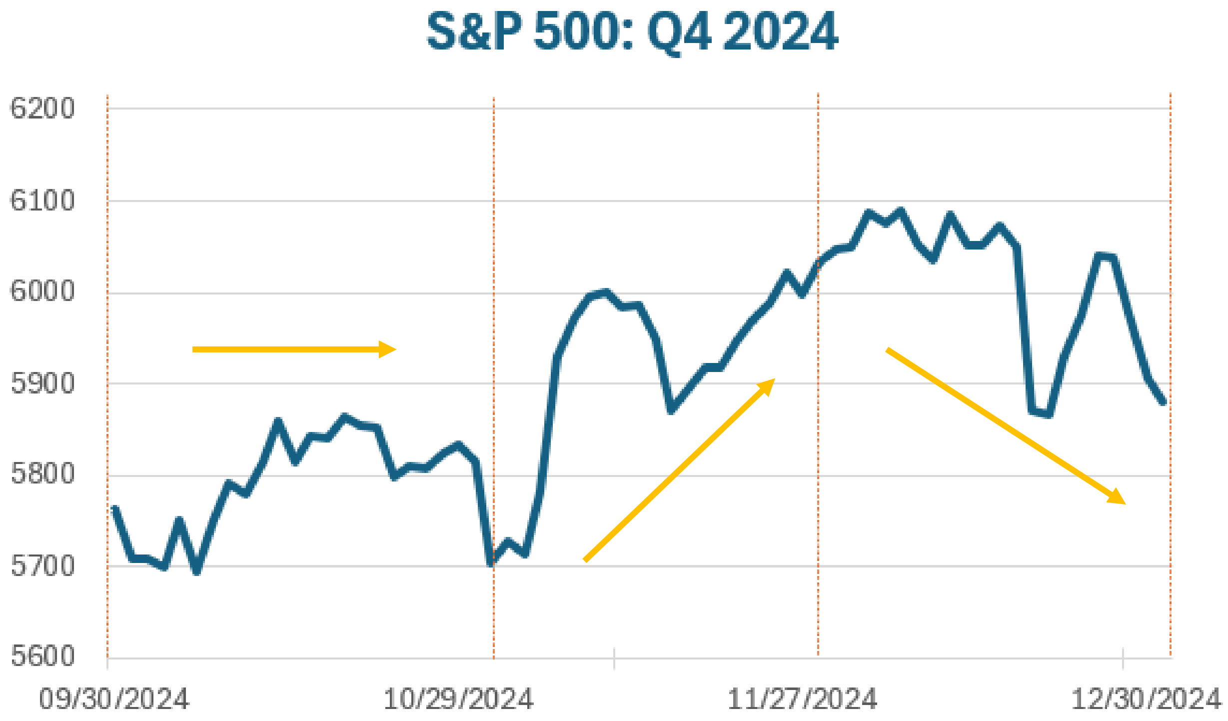
"Through discipline comes freedom." ~Aristotle

SANTA CLAUSE GETS TRUMPED

The typical December "Santa Clause Rally" was missing as stocks and bonds dropped to close out the year.

A CHOPPY QUARTER WITH STRENGTH IN NOVEMBER

- October markets chopped sideways in anticipation of November 5. The reaction to the US election was highly positive in the stock markets, pulling forward end of year returns.
- December was more subdued, until the mid-month Federal Reserve meeting where the 0.25% rate cut was announced, but caution was emphasized that future rate cuts may be slower due to stalled inflation and the potential for increasing prices from tariffs.



Data from Fidelity

	October	November	December	Q4
S&P 500	-0.99%	5.73%	-2.50%	2.07%
EAFE	-1.59%	0.58%	0.41%	-0.62%
Aggregate Bonds	-2.42%	1.03%	-1.60%	-2.99%
T-Bonds	-5.21%	1.82%	-5.32%	-8.62%

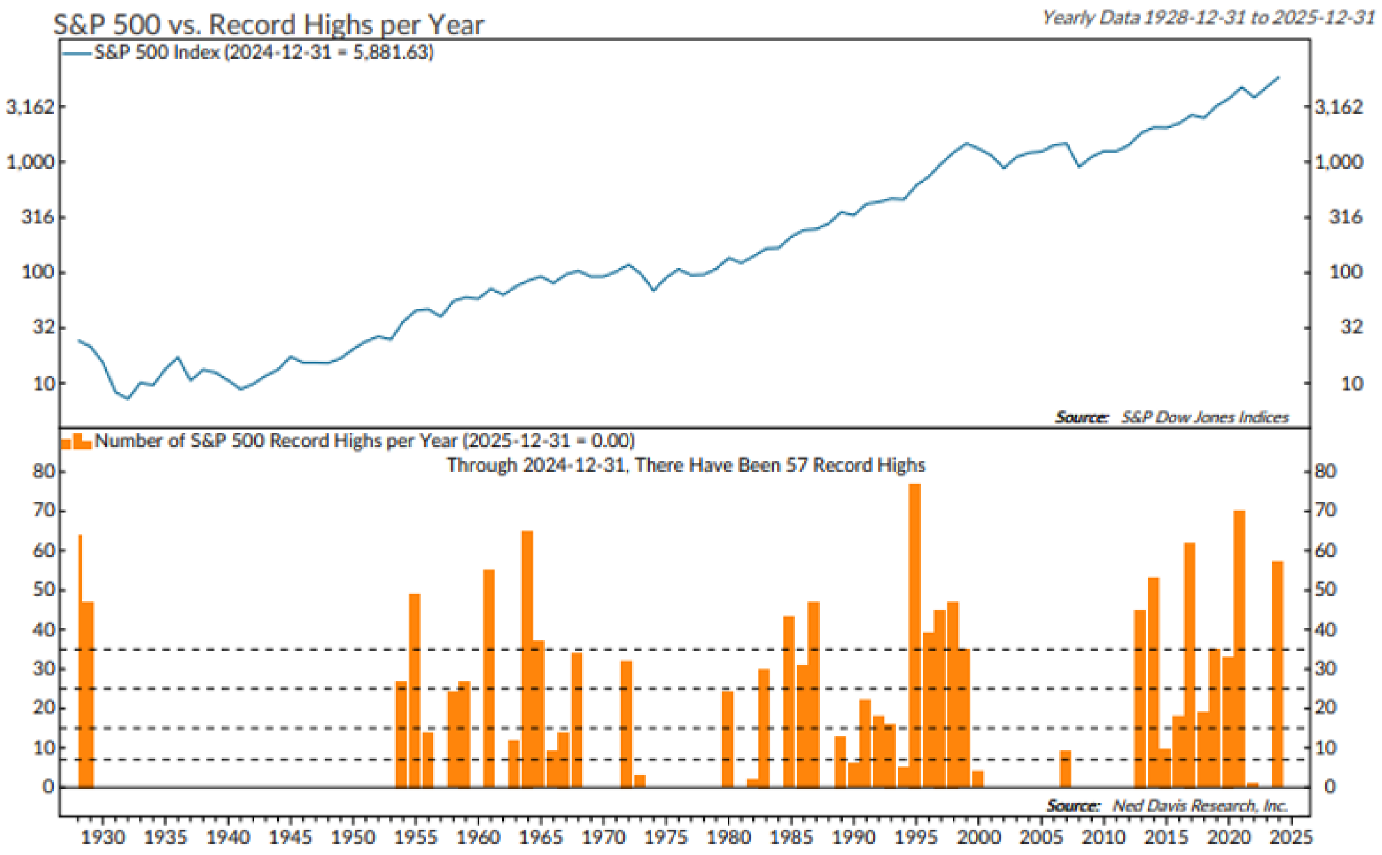
Data from Ned Davis Research

- Q4 2024 was a volatile quarter, with the strength in November bringing quarterly returns positive for US stocks, but not enough for other developed countries (EAFE) and bonds, which ended in the red for Q4.

2024 MARKED 57 NEW HIGHS FOR THE S&P 500

While that makes for an excellent return profile for 2024, it may mean dampened returns for the following year.

EQUITIES MARK 57 NEW RECORD HIGHS IN 2024



Data from Ned Davis Research, Inc.

S&P 500 Performance Stats 1928 - 2024	Number of Records per Year					
	= 0	> 0	> 7	> 15	> 25	> 35
Year's Median % Gain	1.40%	15.60%	18.90%	19.50%	19.50%	23.20%
Following Year Median Gain	13.40%	7.10%	4.50%	3.50%	2.00%	5.80%
Number of Occurences	51	46	40	33	26	17

Data from Ned Davis Research, Inc.

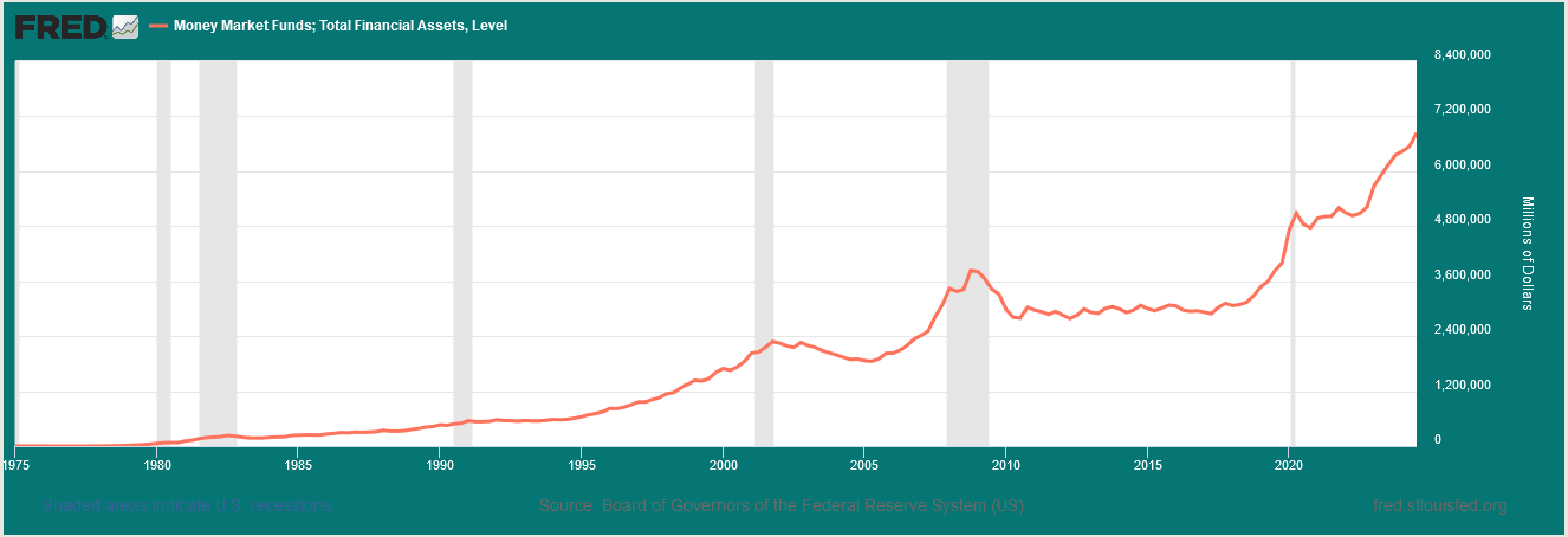
- In just under 100 years, there have only been 17 instances where the S&P hit new highs more than 35 times in one year.
- This was the sixth most record highs in history.
- The median return for the following year when this occurred in previous years was 5.80%.

MASSIVE AMOUNTS OF MONEY ON THE SIDELINES COULD PROPEL EQUITIES HIGHER

Money in cash alternatives is at an all time high.

MONEY MARKET ASSETS ARE AT AN ALL TIME HIGH

NEARLY $7 TRILLION DOLLARS IS WAITING ON THE SIDELINES TO ENTER THE MARKETS



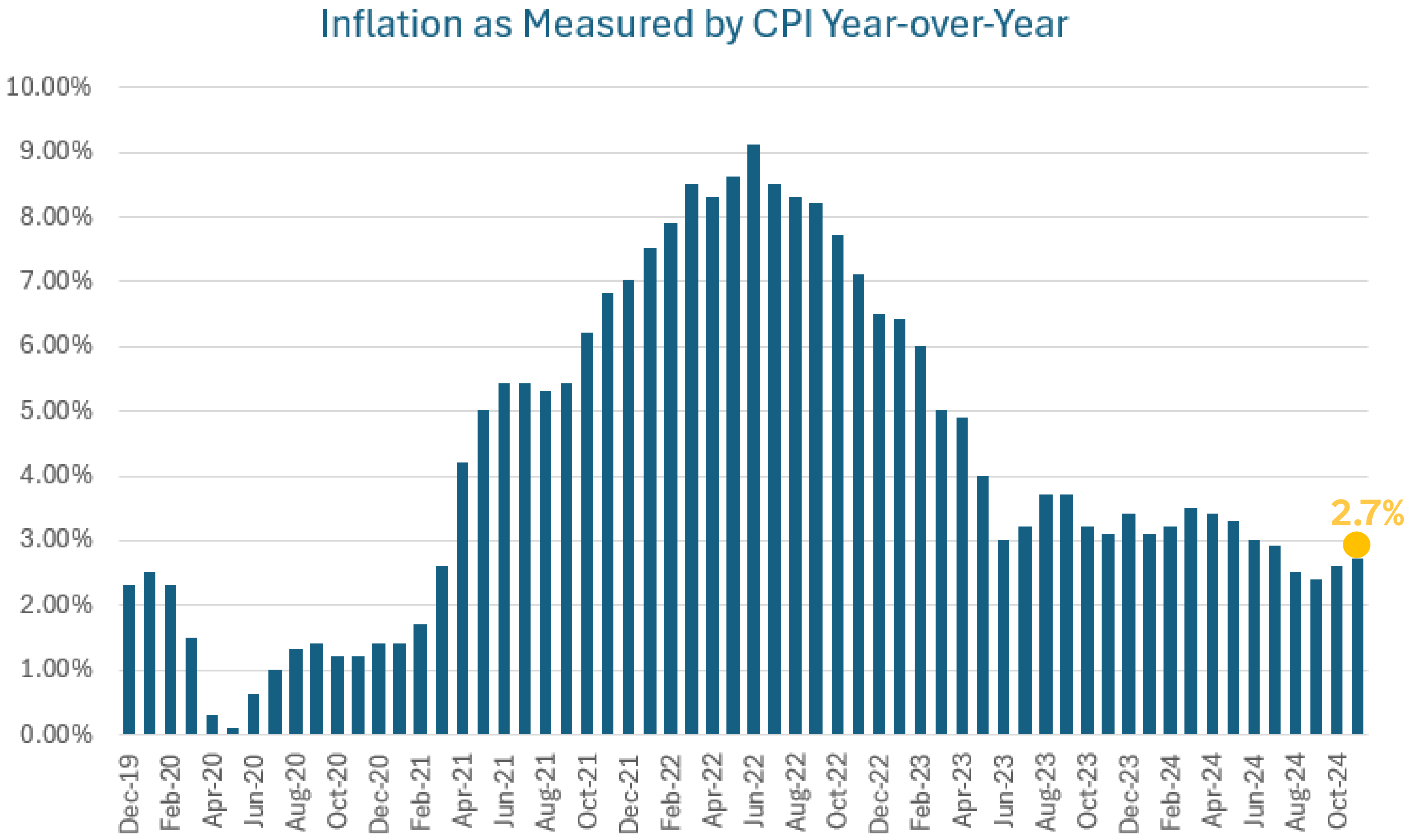
Shaded areas indicate US recessions

Board of Governors of the Federal Reserve System (US), Money Market Funds; Total Financial Assets, Level [MMMFFAQ027S], retrieved from FRED, Federal Reserve Bank of St. Louis;

- Money market funds, where your money goes when you sell your investments (ie. stocks, bonds, etc.), now have record high assets of just under $7 trillion.
- As volatility and uncertainty remained high the past couple of years, investors piled into money markets which were yielding greater than 5% at the peak.
- As yields drop investors will put this money to work in other places. This is likely to drive stocks and bonds higher.

INFLATION TICKS UP MODESTLY, APPEARS CONTAINED... FOR NOW.

INFLATION ON PACE, BUT HIGHER IN RECENT MONTHS



Data from the Bureau of Labor Stastics

- Inflation has dropped significantly since peaking in June 2022 but has risen modestly the past couple of months.
- Services, such as the rising cost of home, car, and medical insurance, continue to be a drag on CPI.
- The threat of tariffs and policies from the new administration has the possibility of raising inflation once again.

YIELD CURVE REVERTS BACK FROM INVERSION

Long considered a canary for the stock market, the yield curve normalizing after inverting has in the past spelled trouble for the economy. With most economic indicators showing signs of strength will this time be different?

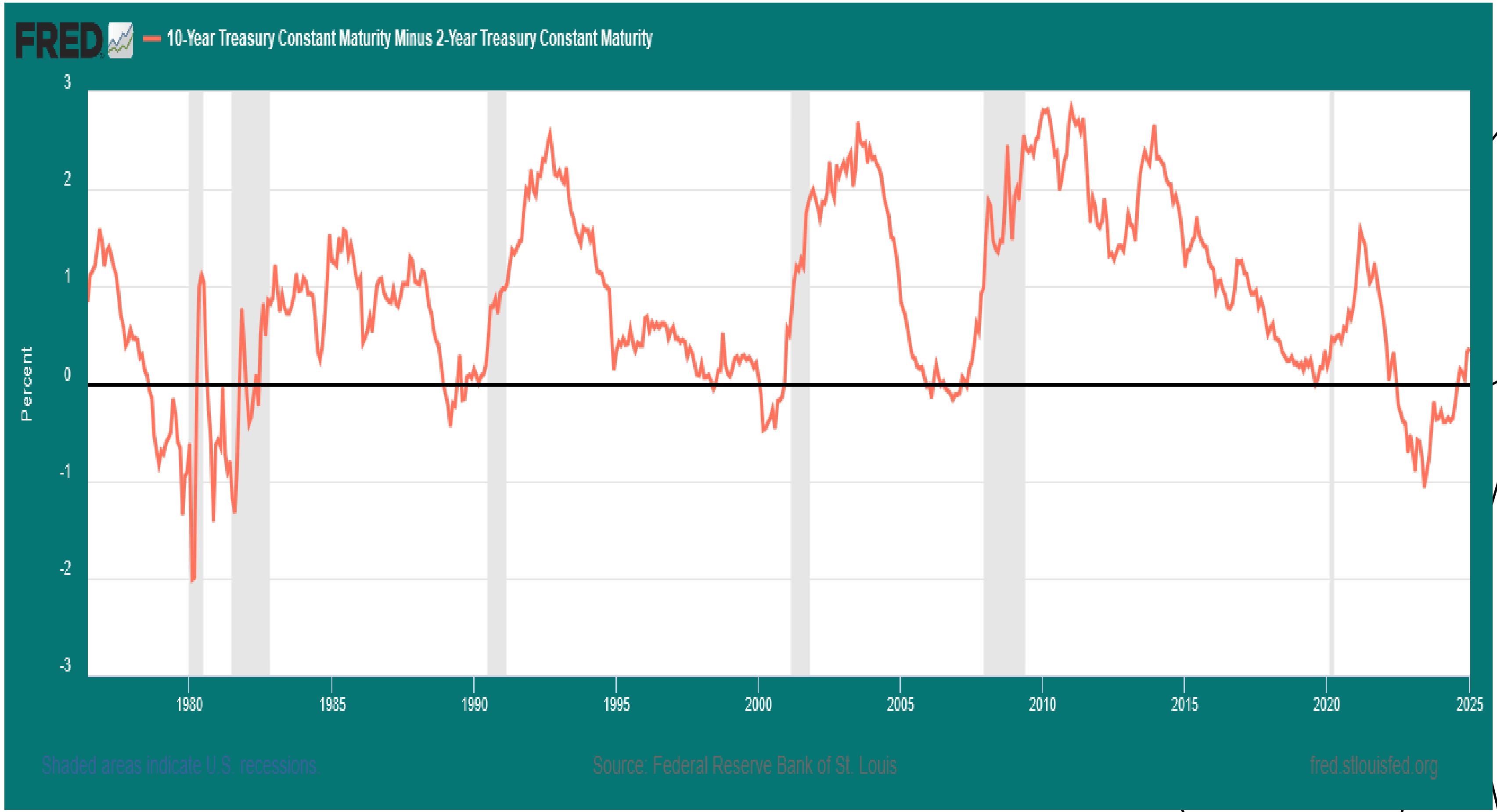
10 - 2 YEAR YIELD CURVE HAS NORMALIZED

- What is it?

The 10-2 year yield curve looks at the yield of the 10-year treasury bill minus the yield of the 2-year Treasury bill. On a normal yield curve, the longer dated 10-year bills should pay a higher yield than the 2-year T-bills to account for time risk on the longer duration, leaving the yield curve positive.

- Why does it matter?

Generally, when the yield curve inverts it means that investors consider the near-term risks to be quite high. This will lead to short term yields such as the 2-year T-bill to be higher than longer yields such as the 10-year. The yield curve has been inverted for nearly two years now, causing concerns. In the past the return to normalization has led to a recession 100% of the time.



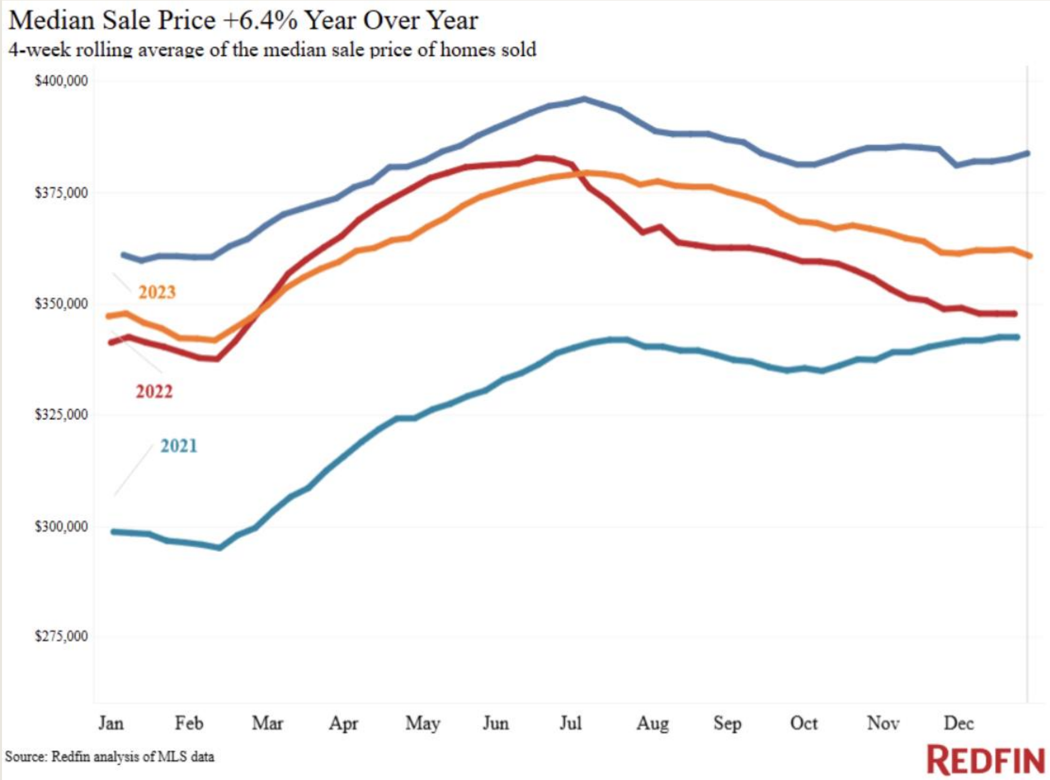
Shaded areas indicate US recessions

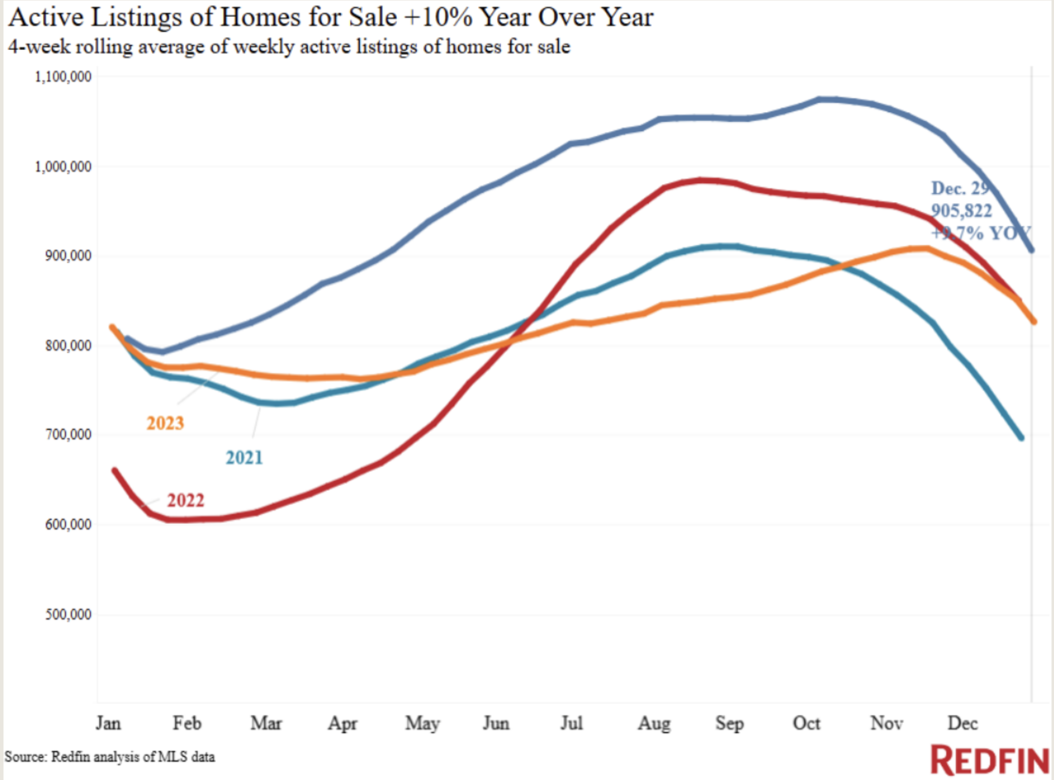
Federal Reserve Bank of St. Louis, 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity [T10Y2Y], retrieved from FRED, Federal Reserve Bank of St. Louis

HOUSING DATA MOVES TOWARDS STABILIZATION AS BUYERS COME TO TERMS WITH HIGHER RATES

HOUSING MARKET MOVES TOWARDS STABILIZATION

- The only metrics rising are median sales prices and rates, closing out the year at $383,700 and the average 30-year fixed mortgage at just over 7%.
- Purchase applications are down 17% year-over-year.
- Less than a quarter of homes are now sold above asking price and off market in two weeks.
- Months of Supply Available on the Market is now at 4.2, indicating we have moved away from being a seller's market to a more balanced housing market.





Data from Redfin

WHERE DO WE GO FROM HERE?

We have seen back-to-back years of 20%+ returns, which may dampen returns going forward. From a macro-environmental perspective, the economy and the consumer in the US remain very strong, inflation is falling, and fiscal and monetary policy is generally supportive. Cyclicals and growth stocks tend to do well in this environment. AI remains a tailwind, and we are likely to see positive returns continue within the space for the intermediate and long term. In the near-term, it appears there may be heightened volatility as the new administration takes the reins and markets digest the uncertainty that is likely to follow, particularly given the extreme optimism seen the past few months. While a mild correction is not off the table in the short-term, the long-term outlook remains quite positive.

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Questions? Comments? Like what you read?
Reach out to chat or schedule a financial review:

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