2024 Year-End Stock Market Update

George L. Smith III, CFA®
Managing Director
Chairman, Investment Policy Committee
804-780-2155
gsmith@investdavenport.com

Welcome 2025!

Let's start by acknowledging that 2024 was a remarkable year for equity markets. The S&P 500® Index rallied 25.0% and posted its second consecutive year of 20%+ gains. We witnessed one major stumble in the summer and markets closed the year with a bit of a whimper, but the overall outcome was quite impressive. This likely came as a surprise to many investors given geopolitical risks, recession fears, and election anxieties. Over the last two years, the S&P has returned a stunning 58%. Other indices were up in 2024, but not nearly as strong as the tech-fueled S&P. For instance, the small cap-oriented Russell 2000® Index was up 11.5% and the Russell 1000 Value® Index gained 14.4%.

What were the drivers in 2024? The first notable factor was the ongoing influence of artificial intelligence (AI). Technology stocks tethered to this theme dramatically outperformed the market and largely powered the S&P. The so-called "Magnificent 7"[1], which includes well known technology behemoths, gained 67% and accounted for over half of the S&P 500's gain. Nvidia (NVDA) has been the poster child of this bonanza and returned 171% in 2024. Federal Reserve policy was another driving force. In September, the Fed lowered interest rates for the first time since March 2020 and went on to lower rates two more times. "Easier" monetary policy reinforced the notion that we would avoid an economic recession and buoyed stocks.

Then there was the Presidential election. Equity markets were firm leading up to the election, but went into a new gear after Trump's victory. While President-elect Donald Trump comes with an element of unpredictability and his impact on different industries will vary widely, he is seen as business friendly and favorable for economic growth. Prospects for tax cuts, deregulation and heightened merger/acquisition activity supported stock markets. From a sentiment perspective, we also think investors were comforted by a lack of election controversy and pleased to simply get beyond it.

Market gains faded down the home stretch. While the S&P 500 was only down 2.4% in December, the Russell 2000 and Russell 1000 Value Indices swooned 8.3% and 6.8%, respectively. The equal-weighted S&P was down 6.3% for the month. At one point, the Dow Jones Industrial Average was down 10 straight days (longest down streak since 1974). A couple things shifted sentiment. For one, the "Trump bump" turned into a "Trump slump" as investors grappled with policy uncertainty. For sure, much remains to be seen including the potential impacts of tariffs, changes to immigration policy, and government downsizing. Perhaps more notable, the Federal Reserve had a slightly more "hawkish" tone following its December meeting. With the economy solid and inflation still a bit sticky, policymakers suggested there would be fewer rate cuts than initially expected in 2025.

What will 2025 bring? Warren Buffett once said: "The fact that people will be full of greed, fear, or folly is predictable. The sequence is not predictable." The point being it is very hard to predict short-term market movements. We can, however, observe that the S&P 500 is trading at a price to earning (P/E) multiple of 21.6x 2025 earnings estimates. This is a rich valuation compared to historical norms and suggests that overall returns for the S&P should moderate relative to the last two years. Supporting this notion, we note the market's P/E ratio is up roughly 25% over the last two years. Accommodative Fed policy is now looking more likely given solid economic growth and sticky inflation, which would argue for less in the way of valuation expansion. However, steady and/or improving earnings growth, especially in more cyclical arenas, should be supportive of stocks.

Digging deeper, we wouldn't be surprised to see some of the large cap tech leaders cool off a bit. At a minimum, we expect their dramatic outperformance to wane. We aren't saying they have to go down. After all, the collective earnings growth for the "Mag 7" is still expected to be much stronger than the broader S&P (24.0% vs 14.6%), but this is down from 42.5% in 2024. It's also very important to reiterate that many areas outside of the tech sector are nowhere near highs and offer much

[1]The Magnificent Seven ("Mag 7"), stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla

lower valuations than the S&P 500. Case in point, the equal-weighted S&P, which is a better reflection of the average stock, trades at 16.4x 2025 earnings estimates. There is also a subset of stocks that have been on the wrong side of the "Trump trade" for fear of being negatively impacted by the incoming President or potential cabinet members. In some of these cases we think such fears may be overstated. Health care is an industry that comes to mind following recent weakness and we have increased exposure here.

In sum, we are pleasantly surprised by last year's returns. The new year will likely bring an ongoing dance between economic growth and Fed policy and there's a chance 2025 will yield more subdued results for the S&P 500. But, there's also a chance market leadership will change and the sun will shine on corners of the market that have been somewhat neglected of late. We will continue to scour the landscape for opportunities as part of our mission to deliver you compelling risk-adjusted returns. Thank you for your faith and we wish you all the best in the new year!

Sincerely,

George L Smith III

George L. Smith III, CFA®
Chairman, Investment Policy Committee

Important Disclosures:
Any opinions expressed here are statements of judgment on this date and are subject to future change without notice. This information may contain forward looking predictions that are subject to certain risks and uncertainties which could cause actual results to differ materially from those currently anticipated or projected. The information contained herein has been compiled from sources believed to be reliable; however, there is no guarantee of its accuracy or completeness. There is no guarantee that a company will continue to pay a dividend. The investment return and principal value of an investment will fluctuate. Small and mid cap company stocks may be more volatile than stocks of larger, more established companies. The portfolios may invest in foreign securities which are subject to additional risks such as currency fluctuations, political instability, differing financial standards and the potential for illiquid markets. The information provided in this letter should not be considered a recommendation to purchase or sell any particular security. Diversification and Asset Allocation does not ensure a profit or guarantee protection against a loss. **Performance shown is historical and is no guarantee of future results.** *Investing in securities carries risk including the possible loss of principal.*

Data as of 12/31/2024. Sourced from Morningstar, Bloomberg, and FactSet financial data and analytics. ©2025 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material or guarantee the accuracy or completeness of any information herein, nor does Bloomberg make any warranty, express or implied, as to the results to be obtained therefrom, and, to the maximum extent allowed by law, Bloomberg shall not have any liability or responsibility for injury or damages arising in connection therewith.

Index Definitions:
The **S&P 500 Index** is comprised of 500 U.S. stocks and is an indicator of the performance of the overall U.S. stock market. Standard & Poor's Financial Services LLC, a division of S&P Global, is the source and owner of the registered trademarks related to the S&P 500 Index. The **Russell 2000 Index** measures the performance of the 2000 smallest companies in the Russell 3000® Index, representing approximately 8% of the total market capitalization of the Russell 3000. The **Russell 1000 Value Index** measures the performance of the Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"). © LSE Group 2025. FTSE Russell is a trading name of certain LSE Group companies. "Russell®" is a trade mark of the relevant LSE Group companies and is used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote/sponsor/endorse the content of this communication. The **Dow Jones Industrial Average (DJIA)** is a stock market index that tracks 30 large, publicly-owned blue-chip companies trading on the New York Stock Exchange (NYSE) and Nasdaq. The **S&P 500 Equal Weight Index** is designed to be a size-neutral version of the S&P 500. It includes the same constituents as the cap-weighted S&P 500, but each company in the S&P 500 EWI is allocated the same weight at each quarterly rebalance. **An investor cannot invest in these indices and their returns are not indicative of the performance of any specific investment.**

DAMinfo@investdavenport.com | (800) 846-6666 | davenportassetmanagement.com
One James Center | 901 East Cary Street, Suite 1100 | Richmond, VA 23219
Davenport & Company LLC Member: NYSE•FINRA•SIPC