

December 2024

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 12/31/2024

Global Overview

U.S. equities ended the year on a weak note, as the S&P 500 declined 2.4% in December. The month provided an accurate representation for domestic equity market themes that have been apparent throughout the year. The Federal Reserve cut rates for a third straight meeting, but implied a more cautious approach in 2025. Bond markets struggled despite the rate cut, with the Bloomberg U.S. Aggregate Index losing 1.6% as rising long-term yields and inflation pressures outweighed the rate cuts. International markets faced challenges, including slower growth in the Eurozone, economic uncertainty in Japan, and reduced industrial profits in China. In the news, ETFs achieved a record \$1 trillion in annual inflows, raising concerns about market concentration and price efficiency.

U.S. Markets & Economy

Despite the weakness shown during December (S&P 500 down 2.4%), 2024 was a strong year for U.S. equities, with the S&P 500 posting a 25% annual return. The S&P's 2024 results were primarily driven by strong technology sector performance. The Conference Board Consumer Confidence Index fell sharply in December from 111.7 to 104.7, reverting back to similar levels experienced over the last two years. ISM Manufacturing PMI increased from 48.4% to 49.3%, signaling a slower rate of contraction as production and demand improved. U.S. Initial Jobless claims finished 2024 at 211,000, an eight-month low. Similarly, the unemployment rate remained steady at 4.2%, as the U.S. added 216,000 jobs last month, beating expectations of 170,000. Small Cap companies, which had rallied post-election, gave back the majority of their gains in December as the Russell 2000 fell by 8.3%. Large Cap companies also gave back returns as a whole in December as the Russell 1000 fell by 2.8%. The year ended with a solidification of leadership among large cap growth stocks as the Russell 1000 Growth's 0.9% return for December heavily outperformed its Russell 1000 Value counterpart, which fell by 6.8%. For the year the Russell 1000 Growth index posted a return of 33.4%, compared to the Russell 1000 Value's 14.4%. In review, the overarching themes of the year with large cap outperforming small and growth outperforming value played out again in December with very large tech stocks dominating all other market segments.

On December 18th, The Federal Reserve made its third consecutive rate cut, reducing its target rate by 25 basis points to a range of 4.25%-4.50%. Although there were three straight rate cuts to end 2024, Chair Powell implied a slower rate cutting environment heading into 2025. Investment grade corporate spreads decreased by 1 basis point going from 83 to 82, while high yield corporate spreads increased from 274 bps to 292 bps. Market expectations of higher long-term yields and inflation pressures outweighed the rate cuts that occurred towards the end of the month, leading to negative performance among domestic bond indices. The Bloomberg U.S. Aggregate Index, and Bloomberg U.S. Govt/Credit both declined, falling -1.6 and -1.7%, respectively. Most notably, longer duration bonds had a more adverse reaction to the Fed's lowered expectations for 2025 rate cuts, with the Bloomberg U.S. Govt/Credit Long Index falling by -4.8% in the month, wiping out its gains for the year.

International Markets & Economy

Last month the ECB lowered its growth forecast for the Eurozone in 2025 to 1.1% from 1.3%, and growth is expected to be even slower if exports face higher tariffs on sales to the U.S. Investors now expect the ECB to cut rates at each of its meetings in the first half of 2025. In the wake of French political issues, the 10-year French-German bond yield spread closed the year at 82 basis points, the highest level since the Euro debt crisis in 2012. Germany's economic challenges remain with Manufacturing PMI falling to 42.5 in December from 43 in both October and November. The BOJ maintained its target rate at 0.25%. The central bank of Japan is paying close attention to Trump's new policies, especially tariffs on imports to the U.S. Tokyo metropolitan CPI rose 2.4% in December compared to 2.2% in November.

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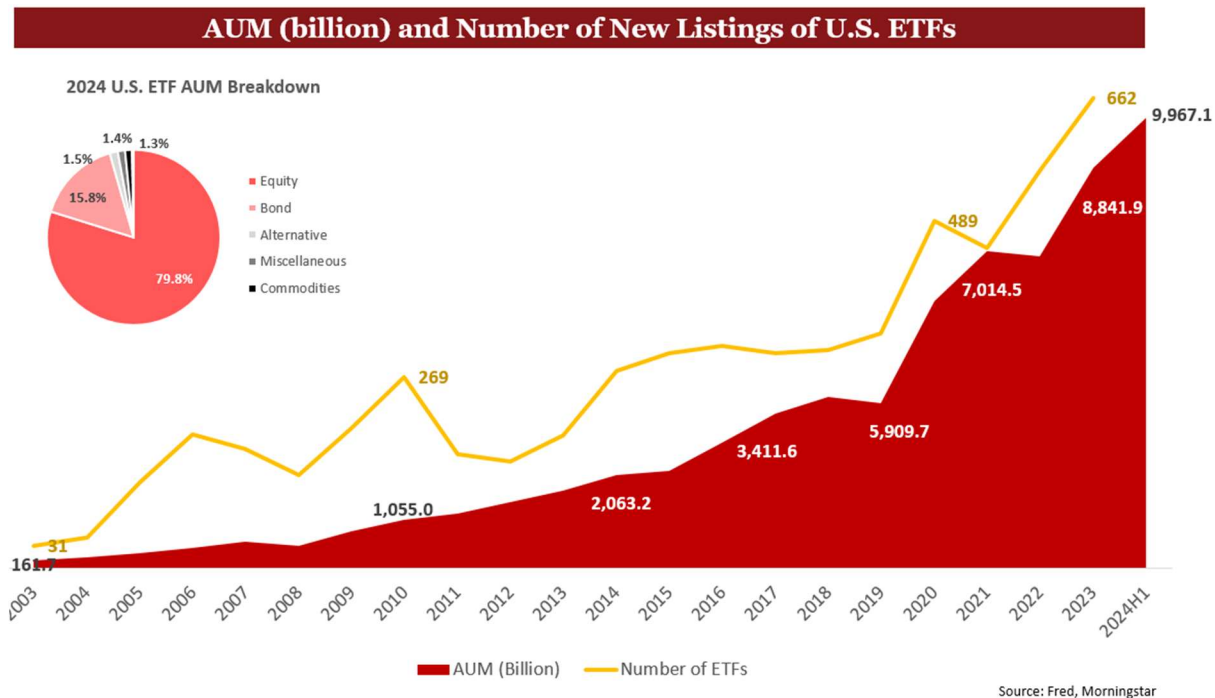
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The MSCI EAFE index fell 2.3% in December but remained positive for the year with a 3.8% return. China recorded a 50.1 manufacturing PMI in December, a small decrease compared to its November PMI of 50.3. The MSCI China index increased 2.7% in December and closed the year with a 19.4% return as government stimulus measures and proactive monetary policy supported Chinese markets. Despite China's strong performance for the year and its large weight in the MSCI Emerging Markets Index other constituents such as Taiwan, India, and Korea were detractors for the year. As a result the MSCI Emerging Markets index fell by -0.1% in December and finished the year with a 7.5% return.

In the News

Almost 50 years after Vanguard launched the world's first passive index fund in 1975, passively managed funds (\$13.29 trillion) for the first time outsized actively managed funds (\$13.23 trillion) in 2023. Much of that growth can be attributable to prevalence of ETFs in recent years. ETFs gained \$966 billion of inflows through last November, making 2024 the first \$1 trillion year of inflows for these largely passive investment vehicles. Arguably the most disruptive trend in the asset management industry over the last 20 years, U.S. ETFs reached a record \$10.6 trillion in AUM at the end of November and have not posted a quarter with net outflows since 2008. The migration to ETFs, especially index tracking strategies, is clearly boosted by their low fees, tax benefits, and the performance leadership of indexes during the Fed's low-interest rate regime following the 2008 financial crisis. On a 10-year annualized basis, 90.1% of domestic mutual funds underperformed the S&P 500 index, while 84.7% of Large Cap strategies underperformed S&P 500 over the same period. The growth of ETFs and other index trackers has raised concerns over the concentration in ownership of U.S. public companies by a small group of asset managers. Vanguard, BlackRock and State Street are the largest shareholders of 88% of S&P 500 companies and control over 20% of their voting shares. These managers are usually the largest owners of several leading firms in an industry, the common ownership of competitors in the industry could potentially reduce the independence of directorship on the boards of these companies and push the markets toward monopolistic outcomes at the cost of consumers and efficiency of the economy. Another concern over the dominance of index funds is the depletion of supply and demand dynamics in stock price formation, which increases market volatility as cash inflows/outflows become the main reason for stock price movements. Passive strategies don't seek to evaluate individual stocks, limiting the information reflected through the market's pricing mechanism. This results in the prices of stocks held by major indexes being inflated, whereas the prices of non-index stocks are depressed.

Chart of the Month



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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(2.61)	(0.16)	18.67	18.67	6.34	11.17	9.95
	Bloomberg US Agg Bond TR USD	(1.64)	(3.06)	1.25	1.25	(2.41)	(0.33)	1.35
	Russell 3000 TR USD	(3.06)	2.63	23.81	23.81	8.01	13.86	12.55
	DJ Industrial Average TR USD	(5.13)	0.93	14.99	14.99	7.56	10.55	11.57
	NASDAQ Composite PR USD	0.48	6.17	28.64	28.64	7.27	16.57	15.09
	MSCI EAFE NR USD	(2.27)	(8.11)	3.82	3.82	1.65	4.73	5.20
	FTSE Treasury Bill 3 Mon USD	0.39	1.23	5.45	5.45	4.05	2.54	1.79
	Bloomberg Commodity TR USD	1.02	(0.45)	5.38	5.38	4.05	6.77	1.28
Domestic Equities	S&P 500 TR USD	(2.38)	2.41	25.02	25.02	8.94	14.53	13.10
	S&P MidCap 400 TR	(7.12)	0.34	13.93	13.93	4.87	10.34	9.68
	S&P SmallCap 600 TR USD	(7.95)	(0.58)	8.70	8.70	1.91	8.36	8.96
	Russell 1000 TR USD	(2.79)	2.75	24.51	24.51	8.41	14.28	12.87
	Russell 1000 Growth TR USD	0.88	7.07	33.36	33.36	10.47	18.96	16.78
	Russell 1000 Value TR USD	(6.84)	(1.98)	14.37	14.37	5.63	8.68	8.49
	Russell Mid Cap TR USD	(7.04)	0.62	15.34	15.34	3.79	9.92	9.63
	Russell Mid Cap Growth TR USD	(6.22)	8.14	22.10	22.10	4.04	11.47	11.54
	Russell Mid Cap Value TR USD	(7.32)	(1.75)	13.07	13.07	3.88	8.59	8.10
	Russell 2000 TR USD	(8.26)	0.33	11.54	11.54	1.24	7.40	7.82
	Russell 2000 Growth TR USD	(8.19)	1.70	15.15	15.15	0.21	6.86	8.09
	Russell 2000 Value TR USD	(8.33)	(1.06)	8.05	8.05	1.94	7.29	7.14
International Equities	MSCI ACWI Ex USA NR USD	(1.94)	(7.60)	5.53	5.53	0.82	4.10	4.80
	MSCI EAFE NR USD	(2.27)	(8.11)	3.82	3.82	1.65	4.73	5.20
	MSCI EAFE Growth NR USD	(2.76)	(9.10)	2.05	2.05	(2.58)	4.00	5.84
	MSCI EAFE Value NR USD	(1.79)	(7.12)	5.68	5.68	5.88	5.09	4.31
	MSCI Japan NR USD	(0.34)	(3.60)	8.31	8.31	2.80	4.81	6.25
	MSCI AC Asia Ex Japan NR USD	0.15	(7.59)	11.96	11.96	(1.59)	2.57	4.54
	MSCI Europe NR USD	(2.44)	(9.74)	1.79	1.79	1.20	4.90	4.98
	MSCI United Kingdom NR USD	(2.76)	(6.82)	7.54	7.54	5.30	4.37	3.81
	MSCI EAFE Small Cap NR USD	(2.30)	(8.36)	1.82	1.82	(3.25)	2.30	5.52
MSCI EM NR USD	(0.14)	(8.01)	7.50	7.50	(1.92)	1.70	3.64	
Fixed Income	Bloomberg US Govt/Credit TR USD	(1.67)	(3.08)	1.18	1.18	(2.59)	(0.21)	1.50
	Bloomberg US Govt/Credit Interm TR USD	(0.62)	(1.60)	3.00	3.00	(0.18)	0.86	1.71
	Bloomberg US Govt/Credit Long TR USD	(4.79)	(7.42)	(4.15)	(4.15)	(9.20)	(3.26)	0.99
	ICE BofA US High Yield TR USD	(0.43)	0.16	8.20	8.20	2.91	4.04	5.08
	Credit Suisse HY USD	(0.33)	0.27	7.89	7.89	3.10	4.05	5.03
	Morningstar LSTA US LL Index TR USD	0.57	2.27	8.95	8.95	7.00	5.86	5.15
	FTSE WGBI NonUS USD	(2.86)	(7.10)	(5.32)	(5.32)	(7.91)	(4.81)	(1.53)
	Bloomberg Gbl Agg Ex USD TR USD	(2.61)	(6.84)	(4.22)	(4.22)	(6.28)	(3.37)	(0.90)
REITs	FTSE Nareit All REITs TR	(7.86)	(8.23)	4.33	4.33	(4.49)	2.78	5.58
	Wilshire US REIT TR USD	(7.29)	(5.03)	9.11	9.11	(2.47)	4.55	5.70

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

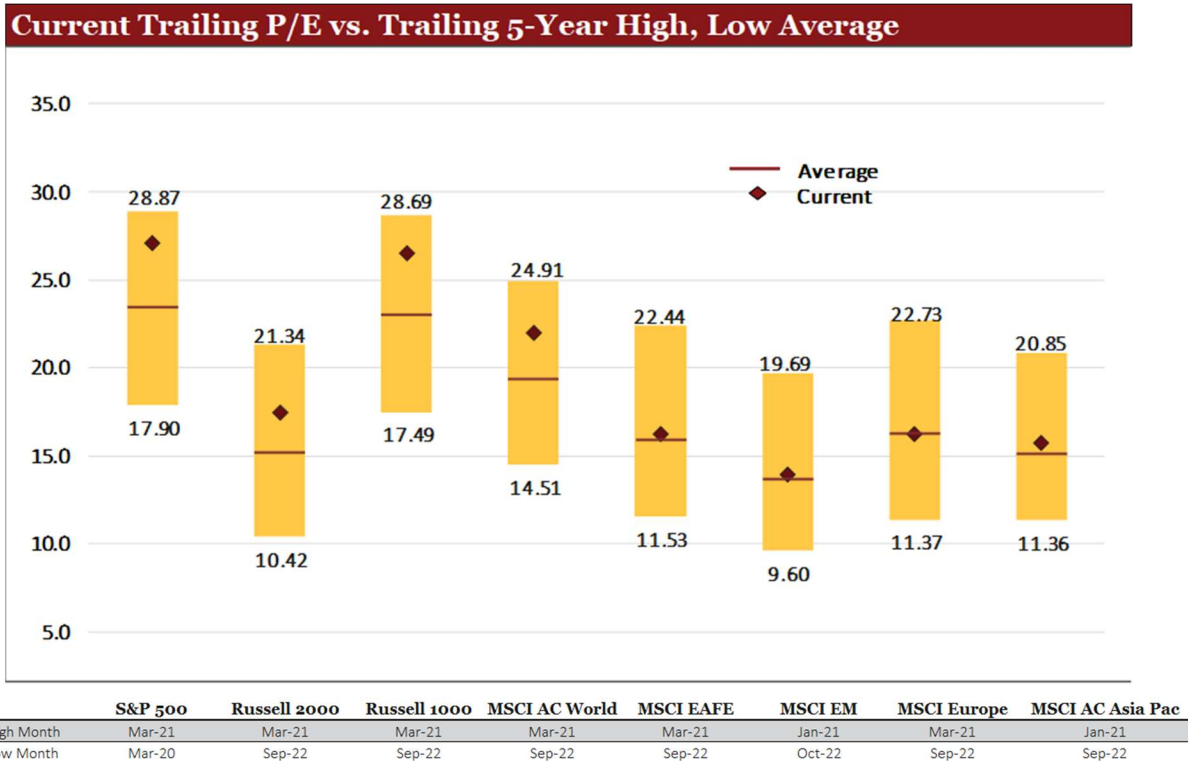
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Source: Morningstar; Data as of 12/31/2024

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³ per US \$		Inflation ²
	Latest ¹	2025 ¹	2026 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	3.10	2.40	2.10	4.20	4.56	-	-	2.70
China	0.90	4.70	4.40	5.00	1.63	7.30	7.14	0.20
Japan	0.30	1.50	0.60	2.50	1.09	157.73	142.05	2.90
United Kingdom	0.00	1.70	1.30	4.30	4.57	1.26	1.28	2.60
Euro Area	0.40	1.30	1.50	6.30	2.95	1.04	1.11	2.20
Germany	0.10	0.70	1.20	6.10	2.34	1.04	1.11	2.20
France	0.40	0.90	1.00	7.40	3.20	1.04	1.11	1.30
Italy	0.00	0.90	1.20	5.80	3.51	1.04	1.11	1.30
Canada	0.30	2.00	2.00	6.80	3.24	1.44	1.32	1.90
India	1.10	6.90	6.80	8.00	6.82	84.33	83.27	5.48
Mexico	1.10	1.20	1.60	2.60	10.42	20.22	16.91	4.55
Brazil	0.90	2.30	1.90	6.10	15.15	6.20	4.83	4.87

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

4. Germany, France, and Italy currency exchange rates are taken at the Euro Area exchange rate

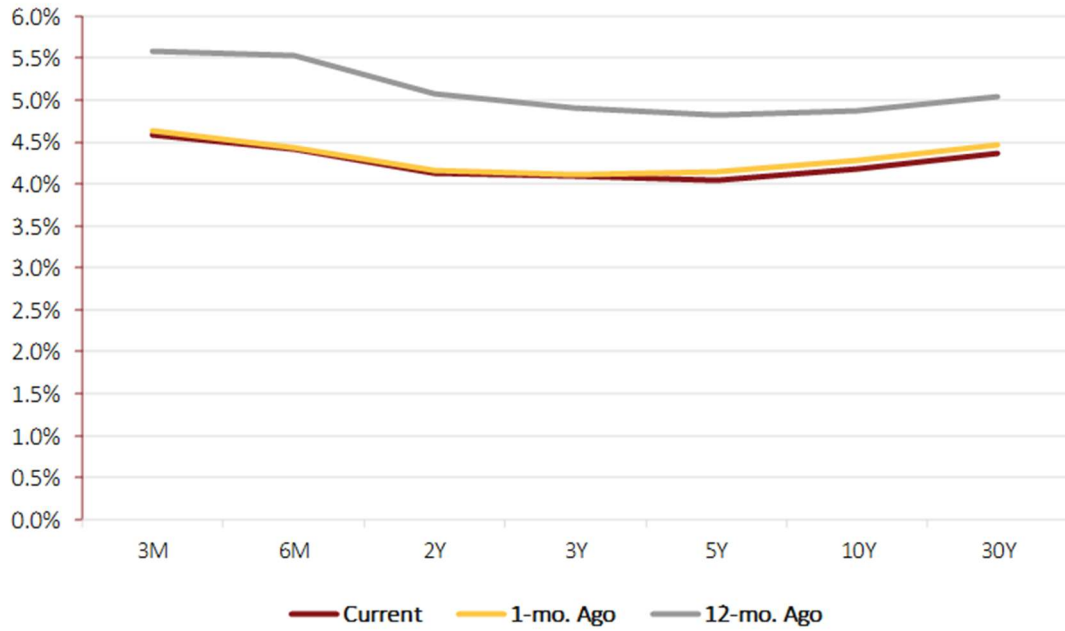
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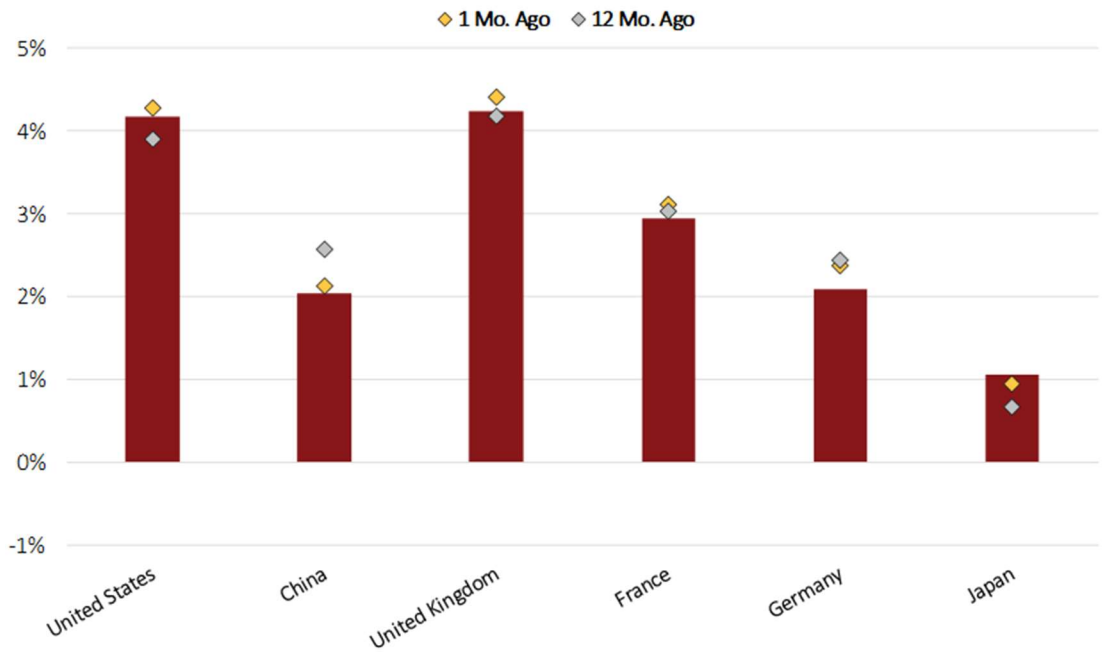
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U.S. Treasury Yield Curves



Source: Federal Reserve Bank; Data as of 12/31/2024

10-Year Sovereign Yields



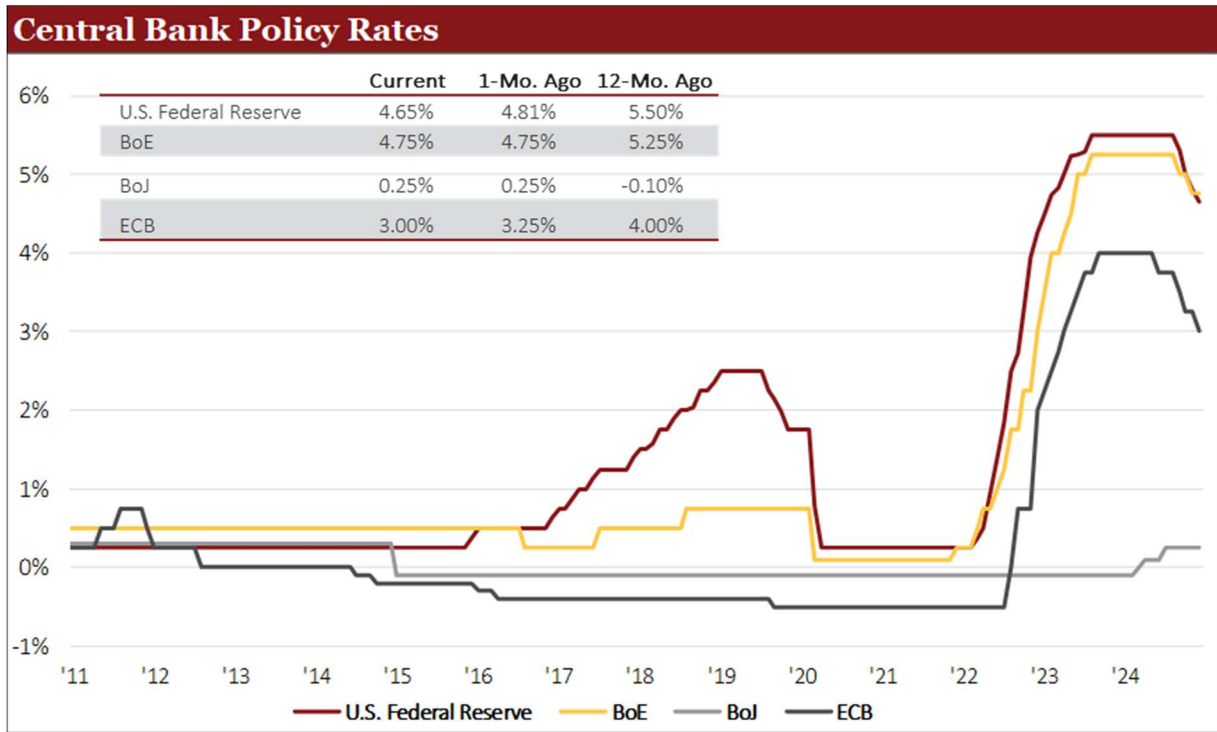
Source: Trading Economics; Data as of 12/31/2024

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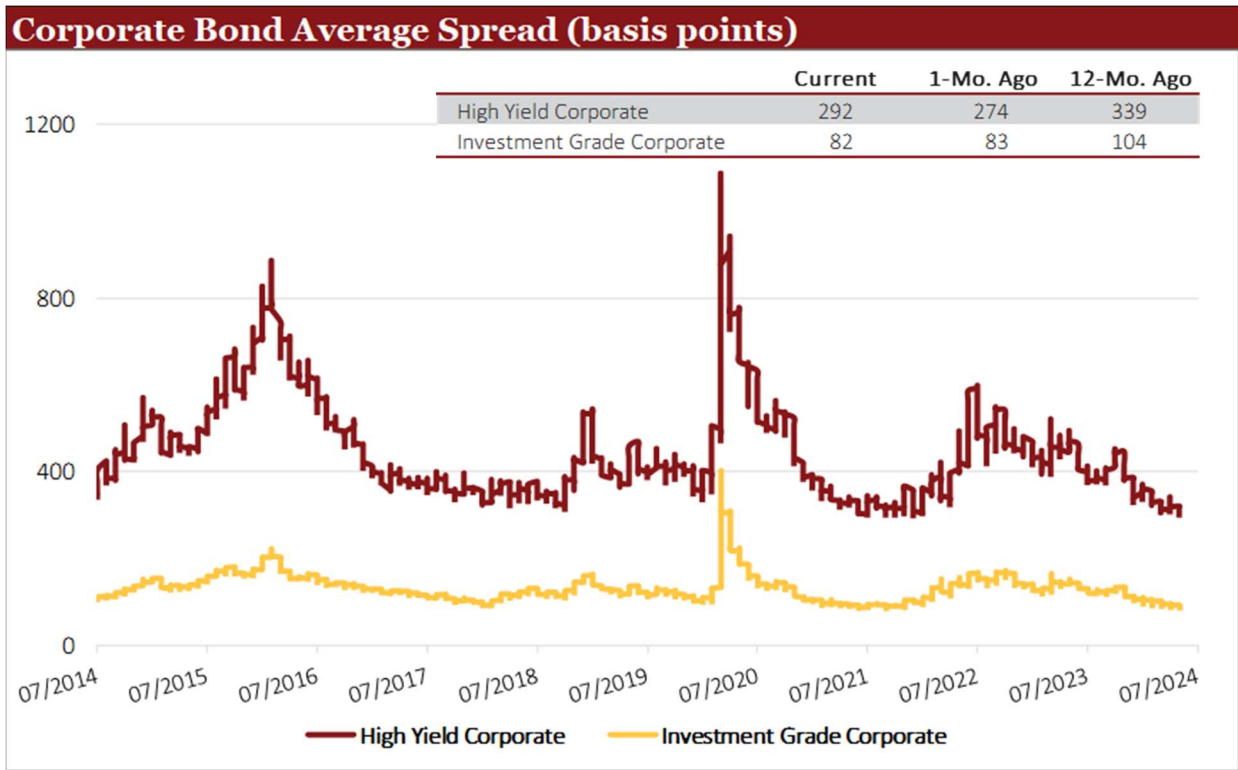
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Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics; Data as of 12/1/2024



Source: Federal Reserve Bank, Bank of America; Data as of 12/31/2024