

Q4 Performance Recap: 10 Key Takeaways

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With 2024 and the fourth quarter (Q4) behind us, we decided to conduct a deep dive into the key factors that shaped Q4 performance. We've highlighted what we believe to be 10 of the key takeaways.

Equity Sector	Q4 2024		Asset Class	Q4 2024		Bond Sector	Q4 2024
Consumer Discretionary	14.30%		Mid Growth	8.10%		Bank Loans	2.50%
Communication Services	8.90%		Large Growth	7.10%		Foreign Bonds (Hedged)	0.40%
Financials	7.10%		Russell 3000	2.60%		High-Yield Corporates	0.20%
Technology	4.80%		S&P 500	2.40%		High-Yield Munis	-1.10%
S&P 500	2.40%		Small Growth	1.70%		Munis	-1.20%



Industrials	-2.3		Small Value	-1.10%		EM Debt	-1.50%
Energy	-2.40%		Mid Value	-1.80%		TIPS	-2.90%
Consumer Staples	-3.30%		Large Value	-2.00%		Investment-Grade Corporates	-3.00%
Utilities	-5.50%		Emerging Markets	-7.80%		Bloomberg U.S. Agg	-3.10%
Real Estate	-7.90%		Large Foreign	-8.10%		U.S. Treasuries	-3.10%
Healthcare	-10.30%					MBS	-3.20%
Materials	-12.40%					Preferred Stocks	-6.30%
						Foreign Bonds (Unhedged)	-7.10%

10 Takeaways From Q4

- 1. Dow, S&P, and Nasdaq Hit Record Highs:** The Dow Jones Industrial Average (Dow), the S&P 500, and the Nasdaq Composite each hit all-time highs in Q4, with the tech-heavy Nasdaq rising 6.4%, besting the S&P 500's 2.4% increase and the Dow's modest 0.9% gain. The Nasdaq's impressive performance was largely fueled by the continued strength of technology stocks, particularly the Magnificent Seven and those involved in artificial intelligence (AI). The robust performance of these indexes underscores the resilience and strength of the broader market in 2024, powered by strong corporate earnings and impressive economic growth.
- 2. Political Clarity:** The 2024 U.S. presidential election provided much-needed political clarity, as equities rallied following Donald Trump's victory in early November. The removal of election uncertainty, coupled with hopes for a



pro-business environment under the new administration, boosted investor sentiment and contributed to market gains.

- 3. Fed Cuts Rates Twice:** The Federal Reserve (Fed) implemented two 0.25% rate cuts last quarter, aiming to support economic growth. However, a hawkish stance in December tempered some of the enthusiasm, as concerns about inflation and monetary policy persisted. The Fed's actions reflect its balancing act between fostering economic growth and controlling inflation, a dynamic that will continue to influence market movements and investor sentiment.
- 4. Stellar Corporate Earnings:** S&P 500 constituents reported third quarter (Q3) earnings that came in higher than expected, with earnings growing by 5.8% compared to the 4.3% consensus estimate. This marked the fifth consecutive quarter of earnings growth, with 75% of companies exceeding earnings estimates and only 61 of the 500 constituents reporting negative earnings per share (EPS) guidance. This strong financial performance underscores the resilience of U.S. corporations and their ability to navigate economic challenges, providing a solid foundation for future growth.
- 5. Large Caps Regained Dominance:** Large cap stocks regained dominance in Q4 following a lackluster Q3, which was overshadowed by small caps' impressive double-digit rally. In Q4, the Russell 1000 Index rose 2.8%, while the Russell 2000 Small Cap Index edged out a modest 0.3% gain. Large cap stocks significantly outperformed small caps over the year, reflecting their superior earnings power, strong balance sheets, and stability. This trend highlights the importance of company size and market position in driving performance, particularly in uncertain economic environments.
- 6. Growth Continues to Shine:** Growth stocks, particularly those with ties to AI, continued to outperform their value stock peers, as the Russell 1000 Growth Index gained 7.1%, while the Russell 1000 Value Index shed 2%. This trend was driven by strong performances from big tech names and consumer discretionary stocks. The preference for growth stocks reflects investor optimism about future earnings potential and the transformative impact of technological advancements.
- 7. Foreign Equities Retreated:** Both developed and emerging markets equities struggled in Q4, with the MSCI EAFE Index falling 8.1% and the MSCI Emerging Markets Index declining 7.8%. Broadly, European and Pacific equities both struggled in the fourth quarter, falling under pressure from tariff concerns and political turmoil across both regions. In Europe, France faced a toppling government and a new prime minister after a vote of no confidence for the incumbent; while in Asia, South Korean President Yoon was impeached after briefly declaring martial law. The struggling Chinese economy also remained



in play, as underwhelming economic data offset economic stimulus enthusiasm.

- 8. Real Estate Stocks Reversed Course:** After an impressive Q3, where the real estate sector outpaced all other sectors, rising 17%, real estate stocks dropped nearly 8%, a roughly 25% swing. The decline in real estate stocks can be attributed to the potential higher-for-longer path of interest rates following the Fed's hawkish rhetoric at the December meeting.
- 9. Bonds Fell as Yields Marched Higher:** Core bonds, as measured by the Bloomberg U.S. Aggregate Bond Index, declined 3.1% in Q4, as Treasury yields broadly rose. Despite the Fed's rate cuts, concerns about inflation and monetary policy uncertainty drove yields higher, leading to a steepening of the Treasury yield curve. This environment presents challenges for bond investors, who must navigate the complexities of rising yields and potential inflationary pressures while seeking stable returns.
- 10. Commodities Edged Lower:** The Bloomberg Commodities Index slid a marginal 0.5% in Q4, following lackluster global demand for oil and a marginal decline in gold prices. China's persistent economic slowdown, characterized by sluggish construction, manufacturing, and consumer activity, dampened oil consumption. Additionally, gold fell as a stronger dollar pushed the price per bullion lower.

As 2025 begins, LPL's Strategic and Tactical Asset Allocation Committee (STAAC) maintains its tactical neutral stance on equities, with a preference for the U.S. over international and emerging markets, a slight tilt toward growth, and benchmark-like exposure across the market capitalization spectrum. The Committee recommends benchmark-level fixed income exposure, with an emphasis on intermediate maturities, and an allocation to preferred securities. The STAAC also recommends an underweight to cash and, for appropriate investors, an allocation to diversifying liquid alternatives, specifically global macro and multi-strategy funds.

As discussed in our [*Outlook 2025: Pragmatic Optimism*](#), we expect stocks to move modestly higher in 2025, while acknowledging reasonable upside and downside scenarios. We cannot rule out the possibility of short-term weakness as sentiment remains stretched and a lot of good news is priced into markets. Upside support could come from economic growth, a supportive Fed, strong corporate profits, and supportive policies from the Trump administration. The most likely downside scenarios involve re-accelerating inflation, higher interest rates, and geopolitical threats that do economic harm. If inflation re-accelerates, equities may need to readjust to what could be a slower and shallower Fed rate-cutting cycle than markets are currently pricing in.



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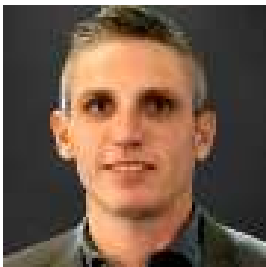
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