

December 2024 Market Commentary

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Stocks stumbled to the finish line, with the S&P 500 falling 2.4% and the Dow Jones Industrial Average dropping 5.1% in December. The NASDAQ managed to eke out a gain of less than 1% as mega-cap technology stocks meaningfully outperformed. At the other end of the spectrum, the Russell 2000 index of small-capitalization equities plunged 8.3% for the month—the worst monthly performance since September 2022. Below the surface, the average stock struggled with the equally weighted S&P 500 index down 6.3%, highlighting the narrowing of the market once again with only a handful of stocks responsible for holding up the broader market-weighted indexes. According to Bespoke Investment Group, “there were only 5 trading days during the month of December in which there were more daily advancers than decliners in the S&P 500. That is the single lowest share of days with positive breadth for any calendar month in our record going back to 1990”.

The top 10 stocks make up over 40% of the S&P 500



Source: RBC Capital Markets

There are some concerning takeaways from the chart above illustrating the wide divergence between the largest technology stocks and everything else. Yet we view it more as an opportunity, as the equally weighted S&P 500 has underperformed the market-weighted index by nearly 30% in the last two years, leaving a wide swath of stocks (even larger cap) trading at more reasonable valuations, particularly after the recent bout of selling driven by higher interest rates over the last month.

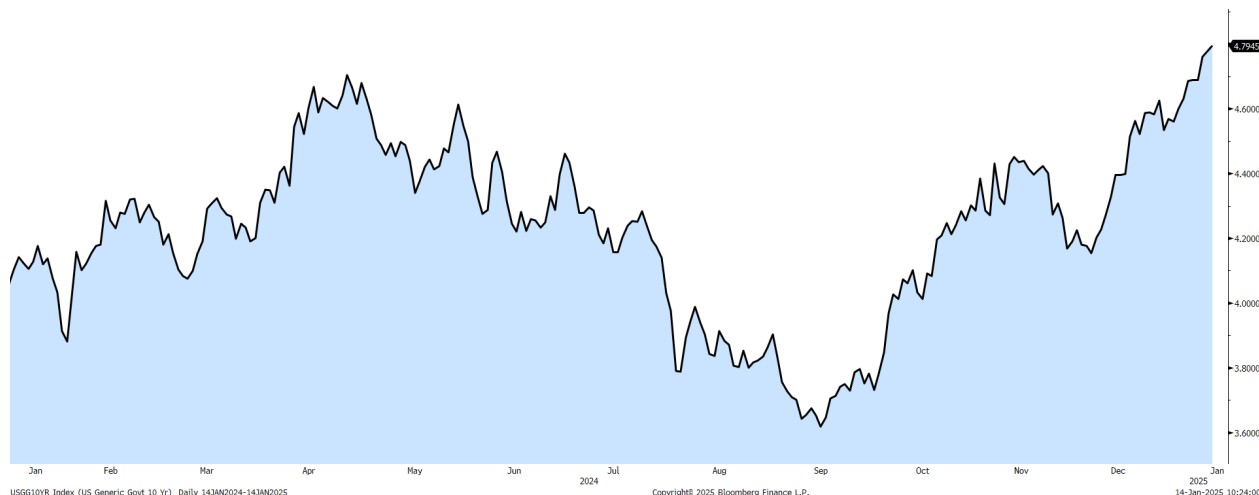
Wide divergence between the market and equal weighted S&P 500 returns over last two years



Source: Bloomberg

Interest rates moved higher after the Federal Reserve reigned in its forecast of additional rate cuts at its December meeting and as inflation fears mount over the possible effects of the incoming administration's policies related to tariffs, immigration, and spending. A stronger-than-expected jobs report last week added fuel to the fire.

10 Year Treasury Yields have moved sharply higher since the Fed's first rate cut



Source: Bloomberg

Sentiment in the equity market has moderated from the post-election extremes, and we are starting to see a better setup from here, but with continuing volatility and possibly some more downside first. Given the recent string of solid economic data, we remain constructive on sectors like industrials, financials, and energy, where we find valuations that are reasonable and less susceptible to multiple compression if rates stay high and will likely see an outsized pickup in earnings growth from Trump 2.0. Lastly, given the sharp move in rates, it seems like there is a chance that tariff implementation and fiscal spending plans could ultimately be less extreme than what is currently being priced in.

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