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January 7, 2025

2024 Global Market Commentary

2024: A Tale of Two Markets

The year 2024 saw the S&P 500 set an extraordinary 57 all-time highs, driving the U.S. stock market to a valuation of $63.8 trillion. This represents an increase of over $10 trillion, a figure surpassing the GDP of many major economies[1].

But in many ways, the stock market in 2024 mirrored the opening lines of Charles Dickens' *A Tale of Two Cities*: "It was the best of times, it was the worst of times." The year divided the investment world into two starkly contrasting realities. For some sectors, it was an age of unprecedented growth and optimism, while for others, it was more of a season of despair and turbulence. Much like Dickens' portrayal of London and Paris, the divergence in market performance underscored the complexities and contradictions of the financial landscape.

On one hand, the technology sector basked in the glow of a new "age of wisdom." Artificial intelligence companies, renewable energy pioneers, and semiconductor manufacturers thrived, driven by a surge in innovation and government incentives for green technologies. NASDAQ soared as investors poured into these high-growth areas, hopeful for the future. Companies in these industries experienced robust earnings growth, and valuations climbed to heights reminiscent of the dot-com era. For these markets, it truly felt like "the spring of hope."

Conversely, sectors tied to traditional industries such as manufacturing, real estate, and consumer staples endured more of "the winter of despair." Rising interest rates, a volatile geopolitical landscape, and cooling demand weighed heavily on these sectors. The Federal Reserve’s hawkish stance, combined with persistent inflationary pressures, created a bleak outlook for businesses reliant on steady credit and predictable consumer spending. For many investors in these areas, 2024 felt like a descent into "the season of darkness."

What Drove the Market in 2024

The year 2024 was marked by significant developments in the stock market, driven by technological advancements, macroeconomic changes, and geopolitical events.

1. The Rise of Artificial Intelligence (AI):
AI played a transformative role in driving market performance. The continued innovation in generative AI, machine learning, and automation bolstered the tech sector. Companies investing in AI infrastructure, cloud computing, and semiconductor technology saw significant gains. This trend was particularly evident in the tech-heavy NASDAQ, which outperformed broader indices like the S&P 500 and trounced the 30-stock, blue-chip DJIA and the smaller-cap Russell 2000[2].

2. The Magnificent Seven's Dominance:
The "Magnificent Seven" (Apple, Microsoft, Alphabet, Amazon, Tesla, Meta, and NVIDIA) continued their impressive run, benefiting from their leadership in AI, cloud services, and consumer technology. NVIDIA, in particular, experienced exponential growth due to its dominance in GPUs, a cornerstone of AI and machine learning technology. Collectively, these seven companies accounted for a significant portion of the S&P 500's gains[2], reinforcing the concentration of market leadership in a few mega-cap stocks.

3. Presidential Election and Market Sentiment:
The 2024 U.S. presidential election introduced an element of volatility, with markets reacting to shifting poll results and policy proposals from candidates. While uncertainty is typical during election years, 2024 saw relatively muted fears as candidates focused on issues like AI regulation, climate change, and economic inequality, which resonated with long-term investors. Markets remained resilient, buoyed by the expectation of continued innovation and economic growth.

4. The Federal Reserve's Rate-Cutting Cycle: The Federal Reserve shifted from its previous tightening stance to begin a rate-cutting cycle in response to cooling inflation and slowing economic growth. This pivot provided a boost to equity markets, particularly interest rate-sensitive sectors like financials, real estate and technology. Lower borrowing costs also improved corporate earnings outlooks, supporting broader market gains. But a more hawkish Fed emerged late in the year, causing investors to recalibrate expectations for the number of rate cuts in 2025 and injecting a significant amount of volatility back into markets.

Market Returns in 2024

This year was a record-breaking one on Wall Street, with the S&P 500 achieving 57 all-time highs, ranking it among the top five years for the most records set by the benchmark index. Additionally, the S&P 500 posted a 23% gain this year, and with its 24% increase in 2024, it marks the first time since 1997 and 1998 that the index has recorded consecutive annual gains exceeding 20%.

Below is a snapshot of key index performances:

	Close	2024
DJIA	42,544	+13%
S&P 500	5,882	+23%
NASDAQ	19,311	+29%
Russell 2000	2,227	+11%
MSCI EAFE	2,261	+1%
Bond Index*	2,189.03	+1.3%

Source: Fidelity Management & Research Company.This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results

Sector Returns in 2024

The overall trend for sector performance for each of the four quarters in 2024 and most of the 12 months was volatile, as the performance leaders and laggards rotated all year.

- **First Quarter:** Real Estate was the only declining sector, while the other ten sectors posted significant gains.
- **Second Quarter:** More than half of the S&P 500 sectors experienced declines.
- **Third Quarter:** A rebound saw ten of eleven sectors advance, with only Energy (-3.12%) declining.
- **Fourth Quarter:** A mixed outcome, with only four sectors advancing while Health Care and Materials slipped into correction territory.

In addition, the range in 1-year sector-returns was exceptionally wide, with the Communications Services sector leaping more than 38% and the Materials sector losing more than 1%. That’s volatility.

Here are the S&P 500 sector returns for 2024:

S&P 500 Sector	2024
Information Technology	+35.69%
Energy	+2.31%
Health Care	+0.90%
Real Estate	+1.73%
Consumer Staples	+11.98%
Consumer Discretionary	+29.13%
Industrials	+15.64%
Financials	+28.43%
Materials	-1.83%
Communication Services	+38.69%
Utilities	+19.58%

Source: Fidelity Management & Research Company

Reviewing the sector returns for 2024, we saw that:

- 10 of the 11 sectors advanced, with only the Materials sector declining;
- The tech-laden sectors (Information Technology and Communications Services) had a great year, as each leapt more than 35%;
- The Financials sector performed very well, fueled by the Fed’s rate cutting; and
- The value and defensive names (Energy, Real Estate, Materials and Health Care) all underperformed significantly.

Markets Around the World Performed Great in 2024 Too

Great performance in 2024 was not confined to the U.S., however, but the developed international markets were more mixed as 13 of the 32 developed international markets tracked by MSCI declined (incidentally, all of the developed markets tracked by MSCI turned in positive performance last year, with all but three turning in double-digit gains).

And it was just as mixed for developing markets, as 14 of the 46 developing markets tracked by MSCI turned in negative numbers in 2024, with markets in Latin America losing more than 30%.

The following shows the range of 2024 returns from markets around the world:

Index Returns	2024
MSCI EAFE	+1.15%
MSCI EURO	-0.33%
MSCI FAR EAST	+6.42%
MSCI G7 INDEX	+19.22%
MSCI NORTH AMERICA	+22.78%
MSCI PACIFIC	+4.33%
MSCI PACIFIC EX-JAPAN	+0.50%
MSCI WORLD	+17.00%

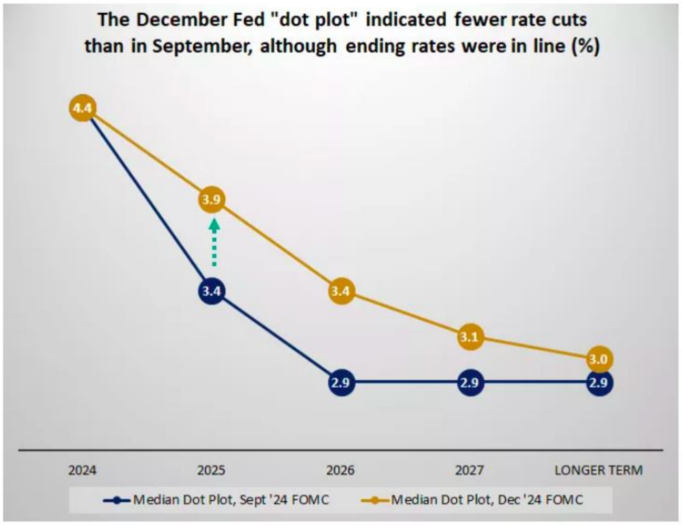
Source: MSCI. Past performance cannot guarantee future results

The Fed in Focus in 2024

In 2024, the Federal Reserve initiated a series of interest rate cuts to address economic challenges, including persistent inflation and a resilient labor market. The first reduction occurred in September, with a 50 basis point cut, lowering the federal funds rate to a range of 4.75% to 5%. This move was described by Fed Chair Jerome Powell as a "recalibration," emphasizing the need to balance labor market strength with inflation control.

Subsequent meetings in November and December saw additional 25 basis point cuts, bringing the rate down to 4.25% to 4.5%. These decisions aimed to support economic growth while acknowledging that inflation remained above the Fed's 2% target. Despite these efforts, inflation proved to be more persistent than anticipated, complicating the Fed's policy decisions.

At the December meeting, Chair Powell adopted a more hawkish tone, signaling a cautious approach to future rate adjustments. He noted that while the economy was growing at a healthy pace and unemployment remained low, inflation forecasts had been revised upward, indicating that price stability was still a concern. Consequently, the Federal Open Market Committee projected only two rate cuts for 2025, down from the four anticipated in earlier projections. This shift reflects the Fed's commitment to carefully assess incoming data and the evolving economic outlook before making further policy changes.

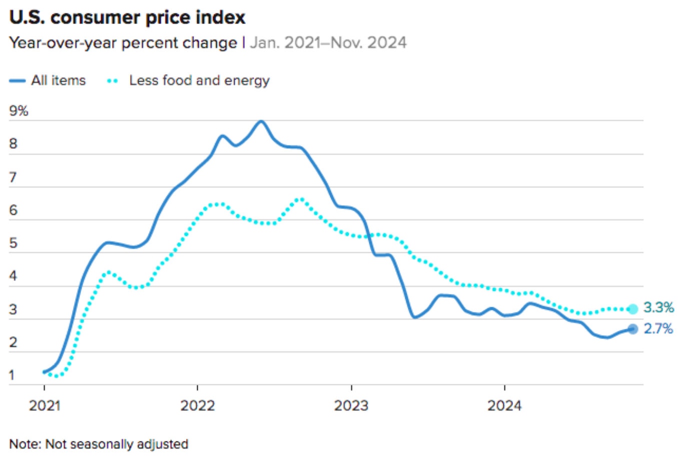


Source: Bloomberg, September and December FOMC projections.

Inflation Stays Sticky in 2024

In 2024, inflation in the United States exhibited a persistent and somewhat unexpected resilience, challenging earlier expectations of a more rapid decline toward the Federal Reserve's 2% target. The Consumer Price Index rose by 2.7% year-over-year in November, following a 2.6% increase in October, indicating a gradual but steady upward trend in consumer prices. Similarly, the Producer Price Index, which measures prices at the wholesale level, increased by 0.4% in November, surpassing economists' expectations, and marking a 3.0% rise over the past year – the highest since February 2023.

This stickiness in inflation is evident across various sectors. For instance, food prices have been a significant contributor, with notable increases in items such as eggs, which surged by 54% in November due to an avian flu outbreak. Additionally, services such as rents, restaurant meals, and insurance have maintained upward pressure on core inflation, which excludes volatile food and energy prices. In October, core prices rose by 2.8% year-over-year, slightly higher than the previous month's 2.7%, underscoring the persistent nature of inflation in the services sector.



Wall Street's Expectations for 2025?

Research firm FactSet asked the question: "Where are analysts most optimistic and pessimistic in terms of their ratings on stocks in the S&P 500 next year?" Here is what they reported:

- Overall, there are 12,168 ratings on stocks in the S&P 500.
- Of these ratings, 54.0% are Buy ratings, 40.1% are Hold ratings, and 5.1% are Sell ratings.
- The percentage of Buy ratings is below its 5-year (month-end) average of 54.8%.
- The percentage Hold ratings is above its 5-year (month-end) average of 39.3%.
- The percentage of Sell ratings is slightly below its 5-year (month-end) average of 6.0%.

At the sector level, analysts are most optimistic on the Communication Services, Energy, and Information Technology sectors, as these three sectors are tied for the highest percentage of Buy ratings at 61%.

On the other hand, analysts are most pessimistic on the Consumer Staples and Utilities sectors, as these two sectors have the lowest percentages of Buy ratings at 41% and 48%, respectively.

Hope is the Companion of Power

As investors look to 2025, their hopes for positive stock market returns echo the famous opening lines of Charles Dickens' *A Tale of Two Cities*: "It was the best of times, it was the worst of times." While the challenges of inflation, geopolitical tensions, and economic uncertainty persist, the resilience of equity markets fuels optimism for a prosperous year ahead.

The last time the S&P 500 posted back-to-back annual gains of 20% – in 1995 and 1996 – marked a period of robust economic growth, technological innovation, and soaring investor confidence. With the lessons of history in mind, investors yearn for 2025 to be another chapter of triumph, where "hope is the companion of power" and markets reflect the enduring strength of human ingenuity and perseverance.

Sources:
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2: https://www.schwab.com/learn/story/it-was-very-good-year, Charles Schwab, Bloomberg, as of 12/31/2024
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