Chris Hyzy: This is Chris Hyzy, chief investment officer, for the January Viewpoint update titled "Fizzle to Sizzle."

The final month of the 2024 year produced a market environment in which the median S&P 500 stock fell about 6.5%. The momentum in the mega capitalization high-growth equities fizzled as investors used the final weeks to take profits and rebalance portfolios. In fact, the S&P 500 fell about 2.7% in December in and of itself.

The rebalancing of portfolios was led by institutional investors that have diversified mandates across asset classes, and specifically with inequities, as the top echelon of mega names produced the majority of the 23% gain for the S&P 500 in 2024. This was the second straight year of over 20% gains for the index as bonds were flat to down around 1%.

Now on an overall basis, bonds are now down approximately 2% over a five-year period according to the aggregate index, which is arguably the worst five-year period ever for the asset class.

On a global basis the All Country World Index rose almost 16%, trailing the U.S. Broad indices in 2024, and if you take a look at the leadership again it was led by the U.S. Again S&P 500 only up about 23% relative to the All Country World Index up about 16. Europe was down about 1% according to the Euro STOXX 600 index, and that detracted from performance overall.

In terms of U.S. size and style, large-cap growth led the way once again with over a 35% gain, while small-cap value was the worst performer at about a 5% rise.

As we indicated in our year-ahead report from mid-December, we expected a loss of momentum to begin this year, given the outside gains in equities the past two years. Also, given portfolio rebalancing, that always occurs at the turn of the year, and premium valuations not to mention the backup in yields, that continues most notably on the 10-year yield, 10-year treasury yield; concerns over debt and deficits, and again, the hyper focus on Federal Reserve policy. All of these things coalescing together to be a headwind to start the year.

However, we believe this fizzle environment quickly turns to sizzle as investors turn their focus back toward corporate fundamentals, which continue to improve. We expect quarter four corporate profits to outperform, which begins in the next week or so. Productivity surprise upward, the job market to remain healthy and stable, key word "stable" there, and some relief on the inflation front, believe it or not, in the coming months. We need to remain aware of the elevated geopolitical risks that are still out there, and keep a watchful eye on longer dated bond yields.

Most importantly, markets and investors do not like negative surprises. Negative surprises on our list continue to be the geopolitical front, the first 100 days of the new administration, what can be done and what cannot be; and most importantly, any further sharp rise in bond yields. Not a trickle up, but a sharp rise in bond yields. But we believe on balance, the surplus sidelined cash to be repositioned back into the market in the middle of the quarter. There's still a lot of excess cash on the sidelines.

In our view, the bull market is only in mid cycle in terms of its timeframe, which can last through the balance of the decade. We continue to focus on multiyear cycles, not just any one year.

Investors should consider a more diversified approach within the equity asset classes as we believe the narrow outperformance continues, but slows down in the coming year as the more highly valued areas share some of the spotlight with the rest of the market in 2025.

That'll do it for today. Thanks for listening.

Operator: Please see important information provided in this report.

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