January 2025

Quarterly Market Review

Fourth Quarter of 2024

Political Mandates, Market Volatility, and Looking Ahead

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The fourth quarter brought notable market movements, fueled by anticipation and reaction to the presidential election and a shift to a new political direction in Washington. For the first time in years, the Federal Reserve receded from dominating market headlines, though it, too, was influenced by the evolving political and economic environment. After months of market anticipation for substantial rate cuts, the landscape shifted dramatically. Strong economic data, persistent core inflation, and the reelection of President Trump redirected market focus from monetary policy to the prospect of pro-growth, potentially inflationary policies. This shift sent long-term interest rates sharply higher across the yield curve, drastically reducing expectations for further rate cuts in 2025.

The bond market suffered in response, with fixed income delivering a weak performance for the quarter as rates climbed. However, fixed income managed to eke out modestly positive returns for the year. In contrast, the S&P 500 Index surged, closing out 2024 with its best back-to-back annual performance since 1998. This extraordinary performance was largely driven by mega-cap technology stocks, which continued to dominate the market, significantly boosting the overall index.

Despite the strong headline performance, returns were not broadly distributed. Mid-cap and small-cap stocks remained flat during the quarter, significantly underperforming the S&P 500 for the year. This disparity underscored the ongoing concentration of market gains in a select group of technology leaders.

Period Total Return	Bloomberg US Aggregate Bond Index	S&P 500 Index	S&P 500 Equal Weight Index	S&P 500 Dividend Aristocrats	S&P Midcap 400 Index	S&P Small Cap 600 Index	Bloomberg Magnificent 7 Index
Quarter To Date	(3.1)	2.4	(1.9)	(6.2)	0.3	(0.6)	15.9
Year To Date	1.3	25.0	13.0	7.1	13.9	8.6	67.3
1 Year	1.3	25.0	13.0	7.1	13.9	8.6	67.3

Source: YCM, Bloomberg, S&P. Performance as of 12/31/2024. Index performance is provided for illustrative purposes only and does not represent the performance of any accounts managed by Yousif Capital Management. It is not possible to invest directly in an index. Actual account performance would be reduced by the impact of advisory fees and transaction costs. At any time, the holdings and performance of any actual portfolio managed will vary from those of the index. Quarter to Date performance is not annualized.

Looking Forward

The question of a soft- or hard-landing has seemingly been answered in favor of no-landing –as demonstrated by the ability of the consumer to maintain a robust pace of consumption demonstrated during 2023 and 2024. With labor markets remaining strong, we see no immediate catalysts to disrupt this momentum and expect 2025 will deliver another year of 2.5% - 2.75% GDP growth. However, the market's current pricing leaves little room for error, and volatility around political and economic headlines may be significant.

The Trump administration's landslide victory and stronger mandate bring four key economic priorities into focus: tariffs, immigration reform, tax cuts, and regulatory and spending reform. Tariffs will likely remain a key negotiating tool, with broad increases of 10–20% and sharp penalties on Chinese imports. While tariffs are effectively a one-time tax, historical data shows their inflationary impact is less than 1:1 and unlikely to drive sustained price increases.

Immigration reform may have the largest economic implications. Proposals to halt undocumented border crossings and accelerate deportations could tighten the labor market, potentially lowering unemployment and forcing the Fed to further pause rate cuts. However, bipartisan immigration reform that balances labor force stabilization with stricter controls could ease pressure on wages and inflation, creating a more sustainable path for economic growth. We will be watching this carefully.

On regulatory and spending reform, the administration's focus on cutting $2 trillion from the budget and streamlining regulations is ambitious but faces significant hurdles. Success could buoy markets, with spending cuts benefiting bonds and deregulation boosting equities. However, meaningful progress depends on Congressional support, which is far from guaranteed.

Overall, we maintain a constructive view of the economy and markets for 2025. Consumer resilience and strong job markets provide a solid foundation, but risks remain. Inflation may prove stickier than expected, limiting the Fed's ability to ease further. Investors should prepare for headline-driven volatility in an environment where perfection is already priced in.

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Disclosures

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