STONEBRIDGE
Capital Advisors

Monthly Market Commentary

December 2024 Review

MARKET COMMENTARY

Equity Review

December was an eventful month in the equity markets. We saw the second-largest volatility spike of the year, yet 2024 closed as an incredibly strong year for stocks. December marked a return to growth stocks, possibly fueled by investors' new liquidity after taking advantage of the few losses available to offset large capital gains generated over the last two years. The market's breadth narrowed considerably last month, with the average stock selling off by -6.28% while growth stocks rallied 0.88%.

Outside of a brief period last fall that favored dividend stocks, 2024's overall performance breakdown resembled December, with growth stocks leading the charge. Interestingly, both the Russell Growth Index and the Russell Value Index outperformed the average stock in the market. The common theme? Mega-cap stocks. The largest companies in the U.S. dominated stock performance, with Large Cap Growth and Large Cap Value outperforming the rest of the market:

Index	2024 Performance
Russell Growth Index	33.35%
Russell Value Index	14.35%
S&P 500 Equal Weight Index	12.98%

Source: Bloomberg Financial L.P. (01/03/2025)

Taking a look at market cap-specific indices, it's clear large caps were the winners:

Index	2024 Performance
Russell Large Cap Index	24.50%
Russell Mid Cap Index	15.34%
Russell Small Cap Index	11.53%

Source: Bloomberg Financial L.P. (01/03/2025)

Even with an 11.53% return for small caps, we declare 2024 a great victory for the equity markets. However, this, once again, reminds us of the importance of sector diversification. There was a drastic separation between the "haves" and "have-nots": the Communications, Technology, and Financial sectors up 40%, 36%, and 30% respectively, while Energy and Real Estate lagged at 5% and Materials ended the year in the red, returning -0.04%.

For the second consecutive year, the AI theme continues to dominate market headlines and performance. In the back half of the year, an unsuspecting industry caught the AI wave: Utilities. Rarely associated with hypergrowth themes, electricity production and capacity became a focus for tech investors.

Data centers require an incredible amount of electricity, and the U.S. has not expanded capacity enough to meet future demands if the AI revolution continues. Typically, Utility investors thrive when the market sours and defensive stocks outperform, but this year, Utility investors joined the bulls and were handsomely rewarded.

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MARKET COMMENTARY

Equity Review

Outside the U.S., 2024 proved to be another challenging year for investors. Developed international equity markets returned a modest 4.43%, remaining below 2021 highs, while Emerging economies were up 7.97%. While these returns paled in comparison to domestic markets, the broader picture remains humbling. Emerging markets are closing in on two lost decades, with the MSCI Emerging Market Index remaining at the same level as in 2007 (refer to Graph 1).

In 2024, the FOMC lowered the Fed Funds rate from 5.5% to 4.5%, signaling another two cuts in 2025. The Fed continues to focus on fighting inflation while maintaining full employment. For a more in-depth analysis, please stay tuned for Daniel E. Laufenberg's publication of the Stonebridge Economic Outlook on January 6th, 2025.

Looking ahead into 2025, we remain optimistic about the equity markets. Despite the impressive performance of the past two years, the overall market still shows promise ahead. While we believe there are selective opportunities in the growth market, it is time to broaden the scope and explore attractive companies outside of the "Mag 7." This includes sectors that have been less favored in recent years and themes beyond, or alongside, AI to drive the next phase of growth.

Graph 1: Emerging Markets

Source: Bloomberg Financial L.P. (01/03/2025)

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MARKET COMMENTARY

Fixed Income Review

Fixed income performance was largely positive for much of the market in 2024. The main casualty of the normalizing yield curve were long duration bonds, which saw heavier losses as 30-year Treasuries surged more than 70 bps since the end of December 2023.

The 10-year, which experienced some intra-year volatility, particularly in the 4th quarter, finished the year only 10 bps higher. Investment grade corporates and especially junk bonds (which generally have shorter durations) rewarded investors with strong returns as shorter-term yields fell and credit spreads tightened further.

Municipals at the shorter end of the curve also performed well, but the general high demand for tax-free income propelled even those further out to decent gains. Of course, our primary goals in investing in bonds are income generation and preservation of principal, over focusing on shorter-term pricing performance.

However, our recent strategy of opportunistically adding duration up to the point on the curve that captured the bulk of the available yield, while limiting interest rate risk, accomplished what it was designed to do. It generated strong income levels and cushioned asset prices against spikes in longer-term interest rates that we have seen in the last several months.

As we wrote in November, until there is more clarity on longer rate expectations (much dependent on the incoming administration's actual policy implementations versus campaign rhetoric), our recent approach to moving cash into bonds will continue. As intermediate to longer-term bonds drift higher or retest highs, we will, however, remain opportunistic in our targeting of the most attractive areas of the yield curve, including adding further incremental duration to maximize income.

> Diversification is the only free lunch in investing.
>
> \- *Harry Markowitz*

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OVERVIEW

Key Moves

Equity Index Returns

11/30/2024 - 12/31/2024

S&P 500:
-2.39%

Dow Jones:
-5.13%

NASDAQ:
0.56%

Fixed Income Market Moves

11/30/2024 - 12/31/2024

2-Year Treasury:
4.13% to 4.25% (up 12 bps)

10-Year Treasury:
4.18% to 4.58% (up 40 bps)

10-Year A-rated Corporate:
5.16% to 5.28% (up 12 bps)

10-Year AAA-rated Municipal:
2.78% to 3.06% (up 28 bps)

Equities

Stonebridge's equity investment style provides a method for growth and income generation. Within this style, we utilize three equity strategies to invest in industry-leading, domestic companies with solid fundamentals. Principally, we focus on large-cap equities because they are more mature companies who offer attractive growth potential and generally experience lower volatility.

Our equity strategies are designed to achieve varying client investment goals and risk tolerances.

LARGE CAP GROWTH
est. January 2001

GROWTH & INCOME
est. March 2015

DIVIDEND INCOME
est. March 2011

Fixed Income

Stonebridge's approach to fixed income seeks to provide principal protection, asset liquidity and income generation. We manage two fixed income strategies - taxable bond and tax-exempt municipal bond - that both utilize individual securities, and are broadly diversified across sectors and issuers. We maintain a conservative risk profile, focusing on investment-grade credit. Individual security selection is made through a bottom-up approach that identifies relative value among issuers within each sector.

Our fixed income strategies are custom tailored to meet each individual client's unique investment goals and income requirements.

TAXABLE
est. December 1998

TAX-EXEMPT
est. June 1997

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Michael Dashner is both Director of Equity and Portfolio Manager for Stonebridge. As Director of Equity, he is responsible for trading, analysis, allocation, and management of the firm's equity strategies. As a portfolio manager, he works directly with clients and advisors to establish customized investment portfolios for high-net-worth clients. Michael is one of the Portfolio Managers of the covered call strategy.

Jon Lynn

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Jon Lynn is an owner of Stonebridge, a Portfolio Manager, and serves as the Director of Fixed Income. Jon is responsible for leading the taxable and tax-exempt fixed-income team where he oversees credit analysis, trading, and portfolio management. Jon is a member of the Stonebridge Investment Review Committee and Research Committee.