U.S. Market & Economic Commentary

The Markets
Both stocks and bonds faced a pullback in December, though the major indexes gained for the year. Stock markets ended the year with robust returns led by technology and AI-related advancements.

Market Indices	December 2024	Year-to-Date
Dow Jones Industrial Average	-5.3%	12.9%
S&P 500 Index	-2.5%	23.3%
NASDAQ Composite	0.5%	28.6%
MSCI World Index	-2.7%	17.0%
Bloomberg US Aggregate Bond Index	-1.6%	1.3%
Bloomberg Global Aggregate Bond Index	-0.8%	3.4%

Full-Year 2024 Review
- Economic Resilience: Despite early-year recession fears, solid consumer spending, wage growth, and a tight labor market sustained GDP expansion.
- Inflation Moderation: Price pressures eased steadily, allowing the US Federal Reserve to pivot to a more accommodative stance with lower interest rates.

The Economy
The US economy demonstrated resilience in December 2024, closing out a year marked by shifting economic dynamics. While growth moderated from its mid-year peak, robust consumer spending and a stabilizing labor market helped sustain momentum. Inflation pressures continued to ease, allowing the Federal Reserve to lower interest rates. However, uncertainty remains as global factors and monetary policy adjustments influence investor sentiment.

Preliminary reports suggest the US economy expanded at an annualized 2.3% in Q4 2024, marking a slowdown from 3.1% in Q3 but remaining solid. Full-year 2024 GDP growth averaged around 2.5%, highlighting economic resilience amid tighter financial conditions earlier in the year. Personal spending rose 0.7% in December, suggesting strong holiday sales and consumer confidence. For the year, spending was buoyed by a resilient labor market and moderate wage growth, despite elevated borrowing costs. Core retail sales also grew by 0.7%, further reinforcing the strength of consumer demand heading into 2025. The ISM Purchasing Managers' Index improved to 49.3, still in contraction territory but signaling potential stabilization. The labor market remained stable with 307k non-farm payroll gains in December, the highest since April. The unemployment rate held at 4.1%, reflecting a healthy job market despite pockets of weakness in tech and finance. Average hourly earnings increased 4.1% year-over-year, supporting consumer purchasing power but remaining below peak levels.

The Federal Funds Rate was cut by 25 basis points to 4.50% in December, down from 5.50% at the start of 2024 as inflation moderated. Although the Consumer Price Index (CPI) ticked up slightly to 2.9% in December from 2.7% in the prior month, this represents a deceleration from the prior year's rate of 3.4%. The Core CPI (stripping out volatile components such as food and energy) also slid to 3.2% from 3.9% in the year prior. The Core PCE Price Index (the Fed's preferred inflation gauge) remained at 2.8% year-over-year, aligning with the US Federal Reserve's easing stance.

Finally, the MBA 30-year mortgage rate declined to 6.75% supporting affordability, but elevated home prices and borrowing costs still weigh on demand. Housing starts surged 17.1% in December to reverse earlier declines while existing home sales and new home sales increased by 2.2% and 1.5%, respectively, reflecting potential stabilization in the real estate sector.