

January 2025

“Behind all the noise on the stock market surface, it’s important to remember that companies - small, medium and large - make up the market’s backbone. And their earnings drive stock prices in the long term.” -Peter Lynch

Stocks had another very strong year in 2024. In fact, 2024 marked the first time the S&P 500 has enjoyed a +20% gain in back-to-back years since 1997–98. Last year didn’t start out so optimistically though. The list of worries among stock-market bears included high valuations, narrow leadership by the largest technology stocks, rising long-term interest rates, election uncertainty, deficit spending, and more. Stocks rallied through all of that without so much as one 10% correction.

The stock market’s surprising ascent in 2024 offers some important lessons for investors:

- The herd is often wrong. Wall Street underestimated the S&P 500’s price at year-end by about 15%. Remember, positive years for stocks are about three times more likely than declines.
- Bull markets typically run for a while. They last more than five years on average and rarely end when the U.S. economy is growing, especially when the Federal Reserve (Fed) is cutting interest rates. The current bull market is about 27 months old.
- Earnings drive stock prices. The fundamental value of stocks comes from a company’s earnings. S&P 500 companies will likely grow earnings 10% in aggregate in 2024 and may do so again in 2025.
- Focus on the long term. Don’t get scared out of the market by the headlines if you’re a long-term investor. “Time in the market” beats “timing the market.” Waiting it out through down periods is the best approach for nearly all investors. Since 1980, the annualized return for the S&P 500 is 12.1%.

The U.S. economy also offered investors another lesson — that betting against the U.S. consumer is often a losing bet — especially an employed U.S. consumer. Mortgage refinances during the pandemic and the wealth created by higher stock prices added fuel for more spending, particularly from upper-income consumers.

These are good lessons to tuck away as 2025 gets underway. The coming year may not bring quite as much joy to your portfolio as 2024, given how much optimism is being priced into the stock market currently. Inflation pressures may re-emerge, and geopolitical threats could upend rallies. But, with steady economic growth, a healthy job market, growing corporate profits, and continued investment in artificial intelligence, the ingredients for another profitable year are in place.

Our best wishes to you and your family for a healthy and prosperous New Year!

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All data is provided as of January 7, 2025.

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All index data from FactSet.

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