December 2024

MARKET UPDATE

Just like last year, November treated equity markets very well, where this time, the S&P 500 set several new all-time highs along the way and ended with the best month of the year so far. Over the last year, only April and October had finished in the red on a total return basis, and since then, the S&P 500 is up 46.09%, while being up 5.87% for the month. There has been a noticeable uptick in market optimism post-election where investors are betting that future proposed tax cuts and deregulation would help bolster corporate profits, thus fueling gains not only in Large Caps, but Mid and Small Caps as well.

Bonds were also up for the month, but not to the same extent as equity markets, with the US Bloomberg Aggregate up 1.06%. As for the yield curve, the 1-year through 3-year increased by several basis points each, but the rest of the curve slightly fell for the month, to the point where no tenor exceeded 6-basis points in overall change. The next Federal Reserve meeting is scheduled to take place on December 18th, where the market is betting that there will be a 66% chance of another 25-basis point reduction in the target rate.

Personal Income rose 0.6% after rising 0.3% for September, whereas Personal Spending rose 0.4%. Consumers cut back on spending with regards to nondurable goods while slowing spending on durable goods throughout October. On another note, Core PCE, the Federal Reserve’s preferred inflation measure, ticked up higher to 2.8% year-over-year, slightly higher than its last figure for the past several months at 2.7%. Additionally, headline PCE also increased from 2.1% to 2.3% on a year-over-year basis as well, thus the uptick in both measures and the upside surprise in Personal Incomes add to the list of reasons for the Fed to be cautious on its rate-cut journey.

ADVISORS’ PERSPECTIVE

As 2024 draws to a close, global financial markets are navigating a complex landscape, shaped by a blend of corporate earnings, shifting yield curves, equity valuations, and evolving economic expectations. Nearly all S&P 500 companies have reported their earnings, collectively surpassing expectations by 6.91%. Communications, Utilities, and Health Care led in both earnings surprise and growth. Communications posted an impressive 14.06% surprise, followed by Utilities at 10.26% and Health Care at 9.04%. Conversely, Materials and Real Estate recorded negative earnings surprises, with Materials seeing a 7.03% decline in earnings growth, though Real Estate managed a modest 1.43% increase. Energy, however, experienced a significant earnings contraction, with growth down 23.65%.

Over the past two months, the yield curve has dramatically flattened, with yields rising across almost the entire curve. The 10-year yield alone increased by more than 45 basis points since September. By the end of November, the inversion between the 3-month and 10-year yields had narrowed to just 24 basis points. Meanwhile, the 2-year vs. 10-year spread returned to a positive slope in early September. These shifts reflect changing expectations around inflation and monetary policy, and a recent surge in bullish sentiment, all of which caused some pain for fixed income investors, particularly in October.

U.S. equities, long dominant in global markets, have seen their valuation gap relative to non-U.S. stocks widen significantly. The AI-driven rally, led by the “Magnificent 7” stocks, has contributed to this shift. At the end of November, the trailing price-to-earnings (P/E) ratio for the S&P 500 had risen to the mid-to-upper 20s, while the same metric for the MSCI EAFE (Europe, Australasia, and Far East) remained in the mid-teens. This disparity reflects stronger growth prospects for U.S. companies, alongside a more favorable economic environment. However, ongoing uncertainty around global trade policy could influence this valuation gap in the future.

As of November, the S&P 500 had returned 28.06% on a total return basis, positioning it to be one of the best-performing years since 2000. Only 2013 and 2019 outpaced this performance through November, with returns of 31.3% and 28.73%, respectively. 2013 remains the best-performing year this century, with a final return of 34.09%. With just a few weeks remaining in the year, and optimism still driving the market, it’s possible that 2024 could finish in the top five best years since 2000.

The overall outlook for the remainder of 2024 remains cautiously optimistic. Inflation appears to be cooling, and corporate earnings have generally held up better than expected, offering grounds for cautious optimism. In these uncertain times, we continue to rely on a quantitative investing approach, which helps us make data-driven decisions rather than emotional ones. Our partnership with Helios remains grounded in facts and data, and we conduct recalculations on a bi-weekly basis to ensure our models adapt to changing market conditions.

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