

## Investment and Economic Update Fourth Quarter 2024



The U.S. investment scene, in aggregate, churned out another unusually positive investment experience this past year, with 20+ percent gains heaped on top of 2023's historically unusual gains.

A breakdown shows that just about every U.S. investment category was showing double-digit gains. The widely-quoted S&P 500 index of large company stocks gained a modest 2.07% during the year's final quarter and overall finished up 23.31% in calendar 2024.

As measured by the Russell 2000 Small-Cap Index, investors in smaller companies received a 10.02% gain for the year. The technology-heavy Nasdaq Composite Index surged to a 28.64% return in 2024, after gaining 43.14% in 2023.

This was a year when the foreign markets significantly diverged from the U.S. return profile--and not in a good way. The broad-based EAFE index of companies in developed foreign economies lost 8.38% in the final quarter of 2024, to finish the year with a slight 1.15% gain in dollar terms.

In the bond markets, the inverted yield curve is still with us, although the inversion has flattened somewhat. Yields on 30-year government bonds rose to 4.78%; 10-year maturities were yielding 4.57%. But 3-month issues are yielding 4.31%, higher than 6-month (4.27%) and 12-month (4.14%) issues. Five-year municipal bonds are yielding 2.90% in aggregate, while 1-year municipals are yielding 2.97%. This is not normal, but what it tells us is not clear.

Overall, it's fair to wonder whether U.S. companies, in aggregate, are 25% more valuable today than they were a year ago, or whether they've somehow increased their value by 40% over the past two years. Market movements are driven by several factors; only one of them is the actual, real, growth in the underlying value of the companies that are being traded, and there is seldom agreement on the precise measure of that valuation.

Short-term, and sometimes longer-term movements are driven by what economists delicately call 'sentiment,' which simply means what investors are willing to pay more (a bull market) or less (a bear) for companies and their earning potential.

Today, we are experiencing an unusual series of strong positive market returns, which is the definition of a bull market. But we don't know for certain that investors are overpaying for the earnings of the companies they are investing in--or, if they are, whether we are experiencing a small or wide divergence at the moment. But it's fair to say that the past two years have been leading the markets toward a day when the rubber band will be stretched too far.

The experts who follow these matters say that enthusiastic investor expectations rest on the idea that artificial intelligence will transform the economy for the better, help companies achieve unusual productivity gains, and ultimately lead to higher values across the board. This, of course, is unproven speculation, but there are other reasons to be optimistic. The inflation rate has retreated back down to historical norms, and the Federal Reserve Board seems inclined to cut interest rates by another half a percent. All the predictions of a global recession failed to come true and are now being discredited. The new Congress is more likely to lower tax rates than raise them.

A recent compendium that followed the annual ritual of predicting the year's market returns in advance (always around January 1) found an average forecast of an 8.2% return for the S&P 500 in 2025. The

crystal ball-watchers are more convinced by the positive than the potential negatives; indeed, not one of the prognosticators forecast a loss in 2025. This is unusual in the face of so many uncertainties: about policies initiated by the incoming Presidential administration, growing federal debt, wars in Ukraine and Israel and mounting cyber threats.

The best course has always been to ignore the predictions, positive or negative, and manage your own sentiment through what might become, in the months ahead, a choppy investing experience. The alternative is to pull out of the markets into safe assets that pay no interest, which are guaranteed to lose value due to inflation. The threats are real, the uncertainties are always with us, and through it all, patient investors have always been rewarded in time.

Why would the future be any different?

Below, we have summarized some of the widely quoted indexes for your reference. As a reminder the challenge is, the DJIA is not the same as the S&P 500, which is not the same as the NASDAQ – and none of these indexes perfectly match your own distinct mix of assets and their expected returns, especially if you own a globally diversified portfolio with exposure to stocks and bonds, large and small companies, value and growth companies, and U.S. and non-U.S. based companies. The following returns are for the fourth quarter and the annual results for 2024; respectively:

S&P 500: 2.07%, 23.31%

Dow Jones: 0.51%, 12.88%

NASDAQ Composite: 6.17%, 28.64%

Russell 2000 (Small-Cap): 0.01%, 10.02%

MSCI EAFE (International): -8.38%, 1.15%

Barclay's Capital US Aggregate Bond: -3.35%, 1.25%

Please remember that past performance is not indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this economic update, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this update serves as the receipt of, or as a substitute for, personalized investment advice from Allos Investment Advisors®, LLC. To the extent that a reader is not a client of Allos Investment Advisors®, LLC and has questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. For our clients, please remember to contact Allos Investment Advisors®, LLC if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. A copy of our current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request.