# Market & Economic Review

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The following market update was provided by Vanguard Investment Strategy Group and is forwarded by Independent Wealth Management.

## Vanguard Market Perspectives Key Takeaways

- We attribute the U.S. economy's strong GDP-growth, low unemployment, and cooling inflation to recent labor and productivity gains.
- We anticipate the Fed will reduce its rate target further in 2025 to a range of 3.75%-4.00%.
- While China's economy has regained some ground, we expect their 2025 outlook will hinge on policy support and potential U.S. tariff hikes.

## 4Q24 Benchmark Returns

| | 4Q | 2024 |
|---|---|---|
| **Equities** | | |
| S&P 500 Total Return Index | 2.4% | 25.0% |
| Russell Index 1000 w/Dividend | 2.7% | 24.5% |
| Russell Index 2000 w/Dividend | 0.3% | 11.5% |
| Russell Index 3000 w/Dividend | 2.6% | 23.8% |
| MSCI Developed EAFE (USD) | -8.1% | 4.3% |
| MSCI Emerging Markets (USD) | -8.1% | 5.1% |
| **Alternatives** | | |
| Credit Suisse Hedge Fund Index | 0.8% | 9.9% |
| DJ Wilshire Global REIT Index | -9.1% | -0.9% |
| iShares S&P US Pref Stock Index | -6.1% | 0.4% |
| S&P GSSI Natural Resources Index | -2.3% | 8.1% |
| Barclays High Yield Bond Index | 0.2% | 8.2% |
| **Fixed Income** | | |
| 90 Day Treasury Bill | 1.2% | 5.1% |
| Barclays Muni Bond Index | -1.2% | 1.1% |
| Barclays Aggregate Bond Index | -3.1% | 1.3% |
| Barclays Global Bond Index | -7.4% | -5.6% |

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## Vanguard's outlook for financial markets

Our 10-year annualized nominal return and volatility forecasts are shown below. They are based on the November 8, 2024, running of the Vanguard Capital Markets Model® (VCMM). Equity returns reflect a 2-point range around the 50th percentile of the distribution of probable outcomes. Fixed income returns reflect a 1-point range around the 50th percentile. More extreme returns are possible.

| Equities | Return projection | Median volatility |
|---|---|---|
| U.S. equities: | 2.8%–4.8% | (16.9%) |
| Global equities ex-U.S. (unhedged): | 6.9%–8.9% | (18.5%) |
| Global ex-U.S. developed markets equities (unhedged): | 7.3%–9.3% | (16.8%) |
| Emerging markets equities (unhedged): | 5.2%–7.2% | (26.1%) |
| U.S. value: | 4.2%–6.2% | (19.2%) |
| U.S. growth: | 0.4%–1.6% | (17.8%) |
| U.S. large-cap: | 2.5%–4.5% | (16.5%) |
| U.S. small-cap: | 4.2%–6.2% | (22.4%) |
| U.S. REITs: | 3.8%–5.8% | (20.1%) |

| Fixed income | Return projection | Median volatility |
|---|---|---|
| U.S. aggregate bonds: | 4.3%–5.3% | (5.7%) |
| Global bonds ex-U.S. (hedged): | 4.3%–5.3% | (4.5%) |
| U.S. Treasury bonds: | 4.1%–5.1% | (6.0%) |
| U.S. intermediate credit: | 4.6%–5.6% | (5.2%) |
| U.S. high-yield corporate: | 5.3%–6.3% | (10.1%) |
| Emerging markets sovereign: | 5.0%–6.0% | (9.8%) |
| U.S. TIPS: | 3.4%–4.4% | (5.1%) |
| U.S. cash: | 3.1%–4.1% | (1.4%) |
| U.S. inflation: | 1.9%–2.9% | (2.4%) |

Notes: These probabilistic return assumptions depend on current market conditions and, as such, may change over time. Source: Vanguard Investment Strategy Group.

IMPORTANT: The projections or other information generated by the Vanguard Capital Markets Model® regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for each modeled asset class. Simulations are as of November 8, 2024. Results from the model may vary with each use and over time. For more information, see the Notes section at the end of this article.

## Region-by-region outlook

### United States

The U.S. economy has achieved a favorable balance of strong GDP growth, low unemployment, and cooling inflation. We attribute this confluence to recent supply dynamics—labor force and productivity growth—that have shaped the economic landscape over the past two years.

We expect:

- Another cut to the Fed's target for short-term rates on December 18, 2024, putting its policy rate at 4.25%–4.50% for year-end. We anticipate the Fed will reduce its rate target further in 2025 to a range of 3.75%–4.00%. Cuts beyond that would prove difficult, as any weakening in growth would have to be weighed against a potential inflation revival.
- Full-year 2024 GDP growth of around 2.30%, with growth remaining above 2.00% in 2025.
- Inflation (core PCE) rising to 2.90% by year-end because of challenging comparisons with year-earlier data but falling to 2.50% by the end of 2025.
- The unemployment rate increasing marginally in 2025 to around the mid-4.00% range.

### United Kingdom

The U.K. economy recovered in 2024, but growth has been uninspiring, and productivity has been weak. We expect growth to accelerate above trend, driven by fiscal stimulus, in 2025.

We expect:

- Much of the spending in the autumn budget announced in October 2024 to be realized in 2025 and 2026, setting the stage for GDP growth of around 1.40% in 2025.
- Subdued progress on inflation, with core inflation falling to a 2.40% pace by the end of 2025. Services inflation remains elevated and is more stubborn, and fiscal easing would be expected to support demand.
- The Bank of England to leave its policy rate at 4.75% in December, followed by quarterly cuts next year that reduce it to 3.75% by year-end 2025.
- The unemployment rate to be 4.00%–4.50% at the end of 2024 and to finish 2025 toward the upper end of the same range.

### China

China's economy has regained some ground, buoyed by improved domestic demand on the strength of recent fiscal stimulus. The outlook for 2025 will hinge on the degree of policy support and potential U.S. tariff increases.

We expect:

- Full-year GDP growth to decelerate in 2025 to around 4.50%, which would be below the government's 5.00% target of recent years. Growth momentum should improve in the coming months, but structural and external headwinds will persist, including a prolonged housing downturn, deepening supply-demand imbalances, and global trade developments.
- The People's Bank of China to allow for some currency depreciation in 2025.
- Core inflation of around 1.50% in 2025, with only a modest inflationary thrust from currency depreciation in the face of higher tariffs.
- The unemployment rate to remain around 5.00% in 2025.

**Emerging markets**

In many emerging markets, proactive policymaking has led to significant progress in reducing inflation. Indeed, most central banks in these markets felt comfortable enough to start easing policy from restrictive levels ahead of their developed markets counterparts. In 2025, we expect the easing cycle across emerging markets to both continue and broaden, with rates remaining in restrictive territory.

The central bank in Brazil raised its policy Selic rate again in November to 11.25%, accelerating the pace of its rate increases amid renewed inflationary pressures. Year-over-year headline inflation jumped to 4.76% in October, above the upper end of a 1.50-percentage-point tolerance band around the bank's 3.00% inflation target.

The economy in Mexico surged in the third quarter, but restrictive interest rates and U.S.-related policy uncertainty make us bearish on Mexico, where we expect growth in a range of 1.25%–1.75% in 2025. The pace of core inflation, which excludes volatile food and energy prices, fell for the 21st straight month, to 3.80% year over year. We expect core inflation to fall to 3.25%–3.50% in 2025, above the midpoint of the 2.00%–4.00% target range set by the Bank of Mexico.

As always, we are appreciative and humbled by your trust and confidence.

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