December 31, 2024

December Market Recap

December added a question mark to the end of an otherwise strong year of growth for the equity markets. As inflation numbers continued to stagnate above its 2% year-over-year target, the Federal Reserve (Fed) – despite cutting current interest rates by another 25 basis points – expressed diminished confidence in inflation reaching its 2% target. Back in September, investors expected four rate cuts to arrive in 2025. Now the expectation is two. This news caused a chilling effect in the markets, resulting in a flat month for the S&P 500 and a 5.3% loss for the Dow Jones. Only three of 11 equity sectors were positive for the month.

Continuing a now-familiar trend, mega-cap tech stocks stood strong while volatility ruled elsewhere in the market. Small-cap stocks were hit the hardest, with the Russell 2000 dropping 7.8%, reflecting their perceived vulnerability to higher interest rates relative to their larger peers.

“We’ve been highlighting the need for caution in the near term as investors are over-optimistic and the market is priced for perfection, leaving it vulnerable to any disappointment,” said Raymond James Chief Investment Officer Larry Adam. “Longer term, we remain constructive on equities as solid economic growth should keep earnings on an upward trajectory.”

Before we dive into the details, let’s see how we ended 2024, the second year in a row when the S&P 500 saw gains of more than 20%.

	12/29/23 Close	12/31/24 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	37,689.54	42,544.22	+4,854.68	+12.88%
NASDAQ	15,011.35	19,310.79	+4,299.44	+28.64%
S&P 500	4,769.83	5,881.63	+1,111.80	+23.31%
MSCI EAFE	2,241.21	2,259.60	+18.39	+0.82%
Russell 2000	2,027.07	2,230.16	+203.09	+10.02%
Bloomberg Aggregate Bond	2,162.21	2,189.03	+26.82	+1.24%

*Performance reflects index values as of market close on Dec. 31, 2024. Bloomberg Aggregate Bond and MSCI EAFE reflect Dec. 30, 2024, closing values.

Mixed signals on jobs

The U.S. economy added 227,000 jobs in November, a strong recovery following a weak – but revised upward – October report. The household employment survey, however, provided a different picture, showing a large decline in employment by 335,000 workers. This pushed the unemployment rate from 4.1% in October to 4.2% in November. Headline retail sales numbers remained strong in November – aided by car sales and online sales – but those strong spots hid weakness across other retail sectors. December's report will be important to shed more light on the relative strength of consumer spending.

Bond yields soar as rate cuts become less certain

The Fed's surprising tone on inflation and messaging about future rate cuts caused the 10-year Treasury yield to sharply jump from 4.17% at the end of November to 4.57% at the end of December. Despite continued historically low relative spreads, corporate and municipal bond yields have pushed higher along with Treasury yields. Income-producing investment portfolios benefit from the increased yield environment providing a continued opportunity to lock into higher income streams for longer. The upward-sloping curve present in both the corporate and municipal curves means that investors are rewarded for taking on longer spans of interest rate risk.

Incoming administration faces debt ceiling

Congress passed critical legislation preventing a government shutdown while allocating $110 billion to disaster aid and funding the $895 billion National Defense Authorization Act, which seeks to bolster telecom and cybersecurity defenses as well as establish the Department of Defense's approach to China. With a new administration incoming and the current debt ceiling expiring on January 1, there are a few potential pathways forward – a clean increase, an increase coupled with energy reform or an increase with concessions like budget cuts from the Department of Government Efficiency (DOGE), a proposed presidential advisory commission whose actions are likely to be supported by the narrowly GOP-controlled house.

Agriculture crisis causes cocoa price spike

Throughout 2024, natural gas prices rose by more than 40% in both the U.S. and Europe, driven by a mix of rising demand and tight supply. Meanwhile, gold and silver also saw prices climb around 30%. But all of these commodities pale in comparison to cocoa, which is starting 2025 with prices 150% higher than at New Year 2024. This comes as a result of worsening drought conditions across West Africa, combined with a virus affecting cocoa plants specifically. In addition to making sweets costs more, the cocoa crisis is putting the squeeze on chocolate manufacturers' margins.

Threats of U.S. tariffs and domestic political turnover cool European markets

In Europe, political turnover continued to drive uncertainty, this time as France's President Emmanual Macron installed his nation's fourth prime minister in a year. Meanwhile in Germany, Finance Minister Christian Lindner has been fired and domestic manufacturing suffers. Volkswagen, for the first time in the company's history, is threatening to close manufacturing facilities. The eurozone also waits with uncertainty the incoming U.S. administration and its threats of import tariffs and the risk of a protracted trade war.

The bottom line

For the second year in a row, equity markets demonstrated powerful though uneven growth and the U.S. economy remained resilient, despite some dents in the armor. The corporate earnings outlook remains healthy, and while still above target levels, inflation has declined – even if in fits and starts. There are clearly perceivable risks – inflation, consumer spending, investor confidence, international trade – but at the end of 2024, the outlook for 2025 is positive.

I remain committed to the pursuit of your financial goals and thank you for your continued trust in my guidance and look forward to the exciting opportunities the new year will bring. If you have any questions about this report, or need help with anything at all, please don’t hesitate to reach out.

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