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30 January 2025

James Smigiel
Chief Investment Officer

Dear Client,

Global equity markets delivered impressive returns again in 2024, with the U.S. far outpacing other global developed markets thanks to another banner year for the Magnificent 7 mega-cap tech stocks. Fixed-income returns struggled, with rising longer-term yields fostered by stubborn inflation and swelling government debt.

In our letter last January, we expressed our view that investors were overly optimistic on their expectations for equity markets as well as on the view that the annual inflation rate would drop to 2% or less. We were pleasantly surprised by equities and completely unsurprised by the stubborn inflation.

2024 Performance

Full-year equity performance was dominated by U.S. large caps—specifically the artificial-intelligence-focused Magnificent 7. Our portfolios were generally underweight these mega-cap stocks on valuation concerns. Smaller companies notably trailed larger ones, but still posted impressive calendar-year gains. Our portfolios generally outperformed in this space due to strong stock selection.

Outside of North America, equities provided solid full-year returns. We had mixed results, with outperformance in developed non-U.S. markets courtesy of overweights to value and momentum, but underperformance in emerging equities due to underweights to China and India.

Core fixed-income portfolios lost ground in the fourth quarter in dramatic fashion as longer-term interest rates rose on speculation that a second Trump term could lead to sustained economic growth and higher inflation. As a result, investment-grade bonds ended the year with only modest gains. High-yield bonds benefited from generally risk-on market sentiment. Short-term portfolios performed well—despite the aforementioned central bank cuts—as interest rates have remained well above the lows of the global financial crisis of the late 2000s.

Our tactical positioning struggled throughout the year before paying off in the fourth quarter. Thematic positions anticipating more persistent inflation and diverging central bank policies significantly outperformed.

Overall, performance was strong in 2024, and the long-term performance of our diversified portfolios remains attractive.

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Global asset class performance in 2024		Total return (%)		
Asset class	Representative index	USD	GBP	EUR
Developed-market equities	MSCI World (Net)	18.67	20.79	26.60
Global fixed income	Bloomberg Barclays Global Aggregate	-1.69	0.07	4.88
U.K. equities	FTSE All Share	7.53	9.46	14.71
U.K. gilts	ICE BofA U.K. Gilts All Stocks	-5.13	-3.44	1.20
U.K. credit	ICE BofA Sterling Non-Gilt	-0.04	1.74	6.63
European equities	MSCI Europe (Net)	1.79	3.61	8.59
European fixed income	Bloomberg Barclays Euro Aggregate Bond	-3.79	-2.07	2.63
Emerging-market equities	MSCI Emerging Markets (Net)	7.50	9.43	14.68
EMD (external currency)	JPMorgan EMBI Global Diversified	6.54	8.44	13.65
EMD (local currency)	JPMorgan GBI-EM Global Diversified	-2.38	-0.64	4.14
U.S. large companies	Russell 1000	24.51	26.74	32.83
U.S. small companies	Russell 2000	11.54	13.53	18.99
U.S. high-yield debt	ICE BofAML U.S. High Yield Constrained	8.20	10.14	15.43
Commodities	Bloomberg Commodity Total Return	5.34	7.22	12.44
U.S. fixed income	Bloomberg Barclays U.S. Aggregate	1.25	0.80	8.01

One-year net total returns through 31 December 2024. Source: SEI Data Portal; returns based on index provider data (respectively, MSCI, Bloomberg, FTSE, ICE BofA, JPMorgan, and Russell). EMD denotes emerging-market debt. Past performance is not a reliable indicator of future results.

Our view

This year, we find ourselves in a somewhat uncomfortable position of being *in consensus* with market expectations...at least in part. After two consecutive years of strong equity returns, most market strategists are predicting more of the same in 2025. While we do find ourselves broadly positive on risk assets (both equities and credit), we are keenly aware of the potential challenges.

We believe that the relatively robust state of the global economy, particularly in the U.S., combined with continued monetary stimulus measures from central banks around the world, create favorable conditions for investors. However, we see too many potential outcomes that lead to a reacceleration in inflation and higher long-term interest rates.

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Guide for '25

The bond market seems to share our concerns, as long-term U.S. yields have *risen* since the Federal Reserve pivoted to lower interest rates in mid-September 2024. The yield on the 10-year U.S. Treasury is *our guide for 2025*. We will become concerned about equity markets once the yield reaches 5%, as tighter financial conditions may begin to weigh on economic growth prospects.

Within equities, we continue to expect a broadening of participation in the rally. Not surprisingly, we maintain our strategic recommendations for investors to stay diversified globally and focus on profitable companies with strong earnings momentum trading at reasonable prices.

Within fixed-income markets, tariffs and immigration reforms under the Trump administration may add additional fuel to the inflation fire early in the year. Therefore, given our outlook for higher long-term interest rates, we see headwinds ahead.

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Our focus

In the New Year, we will continue to refine our approach to the marketplace to showcase all that SEI has to offer from technology to asset management. We will also continue to enhance our investment offerings, seeking to keep pace with changing preferences. At the same time, we will maintain our focus on providing diversified investments to help investors realize a positive client experience while pursuing their financial goals. Thank you for your continued support and we wish you a happy and prosperous 2025.

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Sincerely,

James Smigiel
Chief Investment Officer

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