STATE STREET GLOBAL ADVISORS

January 9, 2025
Commentary

Weekly Market Update

Insight of the Week

Breaking Down 2024 Market Performance

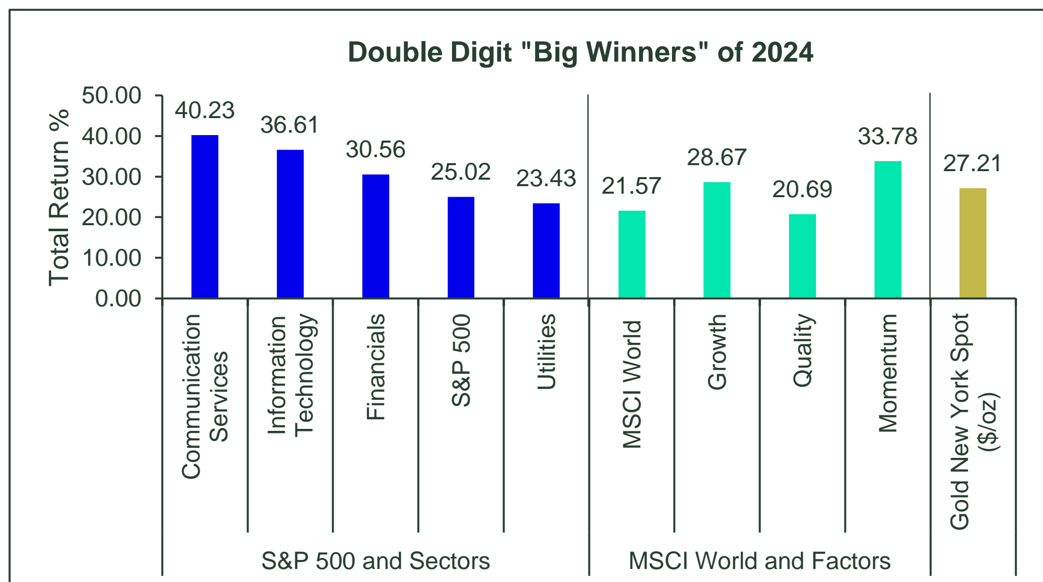
The year 2024 brought the long awaited easing cycle from the Fed where we saw 100bps of rate cuts as inflation took a bumpy ride downward with YoY headline CPI moving from 3.3% to 2.7% (as of Nov). The labor market and economic growth remained resilient as Q3 real GDP increased at an annual rate of 3.1%.

This supported the equity market which took off running into the year and finished strong with the S&P 500 up 25%. Broadly speaking, the market favored large cap over small cap, growth over value, and U.S. over international. The Magnificent Seven was bid up further by AI prospects and solid earnings growth, which brought their combined weight to 1/3rd of the S&P 500. This proved to be an obstacle to active managers, many of whose position limits forced them to be underweight (these names) relative to benchmark.

The year wasn't so kind to fixed income as yields rose over Q4. The 10Y UST started the year at 3.88% and ended the year at 4.57%. Broadly, markets favored high yield over IG, real rates over nominals, and short over long duration.

We saw strong performance within real assets, specifically Gold which outperformed the S&P 500, even as the dollar strengthened and real rates remained high.

In the chart below, we explore the "Big Winners" of 2024. For our thoughts on 2025 please see our recently published Global Market Outlook.

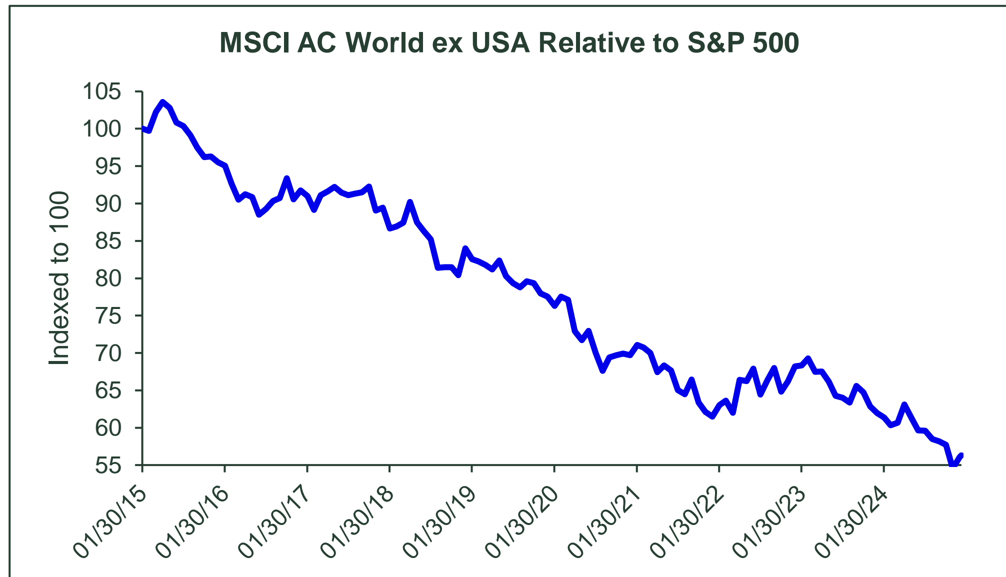


Source: State Street Global Advisors, FactSet. Data as of 12/31/2024.

Equities

U.S. Exceptionalism in Global Equity Markets

Over the past decade, the US has consistently outperformed both developed and emerging markets by a significant margin. As seen in the chart below, this is evident when examining the total return of the MSCI All Country World Index ex US (ACWI ex US) relative to the S&P 500. A steady downward trajectory of the ACWI ex US over the last ten years reflects the challenges faced by international equities in maintaining competitive returns against the US.



Source: MSCI, S&P, FactSet. Total Returns in local currencies used from 1/30/2015 through 1/7/2025.

Looking at this chart, it's been consistently tough on allocators of long-term assets who weren't positioned for this. If a price action trader were to look at this chart right now, there are a couple concepts they would consider before calling for an all-out reversal 1) it's generally best to invest with the trend, which remains decisively downward and 2) bottom ticking a reversal is incredibly difficult and you'd usually like to see a failed test of prior lows for confirmation that the trend may be changing, something that's not evident at the moment.

There are structural reasons helping to explain this chart. Superior earnings growth in the US is the most salient, as earnings growth carries a premium. While the secular technology story is well told, it's also been backed by a healthy US economic backdrop. A strong US Dollar has been a headwind to international equities, as a strong dollar will dampen the returns of foreign equities for US investors. Further, since the US dollar is used in many global transactions, those transactions have remained expensive.

Despite this underperformance, many international markets currently exhibit relatively cheap valuations, making investors wonder at what point does the course of this chart change. However, attractive valuations alone will not be sufficient to ignite a trend reversal. Overall, we continue to have a preference for US equities. See our Global Equity Market Outlook for more of our views.

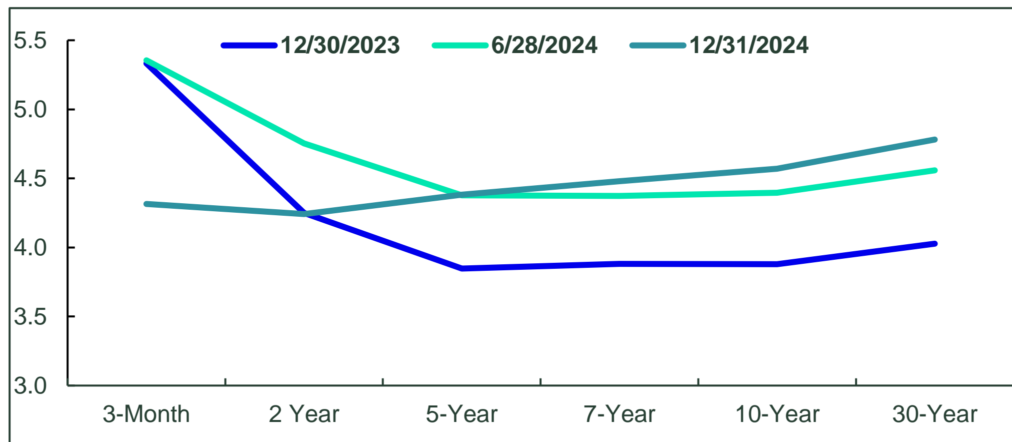
Source: MSCI, FactSet, S&P

Fixed Income

A Closer Look at How Fixed Income Performed in 2024

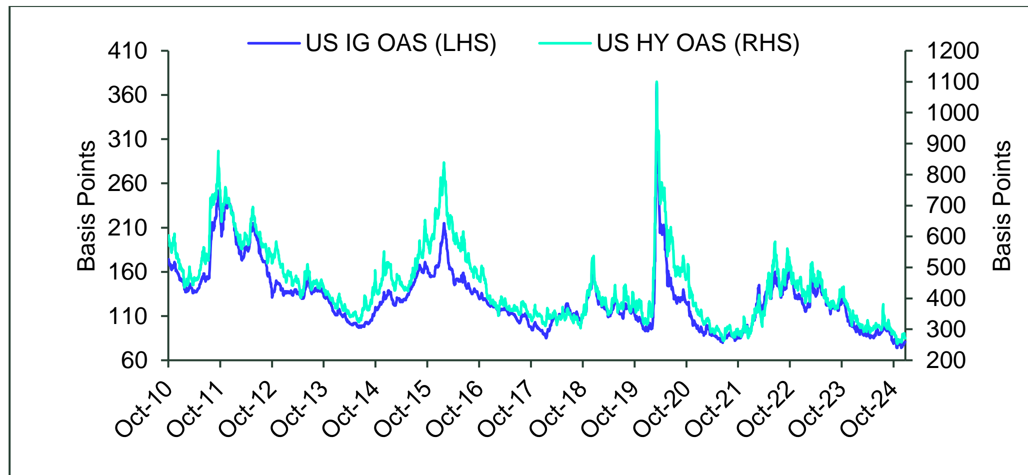
At the beginning of 2024, markets priced in six interest rate cuts by the Federal Reserve, with the first cut priced in March. However, amid stronger than expected economic data and a tight labor market, the timing of the first cut was continually delayed. The Federal Reserve did finally initiate a monetary policy pivot in September, cutting the fed funds rate by a cumulative 100 bps to a range between 4.25% and 4.50% as of December 31, 2024.

Given delayed Fed cuts and stronger economic data, rates actually rose early in the year (with the 10yr peaking at 4.70% in April) and the yield curve remained inverted. As the beginning of the rate cut cycle came into view short rates fell and the curve steepened. Longer rates remained elevated reflecting the market's outlook on growth, inflation, and fiscal deficit, and the year ended with a bond market selloff that saw 10yr yields rise to 4.57%, nearly 70 bps higher than at the start of the year. Yields also increased across the 5y, 20yr, and 30yr segments of the curve.



Source: Bloomberg as of 1/7/2025.

Corporate spreads widened to 105 bps in August amid fears that strong economic data would prompt the Fed to maintain higher rates for longer. However, as the unemployment rate rose to 4.2% (the highest since 2022), many of the FOMC members began to highlight the need to adjust policy proactively to avoid more serve labor market weakness. At the September meeting, the Federal Reserve cut its interest rate target range by 50 bps to between 4.75% - 5.00%. Spreads for both investment grade and high yield retracted, ending the year at historically tight levels supported by strong corporate fundamentals and strong issuance. During the last quarter of the year, U.S investment grade corporate spreads tightened to 78 bps, their lowest level since 1998, while high yields spreads reach their 15 year low of 254 bps.



Source: Bloomberg as of 1/7/2025.

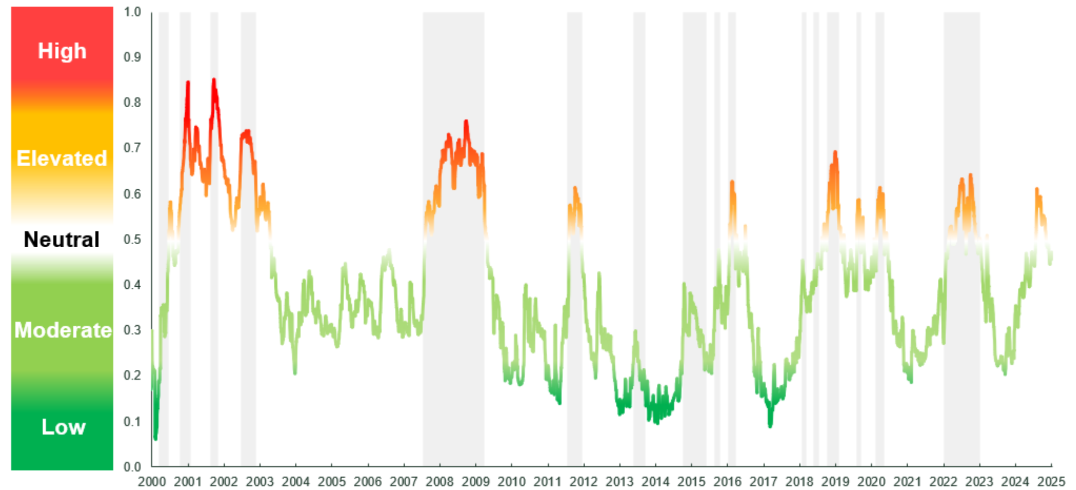
Within the various fixed income sectors Q4 2024 performance was mixed, however full year 2024 performance was positive with the lone exception of local currency emerging market debt, reflecting the effects of a strong dollar.

For 2025 a soft-landing is our baseline, but a wider dispersion of outcomes is increasingly likely given uncertainty around the path of inflation, monetary and fiscal policy, and changes from the incoming Trump administration. In our view this wider dispersion of outcomes is not reflected in capital market pricing creating vulnerability to event risks.

Source: State Street Global Advisors, Bloomberg.

Market Regime Indicator

The Market Regime Indicator (MRI) represents a proprietary multi-asset class model designed to characterize risk appetites within the capital markets.



Source: State Street Global Advisors, Investment Solutions Group (ISG). As of January 8, 2025. The data displayed is not indicative of the past or future performance of any SSGA product. The above data represents a back-test of the MRI model, which means that those results were achieved by means of the retroactive application of the model which was developed with the benefit of hindsight. Data displayed beyond this date is not backtested, but is still generated by the model referenced. All data shown above does not represent the results of actual trading, and in fact, actual results could differ substantially, and there is the potential for loss as well as profit. The Market Regime Indicator (MRI) is a quantitative framework that attempts to identify the current market risk environment based on forwar7d-looking market indicators. We believe the factors used are good indicators of the current risk environment as they are responsive to real-time market impacts and in theory should include all current and forward views of those markets. These factors are combined to create a single measure and used to identify one of four risk regimes: Low Risk, Moderate, Normal, Elevated and High Risk.

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*Pensions & Investments Research Center, as of 12/31/23.
†This figure is presented as of September 30, 2024 and includes ETF AUM of $1,515.67 billion USD of which approximately $82.59 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates raise, bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

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Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

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