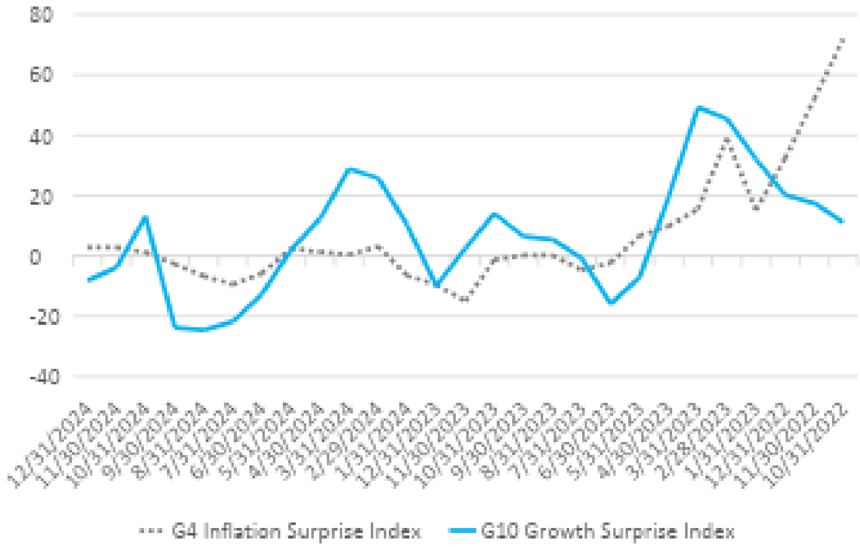
Q4 Market Review 2024

After the excitement of the US Presidential election in November, the global markets ended the year on a more subdued note. At an aggregate level global economic data showed little momentum in global growth and inflation that was largely in line with expectations with a bias to the persistence of inflation.

Chart 1: Global growth and inflation data largely unremarkable *(Index)*



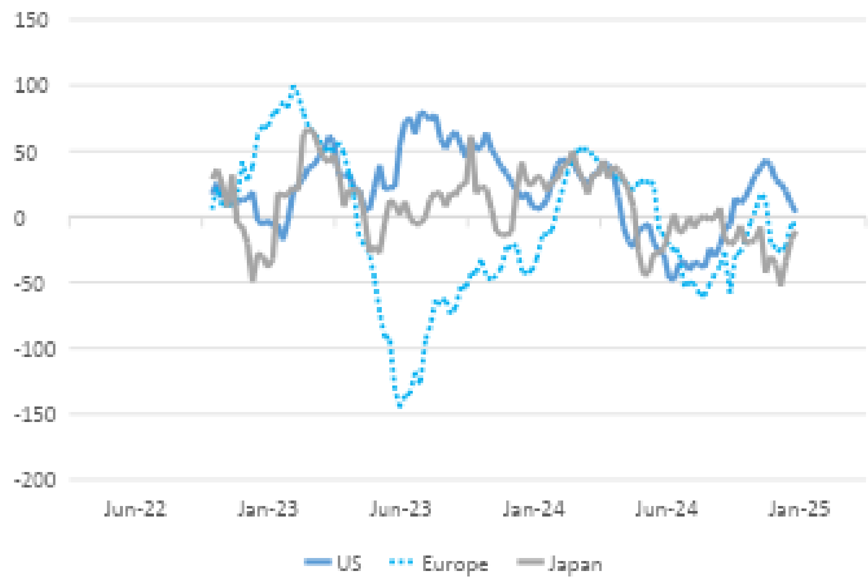
Source: Bloomberg

Notable was the loss of growth momentum in the US economy (Chart 2). There was some evidence that President-elect Trump's rhetoric, which played to a disruptive agenda, was starting to make industrialists somewhat wary of what the first few months of the new administration's term might look like. To be sure, the noise around global trade was particularly unsettling. However, the economy continued to show strong fundamentals – labour productivity growth was 2.2% in the third quarter of 2024 and an average quarterly increase of 2.6% over the past six quarters.

The major shock for the month was the Fed's shift in guidance on monetary policy. Before the Fed's final policy meeting of the year, investors were relatively convinced that they would continue to cut rates consistently through 2025. However, the Fed materially changed its tone on the outlook. They are more wary of the inflation outlook and have guided the market to expect 50bps fewer rate cuts in 2025 than they had previously envisaged.

In Japan, the economic data was subdued but still exhibited sufficient inflation to warrant a rate hike at some point in the first half of 2025. However, the Bank of Japan advised investors not to expect any monetary policy shift, particularly quickly, given the economy's less robust performance and the volatility of the Yen. The Yen weakened from 140 to the USD in September to touch 157 in December.

Chart 2: Global Economic Growth Surprise Indices – US leads the recovery
Index

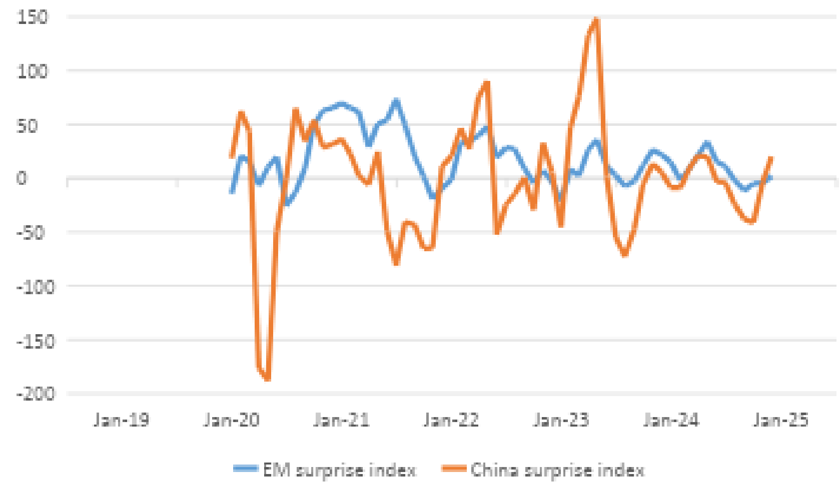


Source: Bloomberg

While the European economy ended the year on a slightly more upbeat note, it did not prevent economists from revising down their 2025 growth estimates. Political challenges in France and Germany have weighed heavily on sentiment. The European Commission now projects euro area GDP growth at 1.3%, a reduction from earlier estimates. This downgrade reflects factors such as potential U.S. protectionist policies and internal economic weaknesses. Similarly, Goldman Sachs has lowered its forecast, anticipating 0.8% growth for the euro area in 2025, down from a previous estimate of 1.1%. This adjustment highlights concerns over anticipated U.S. tariffs on European exports and increased defence spending pressures.

In emerging markets, the news flow has been dominated by the ongoing threat of increased tariffs on China and other nations. Despite this, there remains a strong conviction among economists that Chinese authorities are preparing countermeasures to support their economy. So far, most promises of support have been verbal commitments. However, it appears that the authorities are waiting to assess the scope and scale of the challenges posed by increased tariffs. Once this assessment is complete, they are expected to implement significant stimulus measures to bolster the economy.

Chart 3: China's Economic Growth Data Shows Improvement *(Index)*



Source: Bloomberg

In the emerging world, the year-end stuttering of the Indian economy was a feature. In November, the Reserve Bank of India cut its growth forecast for the 2024-25 financial year from 7.2% to 6.6%. Several factors have been at work, including a slowdown in government spending after the pre-election spending blitz. Also, household real spending power has been hit by price inflation, outpacing wage inflation. We don't believe anything in the economy is broken; the economy had to slow from the breakneck 7%+ seen in previous quarters.

Markets

Equities

Global equities ended the year weakly, with losses in most markets. The strength of the dollar compounded the dollar losses for non-US markets. US Tech and the Chinese equity market were the significant exceptions, with modest gains. **The Chinese equity market ended the year up 12.7%, the first calendar-year gain since 2020.**

Whether for the month, the quarter, or the year, the dominant theme in the equity markets has been the tech sector's performance. The sector continues to spring surprises. In December, Broadcom, the hardware/software tech company, led the sector with a 43% return for the month, closing off a 107% return for the year. All the buzz was around upgraded company expectations for the impact of AI developments.

Dollar returns from other parts of the world were crimped by a near 2% appreciation of the dollar over the month. European equities stabilised in local currency terms. **Japan was up 4.4% in terms of local currency**.

The theme of corporate restructuring continues to dominate with the latest proposed merger between Nissan and Honda.
China's solid dollar performance throughout the month helped the emerging market index end the month virtually unchanged. Brazil's notable poor performance in December weighed down fiscal and political uncertainty.

Table 1: Equity Market total returns in December and for 2024

Equities	**-1mth**	**-3mths**	**-12mths**
US	-2.6%	2.7%	24.6%
NASDAQ	0.5%	6.2%	28.6%
Europe ex UK ($)	-2.4%	-10.6%	0.1%
Japan ($)	-0.3%	-3.6%	8.3%
UK ($)	-1.3%	-0.2%	9.5%
Switzerland ($)	-1.4%	-4.7%	4.2%
Asia ex Japan ($)	0.1%	-7.6%	12.0%
India ($)	-2.9%	-11.3%	11.2%
China ($)	0.8%	0.5%	12.7%
Brazil ($)	-8.2%	-19.4%	-29.8%
Emerging markets	**-0.1%**	**-8.0%**	**7.5%**
Global	**-2.6%**	**-0.2%**	**18.7%**

Source: Bloomberg, *MSCI

Equity sector performance

As discussed above, although outperforming, the tech sector delivered a more muted absolute performance. The tragic events concerning United Healthcare's CEO impacted the healthcare sector. Banks unwound some of the sector's post-Trump win performance and were affected by the Fed's signal that there would potentially be fewer rate cuts in 2025 than had previously been expected by the market. The energy sector was down heavily for the month as the market fretted about the weakness of oil demand in light of market concerns about growth in China.

Table 2: Global equity sector total returns in December and for 2024

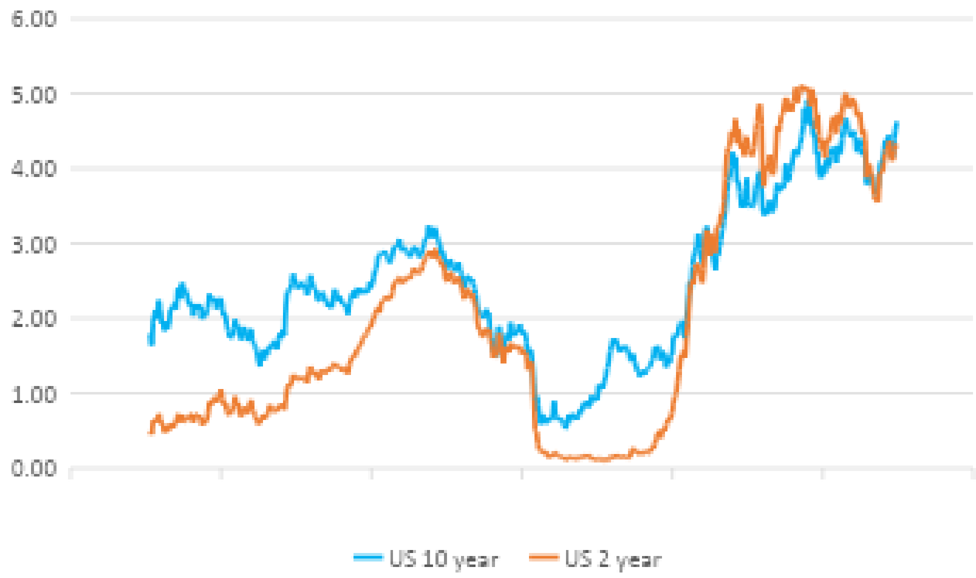
Global Sectors	**-1mth**	**-3mths**	**-12mths**
Energy	-7.7%	-2.8%	2.7%
IT	0.7%	4.6%	32.8%
Consumer Staples	-4.3%	-6.5%	5.7%
Consumer Discret	2.3%	8.7%	21.5%
Healthcare	-6.1%	-11.4%	1.1%
Banks	-3.6%	4.9%	29.2%

Source: Bloomberg

Bonds

Bonds ended the year on a subdued note. The Fed's last meeting of the year, during which they reset market expectations for rate cuts in 2025 to only modest cuts, led to higher long-dated bond yields. The US 10-year government bond yield ended the month 40 bps higher, dragging yields higher across most bond markets. Longer-dated yields offer very little premium over shorter-dated bonds, suggesting that inflation may be more of a medium-term challenge than previously thought.

Chart 4: US 10-year and 2-year government bond yields converge at higher yields (%)



Source: Bloomberg

US high-yield bonds continued to deliver stellar returns, with an 8.2% return for the year, substantially outperforming government bonds. However, there are some warning signals for the future. A good measure of the reruns came from the lower-rated bonds, such as CC-rated debt. The lowest-quality bonds experienced significant gains, with returns surging nearly 48% in 2024. The market faces challenges, including rising default rates in leveraged loans, which reached 7.2% in the 12 months to October 2024.

Asia: The persistent drop in the US 10-year government bond yield is of concern to the market and must be of concern to China's central bank, the PBOC. With the economy struggling with a lack of confidence, markedly lower yields raise the spectre of potential deflation in the Chinese economy and concerns that China could slip into a deflation spiral that has damaged the Japanese economy for well over a decade (Chart 4).

Chart 5: China's 10-year government bond yield continues to slide lower (%)

Source: Bloomberg

Table 3: Bond market total returns in December and for 2024

	-1mth	-3mths	-12mths
Global Aggregate (Hedged)	-0.8%	-0.9%	3.4%
Global investment Grade	-1.5%	-2.4%	2.9%
Emerging markets debt $	-1.2%	-1.5%	6.6%
US Corporate High yield	-0.4%	0.2%	8.2%

Source: Bloomberg

FX and Precious metals

The dollar continued to strengthen, building on the gains of previous months, as markets responded positively to Donald Trump's pro-tariff and pro-growth policies. Such sentiment was bolstered by the Fed's seeming reluctance to cut rates aggressively in 2025.

The dollar's strength pressured many currencies. The euro had a poor month with losses on a trade weighted basis accounting for the losses of the year.

In commodities, gold saw some profit-taking after a very strong year. Bitcoin continues to be a standout winner in the wake of Trump's victory. His endorsements for key positions, such as Treasury Secretary and SEC Chair, both of whom are proponents of cryptocurrency, bolstered market confidence in digital assets. Bitcoin ended well below its high of $106,000 but still managed to end the month up close to 39%.

Table 4: Performance of precious metals and currencies for December and 2024

Currency	**-1mth**	**-3mths**	**YTD**
US Dollar Trade weighted	1.7%	4.0%	4.3%
Euro Trade weighted	-2.2%	-2.1%	-2.2%
GBP trade weighted	0.7%	0.2%	3.6%
Yen/$	1.5%	2.5%	6.2%
Gold	-3.7%	5.6%	28.1%
Bitcoin	38.5%	64.3%	127.8%

Sources: Legacy Wealth Advisors, Global CIO, Bloomberg.