Q4 2024 Market Update

THE QUARTER IN BRIEF

US shares showed positive gains in Q4 to round out a strong year for the S&P 500 index. Shares were buoyed by expectations that Trump's policy program will lift growth, lower taxes and cut regulation. Fourth quarter gains were led by the communication services, information technology and consumer discretionary sectors with some of the "Magnificent Seven" stocks performing strongly. The weakest sector was materials.

The Federal Reserve (Fed) lowered interest rates by 25 basis points (bps) in both November and December. However, in December the Fed scaled back the number of interest rate cuts expected in 2025, triggering a stock market sell-off.

	1M	QTD	YTD	1-YR	3-YR	5-YR	10-YR
S&P 500	-2.39%	2.39%	25.00%	25.00%	8.92%	15.19%	13.06%
NASDAQ	0.56%	6.36%	29.60%	29.60%	8.17%	18.38%	16.14%
Dow Jones Industrial	-5.13%	0.93%	14.99%	14.99%	7.56%	10.96%	11.57%
MSCI EAFE	-2.25%	-8.06%	4.43%	4.43%	2.26%	6.01%	5.43%
MSCI EM	-0.12%	-7.86%	7.97%	7.97%	-1.55%	3.55%	3.54%
Bloomberg US Agg Index	-1.64%	-3.06%	1.25%	1.25%	-2.41%	-0.34%	1.36%
U.S. Small Caps	-8.37%	0.33%	11.39%	11.39%	1.15%	7.90%	8.07%
Investment Grade Bonds	-2.58%	-3.98%	1.15%	1.15%	-3.14%	-0.01%	2.45%
High Yield Bonds	-0.45%	0.16%	7.95%	7.95%	2.84%	3.93%	4.47%

Source: Bloomberg, Data as of 12/31/2024. Returns Include Dividends. Returns over 1YR are annualized. Past performance is not indicative of future results.

DOMESTIC MARKETS

2024 was another impressive year for the U.S. economy, with resilient consumer spending supporting a fourth consecutive year of above-trend growth. Looking to 2025, policy uncertainty is casting a fog on the economic outlook. That said, none of the proposed policies appear to us to spell trouble for the economy, at least in the short run and 2025 could be another year of expansion, likely at a trend-like pace, for the U.S. economy.

After an impressive 2024, earnings growth is expected to be even stronger in 2025. However, challenges remain. Slowing nominal growth could limit revenue growth while easing inflation could pressure margins. Nevertheless, trend-like growth combined with stimulative fiscal policies should support solid earnings across a broader range of companies, potentially easing valuations and increasing opportunities for active investors.

FOREIGN MARKETS

As U.S. stocks have enjoyed an extended run of stellar performance, international stocks have long been the underdog, 2025 could be their time to shine. Not only has strong U.S. equity performance pushed valuations to historically lofty levels, but the U.S. now also makes up over 65% of global equity indices despite accounting for only 25% of global GDP growth. While many international markets are facing cyclical challenges, structural tailwinds could continue to support strong performance in select regions.

FIXED INCOME MARKETS

The fixed income markets experienced considerable volatility in the last quarter of 2024, primarily driven by geopolitical tensions, central bank decisions, and fluctuating inflation rates. Notably, the period was marked by notable sell-offs in major government bond markets, with various factors influencing investor sentiment across the globe.

US Treasuries sold off in October amid concerns over potential inflationary policies arising from a possible Republican victory in the presidential election. Inflation figures saw an unexpected uptick, leading to a rise in bond yields as market priced in fewer rate cuts for 2025. By the end of December, the Federal Reserve (Fed) had cut rates for the third consecutive time, bringing the target range to 4.25%–4.5%, but Fed Chair Jerome Powell indicated fewer cuts might follow due to persistent inflation concerns.

The 10-year Treasury yield experienced a notable rise, finishing the year at 4.57%, indicating market uncertainty regarding the Fed's future actions amidst rising expectations for inflation if President-elect Trump were to implement all his economic policies.

LOOKING FORWARD

For the time being, it looks like the prospects for continued monetary accommodation, relatively easy fiscal policy, and regulatory easing should continue to keep animal spirits alive for both investors and dealmakers.

CoreSat Model Update

Core Allocation

The core allocation is designed to unlock the benefits of diversification by using capital more efficiently and effectively. This allows our risk allocations to maintain their core stock and bond exposure while simultaneously introducing new, diversifying return streams in our satellite allocation. Essentially, we can introduce diversifying assets and strategies without sacrificing exposure to the traditional asset allocation. This creates the potential for outperformance, which may be particularly attractive to some investors in an environment where expected returns for traditional assets may be muted. Also, by introducing differentiated return streams, the allocation may gain a diversification advantage with the potential to reduce portfolio volatility and drawdowns.

We continue to tilt the domestic allocation toward companies, with reported stable earnings that are are trading at fair value. Outside the US, we continue to focus on broad index exposure with a tilt toward value and quality exposure. In fixed income, we have increased our tactical exposure using a variety of strategies to actively manage duration and extend duration to attempt to take advantage of rising longer term yields.

Satellite Allocation - Tactical

During the quarter US equities produced positive returns, with fixed income and foreign market indexes showing negative returns. Managed futures – as measured by the returns of the S&P Strategic Futures Index (“S&P SFI”) – posted a 1.94% return for the quarter and a year-to-date return of 7.60%. While global equities and U.S. Bonds make up the core of the portfolios, the managed futures overlay contributes the majority of the portfolio’s active risk. The satellite allocation consists of managed futures and tactical trend following strategies. The combination attempts to provide diversified returns outside of traditional equities and bonds, along with volatility management. We prefer using tactical strategies due to their diversified approach, which may produce better risk-adjusted returns over time.

Andrew Corradetti, CMT
Chief Investment Officer

*SOURCES: BEA, Census Bureau, FactSet, J.P. Morgan Asset Management. U.S. Department of Labor. J.P. Morgan Economic Research, Standard & Poor’s, BEA, BLS, Federal Reserve, Standard & Poor’s, MSCI, JPMorgan Credit Research, YCharts, Bloomberg and FactSet, Aptus Capital Advisors. Data are as of December 31, 2024.

Disclosures

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Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. The information contained herein should not be considered a recommendation to purchase or sell any particular security. Forward looking statements cannot be guaranteed.

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 11.2 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 4.6 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. To be eligible for inclusion in the Index, the security's U.S. listing must be exclusively on The Nasdaq Stock Market (unless the security was dually listed on another U.S. market prior to January 1, 2004, and has continuously maintained such listing). The security types eligible for the Index include common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests and tracking stocks. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 Emerging Markets (EM) countries. With 1,387 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Investment-grade Bond (or High-grade Bond) are believed to have a lower risk of default and receive higher ratings by the credit rating agencies. These bonds tend to be issued at lower yields than less creditworthy bonds.

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

Nasdaq-100® includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

S&P Strategic Futures Index (S&P SFI) reflects the long-term price trend of futures on physical commodities, interest rates, and currencies while limiting volatility and offering transparent, rules-based exposure to momentum, both long and short.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities, and collateralized mortgage-backed securities. ACA-2410-2.

OPWM's CoreSat model portfolios are subject to management risk and an investor's return and principal value of investment may fluctuate such that an investment, when liquidated, may be worth more or less than their original investment. OPWM's model portfolios invest primarily in mutual funds or exchange traded funds (ETFs), which are subject to investment advisory and other expenses. There are numerous risks associated with investing in the underlying mutual funds and ETFs which should be considered prior to investing.

OPWM's model portfolios invest in equity, fixed income, and liquid alternative investments (as classified by OPWM). The more aggressive the OPWM's model portfolios selected, the more likely the strategy will contain larger percentages of riskier asset classes. Equity investments are subject to overall market risk and volatility. Fixed income investments are subject to issuer credit risks and the effects of interest rate fluctuations. Alternative investments typically hold more non-traditional investments and may employ more complex trading strategies including leverage through the use of derivatives. Investors considering alternative investments should carefully consider their unique characteristics and additional risks.

Tactical investment strategies may result in the portfolios being more concentrated in a specific asset class, which could reduce overall return if these asset classes underperform.

Accounts and funds managed by an advisor using the OPWM CoreSat model portfolios are subject to additions and redemptions of assets under management, which may positively or negatively affect performance depending generally upon the timing of such events in relation to the market's direction. The Hypothetical Information and model performance assume full investment, whereas actual accounts and funds managed by an adviser would most likely have a positive cash position. Had the Hypothetical Information or model performance included the cash position, the information would have been different and generally may have been lower. While there have been periodic updates and improvements to the OPWM CoreSat models, there have not been any material changes in the objectives or strategies of the model that have occurred that may affect results.

While OPWM believes the outside data sources cited to be credible, it has not independently verified the correctness of any of their inputs or calculations and, therefore, does not warrant the accuracy of any third-party sources or information.

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