



4Q2024

2024 has been an exciting year by all measures, and the 4th quarter has been the most consequential quarter of the year. The United States held a successful and uncontested election. The balance of the year was important as well. Artificial Intelligence has gained immense traction with corporations that are beginning to spend large sums on its deployment. Digital currencies like Bitcoin are enjoying a powerful tailwind with the prospect of an administration that will be less heavy handed. And, the stock market turned in another stellar performance with the S&P up +23.3%. The gains for the S&P 500 in 2023 and 2024 made up for the -19.4% drop in 2022, with an average gain of +9.4% over the past three years, in keeping with the long-term average for stocks of +7.2%.ⁱ

Bonds did not fare as well, and for managers who extended maturities, performance was disappointing. The 10-year Treasury closed out 2024 with a yield over 4.5%ⁱⁱ, just shy of its high for the year. This rise in yields has created volatility in the equity market recently. It has also affected mortgage rates which are now over 7%ⁱⁱⁱ. Even with the Federal Reserve lowering the Fed Funds rate, yields have continued to climb pressuring stock prices.

There are multiple reasons for rising rates. One reason is that inflation has been stickier, especially for essentials like food and energy. In addition, bond investors have been selling their longer-dated bond holdings. They have been moving into short-term T-bills and money markets which are yielding in excess of 4% (considered an attractive risk-free return), thus driving bond prices down and yields up. And finally, concerns over the policies of the incoming administration are playing a role in the performance of the bond market and interest rates. We have adopted a wait and see posture at Crossvault. These policies have yet to be enacted, but we are hopeful that some of them will have a meaningful impact on our debt and deficits. This is a decades-old issue that finally seems to have garnered some much-needed attention.

Small business optimism has soared over the past 6 weeks. We share our counterpart's enthusiasm for the promise of lower regulation, government efficiency and cost savings, as well as the potential to end long running global conflicts that have cost countless lives, and destabilized numerous regions around the world. The possibility of ending the wars and promoting global stability could have a more substantial and positive impact than is currently factored into the market outlook. In the near term it is not difficult to find reasons to be cautious; the potential for Chinese or Iranian aggression, worsening inflation statistics along with rising rates, uncertainty over the effects of new policies, and too many stock market bulls. While we acknowledge these risk factors, long term we remain positive on the U.S. equity markets and our domestic economy. History supports our optimism.

We wish everyone a healthy and prosperous 2025.

ⁱ Yardeni Research Quick Takes January 1, 2025

ⁱⁱ <https://cnbc.com/quotes/US10Y>

ⁱⁱⁱ <https://cnbc.com/quotes/US30YFRM>

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