



Financial Markets

Stocks rose 2.4% in the fourth quarter, closing out another strong year. Up 25% in 2024, the result for the S&P 500 Index is even more impressive considering that the two-year trailing return is now an extraordinary 58%. Market dynamics in the fourth quarter repeated the pattern we have seen for much of the past two years, with a concentrated set of market leaders accounting for most of the gains. In fact, the group of large, technology-related companies dubbed “The Magnificent 7” accounted for more than 100% of the capitalization-weighted Index’s gains in the fourth quarter.¹ This means that, in aggregate, the other 493 stocks in the S&P 500 were down during the quarter.

Broad, domestic bond indices were in positive territory for the year, as the interest earned on such instruments more than offset modest price declines. In the fourth quarter, bond prices moved lower and yields higher as investors priced in higher expectations for economic growth and inflation, and fewer interest rate cuts from the Federal Reserve. Credit spreads continued their multi-year trend of tightening, particularly for lower quality issuers, providing a boost to corporate bond returns.

Broad indices of international stocks registered gains for the year; however, those indices’ double-digit local market returns translated to mid-single-digit returns to US investors after accounting for the strengthening US dollar. The greenback rallied by roughly 7.5% against a basket of developed economy currencies in the fourth quarter.

Total Returns through December 31, 2024		
US Stocks	4 th Quarter	Full Year
Standard & Poor’s 500	2.4%	25.0%
Russell 2000®	0.3%	11.5%
International Stocks		
MSCI World Ex-US	-7.4%	4.7%
MSCI Emerging Markets	-8.0%	7.8%
US Fixed Income		
Bloomberg Gov’t/Credit	-3.1%	1.2%
90-Day Treasury Bill	1.2%	5.3%

Investment Perspectives

Despite economists’ concerns early in the year of slower growth or recession in 2024, the US economy continued its post-pandemic expansion. Though final numbers for the fourth quarter are not yet in, economists estimate that GDP expanded 2.7%, excluding inflation, for the year. Meanwhile, collective earnings for the companies within the S&P 500 are expected to have grown by almost 9% in 2024. Both figures reflect solid paces of growth for the economy and corporate profits, but investors are inherently forward-looking, and the market’s return indicates expectations for the future have risen even faster.



*2024 growth of GDP and S&P Earnings are estimated

¹ The Magnificent 7 includes Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, NVIDIA, and Tesla.

While there are many reasons for this, two that stand out in 2024 were the evolving expectations for inflation and central bank policy, and the election.

An Evolving Interest Rate Environment

The Federal Reserve has had its work cut out for it through the pandemic and its economic aftermath. However, policymakers can consider 2024 a success in that the economy retained both healthy growth and full employment while inflation declined toward the Fed's target range. In fact, the data show that the US has won the day relative to other global economies with respect to real GDP growth and productivity gains (and stock market returns) coming out of the pandemic. Yet despite the positive trends, recent dynamics have shifted. The Fed began cutting rates in the fourth quarter, reducing its policy rate by a full percentage point since September. But the Fed also has signaled it will likely cut more slowly in the future, as pockets of inflation persist, and a strong economy means there is little reason to cut more aggressively. Per the latest survey of Fed governors, the baseline expectation is now for only a 0.5% reduction in policy rates to 3.9% by the end of 2025. Only three months ago, the market expected the overnight rate to reach 2.9% by then. This upward recalibration in short-term rate expectations has pushed yields on longer-term bonds upward as well. Specifically, the yield on the benchmark 10-year Treasury bond ended the year at 4.57%, up significantly from where it began the quarter at 3.67%. Such movements can have ramifications for the economy, with prominent borrowers such as the government, corporations, and prospective homebuyers needing to withstand higher financing costs.

Election Implications

While the economy's resilience was the financial story of the year and likely the primary impetus for much of 2024's stock gains, the result of the US elections was perhaps the most prominent headline of the fourth quarter. The contest for the White House was largely considered a toss-up heading into Election Day, but a Republican sweep of both houses of Congress, alongside the Presidency, had a relatively low probability of occurring. Nonetheless, the resulting unified Republican government, albeit with a very slim margin in the House, provides the GOP with the opportunity to enact meaningful aspects of the party's agenda. Overall, this agenda is likely to promote near-term growth for both the economy and corporate profits. However, it also brings risks, including the potential for higher inflation and interest rates, less international cooperation, and fewer guardrails for systemic threats.

Though few policy specifics have been released and much will evolve during the legislative process, the 2016 Trump administration provides some clues as to what may come. Among the first priorities we expect from the new administration will be tax policy, with a continuation or expansion of measures included in the 2017 Tax Cuts and Jobs Act. The 2017 law included changes to personal and estate tax rates and thresholds that were due to expire after 2025; we expect such components of the law to be extended, if not further enhanced. Though the impacts of tax cuts are not distributed equally along the income spectrum, easing the tax burden does provide Americans more funds for spending and investment — thereby stimulating the economy. Additionally, President-elect Trump has expressed a desire to further lower the corporate tax rate, which had already been lowered to 21% as part of the same 2017 law. Lower corporate tax rates translate into higher earnings and cash flows available to investors and may lead to higher equity values; such a development would be most impactful for those companies with higher domestic production and profits subject to US taxes.

Other prospective policy initiatives may also prove economically impactful. Trade policy is one such area. Tariff proposals featured prominently in Trump's campaign, and although we believe the most likely outcome is that tariffs will be more targeted to specific industries and countries than implied by campaign rhetoric, they may still have significant economic implications. These include headwinds to both US and global GDP growth, challenges

to corporate profits, and the potential for higher inflation and, thus, tighter monetary policy. Changes to immigration laws and/or mass deportations could impact the labor market and have some similar consequences, including greater inflation and lower corporate profit margins. Loosening environmental and corporate regulation may have positive and negative effects on financial markets. The Republican party has typically been “pro-business” in its lighter-touch stance toward regulation and anti-trust, and we expect such a perspective under this administration. This may disproportionately help certain sectors, including energy, utilities, financials, and information technology, by reducing regulatory burdens on operations and acquisition activities. Such deregulation can boost corporate fortunes in the short term but may sow the seeds of systemic risks in the longer term. We will adjust portfolios accordingly as myriad policy initiatives and their economic and financial implications come into focus.

Outlook and Positioning

Investors appear optimistic about the future. In addition to the macroeconomic and policy tailwinds described above, businesses continue to expand, and many are investing heavily in artificial intelligence technologies. Aggregate earnings for the S&P 500 have grown by almost 10% over the past two years, while the Index rose by 58%. Accordingly, the aggregate valuation of stocks has risen to near-historic highs. And with a disproportionate share of those market gains accruing to a small cohort of large companies, Index concentration has risen to exceptional levels.

Such developments provide both opportunities and risks as we enter 2025. On balance, with a positive view of the US economy’s prospects over the next 12-18 months, we favor stocks in multi-asset portfolios. As is always the case, but especially so in the current market, all stocks are not made equal. We continue to focus on identifying profitable, stable companies with sustainable business models. But, with a market that contains several pockets of speculatively valued stocks, we are intent on owning shares of companies with valuations that imply reasonable expectations of future growth. Such stocks — many of which have not participated in the market’s rise to the same extent as those with recent levels of high, but likely unsustainable levels of growth — present attractive expected returns for long-term investors.

To be sure, risks remain. Among them include a dynamic geopolitical environment that can create challenges to a relatively benign economic climate. Whether via armed conflict or trade war, any action that mutes the forces of globalization would be disruptive to economic growth and financial markets. The domestic economy also faces risks from policy changes or general dysfunction in Washington. Though a unified government may allow Republicans to enact their “pro-growth” agenda, thin margins in Congress also provide opportunities for intra-party skirmishes over funding the government or raising the debt ceiling. Such occurrences have the potential to undermine sentiment and, in turn, market valuations.

Thus, although the economy is in a good place today, a shock may come from many different areas, damaging growth, and piercing the stock market’s lofty valuation. Accordingly, we continue to view high quality bonds as a key component of multi-asset portfolios. Such issues offer attractive yields and provide ballast should the economy or market experience turbulence.

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Sources: Factset, Bloomberg, Standard & Poor’s, US Treasury, US Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

Chart Sources: Bureau of Economic Analysis and FactSet

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