Dimensional

PERSPECTIVES

Market Review 2024: Stocks Overcome Uncertainty to Notch Another Strong Year

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KEY TAKEAWAYS

- US stocks extended a bull market, with the S&P 500 gaining 25% in 2024—its second year in a row with gains of more than 20%.
- The Fed lowered interest rates, but the 10-year US Treasury yield moved in the opposite direction.
- Value stocks lagged growth stocks in the US and globally but fared better in non-US markets.

Financial markets showed resilience in 2024, extending the bull market that began in late 2022 as stocks weathered interest-rate changes, uncertainty around the US elections, and the ups and downs of the Magnificent 7 stocks.[1] The S&P 500 posted a gain of more than 20% for the second year in a row—the first time that has happened since 1998–99.[2] While there were some notable downturns through the year, they were followed by quick recoveries.

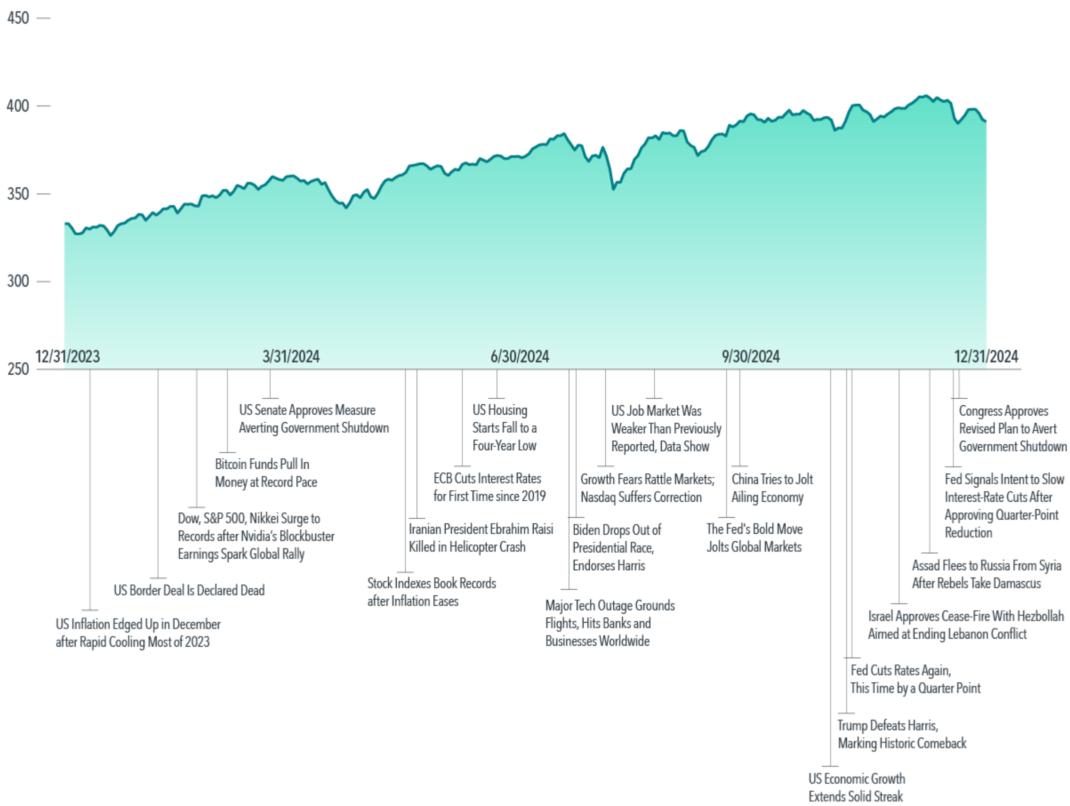
Advances in the US and other developed markets led to positive returns globally, as **Exhibit 1** shows, although emerging markets lagged developed markets. In the fall, the US Federal Reserve cut interest rates by a half point, which preceded two subsequent quarter-point cuts.[3] Overall, US bond prices rose for the year, but US Treasury prices were mixed; the benchmark 10-year fell, pushing its yield above 4.5%.[4]

Please see the end of this document for important disclosures.

Exhibit 1

Onward March

MSCI All Country World Index (net dividends), 2024



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In USD. MSCI All Country World Index, net dividends. MSCI data © MSCI 2025, all rights reserved. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Headlines are sourced from various publicly available news outlets and are provided for context, not to explain the market's behavior.

The Fed lowered the federal-funds rate to the 4.25%–4.5% range after three rate cuts totaling a full percentage point in September, November, and December.[5] The reductions, which were the first since the COVID-19 pandemic in March 2020, came amid easing inflation and conflicting readings on the job market.[6] Inflation remained near multiyear lows, with the November core consumer price index, which excludes more-volatile food and energy items, showing prices rose 3.3% from a year earlier.[7]

While investors may worry about the impact of interest rate changes, it's helpful to remember that the market and the Fed don't necessarily travel in lockstep. In months since 1983 when the Fed has cut or hiked rates, the 10-year Treasury yield has moved in the same direction as the federal-funds rate nearly two-thirds of the time—which means the 10-year moved in the opposite direction around a third of the time (see **Exhibit 2**). Nor have stocks seemed to take their direction from policymakers at the Federal Reserve. Over that same period, the average US stock market return was similar in months with target rate increases, decreases, and no change.[8] It's a reminder that the market is constantly incorporating new information into prices—including expectations for moves by the Fed.

Exhibit 2
Missed Connections
Movement of the federal-funds rate against the 10-year Treasury yield, January 31, 1983–December 31, 2024

The US elections concluded with Republicans winning the presidency as well as control of the Senate and House of Representatives. Election outcomes aside, history shows stocks have trended higher regardless of which party is in power in Washington. And while uncertainty about what comes next remains, investors wondering about the postelection world can remember that markets have moved forward even in difficult times like 2020. The message is that, whether you are optimistic or pessimistic about the future, there's reason for optimism about the market. Market prices continually reset to offer investors positive expected returns.

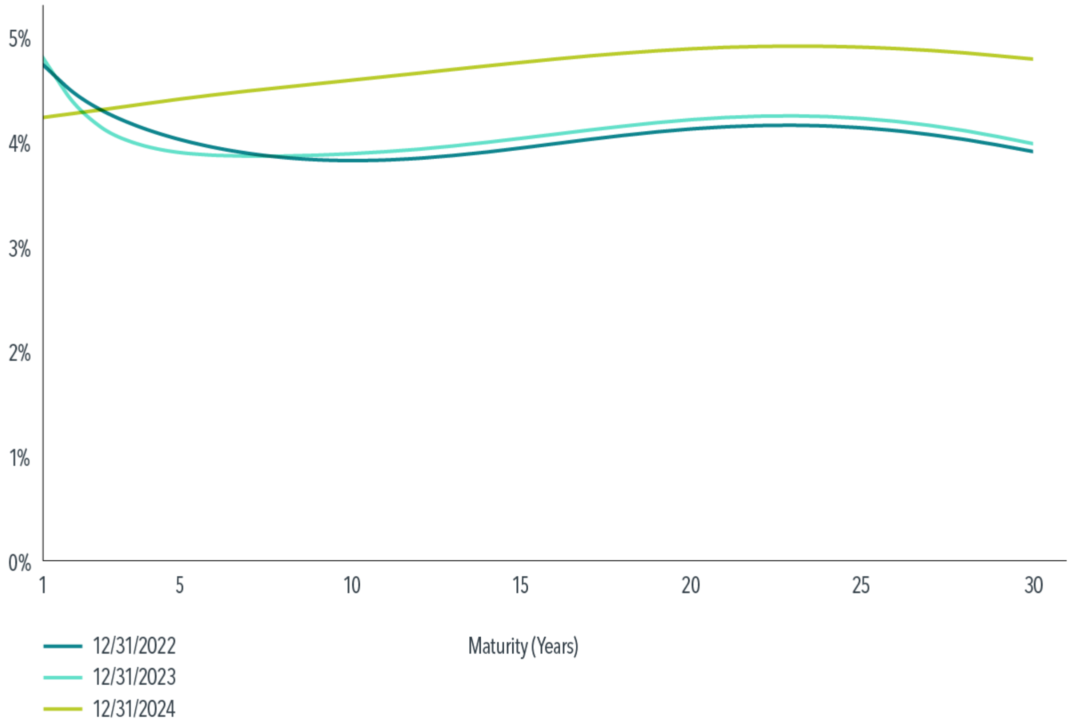
GAINS AROUND THE GLOBE

Amid this economic and political backdrop, US stocks posted strong returns, with the S&P 500 Index rising 25.0%. Technology companies, including NVIDIA and other artificial-intelligence-related stocks, led the market higher, despite some sell-offs late in the year; the tech-heavy Nasdaq gained 29.6%.[9] Helped largely by the US, global stock markets reached multiyear peaks in 2024.[10] Equities, as measured by the MSCI All Country World

Index, rose 17.5% even as geopolitical tensions remained high, with war continuing in Ukraine and unrest spreading in the Middle East, including the collapse of Syria's ruling regime in December.[11] Developed international stocks lagged the US, with the MSCI World ex USA Index adding just 4.7%. Emerging markets fared slightly better, with the MSCI Emerging Markets Index up 7.5%.[12]

The bond market was mixed, with US prices rising slightly overall, as measured by the Bloomberg US Aggregate Bond Index, which gained 1.3% in 2024. But the 10-year US Treasury declined for the year, sending its benchmark yield up to 4.58%.[13] As the 10-year yield rose above the two-year, the yield curve flattened, as shown in **Exhibit 3**—another reminder that prices reflect expected events and that yield curves are impacted by more than Fed activity. Global bonds rallied, with the Bloomberg Global Aggregate Bond Index—a broad benchmark of sovereign and corporate debt hedged to the US dollar—up 3.4% for the year.

Exhibit 3
Yielding
US Treasury Yield Curve: December 31, 2022; December 31, 2023; December 31, 2024



Past performance is not a guarantee of future results.

PREMIUM PERFORMANCE

Despite making up some ground in the second half of the year, value stocks and small caps lagged their growth and large cap counterparts in 2024. The MSCI All Country World Value Index rose 10.8% versus a 24.2% increase for the MSCI All Country World

Growth Index. Without help from the US tech sector, the MSCI All Country World ex USA Growth Index only rose 5.1%, lagging the 6.0% increase for the MSCI All Country World ex USA Value Index. Meanwhile, the MSCI All Country World Small Cap Index returned 7.7% versus 17.5% for the larger-cap MSCI All Country World Index.[12]

But different premiums can go in different directions. For example, stocks of companies with high profitability outperformed the stocks of companies with low profitability. This held true in both developed and emerging markets in 2024. The Fama/French Developed High Profitability Index rose 22.9% versus 17.1% for its low profitability counterpart. The Fama/French Emerging Markets High Profitability Index gained 10.0%, while its low profitability counterpart fell 1.2%.[14]

Just as premiums don't always move in tandem, they also don't always show up across different markets at the same time. While small caps have underperformed large caps in the US over the past two decades, they have beaten them in developed non-US markets and emerging markets. The success of the size and value premiums in international markets is a reminder of the benefits of diversifying—both globally and among the premiums investors pursue—to increase the reliability of capturing them.

EYES ON THE NEW YEAR

As investors look ahead, and as new leaders get to work in many countries around the world, it's natural to wonder what impact their policies on taxes, spending, and trade may have on markets. And those are just some questions about 2025 that we know about. That's why investors may be best served planning for what could happen rather than trying to predict what will—by having a diversified portfolio that aligns with one's risk tolerance, and sticking with it. After all, the market is a reflection of the efforts of companies to solve problems and provide goods and services. In the long run, innovation has succeeded even amid a changing world.

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Dimensional's Takes on Industry Topics in 2024

Reality Check: Capital Market Assumptions vs. Actual Returns

Passive, Active, and Embracing Markets

1. Joe Light, "The Bull Market Has Lasted 2 Years. Is It Just Getting Started?" *Barron's*, October 12, 2024. The Magnificent 7 stocks include Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla. Named securities may be held in accounts managed by Dimensional.
2. S&P data © 2025 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio; "Matrix Book 2024: Historical Returns Data," Dimensional Fund Advisors, May 2024.
3. Nick Timiraos, "Fed Signals Plan to Slow Rate Cuts, Sending Stocks Lower," *The Wall Street Journal*, December 18, 2024.
4. Returns based on the Bloomberg US Aggregate Bond Index and the Bloomberg US Treasury Bond Index. Bloomberg data provided by Bloomberg Finance LP. Source for US Treasuries: US Department of the Treasury. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.
5. The federal-funds rate is the overnight interest rate at which one depository institution (like a bank) lends to another institution some of its funds that are held at the Federal Reserve.
6. Christopher Rugaber, "Federal Reserve Signals End to Inflation Fight with a Sizable Half-Point Rate Cut," Associated Press, September 18, 2024.
7. Inflation data as defined by the consumer price index (CPI) from the US Bureau of Labor Statistics; the core CPI is an aggregate of prices paid by urban consumers for a typical basket of goods, excluding food and energy; Megan Leonhardt, "Core Inflation Remains Steady in November," *Barron's*, December 11, 2024.
8. From January 1983 to December 2024, the average monthly return for US stocks, as measured by the Fama/French Total US Market Research Index, was 0.89% when there was a target rate increase, 1.21% when there was a target rate decrease, and 1.02% when there was no target rate change.
9. Felix Richter, "AI-Powered Tech Boom Fuels 2024 Stock Market Rally," Statista, January 2, 2025.
10. Naomi Rovnick, Dhara Ranasinghe, and Rodrigo Campos, "Markets in 2024: Wall Street's High-Octane Rally Keeps Investors Captive to the US," Reuters, December 31, 2024.
11. MSCI data © MSCI 2025, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.
12. MSCI data © MSCI 2025, all rights reserved.
13. "Daily Treasury Par Yield Curve Rates," US Department of the Treasury.
14. **Past performance is no guarantee of future results. Actual returns may be lower.** The Dimensional and Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. See "Index Descriptions" in the Appendix for descriptions of the Dimensional and Fama/French index data.

APPENDIX

Index Descriptions

Fama/French Developed High Profitability Index: Provided by Fama/French from Bloomberg data. Includes stocks in the upper 30% operating profitability (OP) range in each region; companies weighted by float-adjusted market cap. Rebalanced annually in June. OP for June of year t is annual revenues minus cost of goods sold; interest expense; and selling, general, and administrative expenses, divided by book equity for the last fiscal year-end in $t - 1$.

Fama/French Emerging Markets High Profitability Index: July 1991–present: Fama/French Emerging Markets High Profitability Index. Courtesy of Fama/French from Bloomberg and IFC securities data. Includes stocks in the upper 30% operating profitability range in each country; companies weighted by float-adjusted market cap; rebalanced annually in June. OP for June of year t is annual revenues minus cost of goods sold; interest expense; and selling, general, and administrative expenses, divided by book equity for the last fiscal year-end in $t - 1$.

Fama/French Total US Market Research Index: July 1926–present: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: Ken French Website.

Results shown during periods prior to each index's inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

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