Investment Report 4T2024

As the economy remained stable and the Fed continued to lower interest rates, the election results increased hopes for tax cuts and other pro-growth policies in 2025, which helped the S&P 500 to an all-time high in the fourth quarter and extend gains from 2024. For the second consecutive year, the S&P 500 recorded an annual return of more than 20% and a slightly positive return for the fourth quarter.

Although the majority of the market saw a strong fourth quarter, sentiment in October was negatively impacted by election-related worry and heightened attention to the US economy. Political and policy uncertainty increased in October as presidential polls became significantly closer and the contest was too close to call. Additionally, the potentially detrimental fiscal effects of both candidates' ideas dominated the October coverage in the financial media. The 10-year Treasury yield increased from 3.75% at the beginning of October to over 4.20% by Halloween as a result of these budgetary worries and better-than-expected economic data. Stocks were under pressure from the increase in rates as well as political and policy uncertainty, and the S&P 500 ended October with a slight decrease of 0.91%.

However, those stock market challenges were short-lived as Republicans completed a "Red Sweep" by seizing control of both chambers of Congress and Donald Trump easily won re-election. The prospect of future tax cuts, deregulation, and a pro-business administration, the Trump and Republican victory served as positive catalysts, reminiscent of 2016. As a result, the S&P 500 had its first increase above 6,000. However, the president-elect nominated a number of unconventional supporters to key cabinet positions shortly after the election, reminding of the unpredictable nature of a Trump presidency. Stocks fell mid-month as a result of these surprises, which made consider policy risks to the pro-growth agenda. However, the anxiety regarding the president-elect's cabinet was reduced by the withdrawal of Attorney General nominee Matt Gaetz and the appointment of Scott Bessent as Treasury Secretary. As a result, equities began to rise again in late November and ended the month close to all-time highs.

The "Goldilocks" economic climate of strong growth and ongoing Fed rate cuts, along with renewed attention to the prospective economic benefits of an incoming Trump administration, sent the S&P 500 to yet another all-time high in December, close to 6,100. That surge, however, came to a standstill in the middle of the month as President-elect Trump reaffirmed his backing for additional unconventional cabinet appointments and threatened to impose tariffs on China, Canada, and Mexico, among other important trading partners. When the Federal Reserve lowered interest rates at its December meeting and lowered the number of anticipated rate cuts in 2025 to two (from four), market volatility rose. That led to a steep stock selloff that lasted until the end of the year, making the S&P 500 conclude the month marginally up but still doing well. All things considered, 2024 was a very successful year for the broad markets since the Fed aggressively lowered interest rates and appeared to have achieved a gentle economic landing, while domestic and international political dangers and drama did not stop the surge.

Q4 and Full-Year 2024 Performance Review

All four of the major U.S. stock indices ended the quarter with a positive return, despite the late-year stock market decline. The Nasdaq beat the other three major indexes and was the best-performing major index in the fourth quarter. This was due to a combination of rising ambiguity about when future pro-growth economic measures may actually be implemented and earnings-driven AI euphoria. Although it only marginally beat the S&P 500, which benefited from the high weightings to tech firms and financials, the Nasdaq was the top-performing major index for the whole year. Despite finishing the year with strong gains, the Dow Industrials and Russell 2000 trailed the S&P 500 and Nasdaq.

Due mostly to the robust performance of large-cap tech stocks on the previously noted AI euphoria and excellent results, large-cap stocks outpaced small-cap stocks by market capitalization both in the fourth quarter and for the entire year. Though the Russell 2000 ended the quarter with only a modest gain, small caps did have a strong bounce in the fourth quarter on expectations of pro-growth policies from the incoming administration. However, later in December, small caps were negatively impacted by the Fed's direction to reduce rate cuts in 2025.

There was celebration as expected for the market boost from Republican plans like deregulation, tax cuts, and tariffs, the outcome of the November election sent equities skyrocketing. During election week, small-cap stocks, energy stocks, and financial stocks all saw sharp increases. More generally, the same technology firms that have propelled the market higher for the majority of the past two years were the main drivers of the fourth-quarter surge. After finishing the previous quarter in the red, AI darling Nvidia NVDA saw a rise of over 10% throughout the quarter. It was up 3.69%.

In the fourth quarter and for the entire year, growth greatly exceeded value. The causes were well-known: Early in 2024, euphoria for artificial intelligence drove growth funds with a strong tech component, and those gains were maintained in the fourth quarter by strong AI chipmaker profits. Late in the year, value stocks were also affected by uncertainty regarding the next administration's pro-growth policy implementation schedule.

While all 11 S&P 500 sectors ended 2024 with gains, only four of them had a positive return at the conclusion of the fourth quarter. Thanks in large part to a strong Tesla (TSLA) rally and a stable prognosis for consumer spending, which included low unemployment and the possibility of tax cuts and other pro-growth measures in 2025, the consumer discretionary sector was by far the strongest performing sector in the fourth quarter. Due to the incoming administration's aspirations for less regulation, the financial and communication services industries also did well. The top-performing industries for the entire year were financials and communication services, which both profited from high profits as well as widespread interest in artificial intelligence and a yield curve reversal, respectively.

When considering sector laggards, the fourth quarter saw the lowest performance from Materials, which reported a significantly negative return, followed by a strong decrease from healthcare. The Materials sector was only marginally positive for 2024, while the Healthcare sector saw a slight increase, making those two industries the lowest relative performers for the year. While the Materials industry was continuously under pressure from worries about the Chinese economy, tariff and trade issues, and general global demand concerns, the Healthcare sector was burdened in 2024 by worries about regulation and subpar financial outcomes.

S&P 500 Total Returns by Month in 2024											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1.68%	5.34%	3.22%	-4.08%	4.96%	3.59%	1.22%	2.43%	2.14%	-0.91%	5.87%	-2.38%

Source: Morningstar

US Equity Indexes	Q4 Return	2024 Return
S&P 500	2.41%	25.02%
DJ Industrial Average	0.93%	14.99%
NASDAQ 100	4.93%	25.88%
S&P MidCap 400	0.34%	13.93%
Russell 2000	0.33%	11.54%

Source: YCharts

Due to poor growth forecasts and unexpected episodes of political unrest in both established and emerging markets, foreign markets significantly underperformed the S&P 500 in the fourth quarter and generated firmly negative returns. The political unrest in France and Germany affected the performance of established markets, while the political problems in South Korea and concerns about Chinese expansion put pressure on developing markets, resulting in equal negative returns for both overseas developed markets and emerging markets in the fourth quarter. Although they ended the year with somewhat favourable results, overseas markets once again trailed the S&P 500 by a significant margin. Due to Chinese stimulus measures in the second half of 2024, which increased expectations for an economic recovery and improved emerging market performance in comparison to those foreign developed countries, emerging markets outperformed developed markets on a full-year basis.

International Equity Indexes	Q4 Return	2024 Return
MSCI EAFE TR USD (Foreign Developed)	-8.06%	4.35%
MSCI EM TR USD (Emerging Markets)	-7.84%	8.05%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	-7.50%	6.09%

Source: YCharts

Emerging Markets

During the quarter, emerging market (EM) stocks faced a headwind due to Donald Trump's victory in the US presidential election. Concerns regarding the effects of Trump's proposed tariffs, especially on China, caused the MSCI EM index to decline in US dollars. Between September and the end of December 2024, the US Federal Reserve (Fed) lowered interest rates three times. As growing worries about the nation's budgetary future caused the local currency to decline, Brazilian shares were the lowest among EM. Political unrest caused by the impeachment of the president and then the acting president in December caused South Korea to report losses. Both South Africa and India underperformed the wider EM index, finishing the quarter with lower US dollar values. China saw a decrease, although not as much as the index. The index market suffered throughout the quarter due to fears about the effects of the potential Trump trade tariffs on Chinese exports and a lack of additional information regarding the policy stimulus measures that were announced in September. Despite posting negative returns, Saudi Arabia outperformed the index. During the quarter, just four EMs—the Czech Republic, Kuwait, Taiwan, and the United Arab Emirates—saw gains in US dollars. The continued optimism over the market for artificial intelligence was a major factor in Taiwan's performance.

Overview

Total returns (net) % – to end December 2024

	3 months			12 months		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	-0.2	7.6	6.9	18.7	26.6	20.8
MSCI World Value	-4.2	3.3	2.6	11.5	18.9	13.5
MSCI World Growth	3.8	11.9	11.2	25.9	34.3	28.2
MSCI World Smaller Companies	-2.6	5.0	4.3	8.2	15.4	10.1
MSCI Emerging Markets	-8.0	-0.8	-1.5	7.5	14.7	9.4
MSCI AC Asia ex Japan	-7.6	-0.4	-1.0	12.0	19.4	14.0
S&P500	2.4	10.4	9.7	25.0	33.4	27.3
MSCI EMU	-9.0	-1.9	-2.6	2.6	9.5	4.5
FTSE Europe ex UK	-10.2	-3.3	-3.9	1.2	8.0	3.0
FTSE All-Share	-7.0	0.3	-0.4	7.5	14.7	9.5
TOPIX*	-4.0	3.4	2.8	8.1	15.3	10.0

Commodities

The fourth quarter saw an increase for the S&P GSCI Index. The index's top-performing sectors were energy and livestock, while industrial metals and precious metals had declines throughout the quarter. During the quarter, there were some notable price changes in the agriculture component. The cost of sugar and cotton was drastically reduced, while the cost of coffee and cocoa was much greater. A late spike in the U.S. dollar affected some areas of the complex, causing commodities to perform inconsistently in the fourth quarter. The U.S. dollar's surge to two-year highs in December was the primary cause of gold's small decline at the end of the quarter. In contrast, oil witnessed a strong increase in Q4 as a result of some better-than-expected Chinese economic indicators, which raised expectations for future demand. Following worldwide rate decreases, growing demand expectations led to marginally positive returns for the majority of commodities in 2024. Consistent geopolitical unpredictability and sticky inflation helped gold record high returns for the year, while OPEC supply restraint and more positive projections for global growth in 2025 helped oil rise marginally.

Commodity Indexes	Q4 Return	2024 Return
S&P GSCI (Broad-Based Commodities)	3.81%	9.25%
S&P GSCI Crude Oil	5.24%	0.13%
GLD Gold Price	-0.38%	27.19%

Source: YCharts/Koyfin.com

The benchmark for US oil prices, West Texas Intermediate crude prices, dropped 3.58% during the quarter. This was an improvement from the losses of over 18% in the third quarter, which were caused by a rise in output and a decline in Chinese demand. Gasoline prices didn't drop as sharply over the previous three months due to more steady oil prices, which kept inflation comparatively sticky. The price of gold dropped by 0.63% during the fourth quarter as well. Gold prices fell due to a number of factors, including the possibility of a stronger economy in the coming year and a stronger currency following the US election. Gold is typically purchased as a hedge against market volatility or losses. Prices of copper, which are frequently used as a stand-in for industrial activity demand, dropped 11.86%.

Bonds

Due to pressure from concerns about U.S. federal deficits and expectations of fewer rate reduction in 2025, the major benchmark for bonds, the Bloomberg Barclays US Aggregate Bond Index, showed a modestly negative return in the fourth quarter. The benchmark did, however, show a slight improvement for 2024. Examining fixed income in more detail, shorter-duration debt saw a slight increase in return during the fourth quarter, while longer-duration bonds saw a significant fall. Continued Fed rate decreases and more robust inflation and growth indicators (which weighed on longer-duration debt) were the main drivers of shorter-duration debt's superior performance. The beginning of the Fed rate-cutting cycle also helped short-duration debt beat long-term bonds over the course of a full year, while the longer end of the yield curve was burdened by U.S. budgetary concerns and the optimistic forecast for growth and inflation. While longer duration bonds reported a marginally negative yearly return, short duration debt ended the year with firmly positive returns.

Looking at the corporate bond market, high-yield bonds did better in the fourth quarter than higher-quality but lower-yielding investment grade debt. This was because the election results increased confidence in the economy's ability to grow, which led to accepting higher yields in exchange for more risk. Given underlying economic optimism, there was a preference to take on greater risk in exchange for a higher yield or return, as seen by the high-yield bonds' consistently positive return over the course of the year and the investment-grade bonds' marginally positive return.

US Bond Indexes	Q4 Return	2024 Return
BBgBarc US Agg Bond	-3.06%	1.25%
BBgBarc US T-Bill 1-3 Mon	1.19%	5.32%
ICE US T-Bond 7-10 Year	-4.59%	-0.52%
BBgBarc US MBS (Mortgage-backed)	-3.16%	1.20%
BBgBarc Municipal	-1.22%	1.05%
BBgBarc US Corporate Invest Grade	-3.04%	2.13%
BBgBarc US Corporate High Yield	0.17%	8.19%

Source: YCharts

In 2024, convertible bonds had a resurgence in the last quarter. The FTSE Global Focus convertible bond index increased 2.1% during the quarter despite drops in global stocks. In October, the stock markets took a little break, and convertibles provided solid protection against the downside. Strong equity markets with above-average convertible upside participation were observed in November. Convertibles have again showed strong downside protection in December. With $26.7 billion worth of new paper going to market during the quarter, the new issue market is still active.

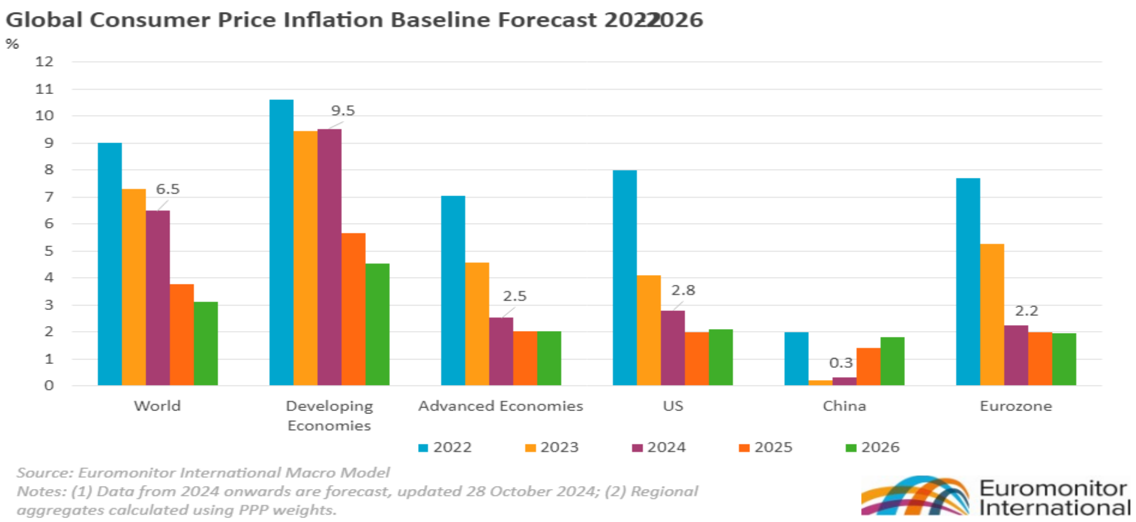
	3 months			12 months		
Government bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-3.0	4.5	3.8	0.7	7.4	2.5
JPM GBI UK All Mats	-9.7	-2.7	-3.3	-5.4	1.0	-3.7
JPM GBI Japan All Mats**	-10.2	-3.2	-3.8	-13.1	-7.3	-11.6
JPM GBI Germany All Traded	-7.8	-0.6	-1.2	-5.8	0.5	-4.1
Corporate bonds						
BofA ML Global Broad Market Corporate	-4.0	3.4	2.8	1.2	8.0	3.1
BofA ML US Corporate Master	-2.8	4.7	4.1	2.8	9.6	4.6
BofA ML EMU Corporate ex T1 (5–10Y)	-6.5	0.7	0.1	-1.7	4.8	0.0
BofA ML £ Non-Gilts	-7.0	0.2	-0.4	0.0	6.7	1.8
Non-investment grade bonds						
BofA ML Global High Yield	-1.1	6.6	5.9	7.5	14.7	9.4
BofA ML Euro High Yield	-5.5	1.8	1.2	2.6	9.4	4.4

Source: LSEG DataStream. Local currency returns in Q4 2024: *5.4%, **-1.3%.

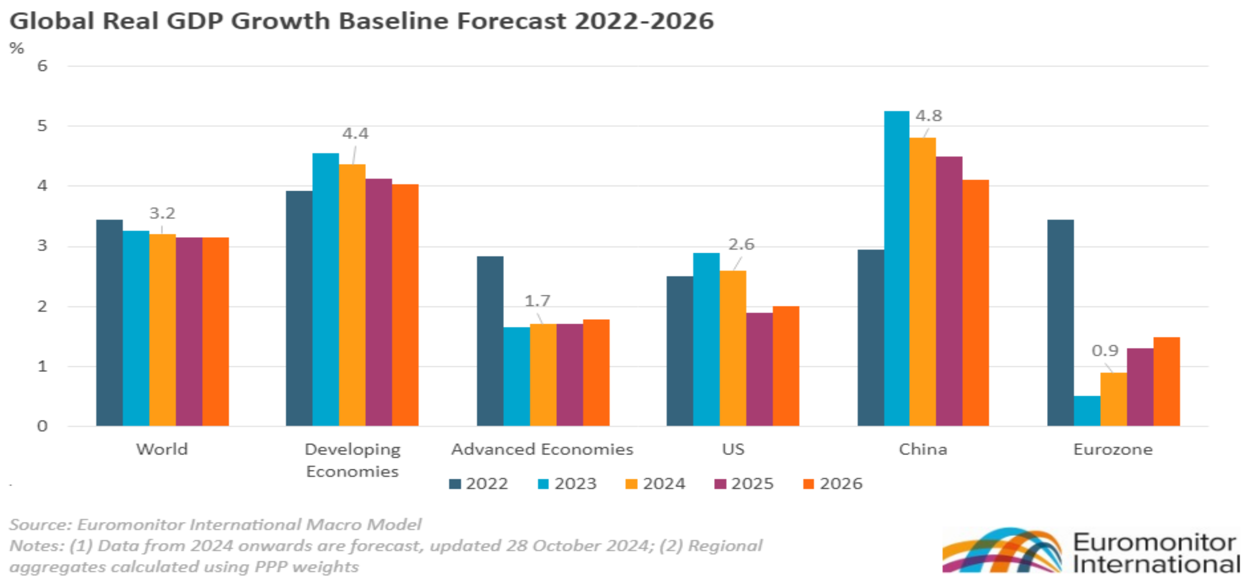
Past performance is not a guide to future performance and may not be repeated.

Global inflation

Inflation is predicted to return to its objective of 2% in major economies in 2025, marking a significant milestone in the global disinflation process. Although some markets continue to see high prices for services, the sector's price pressures should be lessened by anticipated slower wage growth. In the meanwhile, soft energy and goods prices should keep bringing inflation down because of a modest improvement in demand and an adequate supply. In 2025, a price stabilization along with declining interest rates might offer some financial relief to households and companies. Due to persistently tight financial conditions and a slowing Chinese economy, the global economy is still underperforming even though it is currently in better health. In the meanwhile, there are significant upside risks for global inflation and downside risks to the global baseline outlook due to growing geopolitical tensions, trade protectionist policies, and climatic shocks. The inflation rate for global consumer prices is predicted to decrease from 6.5% in 2024 to 3.8% in 2025. Global inflation, excluding Argentina's hyperinflation, would be 3.3% in 2025 and in 2024 4.8%.



Due to a continuing high interest rate environment and muted business and consumer confidence, developed economies' real GDP growth expectations for 2024 and 2025 were predicted to be modest at 1.7%. However, different economies experience growth at different rates. Despite slowing, the US economy held up well in the second half of 2024 because to persistently strong consumer spending. Compared to earlier projections, the US real GDP was expected to expand by 2.6% in 2024. However, it is anticipated that growth momentum would slow down in 2025, primarily as a result of the trailing impacts of high interest rates as well as possibly deteriorating consumer and labour market expenditures. The economy was severely impacted by high oil costs and inflation in 2023, and the Eurozone is now recovering slowly. As interest rates decline and the economy starts to recover, stronger growth is anticipated in 2025. However, the recovery is still slow, mostly because of the economic slump in Germany, the biggest economy in the region, with a growth prediction to nearly nothing in 2024 due to weak exports and dwindling investment. With a real GDP growth rate of 1.2% predicted for 2025, Japan's economy is predicted to rebound from sluggish growth in 2024. It is projected that the newly implemented tax cut program, rising base salaries, and an anticipated slowdown in inflation will increase consumer confidence and purchasing power. Emerging markets' economies continue to grow steadily despite a tendency toward stagnation. Since development in China and Latin America is predicted to be slower in 2025, emerging and developing economies are predicted to increase by 4.4% in 2025, a slight decrease from 4.5% in 2024. Brazil's economy performed better in 2024, but because of high interest rates and ongoing inflationary pressures, growth momentum is predicted to slow in 2025. Positively, strong domestic demand and rising investment have kept the economies of Southeast Asia and India strong.



Digital assets

Two significant events that occurred in 2024 influenced the digital currency's scene. The first was the introduction of US spot Bitcoin exchange-traded funds (ETFs) in January. The second occurred after Donald Trump won the US presidential election in November. The end of regulatory stasis was marked by the appointment of Congressional representatives and a pro-cryptocurrency administration. Markets started to predict a more positive future framework for digital assets in the US, one that would facilitate greater innovation, easier access to financing, and the chance for corporate America to use blockchain technology on a significant scale. Bitcoin rose from $60k to a new all-time high of $108k at the beginning of December due to the newfound confidence following the election, but it then fell back to the mid-$90ks. Markets consolidated and traded sideways in the second half of December, closing the quarter at $95k. With robust gains of 113% and 42% at the end of 2024, respectively, Bitcoin and Ether outperformed the S&P 500, which gained 25%. The fact that December 31 was the 170th day of bitcoin's "Acceleration" phase—which has historically taken 250–300 days to peak—indicates that there may be more time for the cryptocurrency to run. In Q4, the Ethereum network expanded dramatically. Ether appears to be well-positioned for a successful 2025 when combined with its relative underperformance in comparison to Bitcoin and strong signals throughout the timeseries.

Performance by regions

UK

Over the quarter, UK equities declined. As long-term bond yields increased and worries about the UK macroeconomic outlook grew, some domestically focused industries saw declines. Although long-term bond rates increased globally as inflation expectations were raised, worries about the fiscal policies of the new UK administration, which were announced in the Autumn Budget, made the increase in the UK even more pronounced. In the meantime, there were indications that the budget's cost increases might be having an adverse effect on the labour market as businesses prepare for the April implementation of higher employer-paid National Living Wage and National Insurance contributions. According to industry hiring figures for November, demand for UK workers had been abnormally low leading up to the hectic Christmas season. In a broader sense, preliminary statistics released by the Office for National Statistics (ONS) showed that October saw the economy decrease for the second consecutive month. Meanwhile, the ONS revised down Q3 growth to zero from 0.1% before, indicating that the economy had done worse than anticipated during the summer.

Asia (Ex Japan)

Following Donald Trump's re-election as US president in November, market concerns about possible tariffs caused Asia ex-Japan equities to fall in the fourth quarter. The MSCI AC Asia ex Japan Index's worst-performing markets were those in South Korea, Indonesia, and the Philippines. The two markets that performed the best throughout 2024 were Singapore and Taiwan, the only ones to finish the quarter in a positive position. As the possibility of a second Trump presidency increased the likelihood of increased trade and technology disputes, China and Hong Kong saw steep drops throughout the quarter. Donald Trump had promised to impose tariffs of at least 60% on Chinese made goods during his campaign. Amid the continued tensions between the United States and China, Singapore benefited as foreign investors looking for exposure to the region moved from China and Hong Kong to Singapore, drawn by its political stability and relative neutrality.

US

The fourth quarter saw advances in US shares, capping a successful year for the S&P 500 index. Donald Trump's win in the presidential election and the ensuing "Red Sweep," in which the Republicans took control of Congress, helped to boost equitiess. Expectations that Trump's economic agenda would boost GDP, reduce taxes, and streamline regulations helped to boost shares. The consumer discretionary, information technology, and communication services sectors led the gains in Q4, with some of the

"Magnificent Seven" stocks showing particularly good performance. The materials industry was the weakest. In November and December, the Federal Reserve (Fed) reduced interest rates by 25 basis points (bps). However, after reducing the amount of interest rate cuts anticipated in 2025, the Fed in December caused a sell-off in the stock market. This resulted from inflation that remained sticky. The Fed's favoured indicator of inflation, core PCE, or personal consumption expenditure, saw a 2.8% year-over-year increase in November. In Q3, the US economy grew by 3.1% annually, demonstrating its continued strength. Hurricanes and strikes caused some distortion in the labour market data that was reported during the quarter. In October, non-farm payrolls increased by just 36,000, but in November, they increased by 227,000.

Eurozone

Amid concerns about a recession, Eurozone shares fell in Q4. After Donald Trump won the US election, there was concern about trade conflicts and political unrest in France and Germany. Consumer staples, real estate, and materials were the quarter's poorest industries. Industrials were among the sectors reporting improvements. According to December flash purchasing managers' index (PMI) survey data, the private sector in the eurozone continued to shrink at the end of the year. As the service sector resumed its development, the composite production index increased from 48.3 in November to 49.5. In October and December, the European Central Bank (ECB) lowered interest rates by 25 basis points. The "direction of travel currently is very clear," according to ECB President Christine Lagarde, who hinted at additional cuts in 2025 as the single currency area struggles with slow growth. The era was marked by political instability in both France and Germany. After Chancellor Olaf Scholz fired his finance minister in November, Germany's three-party ruling coalition fell apart. This opens the door for further elections in February 2025. When other parties refused to support his budget, French Prime Minister Michel Barnier was overthrown in a no-confidence vote. It is not possible to hold new parliamentary elections until July.

Markets are optimistic going into 2025 as the S&P 500 finished the best two-year run since the late 1990s, thanks to sustained Fed rate decreases, a continued soft landing in the economy, and prospects of tax cuts and pro-business deregulation. Although there is a great deal of hope for the geopolitical resolution of the global community disputes, nothing is certain, and there is a chance that both hostilities may intensify by 2025.