Back-to-Back Years of Big Gains, What's Next?

Although 2024 didn't close with a rally, it was still a strong year for the stock market overall. It's natural to feel cautious after a year of impressive gains—especially after back-to-back years of over 20% returns in the S&P 500. Shouldn't we expect a slowdown? Interestingly, the data suggests otherwise. The chart below highlights years in which the S&P 500 delivered returns of 20% or more, along with the performance in the following year. It also illustrates the rare instances of consecutive 20%+ gains in the market.

S&P 500 Index Returns			
Year	Return	Next Year	Back-To-Back 20% Years
1950	21.7%	16.3%	X
1954	45.0%	26.4% (1955)	2.6% (1956)
1955	26.4%	2.6%	X
1958	38.1%	8.5%	X
1961	23.1%	-11.8%	X
1967	20.1%	7.7%	X
1975	31.5%	19.1%	X
1980	25.8%	-9.7%	X
1985	26.3%	14.6%	X
1989	27.3%	-6.6%	X
1991	26.3%	4.5%	X
1995	34.1%	20.3% (1996)	31.0% (1997)
1996	20.3%	31.0% (1997)	26.7% (1998)
1997	31.0%	26.7% (1998)	19.5% (1999)
1998	26.7%	19.5%	X
2003	26.4%	9.0%	X
2009	23.5%	12.8%	X
2013	29.6%	11.4%	X
2019	28.9%	16.3%	X
2021	26.9%	-19.4%	X
2023	24.2%	23.3% (2024)	? (2025)
2024	23.3%	? (2025)	? (2026)
	Average	10.6%	20.0%
	Median	12.8%	23.1%
	% Higher	81.0%	100.0%
	Count	21	4
1950 - 2024			
	Average	9.5%	
	Median	12.3%	
	% Higher	72.0%	

Source: Carson Investment Research, FactSet 01/05/2025 (1950 - Current)
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(Source: Carson Insights)

Over the 21 instances where the market gained more than 20%, the following year was positive 81% of the time, with an average return of 10.6%. From 1950 to 2024, the market has been positive 72% of the time, averaging a 9.5% gain. Notably, although the sample size is small, there have been four occurrences of consecutive 20%+ years since 1950, and in all four cases, the following year delivered positive returns, averaging an impressive 20%.

Post Election Year Seasonality

As we begin the first year of the post-election cycle, we took a look back at how markets have historically performed during post-election years. The chart below breaks down market performance across all four years of a presidential term, categorized by all presidents, Democratic presidents, and Republican presidents.

Stock Market Performance...

Alll Presidents	Post-Election Year	Mid-Term Year	Pre-Election Year	Election Year
Average	5.7%	2.2%	12.1%	7.4%
Median	5.0%	-0.2%	13.1%	8.4%
Win Ratio	55%	50%	71%	68%
Democratic Presidents				
Average	8.0%	2.0%	18.1%	6.1%
Median	10.5%	1.1%	18.9%	9.5%
Win Ratio	65%	53%	71%	59%
Republican Presidents				
Average	3.9%	2.5%	7.2%	8.5%
Median	-4.4%	-0.4%	8.6%	7.7%
Win Ratio	48%	48%	71%	76%

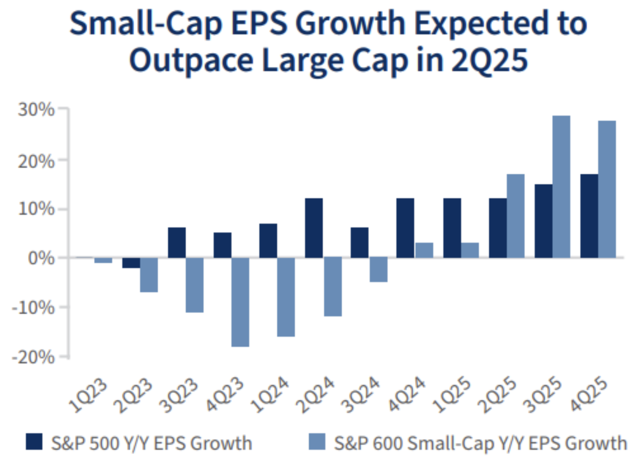
(Source: Fundstrat)

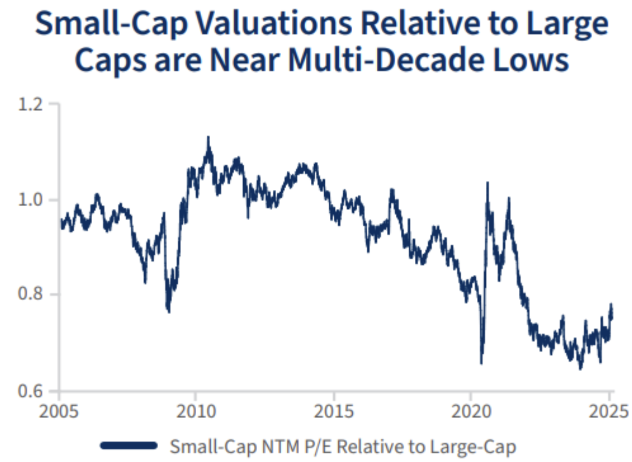
Although the chart and outlook for 2025 may not immediately inspire optimism, it's worth noting that 9 of the last 10 election cycles delivered positive returns in the first year. The sole exception was in 2001, amid the aftermath of the dot-com bubble and the 9/11 attacks.

Large Caps lead in 2024, More to come in 2025?

In the second half of 2024, we saw some market broadening, particularly in small-cap stocks. While their overall performance trailed that of large caps, this was an encouraging development for diversified investors.

The outlook for small-cap stocks remains compelling, as shown in the charts below. Valuations for small caps relative to large caps are near multi-decade lows, just as small-cap earnings-per-share (EPS) growth is set to outpace that of large caps. This dynamic creates a favorable setup, especially as forward earnings estimates begin to bottom out.





(Source: FactSet 12/10/2024)

Interest rates are a key factor for small-cap stocks. Unlike many large-cap companies, which secured fixed-rate debt during the pandemic lows, small caps have a greater exposure to floating rates. If rate cuts resume and the trend shifts downward, it could provide a boost for small-cap stocks in 2025. On the other hand, if inflation proves stubborn and economic data remains strong, the Fed seems inclined to keep rates elevated, with only modest cuts on the horizon.

Articles We're Reading

US 30Y mortgage rate hits six month high (Axios)

German shares expected to see 10% earnings growth in 2025, highest among European peers (Bloomberg)

Economists warn ECB has been too slow to cut rates (FT)

First week of trading of the year ends on cautious tone but not panic (Bloomberg)

Market Snapshot

For the Month Ending 12/31/2024 (Cumulative Returns)[1]

United States Markets	1-Month	3-Month	YTD	1-Year
Dow Jones Industrial Average	-5.27%	51.00%	12.88%	12.88%
S&P 500	-2.50%	2.07%	23.31%	23.31%
The NASDAQ Composite	0.48%	6.17%	28.64%	28.64%
U.S. Mid Cap	-6.90%	0.23%	13.34%	13.34%
U.S. Small Cap	-7.87%	-0.04%	9.22%	9.22%

Global Markets	1-Month	3-Month	YTD	1-Year
Nikkei 225	4.41%	5.21%	19.22%	19.22%
Hang Seng	-4.40%	7.97%	13.94%	13.97%
Shanghai Comp	3.28%	-5.08%	17.67%	17.67%
FTSE 100	-1.38%	-0.78%	5.69%	5.69%
DAX	2.88%	3.81%	17.16%	21.04%

Fixed Income	1-Month	3-Month	YTD	1-Year
Corporate Bonds	-2.67%	-4.08%	0.86%	0.86%
Municipal Bonds	-1.34%	-0.92%	1.26%	1.26%
High Yield Bonds	-0.77%	-0.11%	7.97%	7.97%

Market Indicators	Rate	Market Indicators	Value
10 Year Treasury	4.58%	WTI Crude Oil	71.72
Fed Funds Target	4.25-4.50%	Gold - Spot Price	2,641.00
Inflation Rate	2.70%	U.S. Dollar	108.49
Unemployment Rate	4.2%	CBOE Volatility Index	17.35

[1]Source – Morningstar, Inc. Corporate Bonds is presented as the iShares iBoxx $ Investment Grade Corporate Bond ETF. Municipal Bonds is presented as the iShares National Municipal Bond ETF. High Yield Bonds is presented as the iShares iBoxx $ High Yield Corporate Bond ETF. 10 Year Treasury refers to the valuation of a 10 Year Treasury Note, a debt obligation issued by the U.S. Department of the Treasury. Fed Funds Target represents upper limit of the federal funds target range established by the Federal Open Market Committee. Inflation Rate provided for the purposes of this report by the U.S. Bureau of Labor Statistics. Unemployment Rate calculated by the U.S. Bureau of Labor Statistics. WTI Crude Oil refers to the price of a barrel of West Texas Intermediate NYMEX) Crude Oil. Gold – Spot Price relates to the valuation of an ounce of gold, as traded on the NYSE Arca Exchange. U.S. Dollar refers to the U.S. Dollar Index (DXY). All Returns are denominated in USD (United States Dollar), unless otherwise explicitly noted.

Did You Know?

Investor euphoria and panic are often measured using market sentiment indicators, such as the Fear & Greed Index and the Volatility Index (VIX). These tools capture the emotions driving market behavior by analyzing factors like stock price momentum, trading volumes, and options activity. For instance, the VIX, often called the "fear gauge," measures expected market volatility, reflecting investor anxiety or confidence. High VIX levels typically indicate fear, while low levels suggest calm or euphoria.

The concept of measuring market sentiment dates back to the early 20th century, when Charles Dow, co-founder of the Dow Jones Industrial Average, introduced the idea that investor psychology plays a critical role in market movements. Over time, this evolved into a field of behavioral finance, which studies how emotions influence investment decisions. Tools like the Fear & Greed Index have since been developed to quantify these emotions, helping investors navigate the ups and downs of the market with greater insight.

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