Perspectives

A Quarterly Newsletter for Clients of Parsons Capital Management

Quarter 4, 2024

by John Mullen and Ruth Mullen

Investors hoping for a Santa Claus rally were instead left with a lump of coal as the market turned in its worst performance over the final trading days of the year since Eisenhower trounced Stevenson to become President. Following an initial rush higher on the heels of an unexpected Republican sweep in the November elections, markets limped to the finish with December joining April as the only months of 2024 in which the S&P 500 posted negative returns. For the month, weakness became more pronounced further down the market capitalization scale. The final month swoon meant mid and small-cap stocks were essentially dead money for the quarter. Value stocks, after a one quarter reprieve, were again the laggards when compared to Growth, with over nine percentage points separating their returns in the quarter, resulting in Growth more than doubling Value's performance for the year. International markets managed to fare a bit better than the U.S. for December but trailed badly for the quarter and the year. Few major investment vehicles benefitted more from the election outcome than Bitcoin: The price for the digital coin rose 47% in the weeks following November 5th. Like stocks, Bitcoin's rally lost steam in December but still managed to post eye-popping gains for the year.

Data as of December 31, 2024	Dec. '24	Qtr. 4 '24	YTD '24
S&P 500	-2.38 %	2.41%	25.02%
MSCI AC World Index (incl. US)	-2.33%	-0.89%	18.01%
MSCI EAFE (Europe, Asia, Far East)	-2.25%	-8.06%	4.35%
MSCI EM (Emerging Markets)	-0.09%	-7.84%	8.05%
Russell 1000	-2.79%	2.74%	24.51%
Russell 1000 Growth	0.88%	7.07%	33.36%
Russell 1000 Value	-6.84%	-1.98%	14.37%
Russell Midcap	-7.04%	0.62%	15.35%
Russell 2000	-8.26%	0.34%	11.54%
Bitcoin	-4.29%	47.65%	121.54%

Data provided by Tamarac Inc.

Fixed Income Markets

The fixed income market offered no safe haven for investors in the final quarter of 2024. The positive returns in the previous quarter proved to be ephemeral; the U.S. Aggregate Index posted negative total returns in three of the four quarters of the year. The negative return of -3.06% in the fourth quarter left the U.S. Agg Index with a return of 1.25% for the year. Like stocks, underlying asset classes saw a complete reversal in relative performance from the third quarter. The Bloomberg U.S. 20+ year Treasury Index plunged -9.42% in the quarter (-5.99% just in December) to bring the full-year return to -7.98%. This same index had a nearly 8% positive return the previous quarter. Even the shortest maturities were not immune with the Bloomberg 1-3 Year Treasury index showing a negative return of -0.10% in the quarter (+4.03% on the year). Only the High Yield index managed to show a gain in the quarter at +0.17%.

PARSONS
Capital Management, Inc.

www.parsonscapital.com

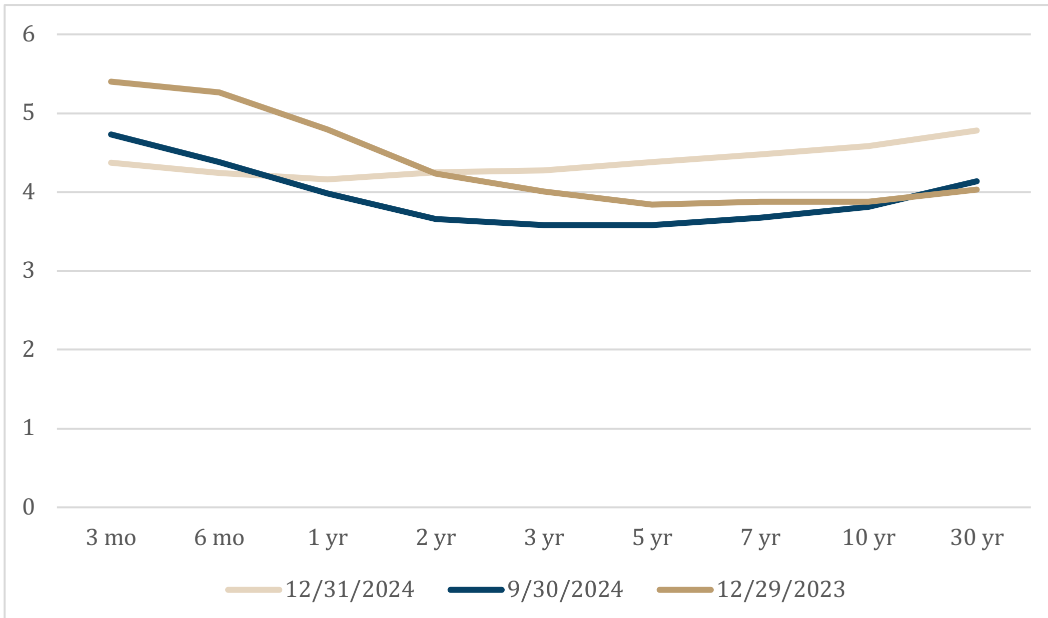
Corporate Headquarters
40 Westminster Street, Suite 400
Providence, RI 02903
Phone 401.521.2440
Fax 401.521.4870
Toll-Free 888.521.2440

Florida Office
11450 SE Dixie Highway, Suite 205
Hobe Sound, FL 33455
Phone 561.868.2440

US Treasury Yields

Yields almost universally moved higher in the quarter, with the action particularly pronounced in the final month, as markets digested increasingly stubborn inflation and tried to parse through the economic agenda of the incoming administration. Investors were forced to rein in rate cut expectations for 2025 as Fed-speak, inflation data and early policy proposals all pointed to headwinds for looser monetary policy. By the end of December, consensus was looking for just two cuts in the new year, compared to as many as six in earlier months. Long rates also neared levels that have served as a challenge for stock market returns.

Yields move higher following election results…



Data from U.S. Treasury

Commodities

Commodities, as measured by the CRB Index, saw modest headline gains in the quarter, but the drivers of performance showed a more nuanced story. After plunging in the prior three-month period, oil rebounded in the final months of the calendar to end the year roughly flat. Interestingly, the price of oil was essentially flat for the quarter before a strong rally over the final five days of December. Natural gas prices continued their march higher, rising 25% for the quarter and more than doubling from the February low.

Oil/energy driving commodity index higher…

Gold's steady upward trajectory seems to have been disrupted by the election results, dropping -8% from its all-time high on October 30th through November 15th before staging a minor rally into year end.

Commodity	Qtr. 4 '24	Year to Date '24
CRB (broad index)	5.32%	18.38%
Oil	5.21%	0.09%
Gold	-0.43%	27.24%

PARSONS
Capital Management, Inc.

www.parsonscapital.com

Economic Overview

For many years following the Global Financial Crisis (GFC) in 2008-9, much of the world economy moved in synchrony - a rising tide lifting most boats. The Covid shockwave and its aftermath marked a break in this global synchronization as globalization began to lose its appeal.

Retreat of globalization…

Since emerging from Covid lockdowns, for a multitude of reasons many European economies have limped along at below trend growth and/or flirted with recession. In China, the governmental response to economic weakness pales in comparison to the forceful actions taken during the GFC and now China increasingly has the look of a deflationary spiral.

Seemingly strong finish for U.S. GDP…

In comparison, the U.S. finished 2024 in strong fashion. While it will be some months before the final data for the year are released, it looks as though the U.S. economy grew by roughly 3% in 2024 – around a full percentage point above what is believed to be trend growth. While high interest rates following an aggressive rate hike cycle from the Fed have dented demand in certain sectors of the economy, a still-solid labor market has provided consumers with fuel to drive the economy.

Strong payroll reports w/ modest wage pressure…

The final set of jobs reports for 2024 showed few signs of an impending downturn. The December payroll figure came in well above expectations at 256,000 jobs added, with only minor downward adjustments to prior months, as the unemployment rate slipped lower to 4.1%. At the same time, the last jobless claims report of the year showed an unexpected decline to 211,000 for the lowest reading since April. Encouragingly, average hourly earnings rose 0.3% month-to-month and 3.9% year-to-year - allowing consumers to stay slightly ahead of inflation but not stoke worries of a wage/price inflation spiral.

Not all parts of the economy humming…

There remain pockets of weakness in the economy. Inflation, while nowhere near the post-Covid highs, has clearly not been fully bested. High interest rates continue to hamper the housing sector, with mortgage applications (already at a low level) down four weeks in a row. Revolving consumer credit also pulled back notably in November, down -12%, which is a reading that is typically seen in periods of great economic stress if not recession. Manufacturing orders slipped lower by -0.4% in November. Fewer workers quit their jobs (typically a sign of subdued expectations for getting a better job), and the time spent on unemployment drifted higher.

Survey data has also shown a disparate view of the economy, though there is increasing thought this could be driven by political outlooks/affiliations. The NFIB Small Business Optimism Index jumped 8 points following the election to 101.7, which followed 34 consecutive months below the 50-year average reading of 98. At the same time, readings of consumer expectations weakened in December and the inflation outlook rose.

Weakness abroad…

Abroad, Germany has been unable to escape the mild recession which began in 2023 while other major European economies (U.K., France, Italy) face their own headwinds. China's economy continues to suffer a foreign flight of capital due to a worry of imposed and potential tariffs while the government takes measures to stimulate the economy.

PARSONS
Capital Management, Inc.

www.parsonscapital.com

Investment Implications

Investors were thrown an unexpected curveball in November with a Republican sweep and a particularly resounding win for President-elect Trump. Markets immediately began to recalibrate, using the first Trump presidency as a guide for what could be in store over the next four years. While it can be useful to look to the past for hints of what could be on offer, the reality that greets Trump 47 is markedly different than what was present for Trump 45.

Looking to the past for hints of what may come…

In 2017, the Trump administration platform combined standard Republican strategies (tax cuts, deregulation) with more archaic ideas (tariffs, isolationism). There were concerns in the economic world that this mix of policies would ignite long-dormant inflation, requiring higher interest rates and ultimately resulting in a weaker economy. Underappreciated at the time was the slack in the domestic economy (unemployment above 5%, inflation near 1%, a deficit of $442 billion versus an economy of $19.6 trillion, 10-year Treasuries just over 2%) and its ability to absorb inflationary policies. As the calendar turns to 2025, the domestic economy is less poised to again tolerate inflationary policies (unemployment near 4%, sticky inflation between 2.5%-3%, $1.83 trillion deficit versus a $29.2 trillion economy, 10-year Treasury yield approaching 5%).

Concerns surrounding inflation dent investment returns…

As the investment euphoria of the unexpected election results wore off, investable assets from stocks to bonds to crypto currency bucked the typical Santa Claus rally and instead sold off into year-end marking December 2024 as a rare negative final month of the year (since 1950 75% of Decembers have produced positive returns for the S&P). Choppiness has carried over into 2025 as investors have been forced to parse through at times conflicting data points.

After back-to-back years of 20%+ gains in the S&P 500 with only minimal drawdowns along the way, further gains in the year ahead will likely prove to be more challenging. The index begins the year at a forward Price-to-Earnings ratio above 22, the highest reading since the late 1990s. Combining these lofty valuations with the economic environment described above adds to the challenge.

Starting the year from a lofty position…

And then there is the uncertainty regarding the path of monetary and economic policy, trade/tariffs, and inflation – all of which point to a sustained uptick in volatility until these issues begin to resolve themselves. Along the way, we have an administration that prefers to negotiate in public what has historically been done behind closed doors. In other words, we can expect to see how the "sausage is made", more fodder for volatility.

Plenty of uncertainty for markets to digest…

The market gains since 2009 have been achieved against a backdrop of ultra-low interest rates and have come principally from earnings gains and an expansion of the price/earnings ratio. P/E ratios have historically demonstrated an inverse relationship with interest rates; rising rates tend to suppress rather than expand multiples. The uncertainty regarding growth in an era of onshoring and potential trade wars, along with inflation, may make earnings increases more difficult.

While a sustained move higher in volatility for stocks and bonds looks likely in the near term, there remain strong foundational supports for the market over the longer term. In 2024 the Fed managed to successfully pull off a soft landing by taking enough stimulus out of the economy to reduce inflation without pushing the country into recession. As mentioned above, the year ended with a relative blowout jobs report. While not always the case, it is quite rare for the stock market to suffer a full-blown bear market (declines of 20%+ lasting more than a year) if the economy is growing. With the labor market still strong and average hourly earnings growing a bit faster than inflation, the consumer should be able to continue to power the economy. This could keep GDP growth positive, if lower than 2023 and 2024. If inflation does stabilize in the 2-3% range and interest rates don't spike significantly higher, decent if not spectacular returns are possible. Balanced portfolios (stocks and bonds) can work.

PARSONS
Capital Management, Inc.

www.parsonscapital.com