SIGMA
PRIVATE OFFICE

Q4 2024 MARKET REVIEW AND OUTLOOK

MARKET REVIEW & OUTLOOK

As we close out 2024, it's worth reflecting on what has been another good year for global financial markets. The S&P 500 notched 56 new all-time highs in 2024 and posted two consecutive years of 20%+ returns, something which has only happened 4 times since 1871. The MSCI World Index fell just short of this, returning 19%. Global equities continued their rally from early in the year, as economic resilience, moderating inflation and accelerating earnings growth provided a supportive backdrop for risk assets.

A decisive Trump victory in the final quarter, with a sweep for the Republicans (winning the Presidency and majorities in the House of Representatives and the Senate) ignited a market rally as fears for an inconclusive election outcome faded. On the back of Trump's historic victory, the S&P 500 had its best week of the year, small caps and regional bank stocks rallied amid hopes for deregulation and pro-growth policies, and the dollar continued to strengthen, with the Dollar Index up around 7% this year.

The initial optimism retraced into year-end on fears of tariffs, a trade war and another threat of a US government shutdown in December highlighted the legislative challenges within Congress, even with unified Republican control. Narrow majorities and internal party divisions suggest that passing major bills, such as tax reforms or deregulation, will likely face significant delays and compromises. New administrations typically push their boldest agendas early, resulting in heightened political risks in the first two years of a presidential term. Historically, average returns have trailed the stronger performance seen in the third and fourth years of a term, shown in chart 1, as uncertainty typically results in increased volatility.

In 2025, markets will have to digest the impact of potential tariffs on economic growth and inflation, and political realities may dampen some of the enthusiasm surrounding Trump's pro-growth policy agenda. Nonetheless, history shows politics are rarely the primary driver of stock market returns.

CHART 1
HISTORY OF S&P 500 RETURNS BROKEN DOWN BY PRESIDENTIAL YEAR

Party	President	First Year		Second Year		Third Year		Fourth Year	
R	Coolidge	1925	29.5%	1926	11.1%	1927	37.1%	1928	43.3%
R	Hoover	1929	-8.9%	1930	-25.3%	1931	-43.9%	1932	-8.9%
D	FDR -- 1st	1933	52.9%	1934	-2.3%	1935	47.2%	1936	32.8%
D	FDR -- 2nd	1937	-35.3%	1938	33.2%	1939	-0.9%	1940	-10.1%
D	FDR -- 3rd	1941	-11.8%	1942	21.1%	1943	25.8%	1944	19.7%
D	FDR / Truman	1945	36.5%	1946	-8.2%	1947	5.2%	1948	5.1%
D	Truman	1949	18.1%	1950	30.6%	1951	24.6%	1952	18.5%
R	Ike -- 1st	1953	-1.1%	1954	52.4%	1955	31.4%	1956	6.6%
R	Ike -- 2nd	1957	-10.9%	1958	43.3%	1959	11.9%	1960	0.5%
D	Kennedy / Johnson	1961	26.8%	1962	-8.8%	1963	22.7%	1964	16.4%
D	Johnson	1965	12.4%	1966	-10.1%	1967	23.9%	1968	11.0%
R	Nixon	1969	-8.5%	1970	4.0%	1971	14.3%	1972	18.9%
R	Nixon / Ford	1973	-14.8%	1974	-26.5%	1975	37.3%	1976	23.7%
D	Carter	1977	-7.4%	1978	6.4%	1979	18.4%	1980	32.3%
R	Reagan -- 1st	1981	-5.1%	1982	21.5%	1983	22.5%	1984	6.2%
R	Reagan -- 2nd	1985	31.6%	1986	18.6%	1987	5.2%	1988	16.6%
R	Bush	1989	31.7%	1990	-3.1%	1991	30.5%	1992	7.6%
D	Clinton -- 1st	1993	10.1%	1994	1.3%	1995	37.6%	1996	23.0%
D	Clinton -- 2nd	1997	33.4%	1998	28.6%	1999	21.0%	2000	-9.1%
R	Bush, G.W. -- 1st	2001	-11.9%	2002	-22.1%	2003	28.7%	2004	10.9%
R	Bush, G.W. -- 2nd	2005	4.9%	2006	15.8%	2007	5.5%	2008	-37.0%
D	Obama -- 1st	2009	26.5%	2010	15.1%	2011	2.1%	2012	16.0%
D	Obama -- 2nd	2013	32.4%	2014	13.7%	2015	1.4%	2016	12.0%
R	Trump	2017	21.8%	2018	-4.4%	2019	31.5%	2020	18.4%
D	Biden	2021	28.7%	2022	18.1%	2023	26.3%	2024	
Frequency of Positive Returns			**60.0%**		**60.0%**		**92.0%**		**83.30%**
Average Return for All Periods			**11.3%**		**7.5%**		**18.7%**		**11.4%**

FactSet, S&P500 Total Returns USD. Data as of October 1, 2024

The Federal Reserve's December decision to cut interest rates for a third time this year disappointed investors as projections signalled a more cautious easing path for 2025, with only two cuts now expected. Markets swiftly repriced expectations, but the strong economy reinforces what we've said all along; the US can weather higher rates, and the Fed doesn't need to cut aggressively if growth holds steady. A slower pace of easing reflects resilience rather than weakness and hopes for faster cuts would imply larger risks to economic stability, a scenario far less desirable than the steady growth we see today with normalising rates adding further support.

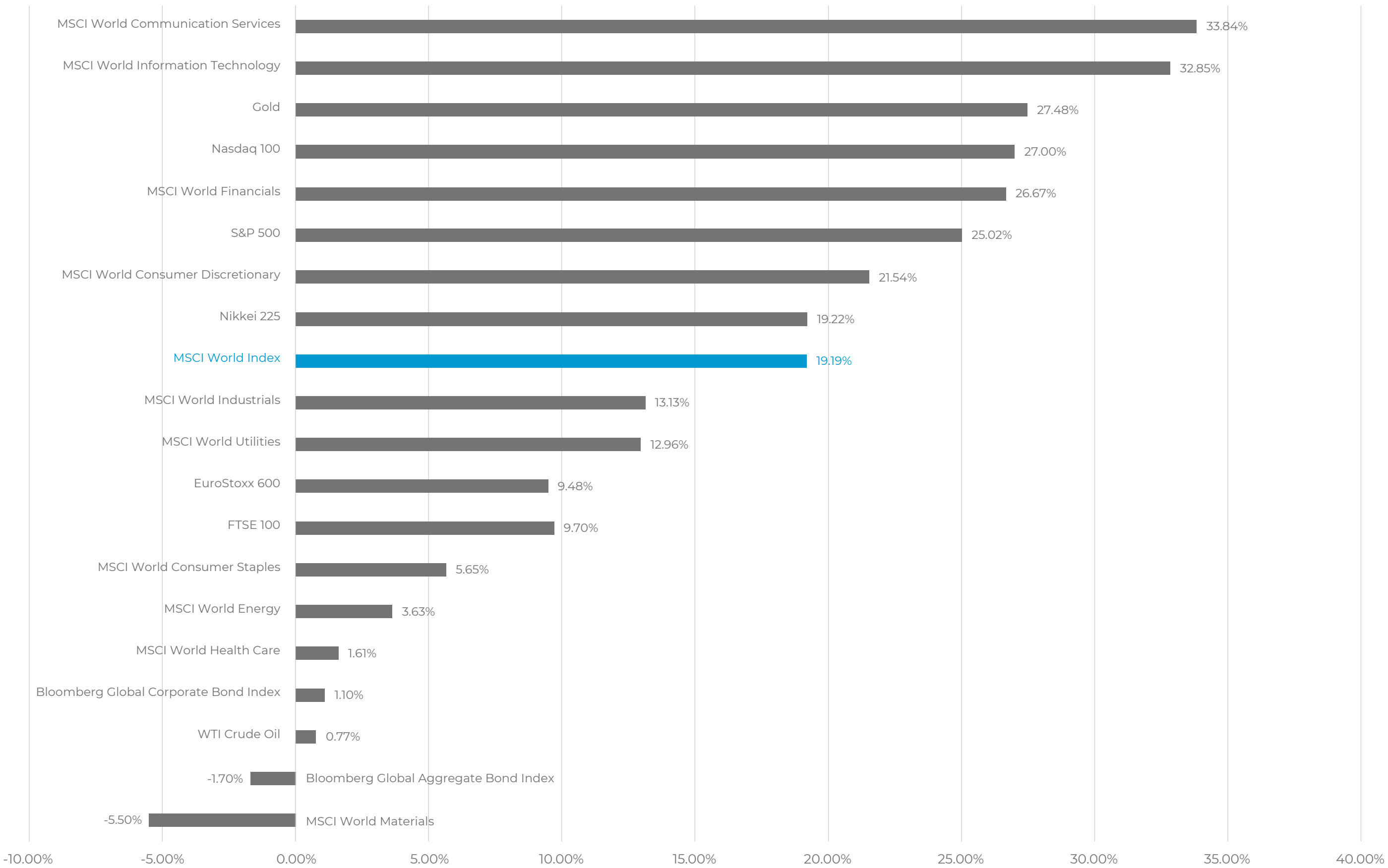
Investor focus on central bank actions and the significant shifts in interest rates over recent years have driven heightened volatility in fixed income markets. This year was no exception, with the US 10-year Treasury yield experiencing notable fluctuations. Starting the year at 3.9%, yields climbed to 4.7% by April amid a strong economy and expectations of a "higher for longer" Fed policy. Over the summer, as growth concerns emerged and equity markets pulled back, yields fell to 3.6% with markets pricing in more cuts for 2025 and 2026. By year-end, yields rebounded to 4.6%, driven by renewed economic strength and the Fed's latest cautious messaging.

These dynamics led to mixed returns, with the Bloomberg Global Aggregate Bond Index (USD) down -1.7% for the year, while global investment grade corporate bonds delivered a mere gain of 1.1%.

This year's price movements highlight the continued normalisation of bond markets, after two years of upheaval, with the traditional relationship between equities and bonds reestablishing itself. In 2025 it's likely long-term yields stabilise as they balance the Fed's measured easing with the resilience of the US economy. As volatility eases, fixed income is well-positioned to provide stability and a steady income in diversified portfolios.

As we expected, market breadth widened throughout the year as more sectors experienced rebounding earnings growth. Looking at the year, growth stocks, mostly led by the AI-driven transformation of industries, retained their leadership as shown in chart 2. These returns were not merely speculative but supported by robust earnings, particularly in large companies capitalising on secular trends like cloud computing and generative AI. Meanwhile, defensive sectors such as health care and consumer staples lagged, a typical pattern in periods of improving economic confidence.

CHART 2
2024 ASSET CLASS RETURNS



FactSet. Data as of December 31, 2024

Given growth's leadership since the early days of this bull market in October 2022, many touted a resurgence in value stocks could finally be on the cards for 2024. We disagreed on the basis that the conditions for outright value leadership weren't present as the global recession never materialised. Value stocks typically outperform in the early stages of a bull market due to its cyclical nature and ties to a strong economic recovery, but as a soft-landing scenario prevailed, steady GDP growth and moderating inflation continued to favour growth sectors like technology, which thrive on long-term demand trends.

Value sectors have seen brief bursts of leadership in this bull market, often during market pullbacks, but these have been countertrends rather than sustained shifts. As we look ahead to 2025, we see opportunities in both styles, with growth benefiting from stable economic conditions, whilst certain value sectors are positioned to gain from improving investor confidence and increased business capex spending as rates move lower. However, a full rotation to value seems premature, and likely requires a contraction in global economic growth and a bear market first. We are of the view that growth remains well-positioned for the next leg of the bull market and broad worries about overvaluation are usually evidence that we aren't there yet, as bubble fears are self-deflating.

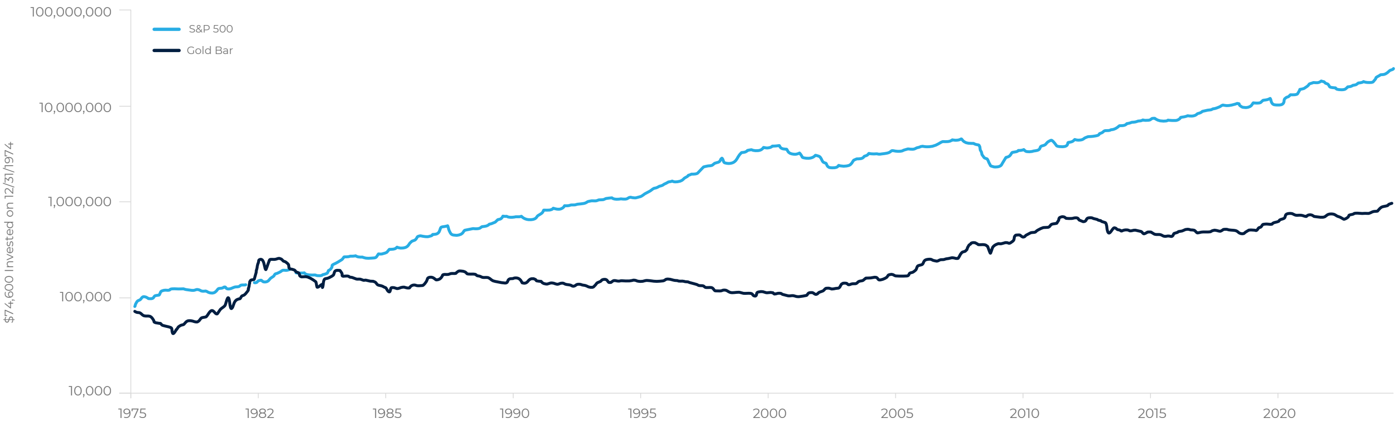
Although US equity markets outperformed yet again in 2024, other regions saw solid returns despite facing more significant economic challenges. Europe posted modest gains, with the EuroStoxx600 and FTSE 100 up 9.5% and 9.7%, respectively, while Japan's Nikkei rose 19% in local currency terms. However, for dollar investors, the returns were more meagre, with the Euro, Sterling, and Yen all depreciating against the dollar. GDP growth in the UK and Europe was underwhelming, but recessions were avoided in 2024, and Japan's growth, whilst modest, was supported by stronger domestic consumption. Looking ahead, limited GDP growth across these regions, partly due to poor productivity growth and reliance on cyclical sectors, and ongoing trade concerns, amid proposed US tariffs, are likely to weigh on sentiment in 2025.

China remained a focal point in 2024, as early optimism about its reopening was overshadowed by familiar pessimism for much of the year. Despite GDP growth of approximately 5%, markets struggled with concerns about a prolonged real estate slump, an aging population, and weaker consumer demand. The CSI 300 Index jumped more than 30% from its September lows to an October peak on optimism over government stimulus but quickly reversed course, dropping more than 10% within 10 days as markets deemed the measures insufficient. The focus on supply-side policies, rather than demand-side solutions, failed to address core issues. Even with a year-to-date gain of 15%, lingering concerns about China's growth prospects remain, with 2025 GDP growth targets of 4.5%–5% now appearing ambitious without deeper structural reforms.

CHART 3

GOLD HAS SIGNIFICANTLY UNDERPERFORMED EQUITIES OVER THE LONG TERM

If you had bought stocks instead of as gold bar



FactSet, Fisher Investments. Data as of August 27, 2024

Gold has also delivered an impressive two-year run, with double-digit returns in both 2023 and 2024, including a remarkable 27% surge this year. Naturally this has spurred optimism among investors, with many speculating that its momentum could continue into 2025. However, this enthusiasm, driven largely by recency bias, risks overstating gold's role in a well-balanced portfolio.

While gold's performance can shine in certain environments, its long-term track record tells a different story. As chart 3 demonstrates, $74,600 invested in a gold bar in 1974 would now be worth over $1 million, but that same amount invested in the S&P 500, with dividends reinvested, would have grown to over $24 million, a staggering gap that underscores gold's long-term underperformance relative to equities.

Unlike equities or bonds, which are supported by tangible fundamentals like earnings growth, cash flows, or interest payments, gold's value is largely dictated by its demand which shifts with investor sentiment. Price movements often reflect emotional responses to narratives around inflation, geopolitical risks, or central bank actions, rather than any intrinsic economic value as it lacks commercial use. As a result, gold's past performance is inconsistent and difficult to predict.

Moreover, historical data shows that gold's volatility far outweighs its returns, contradicting the common notion of gold as a "safe" investment. Since 1974, gold's standard deviation (a measure of volatility) stands at 23.9%, compared to 16.2% for equities and just 10.0% for bonds. Yet, despite this higher risk, gold has delivered lower annualised returns of only 5.3%, trailing both equities (+12.3%) and bonds (+6.5%). Equities and bonds should therefore be the cornerstone of any well-constructed long-term investment portfolio, as they provide superior growth, income, and stability.

After years of disruption following the unprecedented global lockdowns of 2020, we expect 2025 to mark a continued return to economic normalcy. Key indicators globally, such as output, employment, and inflation are stabilising as pandemic-era distortions fade. Consumer spending has shifted back to services from goods, and labour markets, once marked by surges and shortages, are aligning with historical trends. This return to normality has been mistaken by many for an impending recession. Traditional recession indicators, skewed by the pandemic's dramatic swings, were labelled broken. But on the macroeconomic data front, what seemed like economic weakness largely reflected a normalisation of data rather than a decline.

As such, we remain confident in the continuation of this bull market. The backdrop of steady economic growth, lifted by an accelerating services sector, a resilient consumer and expanding corporate profitability provides a foundation for sustained progress. Furthermore, loan growth remains stable, while lower interest rates and moderate inflation further bolster the environment for equities. Against this backdrop, the risks of a near-term recession appear minimal, and the current bull market looks well-supported by underlying fundamentals.

That's not to say there aren't any risks on the horizon. Heightened optimism could turn into euphoria, with increased deal-making activity and deregulation potentially fuelling speculative excess. Geopolitical tensions and trade disputes remain risks but historically cause little more than short-term volatility. Reaccelerating inflation, driven by tariffs or policy missteps, could disrupt the current environment of moderate price growth. While a further cooling of the labour market, with slower hiring, could weaken consumer confidence and spending, key pillars of economic resilience. These risks, along with others, warrant monitoring, but the causes of bear markets are rarely the risks dominating headlines. They often stem from unforeseen events making them difficult to predict.

With the S&P 500 trading at 24x forward P/E, well above its long-term averages of around 18x, valuations are often cited as a risk to equity market returns in 2025. However, while higher multiples may imply more moderate returns going forward, they are not inherently problematic. Valuations are more reflective of prevailing sentiment and earnings expectations than reliable predictors of market performance.

CHART 4

2025 S&P 500 PRICE TARGETS

JPMorgan **6,500**	Goldman Sachs **6,500**	Morgan Stanley **6,500**
Barclays **6,600**	UBS **6,600**	Bank of America **6,666**
RBC **6,666**	Wells Fargo **6,700**	Deutsche Bank **7,000**

Today's above average US valuations appear well-justified; a return on equity of 20% and pretax operating margins exceeding 16%, far surpasses historical norms, highlighting the financial strength of corporate America today. Furthermore, the composition of the index has also undergone a seismic shift. In the late 1950s, industrials accounted for over 40% of the S&P 500; today, they represent just 8.6%. In their place, capital-light sectors like technology and healthcare dominate, supported by scalable business models, lower debt levels, superior profitability, and consistent earnings growth, all factors that naturally command higher multiples.

International comparisons further reinforce the strength of the US equity market. While Germany's DAX (13x) and the UK's FTSE (11.7x) trade at lower forward P/E ratios, their projected earnings growth of 7% and 5%, respectively, lags far behind the double-digit growth expected from US companies in 2025 and 2026. As such, the S&P 500's dominance in profitability and innovation underpins its premium valuations. For long-term investors, the focus should therefore remain on sustained earnings growth and business fundamentals, rather than being swayed by headline valuation metrics.

As we enter 2025, equity markets are buoyed by back-to-back years of exceptional returns. Most major investment banks forecast another 10%+ year for the S&P 500 in 2025, closely aligned with expected earnings growth. While this reflects confidence in the resilience of corporate profitability and economic stability, this change in expectations marks a significant shift from the pessimistic sentiment seen entering 2023 and 2024.

However, while we are optimistic, attempting to predict what the index will deliver in 2025 is inherently speculative. Whether markets post double-digit gains, experience a modest decline, or tread water is less important than the broader trend of this bull market. Furthermore, the absence of a significant correction, defined as a decline of 10% to 20%, in 2024 was surprising. Such periods of uninterrupted growth are unusual and unlikely to persist indefinitely. As such, the potential for a correction should be part of every investor's expectation for 2025. But fear not, corrections are not only normal but healthy, serving to reset valuations and sentiment and lay the groundwork for future gains. These pullbacks usually emerge without warning, triggered by shifts in sentiment or unexpected events, but they are often short-lived and do not signal the end of a bull market.

'The potential for a correction should be part of every investor's expectation for 2025.'

Preparing for volatility, rather than fearing it, is crucial. 2024 was a year of remarkable resilience and opportunity, defying many of the pessimistic forecasts that defined its early days. As we look to 2025, we remain optimistic about the opportunities ahead while vigilant of the potential risks on behalf of our clients. Nevertheless, we strongly believe that by maintaining discipline, focusing on fundamentals, and avoiding the temptation to time markets, investors can confidently position themselves for long term success in what promises to be another dynamic year.

Thank you for taking the time to read our Market Review & Outlook and we wish you all a happy and healthy New Year.

Sigma Investment Committee