

# ECONOMIC & MARKET UPDATE



December 31, 2024

While the traditional “Santa Claus” rally was stingy at best early in December, it disappeared mid-month immediately after the Federal Reserve announced its monetary policy decision. This decision included brief commentary suggesting 2025 would likely feature fewer interest rate cuts than initially anticipated. 2024 was a year of unexpectedly strong market performance. This occurred despite concerns about inflation, a possible recession, Fed policy, and the presidential election. This past year underscores the importance of staying invested during periods of uncertainty.

## ASSET CLASS 4TH QUARTER RETURNS:

ASSET CLASS	2024 RETURNS	Q4 2024 RETURNS
US Large Cap	25.0%	2.4%
US Mid Cap	13.9%	0.3%
US Small Cap	8.7%	-0.6%
Emerging Markets	7.5%	-8.0%
Multisector Bonds	6.0%	-0.7%
Real Assets	6.0%	-6.4%
Strategic Equity	5.3%	0.2%
Developed International	3.8%	-8.1%
Core Bonds	1.3%	-3.1%

An index is a hypothetical portfolio of securities representing a particular market or a segment of it used as indicator of the change in the securities market. Indexes are unmanaged, do not incur fees and expenses and cannot be invested in directly.

## THE FED, INTEREST RATES, INFLATION

Although the Fed reduced the benchmark federal funds rate by 25 basis points on December 18, bringing its target range down to 4.25% - 4.50%, after the meeting, Chairman Powell hinted there would be fewer cuts in the coming year. He noted that policymakers will be “more cautious as we consider further adjustments.” There is also some concern that inflation could reaccelerate in 2025, mainly if significant tariffs are imposed on many imported goods and/or aggressive deportations result in a labor shortage.

## EMPLOYMENT

The November employment report showed a broad-based but temporary rebound in payroll gains of 227k as disruptions from strikes and hurricanes faded. Still, weaker household survey data confirmed labor market conditions are cooling, with the unemployment rate rising to 4.25%. Business leaders are expected to hire cautiously, proceed with strategic layoffs, and drive more substantial productivity to contain costs, as the incoming administration's deportation plans remain a focal point of employment forecasts in 2025.

## US ECONOMY

On a positive note, US consumer spending remains healthy, which reduces the risk of a recession in 2025 to about 25%, according to many market analysts. Supporting this optimistic outlook, consulting giant McKinsey & Company reported that consumer confidence rebounded to pre-pandemic levels in the fourth quarter, encouraged by rising wages and the results of the November elections. Another potential driver of financial market performance in 2025 is the massive amount of cash still sitting on the sidelines at the end of 2024.

## 2024 IN FOCUS

After another strong year in the markets, there is no doubt that 2025 will present similar challenges for investors. Markets did not just perform well at the broad index level - many sectors also benefited from the strong positive trends. Markets have been driven by artificial intelligence and technology stocks over the past two years, and sectors such as Information Technology and Communication Services outperformed again. However, many other industries experienced strong double-digit returns, including Consumer Discretionary, Financials, Utilities, Industrials, and Consumer Staples. This emphasizes the importance of diversifying across various parts of the market. Predicting which asset classes, sectors, and styles will outperform in any calendar year is difficult. Exposure to these areas in a diversified portfolio is the best way to stay balanced.

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