Monthly Commentary 3rd of January 2025

2024 was a good year for global stocks. This was almost entirely due to the US market, that now accounts for a massive 72% of developed market equities' market capitalization. While the 20+% returns for the US markets was impressive, there are concerns that only 10 stocks (2% of the companies in the index) accounted for half that return! The "equal-weighted" S&P 500, which is arguably more representative of how US companies performed, returned "only" 11%, more in line with the Euro area and the UK, with gains of 6.33% and 5.89% respectively. The month of December was mixed however for global stocks, with the S&P500 and the FTSE 100 giving back some of their yearly gains (down 2.5% and 1.38% respectively). Nikkei 225 had the second biggest gain of all developed markets, up 4.41% while MSCI Euro was also positive by 1.50%.

The final days of 2024 were good for crude oil which ended the month 4.37% higher. Much of that optimism stemmed from renewed hopes that China will get back on track after Beijing pledged a number of stimulus measures in a bid to boost economic activity. For the year however oil was flat. Gold on the other hand was flat for the month of December but for the year it had spectacular gains, up 27%. This was one of the highest annual appreciation rates this century and its biggest since 2010.

The US Dollar (USD) Index gained more than 2.5% in December, ending the year with a solid 7% gain. Bitcoin made history in 2024 after reaching the 100K mark. The cryptocurrency was up 120% for 2024! It finished December at -3.23%.

Bonds disappointed for another year despite their record inflows in 2024. Global aggregates posted losses of 2.12% for December but also losses for the year (-1.69%). However, investors have poured a record $600 billion into global bond funds this year, taking advantage of some of the highest yields in decades ahead of an uncertain 2025.

Looking Ahead

It is this time of the year where predictions come and go and investment strategists give their opinions for the next calendar year. This year Bloomberg collated over 700 key calls from more than 50 leading financial institutions, presenting them in one paper for easy analysis and comparison. Below we highlight some of their findings.

- ***Base Cases: America First (Again)***
  Lower rates and pro-growth policies should support a modest global expansion with the US largely leading the way. Risks abound — not least the unpredictability of the new American administration — but solid, not exceptional, returns are the base case for most of Wall Street. Call it cautious optimism.

- ***Inflation: Contained, Not Killed***
  Trump's potential barriers to trade and aggressive approach to immigration are seen as fresh fuel for inflation, with the Federal Reserve struggling to bring price growth down to target. Still, inflation is generally seen as contained and range-bound both in the US and abroad, compared to recent years.

- ***Monetary Policy: Fewer US Cuts***
  Trump's potentially inflationary policies may limit the Fed's room for manoeuvre, leading to fewer rate cuts than anticipated and a higher-than-expected terminal rate. The Bank of England faces similar headaches. Europe is expected to lean dovish with multiple cuts. Japan is the only major bank raising rates.

- ***Stocks: Broadening Out***
  Wall Street is looking for the stock rally driven by the tech megacaps to broaden. That means a boost for mid- and small-cap equities in the US, which remains most firms' preferred market, even if it won't match recent returns. Cheap-looking international companies may offer bargains.

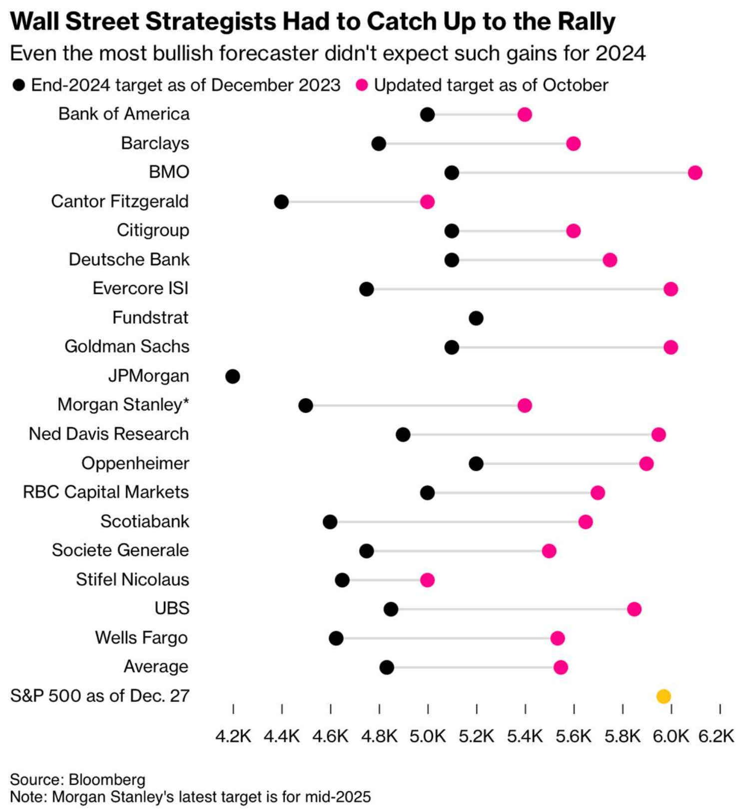
- ***Bonds: All About Income***
  It's a mixed bag, with more rates volatility expected and the potential for higher Treasury yields. Still, Wall Street sees fixed income as a key source of income, with relatively attractive yields. Almost everyone says get out of cash.

- ***Commodities: Going for Gold***
  Wall Street is split on whether gold can continue to shine, though bulls see it as a good hedge for the unpredictable macro backdrop. Improving growth and the build out of tech infrastructure (data centers, power plants) could boost base metals. No one is particularly bullish on oil.

- ***Currencies: Dominant Dollar***
  The dollar is looking pricey, but on balance Wall Street sees more strength for the greenback in the near term as Trump policies come into play. Several institutions are predicting parity with the euro.

- ***Risks: Trade War II***
  A bursting of the AI bubble and bond investors losing patience with profligate governments are among the big Wall Street worries. But the largest by far is that Trump goes harder than expected with tariffs, triggering retaliation and hammering world growth.

It’s always good to have the above in mind as most of the predictions are rational. Still, one should keep in mind that in December 2023, the average target for the S&P 500 for 2024 was a bit over 4800, a level that was more than 20% off the final level of 5881. So do not count on predictions! They can cut both ways:



As we have said countless times in the past, your portfolios will do as well or as badly as the risk you are willing to take. Higher equity allocations (especially to US equities) at the end of 2023 rewarded those with a higher exposure to risk.

Below are some thoughts that very much align with our views. They are from Martin Romo, CIO of the Capital Group.

Current U.S. equity valuations are high, and prudent investors should be prepared for the possibility of a correction. That’s why we believe it’s important to take a long-term approach to investing, seeking to achieve a balance between growth of capital and capital preservation.

There are reasons to be optimistic about the investment outlook — whether it's advancements in artificial intelligence or innovations in health care — but we must also be prepared for a downturn.

In addition to stocks, bonds will play an important role as the normalization of interest rates returns us to a time when fixed income can provide a measure of income, diversification and ballast against stock market volatility.

The message I leave you with is a familiar one: Stay invested but maintain a risk-aware approach. When faced with market gyrations or geopolitical uncertainty, the biggest mistake investors can make is to retreat to the sidelines. The opposite is also true. Don't rush in at market peaks. Successful investing is a long-term endeavor. Focus on your goals and don't let the daily noise distract you.

Finally, if you are thinking of adding some exposure to the (currently very hot) crypto markets, please contact us.

We wish you a happy and healthy 2025.

The Elgin Analysts Team