

Economic and Market Activity Summary—December 2024

Overview

The past month has been marked by significant movements in both equity and fixed income markets. Key drivers included election outcomes, Federal Reserve decisions, and corporate earnings. Below is a breakdown of notable trends and insights.

Equities

Equity markets showed resilience despite ongoing concerns about interest rates and inflation. The S&P 500 demonstrated strong performance, with some sectors like financials and consumer discretionary outperforming due to risk-on sentiment. Small caps, represented by the Russell 2000, experienced robust gains, indicating a rotation toward domestic-focused and economically sensitive stocks.

Fixed Income

The bond market experienced volatility, driven by better-than-expected economic data and shifting rate cut expectations. The 10-year Treasury yield fluctuated, reaching 4.4% amid strong economic growth signals. Municipal bonds showed signs of recovery, while preferred securities continued to deliver notable returns year-to-date.

Commodities

Gold prices rallied temporarily as the dollar weakened but faced renewed selling pressure. Crude oil prices remained range-bound, influenced by geopolitical risks and supply considerations.

Key Drivers

1. Federal Reserve: Expectations for rate cuts in December diminished, reflecting a cautious stance by policymakers.
2. Election Impact: Markets responded positively to clarity in political outcomes, with 'Trump trades' bolstering cyclicals.
3. Corporate Earnings: Mixed results from mega-cap technology firms highlighted divergence within the sector.

Outlook

As we move toward year-end, historical seasonality suggests a favorable environment for equities. However, persistent inflation concerns and geopolitical uncertainties could weigh on sentiment. Investors are advised to maintain a balanced approach, focusing on diversification and risk management.