ROCKCREEK WRAPPED 2024: TOP 10 TRENDS THAT DEFINED THE YEAR

In some years, not much happens. In 2024, by contrast, it seemed difficult at times to keep up with all that was happening. There were unprecedented political events in the US, sudden shifts in the balance of power in the Middle East and the near-collapse of governments in the heart of Europe.

But perhaps the most important lesson for investors comes from what didn't happen. Throughout a year of global surprises and upsets, the US economy powered ahead – and financial markets kept rising.

It is against this backdrop that RockCreek has put together the 2024 Top Ten. Feel free to let us know if you think we got them right. In our next letter in January, we will look ahead to 2025.

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1. THE RE-ELECTION OF PRESIDENT DONALD TRUMP – AND REPUBLICAN SWEEP OF CONGRESS

For the first time in 132 years, a former President was re-elected for a second term after being defeated. The clear result on November 5 removed a cloud of uncertainty. Markets rejoiced. CEOs and foreign leaders made their way to Mar A Lago and the President-elect was given a presidential-style welcome to Europe for the re-opening of Notre Dame.

Analysts are left wondering what policy assumptions to build into their forecasts for 2025. The rapid announcement of nominations for key positions suggests the incoming Administration will move quickly. Tariff increases and immigration restrictions will tend to raise prices and reduce growth. We at RockCreek think that actual deportation numbers may be far below the numbers mentioned on the campaign trail. Deregulation and tax cuts will do the opposite. Sectoral support for energy, construction and finance, notably crypto, is likely. Big Pharma is concerned about the nomination of RFK Jr. to run health care. Big Tech hopes that the new FTC chair may soften his opposition. The President-elect's actions in office are likely to be affected by how markets react. With both House and Senate in Republican control – albeit only narrowly – the President-elect is likely to have his way. Early opposition to some of his nominees seems to be melting away. For investors, the nomination for Treasury of Wall Street financier Scott Bessent has been reassuring. President-elect Trump has also said this month that he does not expect any change regarding Federal Reserve Chairman Jerome Powell.

2. GEOPOLITICAL CHANGE: WARS AND ELECTIONS

In both the Middle East and Europe, the political landscape has changed quite dramatically this year. Military action by Israel almost destroyed Hezbollah in Lebanon and, most recently, triggered the events that have toppled Syria's strong man, Bashar al-Assad. Elections in Europe have undermined the governments in France and Germany, led to protests in Georgia, and threatened to put a supporter of Russian President Putin in power in Romania, a NATO and EU member.

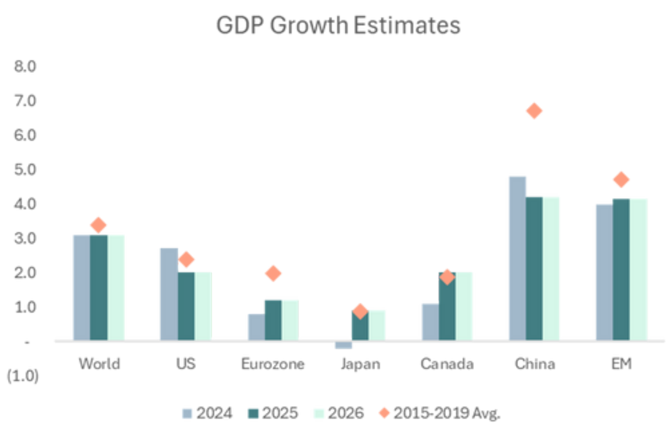
In Europe, popular disenchantment has weakened or pushed out governments that have tended to support the European project and have backed Ukraine against Russia. German Chancellor Olaf Scholz is expected to lose a vote of no confidence next week and President Macron of France had to appoint a new Prime Minister again this week, choosing centrist François Bayrou, after Michel Barnier's ouster at the beginning of the month, led by the populist party of Marine Le Pen. Financial markets have largely taken this in stride. Spreads on French bonds have climbed somewhat. But they remain anchored by the belief that Europe writ large – for which read the European Central Bank – will not let France crash out of the euro or spiral into a debt crisis. Although economic projections for Germany show little growth next year after stagnation in 2024, German markets have done well.

Events in Europe have favored Russia – already hopeful that the new American President will push Ukraine to accept a ceasefire on Putin's terms. But the war is also putting pressure on Russia. The Ruble has recently fallen significantly and is now back to 50% below its pre-invasion levels. The sudden end of the decades-long rule of autocratic leader Bashar al-Assad signaled Russia's weakness. The Syrian ruler's flight to Moscow revealed that neither Russia nor Iran – his former supporters – felt strong enough to commit fighters to save him. Israel's fight this year against Hezbollah in Lebanon has courted controversy for the widespread bombings that have killed civilians, as in Gaza. But it has succeeded in removing Hezbollah as an imminent threat. Russia has been distracted by its war against Ukraine, with a terrible loss of life.

3. AMERICAN ECONOMIC STRENGTH

American voters gave a clear thumbs down in the election on recent economic performance. Inflation has eaten into real incomes and shaken confidence in the future. Housing shortages and high rents, as well as food prices, have also disturbed middle class Americans who see hopes of the American dream slipping away– if not for them, for their children.

But in 2024, as inflation decelerated, the US economy continued to shine on most metrics that influence investors. With more distance from the pandemic, the data show even more clearly that the US is ahead of its peers in terms of growth, productivity and jobs. The US is the only major economy/region on track to exceed its pre-pandemic level of average growth this year. Productivity growth has also far exceeded that in other developed markets. The growth indicators do not mean that all is well. Social indicators from longevity – perhaps the ultimate measure of well-being – to health, educational standards and a sense of community are below those of many countries with lower incomes but less inequality and better public provision of services.



Looking ahead, the US will start 2025 strongly. The labor market has cooled, but not too much. Inflation is still running above the Federal Reserve's 2% price stability target, but not too much. Consumers and businesses expect to keep spending, and GDP growth continues above its long-term trend. Policy developments will have a bigger than usual impact on the outlook, given the expected shifts from the new Administration.

4. INTEREST RATE CUTS – AT LAST

The global interest rate cycle finally turned this year. The post-pandemic burst of inflation peaked in mid-2022. But it was not until the middle of 2024 that major central banks were confident that inflation was on a sustainable downward path. Unusually, the Federal Reserve did not lead the way. The Swiss National Bank was the first to cut rates, followed by the ECB and Bank of Canada.

When the Fed did move, in September, it cut by 50 basis points, twice the usual quarter point move. Another cut, this time of 25 basis points, followed in November. Markets expect a further 25 bp cut December 18, despite consumer price data for November that showed little recent progress in bringing down inflation and still robust jobs growth. Inflation in October on the Fed's preferred measure, PCE, was running at 2.8%, above the Fed's last forecast of 2.6% for Q4. In addition to the apparent stalling of inflation at a rate still above the 2% price stability goal, recent data have shown that the economy remains strong. Unemployment averaged just 4.2% in October and November, below the Fed's last projection for Q4. These data could justify a pause next week. If that happens, the markets will be surprised. The consensus view is that a pause is more likely in January, with the impact on wages and prices of earlier tight money still feeding through to the economy. The path of US rates beyond that will depend in part on the actions of the incoming Administration.

Elsewhere, the Bank of Canada has now implemented two 50 bp cuts while the ECB has been more cautious – cutting by 25 bp again this month despite indicating that it believes inflation is now safely contained. Further cuts in January are likely.

5. SURGING STOCKS – AND A RISING DOLLAR

Rate cuts, strong earnings and continued US outperformance have powered equities still higher this year. This was more broadly based than in 2023, when the Magnificent 7 saw a massive spike in net earnings growth while growth across the rest of the economy was essentially flat. That gap has narrowed in 2024 from a combination of the Magnificent 7's inability to sustain such growth on a year-over-year basis and improved profits across non-tech sectors. The equal-weighted S&P 500 is now up +16% YTD and though remains well behind the cap-weighted benchmark, it looks much better compared to early August when it was up only +3%. Meanwhile, overall corporate net earnings reportedly grew 6% in Q3 compared to a year earlier and are projected to remain on a steady rise with financial, industrial, and cyclical stocks better positioned than they have been.

The dollar has climbed on the back of capital inflows and rising US equities. The stronger US economy is also likely to keep interest rates higher than elsewhere. Some believe that a trade and tariffs deal with China could involve tacit – or even explicit – promises to keep the Renminbi from depreciating. The President-elect will be faced with the tension that while he may prefer a weaker dollar – to discourage imports and support exports – tariff increases will tend to push the dollar up.

6. CHINA – SHIFT TOWARDS STIMULUS: REAL OR JUST RHETORIC?

A second year of disappointing growth has provoked a shift in sentiment and rhetoric in China. President Xi seems to accept the need for action on fiscal policy, as well as monetary stimulus, if consumers are to start spending more. Just this month, the policy group indicated that actions to increase government borrowing and take stronger measures to resolve the property sector problems were being prepared to announce in January, with the new Administration in America.

Markets first welcomed and then became disillusioned with the talk of new stimulus. Initially, the MSCI China rallied by 40%, before giving back approximately half of those gains through October and November. Similarly, the Renminbi rallied in August and September, but weakened thereafter due to domestic fiscal stimulus and potential US tariffs. This whipsawing underlines a broader structural shift of investors viewing China as a short-term trade, not a long-term investment.

7. INNOVATION AND AI

Although the divergence between tech stocks and the rest narrowed somewhat in 2024, Big Tech shares still drove the Nasdaq higher. Investors continued to ascribe higher P/E multiples given the impressive innovation and superior growth outlooks of the major tech companies. Google's breakthrough in quantum computing was the latest impressive feat highlighting the tech sector's rapid advancements. Google's state-of-the-art quantum chip reportedly cracked the challenge of quantum error correction that arises from qubits' fragile quantum states. It will be some time before quantum computing can be broadly applied to practical applications, but this was a key milestone towards that goal. With rapid development of quantum hardware, the development of quantum software is accelerating too. Quantum applications will use different algorithms from those used today on traditional computers. The RockCreek team has been working with one of our partners to develop quantum financial applications on their IBM Quantum One computer. We contributed the codes that are a significant portion of the foundation of quantum financial algorithms. Read RockCreek's research paper here. More pertinent today of course is the AI race with Nvidia at the beginning of its new Blackwell AI chip cycle while companies rush to develop new models and applications for the technology.

8. A YEAR FOR CREDIT, PRIVATE AND PUBLIC

Private credit has been one of the fastest growing sectors in 2024, and with good reason. The asset class has grown substantially, with dedicated assets growing to approximately $2 trillion, or 10x their level at the end of 2009. This is close to the size of private equity markets. Despite this rapid growth, surveys indicate that roughly half of investors are still looking to increase their allocations to private credit. Morgan Stanley estimates that the asset class could grow to 1.5x from these levels by 2028, and McKinsey estimates the total addressable market for private credit could be $30 trillion (about another 10x from 2028 estimates). Private credit has gotten so hot that firms are even working on solutions to launch an ETF for the asset class. As we have written about many times in the past, while the asset class can offer opportunities, discretion is paramount in pursuing these investments.

Perhaps with less fanfare, public credit also had a notable year in 2024 - with spreads tightening to or near all-time tights. Coming into the year all quality ratings were in their bottom quartile of spread (i.e. expensive), except for Single A and Triple C rated issues (27th percentile and 44th percentile, respectively). Given rich valuations to begin with, the continued tightening of spreads has been remarkable. All spreads are now within their lowest decile, and many are in their bottom percentile, if not at all-time tights. Triple C's have performed best – rising 16% so far in 2024.

9. CRYPTO SUMMER COMING?

As we wrote about in recent weeks, crypto assets have seen a major resurgence since the election. Up 45% since November 5th and 135% YTD - Bitcoin continues to be the mainstream symbol of the asset class. However, the prospect of friendlier legislation alongside a more crypto-friendly SEC chair has carried the broader suite of names higher, particularly those used in broader reaching blockchain applications. The potential applications remain widespread - from decentralized WiFi hotspots and smart grid applications to reward programs for restaurants. A potential key for widespread adoption is the legitimization of the asset class that could flow from broadened, but supportive regulation.

10. SOME UNLOVED THEMES TO WATCH

Looking ahead to 2025, a lingering question is whether the recent winners will continue to run ahead, or if some mean reversion is on the horizon. According to Goldman prime brokerage data, momentum had its worst day of the year on December 9, 2024 - a sign of things to come or a breather for one of the top-performing factors this year? Some of the major laggards that may warrant investor attention in 2025 include biotech, real estate, and emerging markets.