



Market Pulse

A Quarterly Review of Investment Trends and Insights

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We are excited to share the inaugural version of Confluence Financial Partner's Market Pulse: A Quarterly Review of Investment Trends and Insights. We aim to succinctly recap key investment trends and events on a quarterly basis, while providing insightful and actionable outlooks for the coming months.

This edition recaps the Fourth Quarter of 2024, as well as the full years' worth of economic and investment trends. As you will read, many trends from 2023 carried over into 2024: stronger-than-expected economic growth and the largest companies in the world being standout performers.

The US equity market now stands in a unique situation after consecutive years of narrow leadership. As we enter 2025, the S&P 500 is more concentrated than at any point in the past 50 years.

Market Pulse: A Quarterly Review of Investment Trends and Insights will dive deeper on key trends for investors to consider heading into the new year. On behalf of Confluence Financial Partners, we thank you for your continued trust and confidence.

Wishing you a happy new year,

Bill Winkeler

Largest Companies Push Markets Higher

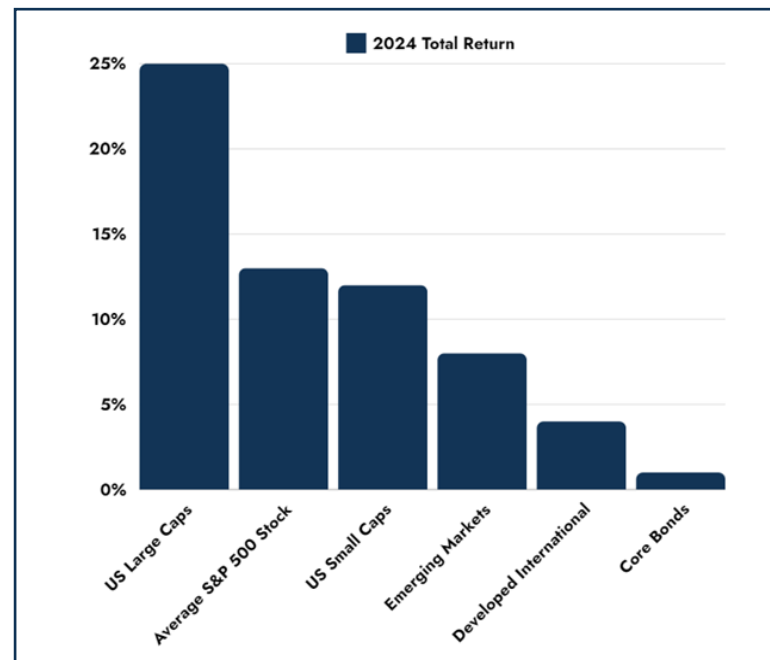
- Federal Reserve continued easing cycle with rate cuts, but signaled a more measured approach going forward
- The largest US companies pushed the S&P 500 to a quarterly gain despite a choppy December
- The 25% return in 2024 was the second consecutive year of greater than 25% returns for the S&P 500 Index (only the fifth time since 1927)

What Happened in the Fourth Quarter?

The fourth quarter of 2024 was a busy quarter- the US elections and two interest rate cuts by the Federal Reserve. After a strong rally in November following the US elections, higher-than-expected inflation data helped to nearly completely reverse the rally in December. Despite reducing the Federal Funds Rate by 0.25% in December, the Federal Reserve indicated fewer reductions ahead, forecasting just two additional cuts in 2025 (down from 4 cuts in 2025 from the September 2024 forecast). The stronger inflation data also reflects the continued strength of the US economy, which is forecasted to have grown +2.4% during the fourth quarter.

Mega Caps Dominance

For the second consecutive year, major stock and bond markets posted positive results. US large cap stocks (S&P 500) led major equity markets, in large part through the strong results of the largest companies (addressed next). US large cap growth stocks were the primary beneficiary given the concentration in mega cap companies, with the Russell 1000 Growth Index rising +33.4% in 2024. This phenomenon can also be seen in the roughly 12% difference between the S&P 500 Index and the average S&P 500 stock (Equal Weight S&P 500 Index), a record second straight year trailing by double-digits.



Sources: Morningstar, Average S&P 500 Stock = S&P 500 Equal Weighted TR Index, US Large Caps = S&P 500 TR Index, US Small Cap = Russell 2000 TR Index, Developed International = MSCI EAFE NR Index, Emerging Markets = MSCI Emerging Markets NR Index, Core Bonds = Bloomberg US Agg Bond TR Index

Thanks to a strong second half of 2024, US small cap stocks (Russell 2000 TR Index) returned +11.5%, despite a volatile fourth quarter. International equity markets were adversely affected by the strength of the US Dollar, which rose with higher interest rates during the year. Core bond markets managed a roughly 1% gain (Bloomberg US Agg Bond TR Index), despite the 10-year Treasury yield rising from 3.95% to 4.58% in 2024.

Record Concentration

The strong year for the S&P 500: 57 new all-time highs and consecutive +25% calendar year gains, was thanks in very large part to the largest companies in the index. Five companies in the top 10, Nvidia, Apple, Amazon, Alphabet, and Broadcom, were responsible for 46% of the S&P 500's annual return. This has resulted in an unusually high concentration in the 10 largest companies, which make up almost 39% of the index, the highest reading in at least 40 years. Globally, this has also pushed US equity weighting in the global stock market to nearly 70%, highest reading in over 40 years.

Heading into 2025 the top 10 companies now carry a valuation of nearly 30 times expected earnings in 2025, compared to 18 times expected earnings for the remaining 490 stocks. The elevated valuations and greater concentration also means investors' expectations are elevated for future earnings growth for the top 10 companies.

Weight of the top 10 stock in the S&P 500



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each quarter. As of 12/31/2024, the top 10 companies in the index were MPL (7.6%), NVDA (6.6%), MSFT (6.3%), AMZN (4.1%), GOOGL/GOOG (4.0%), META (2.6%), TSLA (2.3%), AVGO (2.2%), BRK.B (1.7%) and JPM (1.4%).

What's Ahead for the First Quarter?

Investors will be watching first quarter earnings very closely, given the valuations and concentration in the US large cap market- analysts are forecasting nearly 15% earnings growth for 2025, compared to a 10-year growth rate of 8% (2014-2023). Following the December meeting, the Federal Reserve made it clear that a January rate cut was unlikely, so inflation and unemployment data will continue to be in focus. On the policy front, the US government is funded until March 14th at current levels, which will have to be addressed during the quarter. Investors will watch for developments on new policies and increase the US debt ceiling.

Assets in Review

Equities	December	4Q2024	2024
S&P 500 TR	-2.4	2.4	25.0
MSCI ACWI NR	-2.4	-1.0	17.5
Russell 2000 TR	-8.3	0.3	11.5
Russell 1000 Value TR	-6.8	-2.0	14.4
Russell 1000 Growth TR	0.9	7.1	33.4
MSCI EAFE NR	-2.3	-8.1	3.8
MSCI EM NR	-0.1	-8.0	7.5
Fixed Income	December	4Q2024	2024
Barclays Agg. Bond TR	-1.6	-3.1	1.3
Barclays Muni Bond TR	-1.5	-1.2	1.1
Barclays HY Corp. TR	-0.4	0.2	8.2

Source: Morningstar Direct



The performance data shown for the S&P 500, Russell 1000, and Russell 2000 indices is for illustrative purposes only and is not indicative of the performance of any specific investment strategy. The S&P 500 Index is a broad, unmanaged index of 500 of the largest US publicly traded companies, the Russell 1000 Index is a broad, unmanaged index that tracks the highest-ranking 1,000 stocks in the Russell 3000 index, while the Russell 2000 Index represents the smallest 2,000 stocks in the Russell 3000 Index and none reflect the impact of fees, taxes or expenses. Performance for each index assumes reinvestment of dividends. The indices may not reflect the same level of risk, volatility, or investment objectives as the strategies or portfolios presented by Confluence Financial Partners. Any comparison of performance to these indices is for informational purposes only and does not imply that Confluence Financial Partners can or will achieve similar results.

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