# 2024 Market Review

# A Great Year for Stocks and Optimism for Bonds

After a 26% total return from the S&P 500® Index in 2023, few predicted 2024 would deliver another big year of gains for U.S. stocks. But it did.

Not only did the S&P 500 post a 25% return for 2024, but the index reached 61 new *all-time* highs. Together, 2023 and 2024 form the best two-year period for U.S. stocks since the late 1990s.

That's great news for investors, but it just scratches the surface of their experience throughout 2024. **Figure 1** on the next page provides additional perspective, complete with the full-year cumulative return of the S&P 500 and various market, economic and pop culture headlines. This illustration reminds us of how economic uncertainties, the November election, geopolitical tensions and other factors challenged investors.

Despite those all-time market highs, some investors fear they indicate a possible correction ahead. That is why having exposure to more than just the S&P 500 is important. While U.S. Large Cap stocks did very well in 2024, International and Small Cap stocks still had positive years, but remain more favorably valued. History has shown that having exposure to these other asset classes can provide long term success. **See page 6.**

Speaking of other asset classes, many investors don't own an all-stock portfolio. For investors that have a mix of stocks and bonds, don't be discouraged if you earned less than the stock market 2024. As you will see on **pages 7 and 8**, bonds had modest gains in 2024 but are paying interest rates not seen in 15 years. Bonds will continue to play a vital role in portfolios for investors that want the growth of stocks, but the income and stability of bonds.

# The News and the Noise of 2024

Figure 1 | S&P 500 Index Return and Headlines in 2024

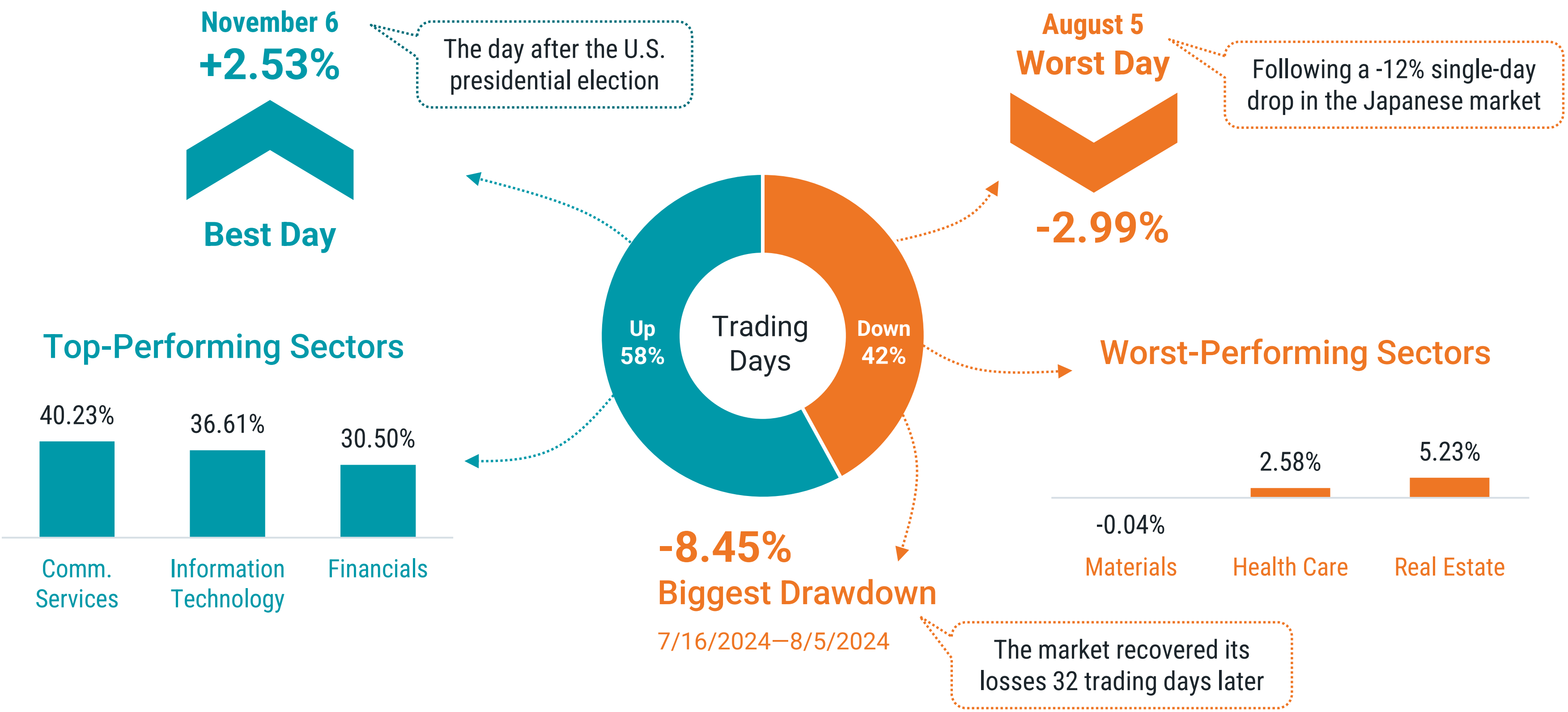

Data from 1/1/2024 - 12/31/2024. Source: FactSet, Avantis Investors. **Past performance is no guarantee of future results.**
**Gross Domestic Product (GDP)** is a measure of the total economic output in goods and services for an economy.

# Breaking Down the Stock Market

**Figure 2** provides a deeper look into the numbers behind the market in 2024. As you might expect, U.S. stocks had more up days than down days, and some days were better than others, while some days weren't great at all.

Not all companies or sectors in the S&P contributed equally to the strong results. While returns were positive for all but one sector on the year, there was wide dispersion among them. Communication Services was the top-performing sector, besting materials stocks, the lowest performer, by more than 40%. These large deviations highlight why diversification is so important for long term investors.

Figure 2 | S&P 500 Index by the Numbers in 2024




Data from 1/1/2024 - 12/31/2024. Source: Bloomberg, Avantis Investors. **Past performance is no guarantee of future results.**

# Stock Returns of 2024

## Major Index Returns

| | VAL |
|---|---|
| Nasdaq Composite Total Return | 29.57% |
| S&P 500 Total Return | 25.02% |
| Dow Jones Industrial Average Total Return | 14.99% |
| Russell 2000 Total Return | 11.54% |
| MSCI Emerging Markets Total Return | 8.05% |
| MSCI EAFE Total Return | 4.35% |


Date Range: 12/29/2023 - 12/31/2024

Past performance is no guarantee of future results. You cannot invest directly in an index

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# Owning More than the S&P 500

As you can see below, recent history shows the value of holding more than just Large Cap U.S. Stocks.

# Bonds Show their Value

The U.S. Aggregate bond market had a modest return of 1.25% in 2024. However, investors added nearly $600 billion to bond funds last year. One of the prevailing reasons for the shift has to do with the highest yields since 2008. The 10 Year U.S. Treasury rate ended 2024 at nearly 4.6%.

With bonds now yielding better income than we have seen in the last 15 years, investors are excited to benefit from the reduced volatility of bonds, while earning higher yields on their money. It's important to note that over time most of a bond's return comes from interest income and not appreciation, which make current bond yields that much more attractive. In addition, while interest rates on cash and savings accounts can change quickly, bonds can lock in higher rates for years.

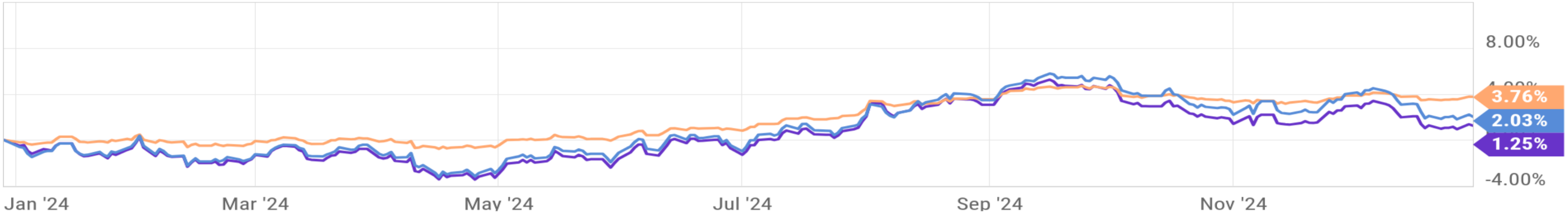
Even more compelling for long term investors is that with yields on bonds moving closer to normalization, they are providing diversified investors with some counterweight to the more volatile stock market. This should help investors that hold both stocks and bonds to reduce their portfolio volatility, which will smooth out the ups and downs that the stock market often displays. As noted in our previous review of stock returns, this can provide a powerful benefit should stocks pull back from their current highs.

Morningstar and Thomson Reuters data 12.1.24

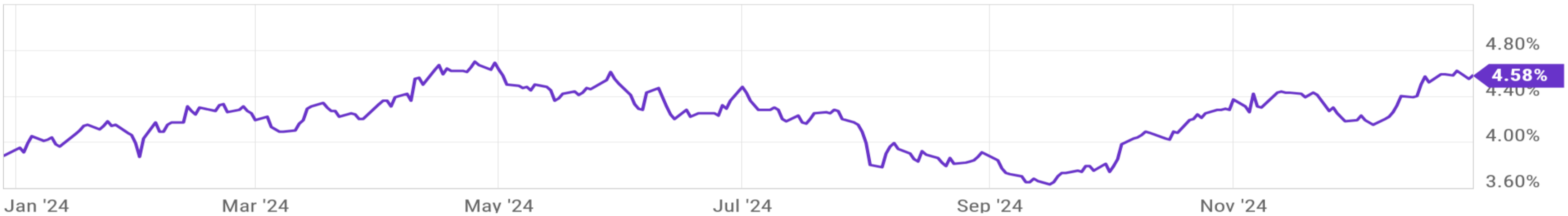
# Bonds Returns

## Bond Fund Performance

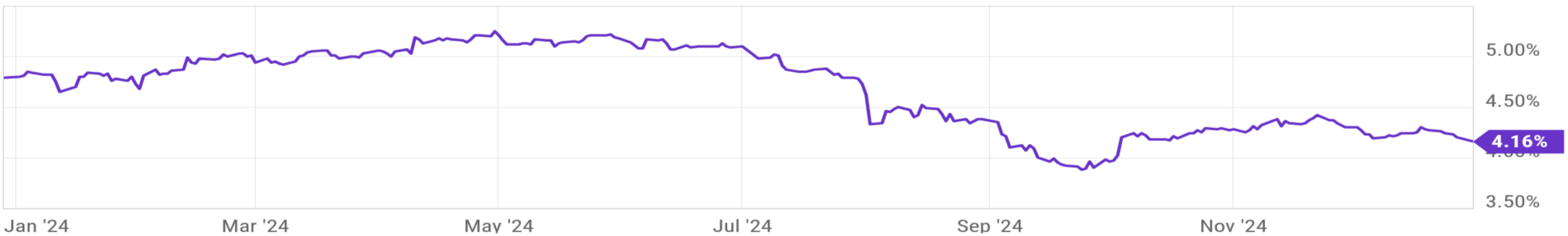
| | VAL |
|---|---|
| Bloomberg US Aggregate (^BBUSATR) | 1.25% |
| Bloomberg US Government/Credit 1-5 Year (^BBUGCR15YT) | 3.76% |
| Bloomberg US Credit (^BBUSCRTR) | 2.03% |




| | VAL |
|---|---|
| 10 Year Treasury Rate (I:10YTCMR) | 4.58% |




| | VAL |
|---|---|
| 1 Year Treasury Rate (I:1YTCMR) | 4.16% |




Date Range: 12/29/2023 - 12/31/2024

For informational purposes only. Past performance is no guarantee of future results

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# The Economy and Inflation

The U.S. economic and interest rate picture also remained in focus for investors in 2024. We came into the year with indications that the Federal Reserve (Fed) would likely begin cutting rates before the end of the year. This finally became a reality with a 0.50% cut to the federal funds rate in September. Quarter-point cuts followed in November and December, bringing the target rate to a range of 4.25% to 4.50% at the close of the year, down from 5.25% to 5.50% at the start.

**Figure 3** summarizes some of the most watched economic metrics in 2024. The key takeaway is that while much discourse surrounded month-to-month changes in unemployment and inflation, the U.S. economy closed 2024 on solid ground. Inflation still sits closer to the Fed's 2% target than a year ago.

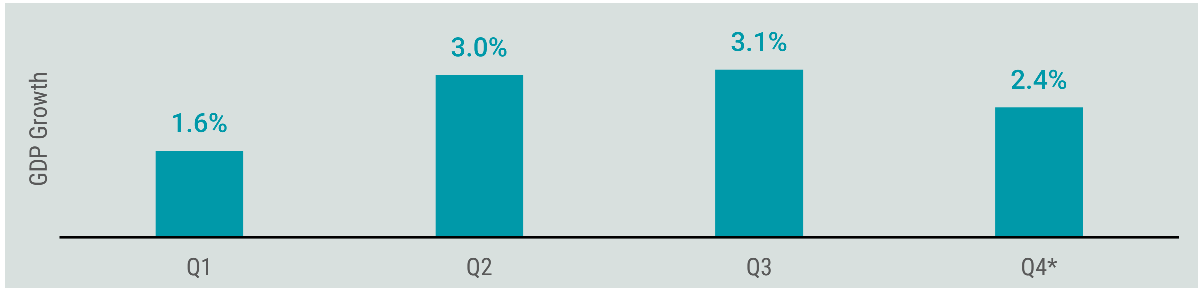
**Federal Reserve (Fed)** is the U.S. central bank, responsible for monetary policies affecting the U.S. financial system and the economy.

**Federal funds rate** is an overnight interest rate banks charge each other for loans. More specifically, it's the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements.

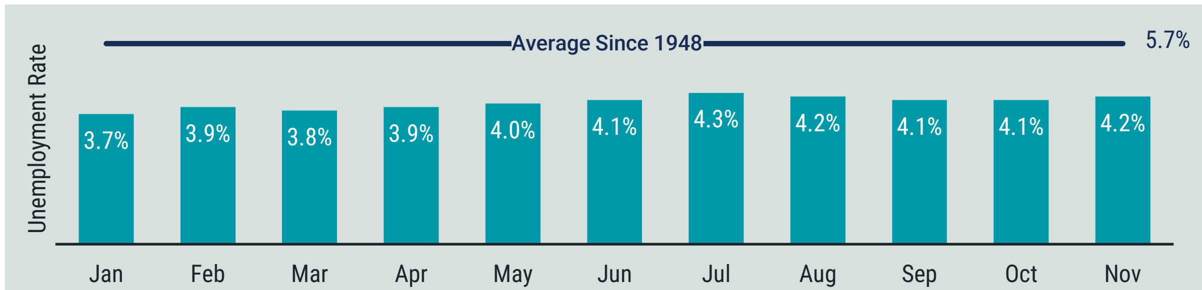
**Gross domestic product (GDP)** is a measure of the total economic output in goods and services for an economy.

## Figure 3 | The U.S. Economy Was Resilient, Yet Again, in 2024

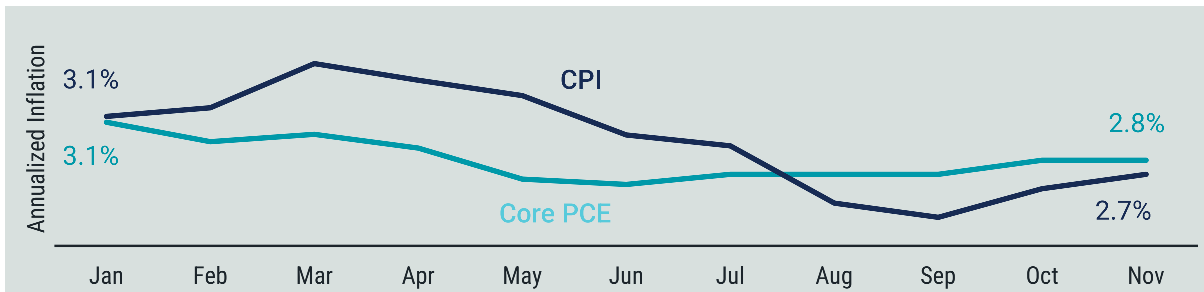
**Panel A** | U.S. GDP Growth Remained Stable




**Panel B** | U.S. Unemployment Rose Slightly but Moderated, Still Well Below Long-Term Average




**Panel C** | Despite Some Fluctuations, Inflation Continued to Trend in the Right Direction

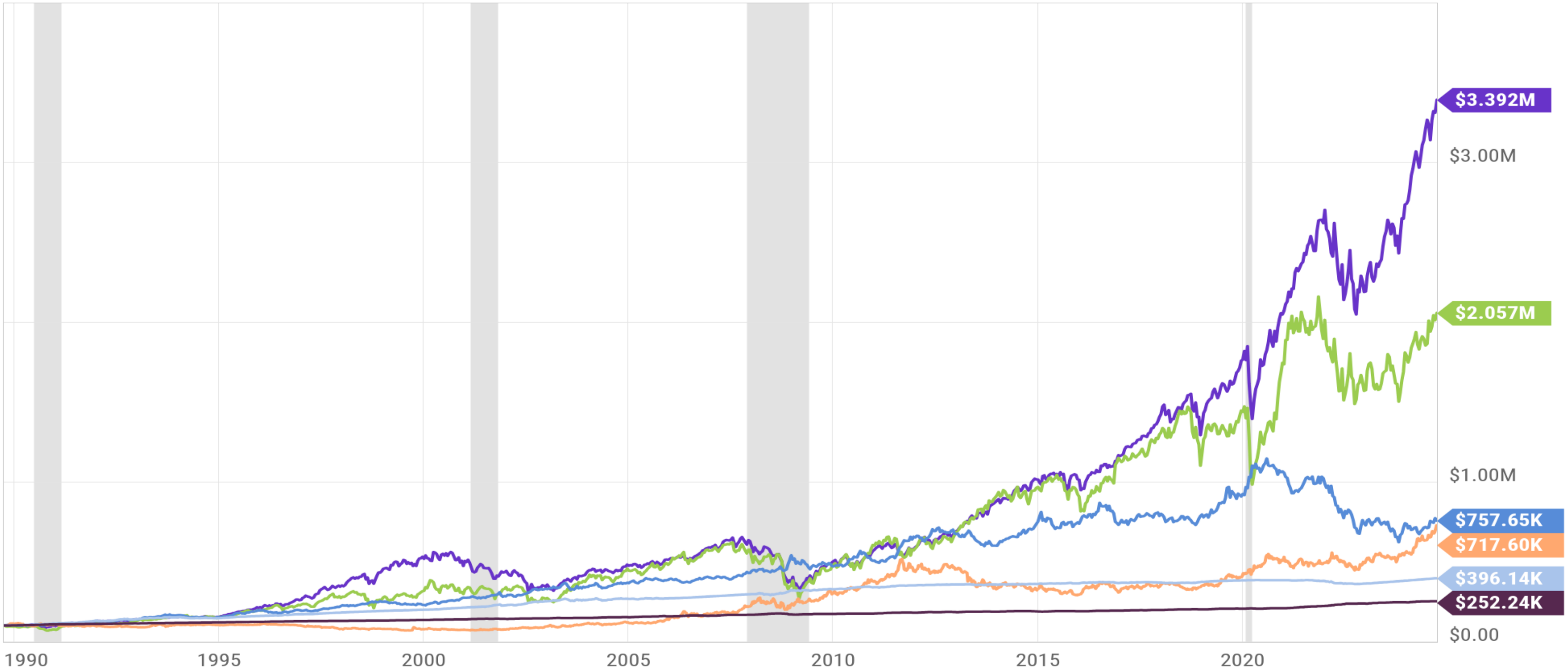



Panel A Source: U.S. Bureau of Economic Analysis. *Estimate from Atlanta Fed GDPNow as of 1/3/2025.
Panel B Source: FRED. Data from 1/1/1948 – 11/30/2024.
Panel C Source: U.S. Bureau of Labor Statistics. Data from 1/1/2024 – 11/30/2024.

# A Long-Term Perspective

## The Long-Term Power of Markets

| | VAL | ANN |
|---|---|---|
| S&P 500 Total Return Growth | $3.392M | 10.59% |
| Russell 2000 Total Return Growth | $2.057M | 9.02% |
| Vanguard Long-Term Treasury Fund Investor Total Return Growth | $757.65K | 5.96% |
| Gold Price in US Dollars Growth | $717.60K | 5.79% |
| DFA Short-Term Government Portfolio Institutional Total Return Growth | $396.14K | 4.01% |
| US Inflation Total Return Growth | $252.24K | 2.68% |




Date Range: 09/30/1989 - 09/30/2024

Gray = US Recessions. Initial Investment: $100,000. Past performance is no guarantee of future results. You cannot invest directly in an index

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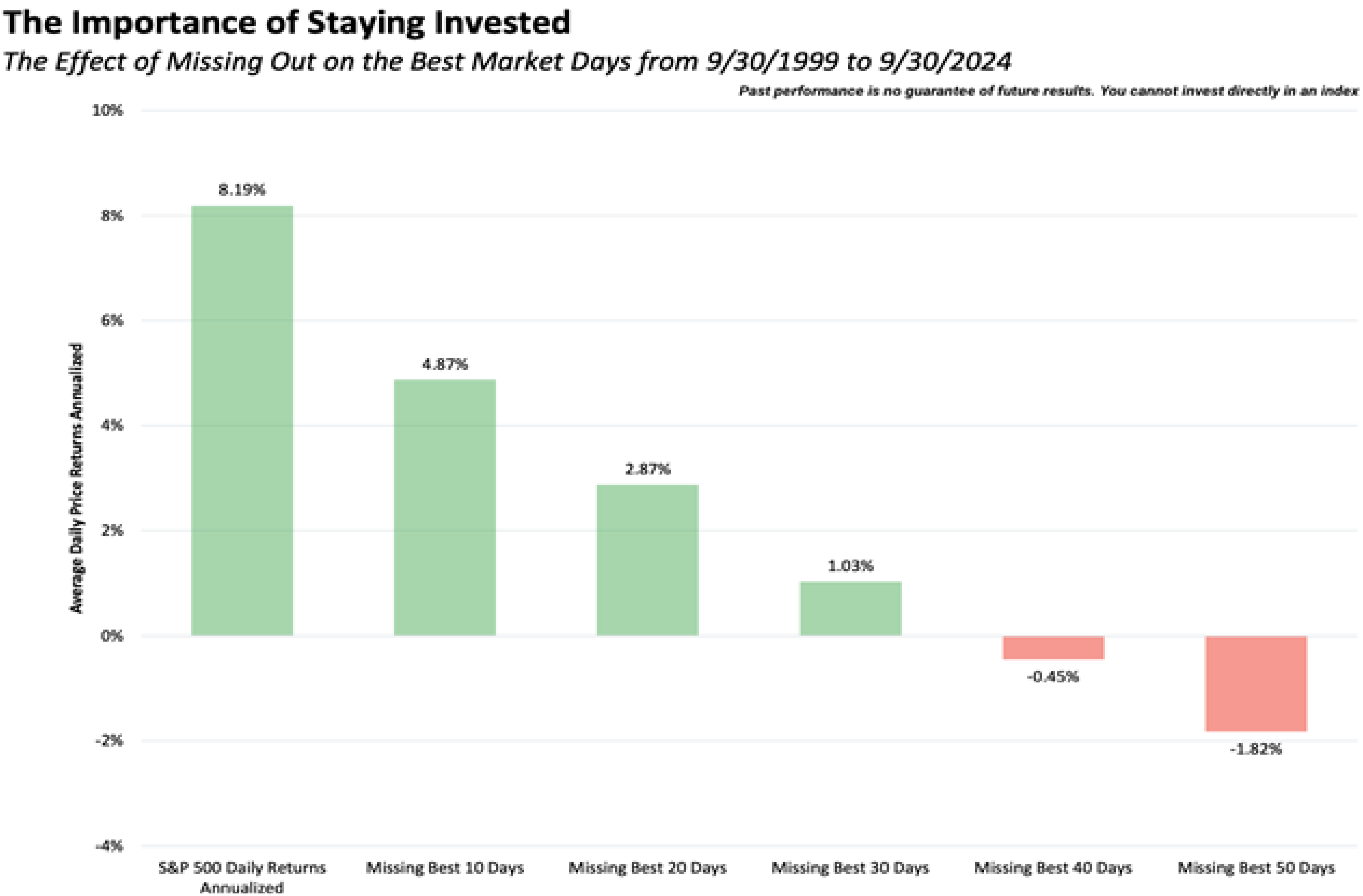
# Staying the Course Pays Off!

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# Looking to 2025

In many respects, 2024 was a tremendous year for investors. Does that mean we enter 2025 without uncertainties or potential anxieties? Hardly so. The truth is that investors always face uncertainty.

Think back to the start of 2024. There were plenty of reasons then to doubt stocks' performance in the year ahead, but those who stayed invested throughout the year were rewarded with a handsome return.

Of course, not every year will be so kind. Go back to 2022, a year when the S&P 500 ended down nearly 20%. Investors endured some pain that year, but those who continued to stick with the market earned that back and more in the years that followed.

Staying the course paid off, as is often the case over time. So, what is Verus doing to help clients stay the course in 2025?

First, we are rebalancing portfolios back to their target allocations. Despite the strong performance in stocks, it is important to maintain the asset allocation your financial plan has helped create. Rebalancing helps manage risk and improves long term outcomes for your financial plan.

Second, we reviewed our strategic asset allocation to ensure we have globally diversified portfolios. While U.S. Large Cap Stocks have led the way recently, International stocks and Small Cap stocks have lagged. However, as shown on slide 4, having exposure to these areas' benefits investors over the long term and that markets can change quickly to favor other asset classes.

Finally, we will continue to monitor the markets as the year unfolds and communicate with you on how you may be affected and if any action is necessary.

In closing, we look forward to another year of serving you and your families and we thank you for your continued trust in Verus.