Mosaicfi *Market Insights*

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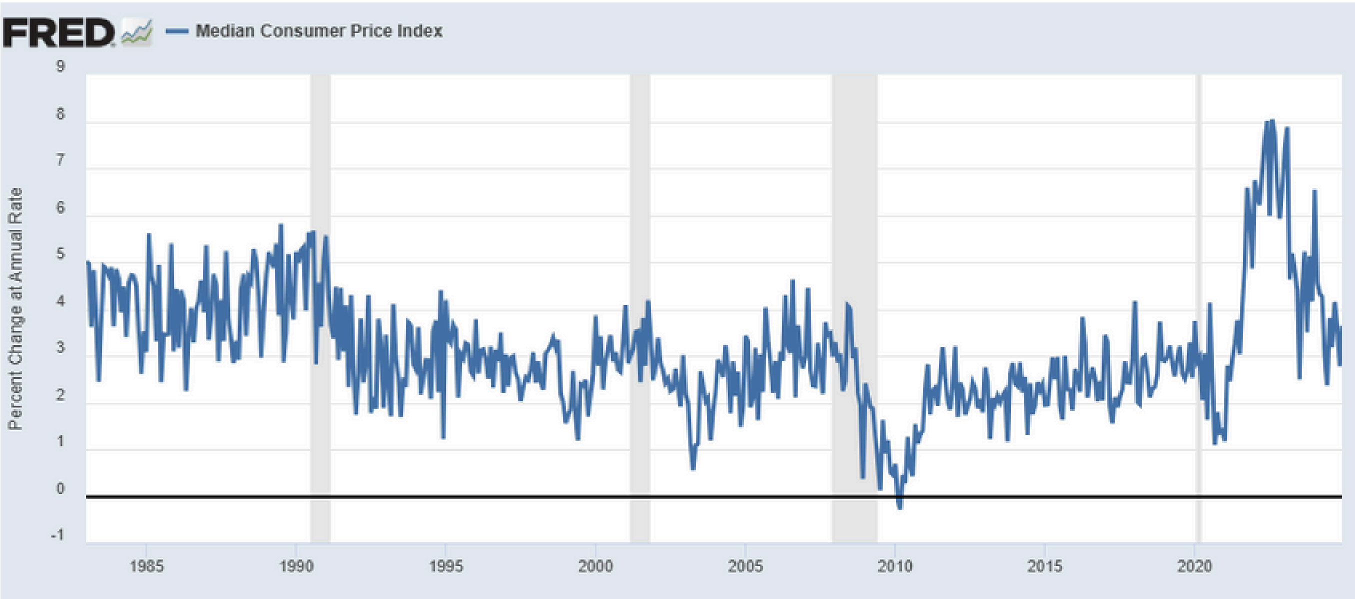

Q4 2024

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We began the 4th quarter with things looking rosy for the economy and inflation, but the quarter ended with uncertainty around what is to come.

In September, when the Federal Reserve lowered interest rates by a ½ percent, it seemed to have a high degree of confidence that there would be several more interest rate cuts coming over the following 12 months.

However, when the Fed met in December (while it did lower interest rates ¼ percent) Fed Chairman, Jerome Powell, was much less confident on the trajectory of future rate cuts.

ALL QUARTER END RESULTS TABULATED BY DIMENSIONAL FUND ADVISORS AS OF12/31/24.

Q4 2024

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In his comments he emphasized that the Fed was navigating two potential risk factors: 1) “Move too slowly and needlessly undermine economic activity in the labor market.” Or, 2) “Needlessly undermine our progress on inflation.”*

With the elections behind us investors were able to focus on digesting the implications of the policies put forth from the incoming Trump administration. Thus far, what appears to be factored into the market reaction is: excitement over the potential for AI, corporate deal activity in terms of mergers and acquisitions, and higher corporate profits from a de-regulatory environment.

At the same time, there appears to be concern that there is risk of another wave of inflation due to the proposed tax cuts, immigrant deportations, and tariffs. These concerns caused interest rates to spike back up in the 4th quarter as investors questioned whether the Federal Reserve would be able to lower interest rates as much as expected. Finally, market performance reflects a concern over how the rest of the global economies, both developed and emerging, will fare with the U.S. seeking a more isolationist position on trade.

THE EQUITY MARKETS

Global equity markets, as measured by the MSCI All Country World Index, were down -1.24% in the 4th quarter, and for all of 2024 were up 16.37%. In a dramatic shift from the prior quarter, international developed equity markets underperformed U.S. equity markets in the 4th quarter.

**Board of Governors of the Federal Reserve System, “Transcript of Chair Powell’s Press Conference Opening Statement” (December 2024).*

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International developed markets were down -7.43% for the quarter vs. the U.S. equity markets, which were up 2.63%.

For all of 2024 international developed markets were up 4.70% vs. the U.S. markets up a remarkable 23.81%. Emerging markets also had a particularly challenging quarter, down -8.01% and returned 7.50% for the year. With interest rates back up in the 4th quarter, U.S. REITs turned negative, down -5.93% for the quarter, but ended the year up 8.10%.

The small cap market rally in the 3rd quarter proved short-lived. U.S. small cap stocks underperformed large caps. Like REITs, higher interest rates have a larger impact on small cap stocks. Small cap stocks were up .33% for the quarter versus large caps, which were up 2.75%. For all of 2024 small caps were up 11.54% and large caps were up 24.51%.

THE FIXED INCOME MARKETS

Bond market investors expressed concern about the risk of inflation and the reduced likelihood of the Federal Reserve lowering interest rates in a meaningful way in 2025. As a result, interest rates were higher on all parts of the yield curve (with the exception of the very short end of the curve).

The yield on the 10-year UST was 77 basis points higher over the 4th quarter.

Given the spike in interest rates, the U.S. bond market, as measured by the Bloomberg U.S. Aggregate bond index, was down -3.06% for the quarter and up 1.25% for all of 2024. The municipal bond market outperformed the taxable bond market, ending the quarter down -1.22%, and was up 1.05% for the year.

The corporate bond market continued to outperform the treasury market in the 4th quarter. Intermediate corporate bonds were down -1.4%, with comparable treasuries down -1.7%. The high-yield market once again outperformed, up .17%. for the 4th quarter, and up 8.19% for the year. U.S. TIPS (inflation protected securities) were down -2.88% for the quarter and ended the year up 1.84%.

So, what did all of this mean for investors? Depending on the asset allocation, given the performance of the stock and bond markets, a diversified index portfolio in the 4th quarter was flat to down 3%. For all of 2024 a diversified index portfolio was up between 6-14%.

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LOOKING AHEAD

As we indicated last quarter, Federal Reserve action on lowering interest rates would be very data dependent. In December, the data came in showing a solid economy, a strong labor market, and inflation still higher than their 2% target.

As investors prepare for the policy changes to come with the new administration, one thing is clear - inflation will continue to be a potential risk. Many of the new policy changes being discussed hold a risk of triggering higher inflation. From new tariffs to immigrant deportations to lower taxes, depending on the degree to which they are implemented, could trigger inflationary pressures and result in higher interest rates across the board. At the same time, some of the policies being contemplated could result in an uptick in economic growth; deregulation, lower taxes, higher energy production are all stimulative policies.

Currently, the stock and bond markets have priced in a higher inflation, higher growth scenario. How it will all play itself out remains to be seen. The stock and bond markets do a great job of interpreting all available information and reflecting it in the prices of securities. We expect that the markets will weigh in on how the new policies are performing from an economic standpoint.
As always, we would love to hear from you, so feel free to contact us at any time.

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