FOURTH QUARTER 2024 REVIEW & OUTLOOK
EXECUTIVE SUMMARY

January 13, 2025

PORTFOLIO THEMES

- Exposure to both growth- and value-oriented equities should benefit portfolios as sector leadership expands to include more economically sensitive categories.
- Central banks' rate cuts have had limited economic impact as global markets have been resilient to higher rates.
- At this point in 2025, we believe there is similar likelihood for global markets to experience another strong double-digit year, rise only modestly, or slightly fall.

MARKET OUTLOOK

- **Variable Early Forecast:** Overconfidence can yield mistakes. We continue to monitor which of the three potential scenarios for 2025 are more likely to play out before considering significant changes to positioning.
- **US Gridlock Persists Post-Election:** Despite a unified government, US gridlock is not going away entirely as slim majorities make follow through on sweeping changes and campaign promises difficult. However, high expectations for a "pro-business" GOP government could be frustrated by legislative hurdles, while political chaos outside the US could drive uncertainty higher.
- **Sentiment Improving but Not Euphoric:** Professional equity forecasts for 2025 are elevated relative to 2024 but remain cautious. Healthy consumers, corporations and banks create a stable economic backdrop for equities, but signs of optimism are not widespread.

Global markets delivered the good-to-great year we expected in 2024, with the MSCI ACWI Index rising 17.5% in the year despite late dips delivering a flattish Q4.[i] Tech and Tech-like equities reversed their Q3 lag to lead, extending their year-to-date leadership. Fixed income notched slight gains on the year, extending its recovery.[ii] Emerging markets (EM) lagged developed markets, but also finished the year positive rising 7.5%.[iii] All in all, it was a very good year, delivering the solid returns that surprised many investors. As you may recall, many professional forecasts called for very modest equity returns in 2024.

At 2025's dawn, we can't quite yet commit to a forecast. We aim to do so as things progress early into the year and will communicate our views as they solidify. Calendar year forecasting remains a ritual of the industry, but there is simply no need to adhere until such time as we find clarity—markets don't move on a set schedule.

i Source: FactSet, as of 01/06/2025. MSCI ACWI Index return with net dividends, 12/31/2023 – 12/31/2024.

ii Source: FactSet, ICE BofA 7-10 Year US Corporate & Government Index total return, 12/31/2023 – 12/31/2024.

iii Source: FactSet, as of 01/06/2025. MSCI EM Index return with net dividends, 12/31/2023 – 12/31/2024.

When we forecast markets' likely direction, success hinges on knowing something others don't. Not secret information unavailable to the public, but identifying a key factor hiding in plain sight or understanding something about how markets work others don't, which we strive to do via the deployment of capital markets technology. As Ken Fisher phrased it in his 2007 book, *The Only Three Questions That Count*, what can we fathom that others can't?

For now, we see three potential outcomes with roughly equal odds. There is a reasonable case for a strong year of 20%-plus returns—largely because it is near-universally ruled out. There is an equally reasonable case for a mild down year, hinging on what we call "the Perverse Inverse," which the full Review will discuss. In brief, the US election made many investors optimistic with hope and excitement about the incoming government's potentially "pro-business" stance. While that buoys election-year returns, it also sets lofty expectations in the new year—which could be frustrated by legislative hurdles. Last, there is a still-equal probability for equities to eke out barely positive returns that frustrate bulls and bears alike.

As a primer, our forecasting process is simple: First, we lay out possible scenarios. Then, because the market pre-prices what is widely expected, we rule out what we can based on the consensus. Lastly, we assess the probabilities of the remaining scenarios, based on our unique interpretation of economic, political and sentiment drivers—we look for positives and negatives the crowd simply misses. If one scenario emerges as most likely in our view, this forms the foundation of our forecast.

The full Review will detail all three scenarios fully later this quarter. For now, we are watching developments closely, aiming to see the triggers that will cause us to have a more specific forecast soon. To us, economic drivers presently look set to extend many of 2024's dominant trends. But politics and sentiment are in flux. Changes to them are where we expect to find shifts favoring one scenario. Before long, we should have more clarity. The full Review will detail what we are assessing, including the political chaos outside America. Major economies in both developed and emerging markets have experienced political turnover worth paying attention to, even as moods calm and impacts are priced in.

Republicans' US election sweep also appeared to weigh on EM sentiment in Q4. The incoming Donald Trump administration's tariff proposals bear watching, but there are reasons to see them as overstated, setting up positive surprise. South Korean presidential impeachments and Brazil's currency volatility added to EM uncertainty as the year came to a close. Meanwhile, EM economic data continued improving, such as Taiwan industrial production accelerating in December to 10.3% y/y from October's 8.8%, signaling ongoing strength in a vital global technology hub.[iv] Going forward, EM economic fundamentals as a whole still reflect long-running trends of slow growth led by the services sector, but sentiment and political drivers are seemingly shifting more favorably after 2024 elections, in a number of countries, have concluded.

iv Source: FactSet, as of 01/02/2025.

We know many will wonder, why not reallocate more defensively while waiting for clarity, just in case of that negative scenario? Simply put, equities rise much more often than not—in 73% of all calendar years.[v] Unless you have a confident reason to be bearish, based on factors others can't see or fathom, we believe it is wisest to remain bullish. Shifting portfolios too much in anticipation of modest market wiggles is one of the biggest mistakes investors make.

Importantly, we believe there is a low likelihood for a bear market in 2025. We take the decision to implement defensive positioning seriously and make it systematically, following our bear market rules: The Three-Month Rule, the 2% Rule and the Two-Thirds, One-Third Rule. The full Review will explain our process in more detail, but we take advantage of bear markets' typically slow, grinding declines (which average about -2% per month) and their tendency decline more significantly late in the cycle. Their milder early declines give us a big window to assess conditions carefully. Hence, and critically for today, the Three-Month Rule cautions against ever going defensive within three months of a market high. With the last global market high on December 6, even if we were to conclude a bear market was likely unfolding, it is too soon to act.[vi] We are always aware we can be wrong and strive to minimize the risk.

v Source: Finaeon, Inc., as of 01/02/2025. S&P 500 annual total return frequency of positivity, 1926 – 2024.

vi Source: FactSet, MSCI ACWI Index return with net dividends as of 01/06/2025.

Should you have any questions about any of the information in the Fourth Quarter 2024 Review and Outlook, please contact us at (800) 851-8845 or FisherInstitutional@fi.com.

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INDEX DESCRIPTIONS

MSCI ALL COUNTRY WORLD

MSCI All Country World Index is a free float-adjusted market cap-weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 47 country indices comprising 23 developed and 24 emerging market country indices. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

MSCI EMERGING MARKETS

MSCI Emerging Markets Index is a free float-adjusted market cap-weighted index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of 24 emerging market country indices. Unless otherwise specified, returns shown include dividends after deducting estimated withholding taxes. MSCI calculates estimated withholding taxes using the maximum rate of the constituent company's country of incorporation applicable to non-resident institutional investors that do not benefit from double-taxation treaties.

S&P 500

The S&P 500 Index measures performance of 500 primarily large cap US stocks and includes a representative sample of leading companies in leading industries as determined by Standard and Poor's. Returns are presented inclusive of dividends.

ICE BOFA 7-10 YEAR US CORPORATE

The ICE BofA 7-10 Year US Corporate Index is a subset of the ICE BofA US Corporate Master Index, which tracks the performance of US dollar denominated investment grade rated corporate debt publicly issued in the US domestic market. This subset includes all securities with a remaining term to maturity of greater than or equal to 7 years and less than 10 years. When the last calendar day of the month takes place on the weekend, weekend observations will occur as a result of month ending accrued interest adjustments.