Investment Narrative

Quarter Ending December 31, 2024

The most notable event of the fourth quarter was the U.S. election, which was followed closely by U.S. citizens and global market participants alike. On the news of the newly elected administration, domestic equity markets saw a short-term rally in November. Markets perceived the news as positive for potential easier business conditions, firmer economic growth, fewer interest rate cuts, and mildly higher inflation. Along with the rally in equity markets came increased volatility for some of the same reasons. The Federal Reserve cut interest rates further by 0.25% in November and December. Small and medium-sized businesses are the most sensitive to inflation and higher interest rates, as shown in the increased volatility within the small cap equity markets.

Over the fourth quarter, inflation rose slightly but showed signs of stabilization. GDP growth slowed from Q3 to Q4 but remained fairly strong at 2.3%, supported by a resilient consumer and a pickup in government spending. This economic backdrop along with the uncertainty of President Trump's policies pushed bond yields higher, which created a headwind for bond price returns over the quarter. Even with bouts of volatility, domestic markets delivered positive returns for 2024. The broad U.S. stock market, tracked by the S&P 500 index, had a 2.4% return for the quarter and a 25% return for the calendar year. The U.S. Small Cap index, tracked by the Russell 2000, had a 0.3% return for the quarter and an 11.5% return for the calendar year. The U.S. bond market, represented by the Bloomberg U.S. Aggregate Bond Index, posted a -3.1% return for the quarter but had a 1.3% return for 2024.

Outside of the U.S. other countries continued their path of recovery. While the world battled global inflation, many countries, such as those in the Eurozone, moved quickly to an aggressive tightening monetary policy. While the United States economy stayed relatively robust during that period, other countries underwent a more significant economic slowdown. Since then, the quarter-over-quarter data suggests that the worst of times may be in the past for many of these countries. This created an interesting opportunity for investors as international valuations appeared cheaper relative to U.S. valuations over the course of the year. However, the persistent dominance of U.S. technology stocks made the proposition difficult to act on as investors did not want to miss out on the continued strength of U.S. technology stocks. Additionally, President Trump's proposed policies could translate into stickier inflation and therefore elevated interest rates for longer; the possibility of these kept the dollar strong, ultimately hurting international stocks over the quarter and resulting in underperformance for 2024. International developed equities, represented by the MSCI EAFE Index, were down 8.1% for the quarter and ended the year with a 3.8% return. Emerging market equities, represented by the MSCI Emerging Markets Index, were down 8.0% for the quarter and ended the year with a 7.5% return.

Endowment Portfolio

The Endowment Portfolio delivered a -0.1% net return for the quarter, outperforming its benchmark by 0.3%. While its large allocation to domestic large cap equities was additive to performance, ex-U.S. equities were a material drag on performance. Allocations within the alternative asset classes had flat to slightly positive contributions to performance as transaction volumes, mainly within private equity, remained depressed on a relative basis. The portfolio had a 10.3% net return for the calendar year, outpacing its benchmark by 0.4%. Calendar year outperformance was driven by the same themes as seen during the fourth quarter.

Long-Term Portfolio

The Long-Term Portfolio had a -1.5% return for the quarter and a 10.8% return for the calendar year. The portfolio performed in line with its benchmark over both periods. Similar to the Endowment, the main driver of performance was the allocation to domestic large cap equities whereas international equities created a drag on performance and the remaining asset classes (fixed income, real assets, hedge funds) had an overall net neutral effect on performance.

Medium-Term Portfolio

The Medium-Term Portfolio delivered a -2.0% net return for the quarter against the benchmark's -1.8%. Given the portfolio's concentrated allocation to fixed income, it was more sensitive to the rally in yields during the quarter, which served as a headwind for bond prices. Like the Endowment and Long-Term portfolios, non-U.S. equities were a leading cause in the underperformance over the quarter. For the calendar year, the portfolio performed in line with its benchmark.

Intermediate-Term Portfolio

The Intermediate-Term Portfolio had a -2.1% net return for the quarter, underperforming its benchmark by 0.4%. The portfolio's 60% allocation to core bonds, which tend to have moderate duration, was most affected by the rising yields in the fourth quarter. The 40% allocation to low duration bonds had a net neutral effect on Q4 performance. For the calendar year, the portfolio ended with a 3.2% net return, outpacing the benchmark by 0.3%.

Short-Term Portfolio

The Short-Term Portfolio had a 1.2% net return for the quarter and a 5.1% net return for the calendar year. Both periods are in line with the benchmark. Movements in interest rates have less of an effect on the portfolio as it consists entirely of short-dated bonds.

Sustainable Endowment and Non-Endowment Portfolios

The Sustainable Portfolios (Endowment and Non-Endowment) were down 1.8% for the quarter but finished the full year with a 12.3% net return. The portfolios were in line with their benchmark for the quarter but underperformed over the calendar year by 2.5%. The calendar year return is partially influenced by the underperformance of a former equity manager that was replaced during 2024. Going forward, we expect performance to follow the trend of the Q4 results and stay in line with the benchmark.