MARKET OVERVIEW

1st Quarter 2025

Central Bank Wealth Management Group

Market Review

- Equity markets provided mixed results in the 4th quarter, with domestic equities moving higher post election and international markets posting losses. Domestic equities advanced in Q4, with the S&P 500, S&P 400 and Russell 2000 indices up 2.39%, 0.33% and 0.33% respectively. International and emerging market equities moved sharply lower in the quarter, declining 8.11% and 8.01% respectively. A strong November for the S&P 500 was partially offset by monthly declines in October and December. For the full year, all equity markets moved higher. The S&P was up 25.00%, while the MSCI EAFE was up 3.82%. Mid and small cap equities were up 13.89% and 11.53% respectively, while emerging markets were up 7.50%.
- Bonds mostly moved lower in the 4th quarter as the Fed reduced expectations for the number of rate cuts in 2025. The Bloomberg US Aggregate Bond Index (US Agg) decreased 3.06%, while the emerging market debt fell 1.47%. The High Yield Bond Index actually posted a small increase of 0.17% in the 4th quarter. The US Agg was up 1.25% for the full year, while high yield and emerging market debt increased 8.19% and 6.58% respectively.

Economy

- Markets rallied, as expected, following the presidential election. A market rally is typical following the election, though which stocks outperform can vary depending on which candidate wins. Heading into 2025, policies, inflation and the Fed will all have an impact on the markets and where they ultimately go.
- Following a 50 basis point (bps) rate cut in September, the Fed cut rates by additional 25 bps in both November and December. The Fed will look to see further improvement in inflation before cutting rates further, and are currently projecting only two rate cuts in 2025.
- The economy remains strong heading into 2025. Unemployment is just over 4% and corporate profitability remains strong. Modest GDP growth of around 2% is expected in 2025. At this point, a recession does not appear to be in the cards. However, inflation remains sticky and all eyes will look to the Fed and how it handles rates going forward and what impact tariffs and other policies may have.
- Potential risks to the US economy in 2025 include the continuation of global conflicts (Russia/Ukraine, Israel/Gaza, etc.), new administration policies, such as global tariffs, and sticky inflation/higher long-term rates.

Equities

- Domestic equites posted a modest gains in Q4, but finished weak, moving lower in December. Growth outperformed value for most indices in Q4, as well as the full year. Communication services posted the highest return for the quarter, while materials and health care posted the largest declines.
- International markets declined in Q4, underperforming versus domestic equities by a large margin. Developed market returns were modest for the full year, and while emerging market equities nearly doubled that performance, both were still well below domestic markets returns.
- In 2025, we expect markets to move higher, but more modestly than in 2024, particularly for domestic equities. Consensus street expectations range from 6-13% for the S&P 500. Small and mid cap stocks may outpace domestic large cap, and international equities will like post similar returns to domestic equities. Key growth stocks should continue to outperform, but we expect more sectors to help drive stock performance in 2025.

Fixed Income

- Bonds moved lower in Q4, but still managed modest gains for the full year, with US Agg increasing 1.25% in 2024. The 10-year treasury ended the year with a yield of 4.58%, up 77 bps in Q4 and 70 bps versus the prior year. While rates moved lower in September, all but the short term rates moved higher in the 4th quarter as inflation remained sticky and the Fed signaled both a pause, and fewer expected cuts in 2025. The 10 year should decline 50-75 bps in 2025.
- Entering 2025, the outlook for bonds remains positive. Rates should continue to move lower over the next few years, providing a catalyst for bonds. As rates move lower, bond prices rise, providing relatively strong total returns for bonds. We will look for opportunities to increase duration going forward.
- Bonds are the ballast of your portfolio, providing stability and income , as well as diversification and downside protection.

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