OBSERVATIONS

- Equity markets were mixed last week amid low trading volumes. The S&P 500 lost -0.5%, but small caps (Russell 2000) gained +1.1% and the yield on the 10-year Treasury fell -3 basis points last week to 4.60%.[1]
- National home prices according to the S&P CoreLogic Case-Shiller US Home Price Index slowed to +3.6% year-over-year (YoY) in October, down from September's +3.9% YoY figure.[1]
- New home sales increased +5.9% month-over-month (MoM) in November to 664k (annualized rate), which was below expectations, but +8.7% higher than Nov-2023 and the three previous months of new home sales were revised higher.[1]
- Overall construction spending in November was unchanged from October's level, but total construction spending for the first 11-months of 2024 is +6.5% higher than the first 11-months of 2023.[1]
- Initial unemployment claims remained low in the final week of 2024, registering only 211k new claims. Overall, for the full year, 2024 had fewer unemployment claims than 2023 and was the fourth best year (lowest number of total unemployment claims) since 1969.[1]
- The manufacturing PMI came in better than expected in December, but remains below 50 at 49.3—any number below 50 denotes contracting activity—however the new orders metric increased to 52.5.[1]

EXPECTATIONS

- Even before the final details of the Trump administration's trade and tariff policy have been announced, international shippers are increasing their nimbleness. In 2020, 17 super-tankers were delivered to large international shipping groups—designed to take cargo from Asia to North America and Europe. In 2025, only six-super tankers are being constructed, but 83 mid-sized vessels are in the order books as shippers expect less global trade and now favor smaller, less-expensive boats that breakeven on lower volumes.[2]

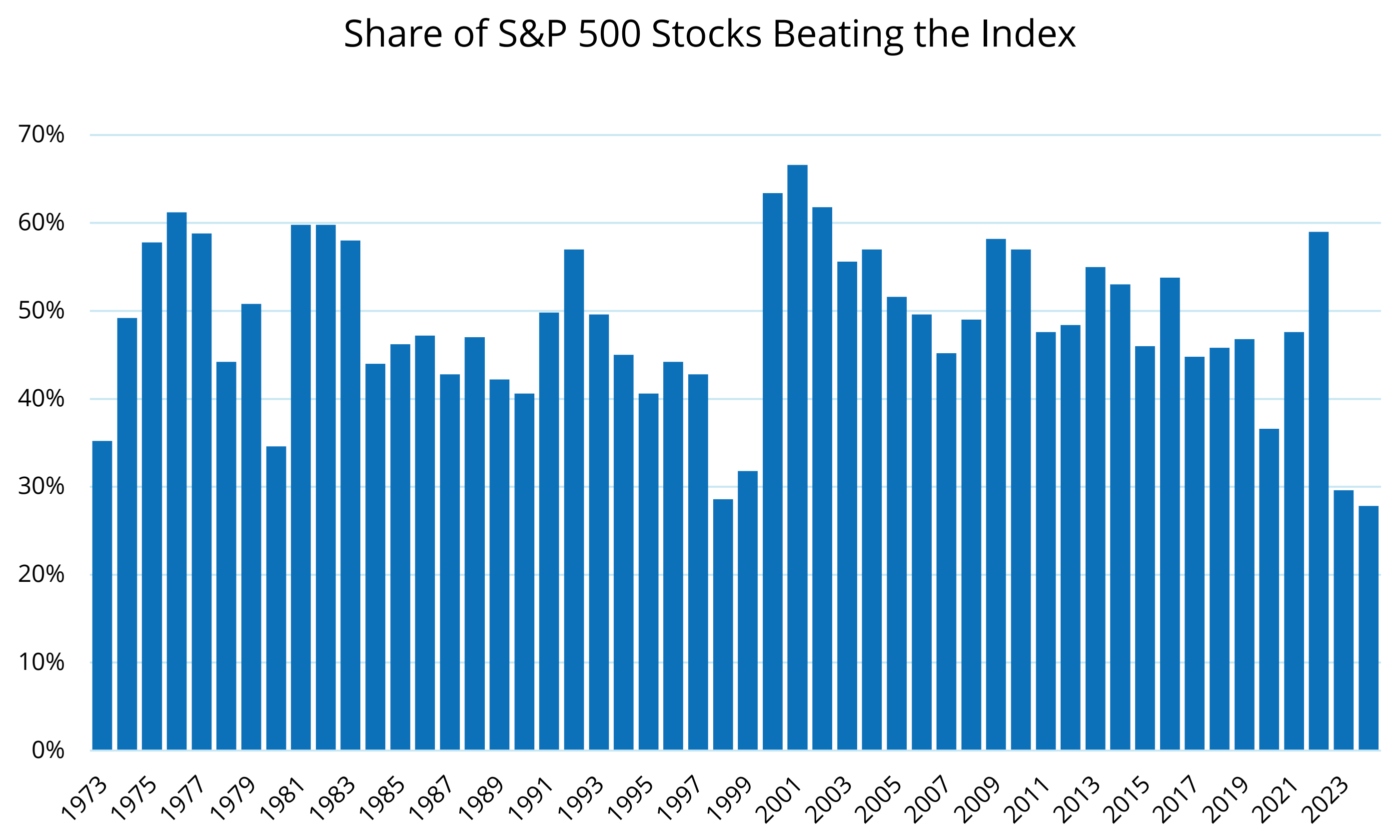
ONE MORE THOUGHT: Volatile Q4 wraps up a generally positive 2024.[1]

2024 was a good year. Both the US economy and US risk assets performed better than expected. As we started 2024, market watchers were fretting about the Fed's mantra of a higher for longer interest rate policy. There were fears that US economic growth would underwhelm amidst a worsening fiscal backdrop and that the myriad of geopolitical risks—wars in the Middle East and Ukraine, and elections in over a dozen major countries (including the US)—would provide a negative global shock. Expectations for the S&P 500 were tepid amidst fears that profits and margins would disappoint or that once again only a few tech stocks would be making gains. However, none of these fears came to pass. US large cap equities (Russell 1000 Index) ended the year up +24.5%. US small caps (Russell 2000 Index), outperformed their large cap peers in the second half of the year, but lagged overall only gaining +11.5% in 2024. On the macro side, the US labor market continued to thrive, and the US consumer continued to spend. The US economy grew above trend for much of 2024 and will likely finish the year with real GDP growth between +2.5% to 2.8%. As a result, corporate America did well and largely delivered on analysts' lofty expectations for both profits and margins. While we did not get a Santa Claus rally in December, US equities broadly made gains in Q4 even if volatility picked up in the final weeks of December trading. As we look out at the beginning of 2025, it's hard not to conclude that the US remains the bright spot in the global economy. Europe looks increasingly politically deadlocked and struggling to achieve economic growth in excess of 1%. Meanwhile China continues to waffle on its economic policies and is struggling to put a floor under its real estate market and boost consumer and business sentiment. Whereas the US election delivered a clear winner last November and the

[1] *Bloomberg LP as of 12/31/2024*
[2] *https://www.ft.com/content/6bf382ee-ee83-4310-b3bc-a487a14cebb7*

incoming Trump administration is putting together a new pro-growth economic agenda. Along with the potential for at least one additional Fed rate cut in 2025, a new capital-expenditure (capex) cycle may lift off and help boost growth next year. Given the existing strength of the US economy, the prospect of further deregulation and tax cuts, its structural advantage over much of the world in the functioning of its capital markets, and its increasing advantage in productivity and innovation suggests to us that the momentum may continue in the US. Overall, we expect 2025 to be characterized as having more volatility with lower returns for both fixed income and equity markets than compared to 2024. While the big winners of 2024 may not be the winners of 2025, it is highly likely the best returns are still to be found in the US rather than abroad. See quarterly market insights for our full 2025 outlook and Happy New Year.

CHART OF THE WEEK



Source: Clearstead, Ned Davis Research 12/31/2024

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