

# THE DECEMBER '24 SHARPE REPORT: RESETTING EXPECTATIONS

## ECONOMY

Economic activity expanded in December, ending 2024 on a high note. Third-quarter GDP was revised higher to 3.10%, job gains in November rebounded from October, and weekly jobless claims remained muted, averaging 226K/week. Inflation readings came in line with expectations and the Fed's preferred inflation gauge, the Personal Consumption Expenditure (PCE) index, came in lower than expected at 2.40%. The Fed's December meeting was the highlight of the month, lowering interest rates by 25 bps. The main takeaway was the Committee's updated Summary of Economic Projections which showed just two 25 bp cuts in 2025, down from their previous estimate of four. In 2025, the Fed will likely take a slower approach to lowering interest rates while remaining attentive to inflation data.

## STOCK MARKET

In what was a volatile month for equity markets, the S&P 500 closed December down -2.74%. The much-anticipated "Santa-Clause Rally" was never realized after the Fed expressed uncertainty regarding the path of interest rates in 2025. Mega-cap technology companies kept the market afloat in December with the equal-weight S&P 500 down over -6%, four percentage points worse than the market-cap-weighted index. Aside from last month, public equity markets experienced another historic year, finishing 2024 up 24%. This marked back-to-back years with over 20% growth for the first time since 1998-99.

## BOND MARKET

Although the Fed cut interest rates by 25 bps on December 18, bond yields moved higher across the curve during the month. Bond vigilantes (investors who protest monetary and fiscal policy through selling bonds) may be at play, contemplating the Fed's decision to lower rates into an expanding economy, all while Trump's pro-growth policies begin rolling out this month. All else equal, fewer interest rate cuts than expected from the Fed have resulted in higher bond yields, so this month's move was not out of the ordinary. True fear in the bond market is not likely until investment grade and high yield spreads move higher; both remain near historically tight levels.

## PUTTING IT ALL TOGETHER

Uncertainty entered the market in December, with both stocks and bonds declining. But economic data remains strong, with lower inflation, a strong labor market, and GDP growing above 3%. Investors will be closely watching for further signals from the Fed while paying attention to inflation data moving forward. Additionally, following the presidential inauguration later this month, investors will be watching and listening for any new policy that may affect the economy or markets, such as foreign policy, new immigration laws, or tax cuts. 2024 was a great year for markets, and there are many themes we like heading into the new year.

**Economic data remains robust amid yields ticking higher in the month of December. The U.S. economy is growing above-trend, inflation continues its descent, and the labor market is balanced.**



Economic Data	As of Dec-24	Last Period	Last Year
GDP	3.10%	2.70%	4.90%
CPI	2.70%	2.60%	3.10%
PCE	2.40%	2.30%	2.60%
Unemployment Rate	4.20%	4.10%	3.70%
Nonfarm Payrolls	227K	12K	199K
Consumer Confidence	104.7	111.7	110.7

Source: FactSet. As of December 31, 2024.

**Public equity markets took a breather in December, but still closed the year up 24%. Performance in the month was concentrated in the top-weighted companies, which helped mitigate a potentially larger sell-off.**



Equities	Dec-24	QTD	YTD
S&P 500	-2.74%	3.03%	24.01%
DJIA	-5.00%	0.92%	12.80%
Nasdaq Composite	-0.48%	6.27%	27.01%
ACWI Ex-U.S.	-4.45%	-8.67%	3.45%
Russell 3000	-3.37%	3.27%	22.92%

Source: FactSet. As of December 31, 2024.

**Even though the Fed lowered interest rates in December, bond yields moved higher. The Fed remains attentive to inflation data and the labor market, all while projecting less than expected rate cuts in 2025. Bond spreads indicate no widespread fear across fixed income markets.**

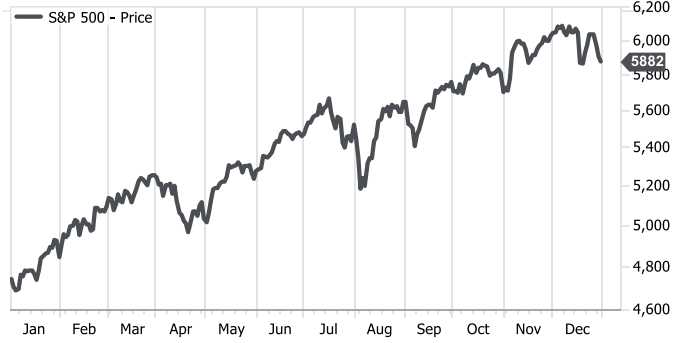


Fixed Income	As of Dec-24	As of Nov-24	As of Dec-23
Federal Funds Rate	4.25-4.50%	4.50-4.75%	5.25-5.50%
2-Year Treasury Yield	4.24%	4.15%	4.25%
10-Year Treasury Yield	4.57%	4.17%	3.88%
Investment Grade Spread	+120 bps	+117 bps	+133 bps
High Yield Spread	+328 bps	+311 bps	+385 bps
30-Year Fixed Mortgage Rate	6.97%	6.69%	6.76%

Source: FactSet. As of December 31, 2024.

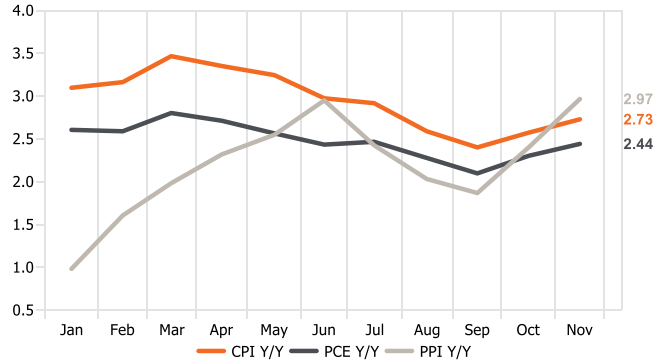
\*Stars signify the strength of economic and market performance in the month.

### S&P 500



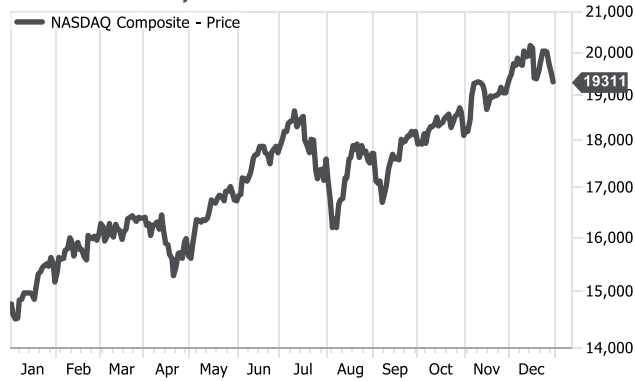
Source: FactSet. As of December 31, 2024.

### U.S. Inflation Rates



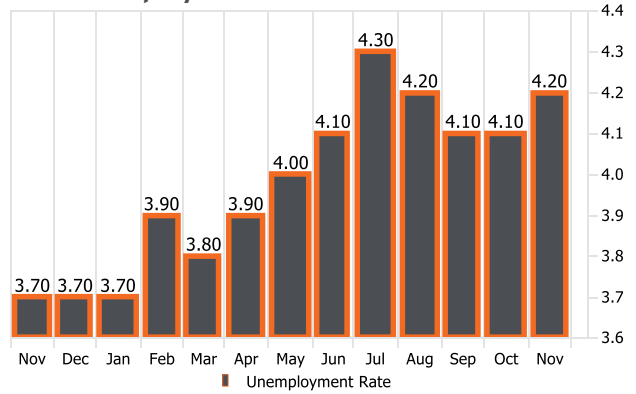
Source: FactSet. As of December 31, 2024.

### NASDAQ Composite



Source: FactSet. As of December 31, 2024.

### U.S. Unemployment Rate



Source: FactSet. As of December 31, 2024.

### U.S. Benchmark Bond - 10 Year



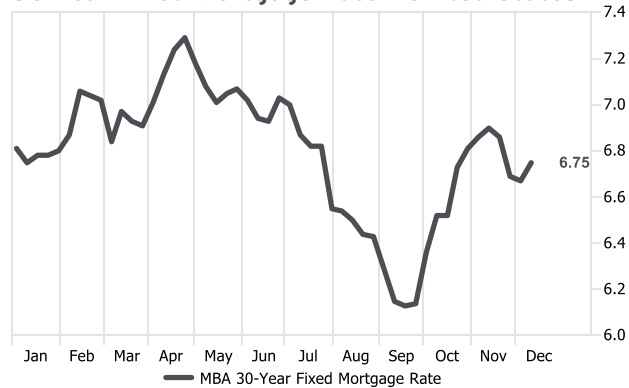
Source: FactSet. As of December 31, 2024.

### WTI Crude Oil (\$/bbl)



Source: FactSet. As of December 31, 2024.

### 30-Year Fixed Mortgage Rate - United States



Source: FactSet. As of December 31, 2024.

### Gold (NYM \$/ozt) Continuous



Source: FactSet. As of December 31, 2024.



# HIGHTOWER

## Investment Solutions

200 W MADISON, 25<sup>TH</sup> FLOOR  
CHICAGO, IL 60606  
(312) 962-3800  
HIGHTOWERADVISORS.COM

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