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Doll's Deliberations®

10 Predictions Year-End Recap

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Summary
The U.S. stock market has experienced back-to-back years of 25+% returns. While a handful of stocks account for the majority of returns, most stocks advanced, as economic growth exceeded expectations and valuation levels rose again. By year-end, investors are counting on another good year in 2025 but are nervous about valuation levels.

As things currently stand, we will achieve seven correct predictions for 2024, in line with our long-term average. Here is a brief rundown of the 2024 predictions.

1. **The U.S. economy experiences a mild recession as the unemployment rate rises above 4.5%.**
   Needless to say, the much-anticipated recession failed to materialize. While we are late in the economic cycle, excess COVID savings and then excessive government spending carried the economy higher. And while the labor market is weakening slowly, job growth in government, education, and healthcare kept the unemployment rate from rising much. **(X – Incorrect)**

2. **The 2-3% inflation ceiling of the 2010s becomes the 2-3% inflation floor of the 2020s.**
   While technically we won't know the accuracy of this prediction until the end of the decade, it is clear that inflation remains above the Fed's target of 2%. (Trailing 12-month headline inflation is +2.7%, with core at +3.3%.) Our view continues to be that the Fed's 2% target will remain elusive absent a recession. **(√ – Correct)**

3. **The Fed cuts rates fewer than the six times suggested by the Fed funds futures curve.**
   When the year is complete, the Fed will have cut rates three times (100 basis points), much less than was anticipated by the consensus at the beginning of the year. A decent economy and somewhat stubborn inflation have kept the number of cuts to less than expected. **(√ – Correct)**

4. **Credit spreads widen as interest rates decline.**
   We entered 2024 with spreads fairly tight already. Anticipating an economic slowdown, we expected those spreads to widen. Needless to say, that didn't happen and credit spreads are very tight/record tight. **(X – Incorrect)**

5. **Earnings growth falls short of the double-digit percentage consensus expectation.**
   Coming into 2024, the consensus expectation was for earnings growth of 12%. In the last couple of months, consensus expectations have moved down to high single digits. While profit margins have increased and top-line growth has been good, the combination was just not robust enough to get another double-digit earnings growth year. **(√ – Correct)**

6. **Stocks record a new all-time high early in the year, but then experience a fade.**
   Without a recession (Prediction #1) and continued earnings gains, not to mention increased valuation levels, stocks motored high virtually all year long. **(X – Incorrect)**

7. **Energy, financials, and consumer staples outperform utilities, healthcare, and real estate.**
   As we write, the three predicted outperformers are up on average 19%, while the three predicted laggards are up only 11%. Financials were one of the best sectors, while healthcare was indeed the worst sector. Thankfully, our sector predictions have been among our best over the years. **(√ – Correct)**

8. **Faith-based share of industry AUM rises for the eighth year in a row.**
   The measurement of this one comes with a lag, but trends suggest a favorable outcome as more and more individuals, advisors, and institutions are attempting to align their investments with their values. **(√ – Correct)**

9. **Geopolitical crosscurrents multiply but have little impact on markets.**
   Wow! The world has been a mess this year—Russia/Ukraine, the Middle East, the Russia-China-North Korea-Iran alliance. Thankfully, there has been little, if any, impact on markets. **(√ – Correct)**

10. **The White House, Senate, and House all switch parties in November.**
    Much has been said about the Republican sweep and much more will be said in 2025 as policy proposals become reality. So far, markets are mainly euphoric about policy prospects for 2025. **(√ – Correct)**

In summary

Looking ahead to 2025, among the key questions for investors is whether or not the economy, earnings, the Fed, and the new administration can come together to provide another good year for investors. Considerable policy uncertainty exists for 2025, but recent economic indicators show that the U.S. economic expansion is alive and well. No matter what transpires, the investment landscape will undoubtedly be exciting and challenging.

The next issue of Doll's Deliberations will be released on Dec. 31 at market close and will outline our 2025 predictions. In the meantime, we at Crossmark wish all of you a very happy holiday season and best wishes for 2025.