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Annual Market Review 2024

Overview

The year 2024 was extraordinary for the economy and the markets. High interest rates, rising unemployment, turmoil in the Middle East, and the ongoing Russia/Ukraine war, were some of the many factors that should have signaled economic contraction and a downturn in the stock market. Yet, the opposite occurred. Gross domestic product expanded by 3.1% in the third quarter and 2.9% year over year.

Each of the major stock market indexes listed here posted solid year-end gains. Inflation came down. Corporate earnings grew, despite the unemployment rate inching higher.

While data showed price pressures slowed in 2024, consumers faced the stark reality of the overall high cost of living. According to the Consumer Price Index (CPI), prices for food rose 2.4% for the 12 months ended in November, while shelter prices rose 4.7%. Prices at the wholesale level rose 3.0% for the year, the largest increase since moving up 4.7% for the 12 months ended February 2023.

The economy grew in 2024, proving that it was able to withstand the Federal Reserve's aggressive policy of interest rate hikes from the previous year. Consumer spending remained strong, despite rising unemployment, which provided a boost to the overall economy. In addition, increased nonresidential (business) spending, headed by cash-rich technology companies, and solid wage and income growth, all contributed to overall economic strength. However, economic conditions were at the top of consumer concerns throughout much of 2024, particularly in the context of the presidential election. Consumer sentiment drooped in December amid weaker assessments of the present situation, while short-term expectations for business and labor saw a sharp decline.

In March 2022, the Federal Reserve began to aggressively raise interest rates as part of a restrictive policy aimed at reining in escalating inflation. In 2023, there were signs that the Fed's monetary policy was paying off. Price growth slowed without triggering a recession. In 2024, the CPI declined intermittently, moving from 3.1% in January to a low of 2.4% in September, before ticking higher to 2.7% in November, still above the Fed's 2.0% target. The progress in moderating price pressures, coupled with economic resilience, allowed the Fed to lower interest rates by 100 basis points by the end of the year. Nevertheless, interest rate projections for 2025 were tempered as the Fed signaled only two rate cuts, depending on inflation and economic data.

The housing sector, which cooled in 2023 on the heels of higher interest rates, rebounded somewhat in 2024. Although the Fed reduced the federal funds rate, mortgage interest rates remained elevated. According to Bankrate, the 30-year fixed-rate mortgage was 7.03% as of December 30. That's down from a high of 7.39% in May. With the Fed tempering its projections for interest rate cuts in 2025, the consensus is that mortgage rates will remain at or near their current levels. Purchase prices for both new and existing homes also increased year over year. Despite rising lending rates and higher home prices, both new and existing home sales rose over the course of the year.

The U.S. economy proved to be resilient in 2024. Gross domestic product expanded during each of the first three quarters of the year, culminating in a 3.1% advance in the third quarter. Consumer spending, the linchpin of the economy, also gained, climbing 3.7% in the third quarter. Consumer spending on both goods and services rose throughout the year.

The employment sector, expected by some to slow with rising interest rates, maintained strength throughout the year. While the number of new jobs trended lower during the second half of the year, job growth averaged 186,000 per month through November. The number of employed persons changed little from a year earlier. The total number of unemployed rose by 883,000 since November 2023, while the unemployment rate, at 4.2%, was 0.5 percentage point above the year-earlier rate.

One of the primary factors in the drop in overall inflation was a decline in energy prices. According to the CPI, energy prices fell 3.2% over the 12 months ended in November. Gasoline prices dropped 8.1% over the same period. Food prices, on the other hand, rose 2.4%, while prices for shelter increased 4.7%.

Total industrial production declined 0.9% for the year. Manufacturing, which accounts for about 78.0% of total production, decreased 1.0%. There was little optimism from purchasing managers about the state of the manufacturing sector, which saw falling output and higher prices. On the other hand, purchasing managers reported that the services sector expanded at the steepest rate in 33 months amid growing optimism about business conditions under the incoming Trump administration.

As 2024 drew to a close, there were some positives to consider upon entering the new year. By the end of 2024, Wall Street enjoyed the best two-year run since 1997-1998. If corporate earnings continue to grow, that would bode well for stocks in 2025. There are factors that will come into play next year, but how they impact the economy and markets is open to speculation. How much longer will the Russia/Ukraine war last, and how much more financial aid will be coming from the United States? The Hamas/Israel conflict could expand to include other countries, impacting other lives and economies.

Stock Market Indexes

Market/Index	2023 Close	As of 09/30	2024 Close	Q4 Change	2024 Change
DJIA	37,689.54	42,330.15	42,544.22	0.51%	12.88%
NASDAQ	15,011.35	18,189.17	19,310.79	6.17%	28.64%
S&P 500	4,769.83	5,762.48	5,881.63	2.07%	23.31%
Russell 2000	2,027.07	2,229.97	2,230.16	0.01%	10.02%
Global Dow	4,355.28	5,029.62	4,863.01	-3.31%	11.66%
Fed. Funds	5.25%-5.50%	4.75%-5.00%	4.25%-4.50%	-50 bps	-100 bps
10-yr Treasuries	3.86%	3.80%	4.57%	77 bps	71 bps
US Dollar-DXY	101.39	100.75	108.44	7.63%	6.95%
Crude Oil-CL=F	\$71.30	\$68.35	\$71.76	4.99%	0.65%
Gold-GC=F	\$2,072.50	\$2,654.60	\$2,638.50	-0.61%	27.31%

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Snapshot 2024

The Markets

- **Equities:** Stocks began 2024 on a positive note and ended the year trending higher. Throughout the year, Wall Street bucked analysts' predictions. Higher interest rates and rising unemployment didn't deter investors from seeking equities. Despite rising global tensions, the economy proved resilient, corporate profits rose, and the once anticipated economic recession never materialized. New innovations and the growth of AI spurred technology stocks in 2024, with megacaps and artificial intelligence shares leading the charge. Foreign investment in U.S. securities reached a record high of over \$30.0 trillion. Each of the benchmark indexes listed here closed 2024 much higher compared to 2023, with the NASDAQ, the S&P 500, and the Dow each hitting record highs. Stocks got an additional boost in September when the Federal Reserve began lowering its policy rate for the first time since 2020. The November election of former President Donald Trump also provided traders with guarded optimism that taxes will be lowered and less regulation will further spur corporate profits. In 2024, each of the 11 market sectors ended the year in the black. Information technology and communication services gained more than 40.0%, while shares in consumer discretionary and financials advanced more than 30.0%.

- **Bonds:** While growth in the stock market was fairly consistent this year, the same can't be said for the bond market. Throughout most of 2024, U.S. bond yields fluctuated appreciably. Bond prices declined over the first four months of the year as bond yields rose. Global tensions and a shift in Federal Reserve policy influenced the bond market. By the end of 2024, over \$600.0 billion was invested in the global bond market as investors locked in some of the highest yields in decades ahead of uncertainties likely in 2025. Ten-year Treasury yields rose higher until May, when they began trending downward, reaching a low mark in September. However, the results of November's election pushed yields higher as investors anticipated proposed tariffs and tax cuts to increase government spending. Heading into the new year, bond investors will continue to assess the Federal Reserve's implication that it is strongly considering a slowdown in the reduction of interest rates. The two-year Treasury note hovered around 4.36% at the end of 2024, which saw yields range from 3.51% to 5.05% during the year.

- **Oil:** Crude oil prices were heavily influenced by Chinese demand and tensions in the Middle East. West Texas Intermediate (WTI) crude oil prices began the year at about \$80.00 per barrel, then rode a wave of volatility throughout 2024. After peaking at about \$87.00 per barrel in early April, crude oil prices experienced a range of price swings, falling as low as \$65.75 per barrel in September, to ultimately settle at around \$71.00 per barrel by the end of December. Chinese demand overwhelmed for much of the year, despite several government-backed stimulus packages aimed at spurring the economy. Tensions in the Middle East escalated during the year, leading to fears of oil-supply disruptions. Heading into 2025, some forecasters expect the hands-off policies espoused by the new administration may lead to U.S. production growth.

- Prices at the pump trended higher during the first half of the year, then slid lower through December, largely responding to changes in global economics, supply and demand, and other extraordinary factors attributable to the unrest in the Middle East. The average retail price for a gallon of regular gasoline was \$3.089 at the beginning of the year. By the end of June, the price had risen to \$3.438 per gallon, then steadily declined for the remainder of the year to an average price of \$3.024 on December 23.

- **FOMC/interest rates:** The target range for the federal funds rate began the year at 5.25%-5.50% following several interest rate increases by the Federal Open Market Committee (FOMC) in 2023. The Committee, in its battle to reduce inflation and maximize employment, did not adjust the federal funds rate during the first half of 2024, noting the uncertainty of the economy and ongoing risks of inflation. However, in September, the FOMC cut rates by 50.0 basis points and followed that reduction with two more 25.0-basis point reductions through December, lowering the federal funds rate by 100.0 basis points for the year. While price pressures have moderated since early 2022, the rate of inflation has remained stubbornly above the Fed's 2.0% target, hovering between an annual rate of 2.4% (PCE price index) and 2.7% (CPI). The FOMC proffered a more cautious tone in predicting rate adjustments in 2025, projecting two 25.0-basis-point reductions.

- **US Dollar-DXY:** The U.S. Dollar Index had a solid year against a basket of currencies, rising from an initial value of about 102.20 to a tad over 108.00 by the end of December, hitting its highest level since 2022. During the first half of the year, rising prices and higher interest rates attracted investors seeking

higher returns, increasing the demand for the dollar. When the Fed reduced interest rates, the dollar slid lower. The results of the presidential election drove the dollar higher following three months of weakening. Almost every major currency lost value against the dollar this year. The anticipate deregulation of business and tax cuts are expected to enhance the dollar's value even further in 2025.

- **Gold:** Gold prices enjoyed noteworthy gains in 2024, moving from around \$2,000 per ounce, to a peak of nearly \$2,800 per ounce in November, before settling at around \$2,600 per ounce by the end of the year. Gold reached a number record high prices throughout the year. Factors that helped gold prices advance in 2024 include several interest rate cuts, political instability in Eastern Europe, a conflict in the Middle East, and uncertainty in various foreign financial markets.

Last Month's Economic News

- **Employment:** Job growth was stronger than expected in November, with the addition of 227,000 new jobs after adding only 36,000 new jobs in October. Monthly job growth has averaged 186,000 over the prior 12 months, compared with 255,000 per month in 2023. In November, the unemployment rate increased 0.1 percentage point to 4.2% and has remained in the range of 3.7%-4.3% for the year. The number of unemployed persons edged up 161,000 from October to 7.1 million. In November, the number of long-term unemployed (those jobless for 27 weeks or more) changed minimally at 1.7 million. These individuals accounted for 23.2% of all unemployed persons. The labor force participation rate inched down 0.1 percentage point to 62.5% in November (62.8% at the end of 2023). The employment-population ratio decreased 0.2 percentage point to 59.8% in November (60.4% in November 2023). In November, average hourly earnings increased by \$0.13 to \$35.61. Over the past 12 months ended in November, average hourly earnings rose by 4.0% (average hourly earnings were \$34.23, up 4.1% in 2023). The average workweek increased by 0.1 hour to 34.3 hours in November, the same as in November 2023.

- There were 219,000 initial claims for unemployment insurance for the week ended December 21, 2024. During the same period, the total number of workers receiving unemployment insurance was 1,910,000. Over the course of the year, initial weekly claims gradually moved higher, peaking in November. A year ago, there were 213,000 initial claims, while the total number of workers receiving unemployment insurance was 1,817,000.

- **FOMC/interest rates:** As expected, the Federal Open Market Committee reduced the target range for the federal funds rate by 25.0 basis points to the current 4.25%-4.50% following its meeting in December. In arriving at its decision, the Committee noted that economic activity has moved at a solid pace and the labor market has generally eased, while the unemployment rate remained low. Inflation, while it had eased, remained somewhat elevated. As to future policy actions, the FOMC stated that "the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks." In addition, "the Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals." Projections for the federal funds rate indicate the possibility of two 25.0-basis-point rate decreases in 2025, fewer than previously anticipated.

- **GDP/budget:** The economy, as measured by gross domestic product, accelerated at an annualized rate of 3.1% in the third quarter, following increases of 1.6% in the first quarter and 3.0% in the second quarter. A year ago, GDP expanded at an annualized rate of 4.4% in the third quarter and 2.9% for 2023. Consumer spending, as measured by the personal consumption expenditures index, rose 3.7% in the third quarter, higher than in the second quarter (2.8%) and above the 2023 pace of 2.5%. Spending on services rose 2.8% in the third quarter, compared with a 2.7% increase in the second quarter. Consumer spending on goods increased 5.6% in the third quarter (3.0% in the second quarter). Fixed investment advanced 2.1% in the third quarter (2.3% in the second quarter). Nonresidential (business) fixed investment rose 4.0% in the third quarter, 0.1 percentage point above the rate in the second quarter. Residential fixed investment declined 4.3% in the third quarter following a 2.8% decrease in the second quarter. Exports rose 9.6% in the third quarter, compared with a 1.0% increase in the previous quarter. Imports, which are a negative in the calculation of GDP, advanced 10.7% in the third quarter after rising 7.6% in the second quarter. Consumer prices increased 1.5% in the third quarter (2.5% in the second quarter). Excluding food and energy, consumer prices advanced 2.2% in the third quarter (2.8% in the second quarter).

- November 2024 saw the federal budget deficit come in at \$366.8 billion, up roughly \$52.8 billion over the deficit from a year earlier. The deficit for the first two months of fiscal year 2025, at \$624.2 billion, is \$243.6 billion higher than the first two months of the previous fiscal year. For fiscal year 2024, which ended September 2024, the government deficit was \$1.8 trillion, which was \$137.6 billion above the

government deficit for fiscal year 2023. For fiscal year 2024, government outlays increased \$617.0 billion, while government receipts increased \$480.0 billion. Individual income tax receipts rose by roughly \$250.0 billion, and corporate income tax receipts increased by \$110.0 billion.

- **Inflation/consumer spending:** According to the latest Personal Income and Outlays report, personal income and disposable personal income each rose 0.3% in November after both increased 0.7% in October. Consumer spending advanced 0.4% in November after increasing 0.3% the previous month. Consumer prices inched up 0.1% in November after being unchanged in October. Excluding food and energy (core prices), prices rose 0.1% in November, 0.2 percentage point less than the monthly increase in October. Consumer prices rose 2.4% since November 2023, while core prices increase 2.8%.

- The Consumer Price Index rose 0.3% in November after ticking up 0.2% in October. Over the 12 months ended in November, the CPI rose 2.7%, up from 2.6% in October. Excluding food and energy prices, the CPI rose 0.3% in November and 3.3% for the year ended in November, unchanged from the 12-month period ended in October. Costs for services remain elevated, despite a dip lower in November. Prices for both energy and food increased 0.2% in November. Prices for shelter rose 0.3% in November, accounting for nearly 40% of the overall monthly CPI advance. For the 12 months ended in November, energy prices decreased 3.2%, while food prices rose 2.4% and shelter prices advanced 4.7%. Gasoline prices dropped 8.1% over the last 12 months, while fuel oil prices fell 19.5%.

- Prices that producers received for goods and services advanced 0.4% in November following a 0.3% increase in October. Producer prices increased 3.0% for the 12 months ended in November, up from a 2.6% increase for the year ended in October. The November 12-month increase was the largest since the period ended February 2023. Producer prices less foods, energy, and trade services inched up 0.1% in November and 3.5% for the year, while prices excluding food and energy moved up 0.2% for the month and 3.4% for the 12 months ended in November. Producer prices for goods rose 0.7% in November and 1.1% for the year. Prices for services ticked up 0.2% in November, marking the fourth consecutive monthly advance. Prices for services rose 3.0% for the year ended in November.

- **Housing:** Sales of existing homes increased 4.8% in November and were up 6.1% from November 2023. The median existing-home price was \$406,100 in November, lower than the October price of \$406,800 but 4.7% higher than the November 2023 price of \$387,800. Unsold inventory of existing homes represented a 3.8-month supply at the current sales pace, down from October (4.2 months) but above the 3.5-month supply in November 2023. Sales of existing single-family homes increased 5.0% in November. Over the 12 months ended in November, sales of existing single-family homes rose 7.4%. The median existing single-family home price was \$410,900 in November, down from \$411,700 in October but 4.8% above the November 2023 price of \$392,200.

- New single-family home sales rose in November, however, sales prices have declined. In November, sales rose 5.9% and 8.7% for the year. The median sales price of new single-family houses sold in November was \$402,600 (\$425,600 in October), down from \$429,600 a year earlier. The November average sales price was \$484,800 (\$525,400 in October), lower than the November 2023 price of \$489,000. The inventory of new single-family homes for sale in November represented a supply of 8.9 months at the current sales pace.

- **Manufacturing:** Industrial production declined 0.1% in November following a 0.4% decrease in October. Manufacturing advanced 0.2% in November, driven higher by a 3.1% jump in motor vehicles and parts production. Mining decreased 0.9%, while utilities fell 1.3%. Over the past 12 months ended in November, total industrial production was 0.9% below its year-earlier reading. For the 12 months ended in November, manufacturing decreased 1.0%, utilities advanced 0.1%, while mining declined 1.3%.

- New orders for durable goods, down three of the last four months, decreased 1.1% in November. Durable goods orders rose 0.8% in October but fell 1.3% since November 2023. Excluding transportation, new orders decreased 0.1% in November. Excluding defense, new orders declined 0.3%. Transportation equipment, down three of the last four months, led the November decrease, falling 2.9%.

- **Imports and exports:** Import prices rose 0.1% for the second straight month in November, driven higher by advancing fuel prices. Import prices rose 1.3% from November 2023, the largest 12-month increase since the year ended July 2024. Import fuel prices advanced 1.0% in November following a 0.8% decline the previous month. Prices for nonfuel imports were unchanged in November after advancing 0.2% in each of the two previous months. Nonfuel import prices have not declined on a monthly basis since May 2024. Prices for exports were unchanged in November after increasing 1.0% in

October. Higher nonagricultural prices in November offset lower agricultural prices. Export prices rose 0.8% over the past year, the largest 12-month advance since the 12-month period ended July 2024.

- The international trade in goods deficit was \$102.9 billion in November, up \$4.6 billion, or 4.7%, from October. Exports of goods were \$176.4 billion in November, \$7.4 billion more than October exports. Imports of goods were \$279.2 billion in November, \$12.0 billion more than October imports. Over the last 12 months, the goods deficit grew 16.1%. Exports rose 6.1% and imports increased 9.6%.

- The latest information on international trade in goods and services, released December 5, is for October and revealed that the goods and services trade deficit was \$73.8 billion, a decrease of \$10.0 billion, or 11.9%, from the September deficit. October exports were \$265.7 billion, \$4.3 billion, or 1.6% less than September exports. October imports were \$339.6 billion, \$14.3 billion, or 4.0% less than September imports. Year to date, the goods and services deficit increased \$80.7 billion, or 12.3%, from the same period in 2023. Exports increased \$94.0 billion, or 3.7%. Imports increased \$174.7 billion, or 5.4%.

- **International markets:** World stocks are on pace for a second consecutive annual gain of 16%, despite tensions in the Middle East, the ongoing war in Ukraine, Germany's underperforming economy amidst political upheaval, the downgrade of France's credit rating, and China's economic slowdown. For 2024, the STOXX Europe 600 Index rose 6.0%; the United Kingdom's FTSE advanced 5.7%; Japan's Nikkei 225 Index gained 10.2%; and China's Shanghai Composite Index increased 12.7%.

- **Consumer confidence:** December saw consumer confidence wane, ending the year on a down note. The Conference Board Consumer Confidence Index® decreased in December to 104.7 following a 112.8 reading in November. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, fell 1.2 points to 140.2 in December. The Expectations Index, based on consumers' short-term outlook for income, business, and labor market conditions, tumbled 12.6 points to 81.1 in December just above the threshold of 80.0 that usually signals a recession ahead.

Wishing everyone a good start to 2025 with friends and family.

Warmest regards,

Financial Concepts Unlimited, Inc.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities and should not be relied on as financial advice.

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