

Market Review

as at December 31, 2024

2024 has been a remarkable year for markets, from AI euphoria to recession fears. Central banks started cutting interest rates as inflation fell. All this against the backdrop of a major election year across the globe and an ever more fragile geopolitical landscape. The return of Donald Trump to the White House has global investors assessing the implications of a radical shift in US policy.

Regional divergence dominates the outlook. The US remains a growth leader, buoyed by technological innovation, strong consumer spending and labour market, while Europe wrestles with structural stagnation and China faces mounting challenges from a struggling domestic economy. Heading into 2025, we expect the US to continue outperforming the rest of the world due to a strong economy, relatively easy financial conditions, the potential for tax cuts and deregulatory policies. However, geopolitical risks and policy uncertainty could lead to slower growth and higher inflation.

Market Returns

The MSCI World Index posted a stellar 18% annual gain, reflecting broad-based strength across global equities. In North America, the S&P 500 Index delivered a remarkable 25% return, fueled by robust consumer spending, resilient corporate earnings, and optimism about the US economy's capacity to navigate policy shifts. Small-cap stocks also performed strongly, with the Russell 2000 rising 12%, backed by steady economic fundamentals and domestic-focused growth.

In Europe, Germany's DAX Index led the region with a 19% annual return, driven by industrial recovery and accommodative monetary policies from the European Central Bank, including rate cuts and bond purchases. Broader European markets showed solid performance, though structural issues remain a concern. In Asia, Japan's Nikkei 225 Index gained 21% for the year, benefiting from robust corporate earnings and a favourable policy environment. Despite ongoing challenges in China's economy, the Shanghai Composite Index defied expectations, rallying 16% over the year, driven by government stimulus measures and a recovery in key sectors.

Fixed income markets produced a moderately positive return overall for 2024, but it came with plenty of volatility owing to shifts in the outlook for inflation and monetary policy. The Bloomberg US Aggregate Bond Index only returned 1.25% for the year.

Global Economic Strategies: Diverging Paths

Major economies are adopting distinct strategies to navigate the evolving challenges of 2025. The US is pursuing a pro-growth agenda centered on fiscal expansion and deregulation, with substantial infrastructure investment and tax cuts poised to boost productivity and employment. These policies are expected to sustain near-term growth, though inflationary pressures and rising debt levels remain concerns.

Europe is focusing on fiscal initiatives aimed at industrial recovery and green technology investment, supported by accommodative monetary policies. However, regulatory burdens and geopolitical uncertainties pose significant challenges to unlocking sustained growth.

Market Review (continued)

China, meanwhile, is emphasizing domestic stability to counter external pressures. Recent stimulus measures have bolstered domestic activity in specific sectors, such as consumer goods and renewable energy. While these efforts reflect a pivot toward internal stabilization, challenges tied to its real estate market and demographics remain structural hurdles. For investors, this shift presents opportunities in domestic consumption-driven industries but requires caution when navigating export-reliant sectors.

Trade Policy: A New Era of Protectionism?

Trade policy is emerging as one of the most contentious aspects of the new administration's agenda. Elevated tariffs on Chinese and European imports are suggested as tools to bolster domestic manufacturing and address perceived trade imbalances in the US. However, at this stage, it remains unclear how much of these threats represent concrete policy intent and how much serves as negotiating leverage to gain an upper hand in trade discussions.

This uncertainty adds complexity for multinational corporations, who face the challenge of navigating potential cost increases and supply chain disruptions. For China, which remains heavily reliant on exports, tariff threats pose immediate risks to its trade relationships and broader economic recovery.

Outlook

US policy changes are set to be one of the dominant forces in shaping global markets in 2025, and investors will need to navigate a complex landscape where economic policies across major regions reflect differing priorities. The US emphasis on fiscal expansion and deregulation is expected to drive growth in key sectors, while Europe's industrial recovery and green technology initiatives present selective opportunities amid ongoing structural challenges. Meanwhile, China's pivot toward domestic stabilization, despite its structural headwinds, offers targeted opportunities in consumption-led industries.

Adaptability will be crucial in the year ahead, requiring a balance between seizing growth opportunities and protecting portfolios against potential volatility. A strategic focus on growth-oriented sectors and defensive positioning will be essential to mitigate risks and seize opportunities. With flexibility and vigilance, investors can position themselves to succeed in this dynamic environment.

Macro Indices Report as at December 31, 2024 (percent)

	DEC	NOV	OCT	Q4 2024	YTD	2023	Annualized	
							3 Years	5 Years
GLOBAL EQUITY								
MSCI AC World Total Return	-2.4	3.7	-2.2	-1.0	17.5	22.2	5.4	10.1
MSCI EAFE	-2.3	-0.5	-5.4	-8.1	4.4	18.9	2.3	5.3
NORTH AMERICA EQUITY								
S&P 500 Total Return	-2.4	5.9	-0.9	2.4	25.0	26.3	8.9	14.5
DOW JONES INDUSTRIAL AVG	-5.1	7.7	-1.3	0.9	15.0	16.2	7.5	10.5
S&P 400 Net TR	-7.2	8.8	-0.7	0.2	13.4	15.8	4.4	9.8
NASDAQ COMPOSITE	0.6	6.3	-0.5	6.4	29.6	44.7	8.2	17.5
RUSSELL 2000 INDEX	-8.3	11.0	-1.4	0.3	11.5	16.9	1.2	7.4
S&P/TSX COMPOSITE INDEX	-3.3	6.4	0.9	3.8	21.7	11.8	8.6	11.1
EUROPE EQUITY								
BLOOMBERG EUROPEAN 500	-0.5	1.2	-3.2	-2.5	9.5	16.7	4.9	7.1
FTSE 100 INDEX	-1.3	2.6	-1.4	-0.2	9.6	7.7	7.3	5.3
CAC 40 INDEX	2.1	-1.5	-3.7	-3.2	0.9	20.1	4.2	7.2
DAX INDEX	1.4	2.9	-1.3	3.0	18.8	20.3	7.8	8.5
ASIA EQUITY								
MSCI AC Far East Ex Japan	0.9	-4.1	-3.6	-6.7	9.6	0.4	-5.6	-1.4
NIKKEI 225	4.5	-2.2	3.1	5.3	21.3	31.0	13.7	13.2
HANG SENG INDEX	3.3	-4.2	-3.8	-4.9	22.9	-10.5	-1.3	-3.3
S&P/ASX 200 INDEX	-3.1	3.9	-1.3	-0.7	12.7	14.0	8.9	9.4
SHANGHAI SE COMPOSITE	0.9	1.5	-1.6	0.7	16.2	-1.0	0.1	4.6
SOUTH AMERICA & EM EQUITY								
MSCI EM Net Total Return USD Index	-0.1	-3.6	-4.4	-8.0	7.5	9.8	-1.9	1.7
S&P LATIN AMERICA 40	-5.5	-6.0	-4.9	-15.5	-22.0	34.2	5.3	-2.1
BRAZIL IBOVESPA INDEX	-4.3	-3.1	-1.6	-8.7	-10.4	22.3	4.7	0.8
S&P BSE SENSEX INDEX	-2.1	0.6	-5.7	-7.1	9.6	20.3	11.7	15.0
FIXED INCOME								
ICE BoA 1-3 Year US Treasury Index	0.2	0.3	-0.6	-0.1	4.1	4.3	1.5	1.4
BLOOMBERG US Agg	-1.6	1.1	-2.5	-3.1	1.3	5.5	-2.4	-0.3
BLOOMBERG Multiverse (Unhedged)	-2.1	0.3	-3.3	-5.0	-1.3	6.0	-4.2	-1.8
Citi World BIG US Hedged	-1.1	1.2	-1.6	-1.4	2.6	6.9	-1.6	-0.1
ICE BoA US High Yield Index	-0.4	1.1	-0.6	0.2	8.2	13.5	2.9	4.0
JPM EMBI Global Core – US\$	-1.6	1.3	-1.9	-2.3	6.2	10.8	-3.9	-0.5
JPM EM Global Cove – Local	-1.8	-0.5	-4.5	-6.7	-2.4	10.9	-2.8	-8.7
COMMODITIES								
BLOOMBERG Commodity Index	0.6	0.0	-2.2	-1.6	0.1	-12.6	-0.1	4.1
GOLD	-1.6	-3.0	4.0	-0.8	25.5	14.6	13.0	11.5
OIL (WTI)	6.4	-1.2	2.9	8.2	14.4	-3.8	12.0	-2.0

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