MV CAPITAL MANAGEMENT

# Weekly Market Flash

## Goodbye to 2024

***December 27, 2024***

The next time we write our weekly column, it will be the third day of 2025 and the beginning of another year of both predictable and completely unfathomable twists and turns. As we prepare to navigate whatever lies around the next bend in the river, let's look back at the events and forces that have brought us to where we are today.

For what feels like the eleventy-millionth time in a row, the market of US large cap stocks, led by growth-oriented sectors in information technology and communications, left just about every other asset class in the dust. The S&P 500 is set to finish out the year hovering somewhere close to a 30 percent return (there are still three days of trading to go, so there is still very much a plus-minus variable from that baseline at play), while the Russell 1000 Growth index is flirting with 40 percent. The more things change, the more they apparently don't change. The "US exceptionalism" theme has cemented itself into the collective hive of the financial community. Of course, when something becomes the received wisdom handed down from on high, that is normally the time to think about getting out and moving on.

But moving on to where? That is the confounding part of the question. Let's consider what has happened in Europe this year. The continent's two largest economies, and the founding pillars of the European Union, are both in advanced political dysfunction. France is barely governing itself after a no-confidence vote earlier this month ousted its prime minister. Germany will hold snap elections in February following the collapse of its current coalition in November, which will almost certainly be the end of the road for current chancellor Olaf Scholz.

Over in East Asia things aren't much more stable. South Korea is in a prolonged political crisis following the ham-handed attempt by its president to impose martial law a few weeks ago. That president has since been impeached and now the acting president who replaced him is also being impeached. The South Korean won has plunged to its lowest level against the dollar since the global financial crisis. Over in Japan, voters tossed out the long-ruling Liberal Democratic Party in October parliamentary elections, setting up more uncertainty there. Stocks in Japan did fine this year – the Nikkei 225 finally clawed back its previous record high set way back in 1989 – but the 20-ish percent gain was offset by the twelve percent decline in the yen against the US dollar.

Then there is China, Asia's behemoth and the world's second-largest economy, stuck in an economic trap of its own making as Beijing's policymakers vainly try to defy the basic rules of economics through a growth formula that more or less bypasses household consumption. China has a long-term strategy that makes sense, if it can somehow get from here to there without melting down in the meantime. The stimulus measures that created a brief frisson of excitement among investors back in September seem to have fallen far short of what most economists believe is necessary to pull the country out of the punishing slow-burn decline of its property and development sector.

The world's most volatile region has widened its borders to encompass ongoing crises far from the epicenter of Middle East flashpoints in Israel, Gaza, Lebanon, Syria and Yemen. North and east of the Mediterranean, the war in Ukraine drags on. To the south, what is perhaps the most devastating humanitarian crisis, while also having broader international implications, shows no sign of ending in Sudan. Meanwhile, the sudden collapse of the Assad regime in Syria along with the decapitation of

Hezbollah in Lebanon and Hamas in Gaza has scrambled the flinty balance of geopolitical considerations across the region.

Given all this, it is perhaps unsurprising that the conventional wisdom among the denizens of financial markets, as this year draws to a close, is for the continuation of “US exceptionalism.” Except that we here at home, while blessed with a resilient and innovative economy, are not isolated from the same forces of disruption that are happening elsewhere in the world. 2025 is going to bring with it some considerable challenges. We do not think it will be a year for the faint of heart, but will require extreme diligence and the ability to adapt as situations change. We are ready for the challenge. But before then, we wish all of you the best of health and happiness as you see out the holidays and ring in the New Year. See you on the other side!

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