Crystal Wealth Partners Market Commentary – December 2024

Please find our commentary on investment markets to 31th December 2024.

2024 proved to be a year that defied forecasts as markets remained surprisingly resilient throughout. The year saw shifting monetary policy from central banks, US "exceptionalism" highlighting a resilient economy, as well as changes in government and political leadership across many parts of the world. Central banks worldwide grappled with the challenge of trying to orchestrate a "soft landing" - i.e. supporting economic growth without reigniting inflationary pressures.

While the year was stronger than expected, the December 'Santa rally' failed to get going and most markets were negative in the month to close out the year. This contrasts with the strong December 2023 month that boosted last year's returns. Highlights for the year included a strong performance by gold, which thrived amid monetary policy easing expectations and geopolitical risks, as well as Japanese equities, financials (banks) and large US technology names such as Alphabet, Meta, Nvidia, Microsoft, Apple, Amazon and Tesla (i.e. 'the Magnificent Seven'). On the other hand, geopolitical risks and a structurally weak Chinese economy weighed on some markets and in particular key commodities like oil and iron ore. Energy was also a weak point for the year and none of this was helped by a stronger USD for the year.

Since the US election there has been considerable commentary around the 'what, when and how' of possible US policy outcomes. However, the nature and outcome of potential key tax, regulatory and tariff/trade policies are far from clear. That said, investors' perceptions around the likely outlook for inflation and hence interest rates have, and we believe will, continue to drive market returns over the next few years. These perceptions can be impacted by policy 'noise' (or 'tweets') in the short-term and we are already seeing signs of increased volatility in that regard.

The long-term impact will take some time to be determined as policy evolves through 2025, including the impact on the US labour market. Economies continue to undergo significant structural and transformative change post-COVID; including technological, fiscal, demographic, energy and people related change. We expect these trends to continue in 2025 and in the meantime, look for signs of further disruption around pockets of excessive valuation, including unlisted assets, private equity or credit and other speculative assets.

US Markets

Economic data showed the world’s largest economy was strong and resilient in 2024. Overall economic activity remained solid, with GDP +2.7% year-on-year. Unemployment remains low at 4.1% and consumer spending increased, up 3.7% for the year (based on Q3 data). The Federal Reserve’s preferred measure of inflation, Core Personal Consumption Expenditure (Core PCE), continued to move lower over the year and now sits at 2.8% year-on-year.

The Federal Reserve continued to cut policy interest rates in December, by a further 25 basis points, bringing the Fed Funds policy rate range to 4.25-4.50%. They have now cut a combined 100 basis points so far in this tightening cycle. However, the FOMC surprised many with an upside revision to their inflation and interest rate projections, in part based on president-elect Trump’s policy comments. The median projection is now for a further 50 basis points of cuts in 2025, down from 100 basis points projected at the September meeting.

As a result, US equities were mostly softer in the last month of the year, with the Dow Jones Industrial Average retreating -5.27% for the month. The S&P500 fell 2.5% and the technology and growth dominated NASDAQ100 rose slightly, up 0.39%. It was a strong year for US equities, with the Dow Jones Industrial Average rising almost 13% and the NASDAQ100 gaining almost 25%. The S&P500, propelled by the Magnificent Seven, posted an impressive 23% return for 2024. Ten of the eleven sectors finished 2024 higher, with the top performer being Communications, up over 40%. In fact, four sectors returned over 30% for the year. The laggard over 2024 was Materials, down a marginal 0.04%.

For a fifth straight quarter, S&P500 corporate earnings growth was positive, up 5.9% year-on-year in Q3, according to FactSet. S&P500 revenue growth for 2024 is expected to come in at 5.1%, while 2025 is expected to produce revenue growth of 5.8%.

However, 2024 was a bumpy ride for US Treasury yields, often fluctuating off the back of Federal Reserve comments and economic data. Yields rose in the last month of the year as the Federal Reserve adopted a less dovish stance following its last rate cut for the year. The 10-year Treasury yield actually increased by 40 basis points over the month to 4.57%, while the 2-year yield rose 9 basis points. Note bond yields were less than 4% at the start of the year and bond markets remain vigilant on future US inflation and budget deficit risks, reflect in the recent moves.

World Markets

The macroeconomic picture remains soft in the Eurozone. The Manufacturing Purchasing Manager Index (PMI) remains subdued and has now recorded 30 consecutive months of contraction. Political turmoil rippled across the region, with both France and Germany experiencing fiscal pressures and the rise of populist parties fracturing the political consensus. Limited exposure to AI (compared to the US) has also hindered European equities. The European Central Bank (ECB) continued its monetary policy easing path, reducing policy rates by 25 basis points in December with more expected in 2025. The FTSE100 fell 1.38% in December and underperformed global counterparts in 2024, posting a gain of 5.69%. France’s CAC40 rose 2% in December but finished 2024 2.15% lower and Germany’s DAX rose 1.44% in December, finishing the year almost 19% higher.

In Japan, Tokyo-area inflation rose to 3% year-on-year in December, a significant acceleration from the previous month and marking the largest increase of 2024. Bank of Japan (BoJ) Governor Ueda reiterated that the central bank would raise policy rates if economic and price conditions continued to improve. The Nikkei225 outperformed, rising 4.41% in December, and posting a strong 2024 result, up almost 20%. The strength over the year was underpinned by share buybacks, corporate governance reforms and a weaker yen (that boosted exporters). The yield on the 10-year Japanese government bond closed December at 1.09%, the highest level in 13.5 years and 4 basis points higher over the month following continued interest rate hike speculation.

Factory activity in China expanded for a third consecutive month. Official manufacturing PMI missed economists' forecasts and slowed in December but remained above the 50 index threshold that separates growth (>50) and contraction (<50). Non-manufacturing PMI, which measures construction and services activity, was better-than-expected and rose to 52.2, up from November's 50 reading. The value of new homes sales stayed flat, however new home sales rose over 24% month-on-month. Over 2024, sales still sank 28% versus a 16.5% drop in 2023 illustrating ongoing weakness in the Chinese property market. The Shanghai Composite rose in December, up 0.8%. Despite continued weakness in the economy, particularly in the property sector, the Shanghai Composite rose over 12.5% in 2024. After two consecutive monthly declines, the Hang Seng rose in December, up 3.28%. The benchmark experienced a solid 2024 too, rising over 17%.

Australia

The Reserve Bank of Australia (RBA) left the cash rate unchanged once again at 4.35% at the December meeting, as widely expected. Comments from Governor Bullock were interpreted as 'dovish', mentioning that the upside risks to inflation have diminished and talk continues of when interest rates could potentially be reduced. On the economic front, GDP for the third quarter was soft again, well below estimates at 0.3% quarter-on-quarter. November's unemployment rate was 3.9%, which highlights still a firm labour market. Retail sales growth accelerated to 0.6% month-on-month but both business and consumer sentiment indices fell further in November. During 2024, we saw labour markets continue to ease with job vacancies falling and unemployment creeping up – slowly helping reduce inflation.

Similar to their global counterparts, local equities faltered as 2024 came to an end, with the S&P/ASX200 falling almost -3.3% in December, the worst monthly return of the year. Four of the eleven sectors closed December higher, with Consumer Staples the best performer, up 0.64%. Real Estate was the laggard, down over 6% in December. We witnessed large sector divergence in 2024, with Information Technology rising an impressive 50%, followed by Financials up almost 34%. Materials and Energy were the weakest sectors, down almost -14% each in 2024. Small cap equities performed similarly to large caps, down over 3% but finished the year up over 8%.

Australian Government bond yields moved slightly higher in December, with the 10-year yield closing the month at 4.37%, 3 basis points higher from the previous month. Similar to US yields, the Australian 10-year yield increased over 2024 from sub-4% at the start of the year. Following the comments from the RBA, the market is currently pricing in a 70% chance of a 25 basis point cut at the first meeting of 2025, held in February. There are 81 basis points of cuts priced in by the market by the end of 2025, though it remains to be seen if and when the RBA begins its monetary policy easing cycle. The spread between the Australian 2-year Treasury yield and the US 2-year Treasury yield widened to -38 basis points at the end of December, reflecting the change in central bank interest rate expectations in both countries (i.e. faster cuts in the USA). The RBA will be loath to cut interest rates prematurely so higher cash rates could remain in place for longer.

Other Markets

In December, oil prices rose almost 5.5% to finish 2024 flat at USD$71.72 a barrel. They peaked at USD$87 a barrel in April and reached a low of USD$65 a barrel in September. While ongoing geopolitical tensions and evolving OPEC+ dynamics are at play on the supply-side, global demand, particularly out of China, continues to be closely assessed by the market. Additionally, colder weather in the US and Europe has increased demand for heating oil.

Following November's trend, iron ore prices remained relatively range-bound throughout December, trading between USD$103 and USD$106 per tonne, driven by demand from the world's largest consumer of the commodity, China. With Chinese authorities recently committing to a "more proactive" macroeconomic policy approach to stimulate growth, fluctuations in iron ore prices will likely continue to be driven by economic data and stimulus news out of the country. It finished the month 1.34% lower at USD$103.61 per tonne, which represents a 24% fall over 2024.

Gold continued to move lower in December, falling almost 1%. Even after a few weak months to end 2024, the precious metal rallied strongly throughout the year, finishing 2024 over 27% higher. Ongoing geopolitical tensions in the Middle East and Ukraine has enhanced gold's appeal as a safe-haven asset, in addition to central bank purchases. It reached a peak in 2024 of USD$2,785 per/oz at the end of October and closed the year at USD$2,624 per/oz.

The AUD was weaker for the third consecutive month, closing December at its lowest level since the pandemic sell-off in 2020. The local currency continued to decline following a stronger USD and concerns around Trump's tariff implications weighing on sentiment as well as comments from the RBA and Federal Reserve about respective interest rate moves. Over the month, the AUD traded between USD$0.6188 and USD$0.6486 before closing December at its low.

Index*	1 Month	3 Months	12 Months
US – Dow Jones	-5.27%	0.51%	12.88%
US – Nasdaq (100)	0.39%	4.74%	24.88%
US – S&P 500	-2.50%	2.07%	23.31%
Germany – DAX	1.44%	3.02%	18.85%
UK – FTSE 100	-1.38%	-0.78%	5.69%
Shanghai Composite – SSE	0.76%	0.46%	12.67%
Hong Kong – Hang Seng	3.28%	-5.08%	17.67%
Japan – Nikkei 225	4.41%	5.21%	19.22%
S&P/ASX 200	-3.28%	-1.34%	7.49%
All Ordinaries Index	-3.20%	-1.38%	7.55%
Gold (USD)	-0.95%	-0.36%	27.27%
Oil (USD) – WTI	5.47%	5.21%	0.10%
Iron Ore (USD)	-1.32%	10.42%	-24.02%
10 Year Aus Gov't Bonds (yield)	-0.11%	10.11%	10.08%
10 Year US Gov't Bonds (yield)	9.45%	20.74%	18.26%
AUD/USD	-4.96%	-10.50%	-9.15%

* percentage change in local currency unless stated otherwise

If you have any questions in relation to the above, or require any additional portfolio or investment information, please do not hesitate to contact your Adviser to discuss your particular circumstances.