

December 2024

# **Student** **of the Market**

**BlackRock**

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December 2024

## Stocks

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**Stocks and bonds  
bounce back**



**Inflows into stock  
funds in 2024**



**Small cap comeback**



**S&P Envy**



**Historic stock and  
bond correlations**



**Stock funds and  
capital gain  
distributions**



## Bonds and Alternatives

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**Real yields on bonds  
are back**



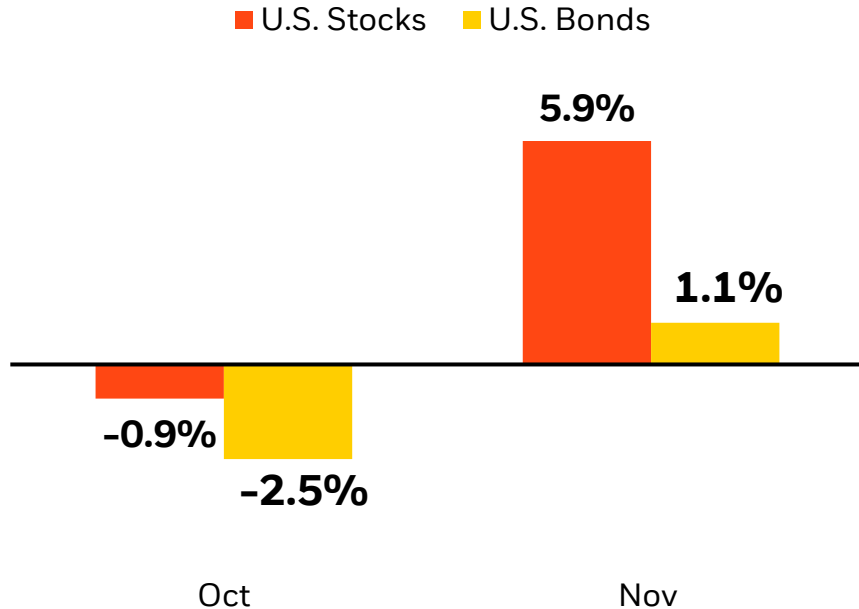
**Alternatives funds  
have improved**



# Stocks and bonds bounce back in November, with stocks seeing their best month of 2024

## Stocks and bonds bounce back in November

Monthly returns, 10/1/2024 – 11/30/2024



## November was the best month for stocks since November of last year

Monthly returns, 11/1/2023 – 11/30/2024

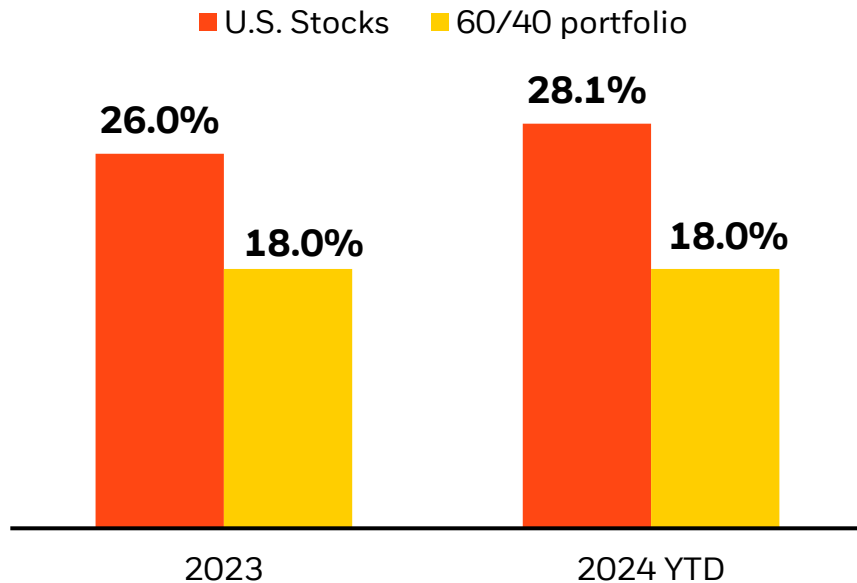
Month	Stocks	Bonds
Nov-24	5.9	1.1
Oct-24	-0.9	-2.5
Sep-24	2.1	1.3
Aug-24	2.4	1.4
Jul-24	1.2	2.3
Jun-24	3.6	0.9
May-24	5.0	1.7
Apr-24	-4.1	-2.5
Mar-24	3.2	0.9
Feb-24	5.3	-1.4
Jan-24	1.7	-0.3
Dec-23	4.5	3.8
Nov-23	9.1	4.5

Morningstar as of 11/30/24. U.S. stocks are represented by the S&P 500 TR Index, U.S. bonds represented by the Bloomberg U.S. Agg Bond TR Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Investors are likely feeling S&P envy again in 2024

**The balanced portfolio had another good year, but trailed U.S. stocks by a large margin**

1/1/2024 – 11/30/2024



**What would the next bear market need to look like for a 60/40 portfolio to catch up to the S&P 500?**

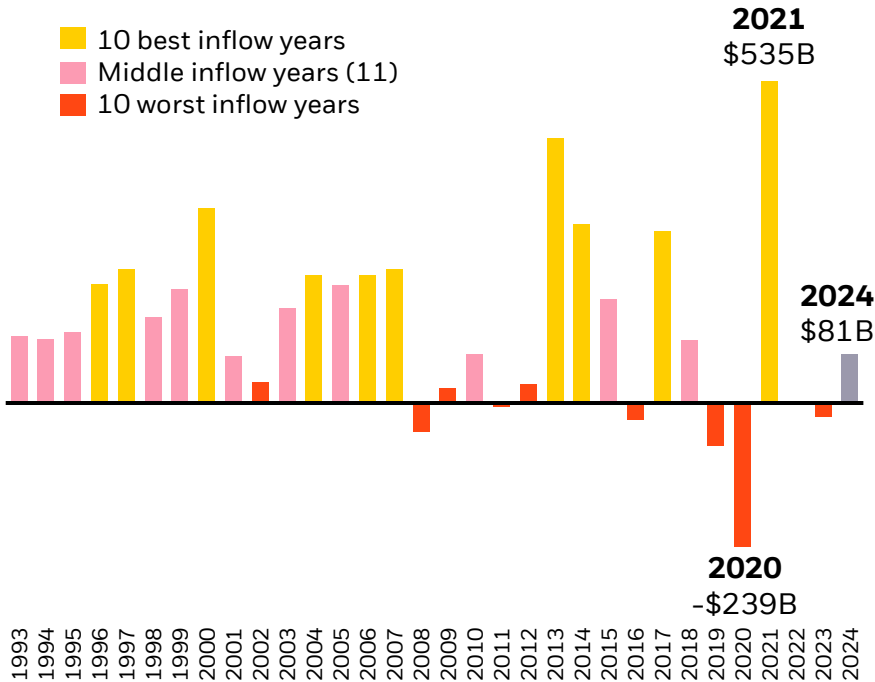
	S&P 500 (growth of \$100k)	60/40 portfolio (growth of \$100k)	Capture ratio
<b>Bull market return</b> (10/12/22-11/30/24)	<b>+74.3%</b> (\$174,300)	<b>+46.9%</b> (\$146,900)	<b>63%</b>
<b>Potential bear market return</b> (hypothetical)	<b>-34%</b> (-\$59,262)	<b>-21.4%</b> (-\$31,437)	<b>63%</b>
<b>Potential overall bull and bear market return</b>	<b>+15%</b> (\$115,038)	<b>+15.5%</b> (\$115,463)	<b>100.4%</b>

Morningstar as of 11/30/24. U.S. stocks are represented by the S&P 500 TR Index, U.S. bonds represented by the Bloomberg U.S. Agg Bond TR Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Modest inflows in stock funds YTD 2024 bodes well for stock returns in 2025

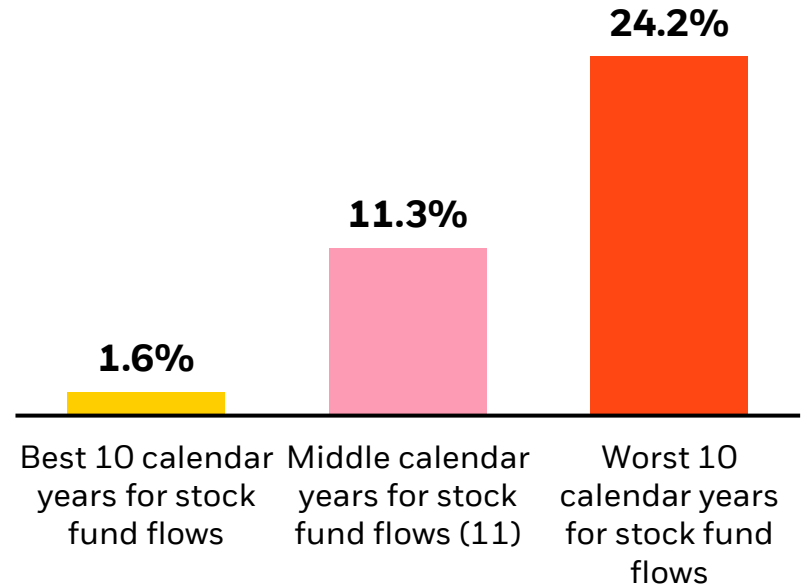
## Stock mutual fund and ETF flows by year

1/1/1993 - 10/31/2024



## U.S. stock performance following different inflow years for stock mutual funds and ETFs

1/1/1993 - 10/31/2024

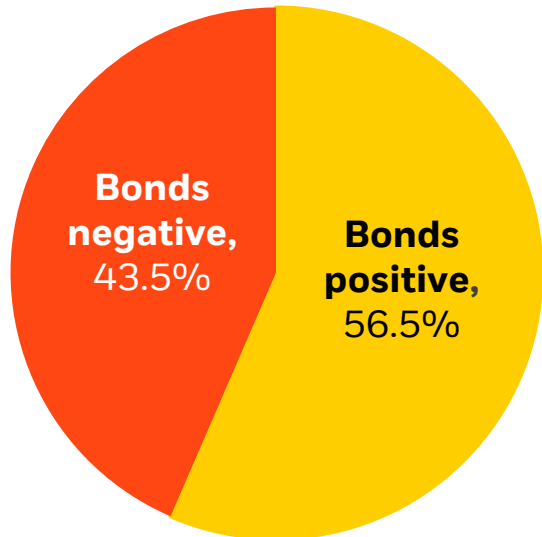


Source: Morningstar as of 11/30/24. Stock mutual funds and ETFs are represented by Morningstar Broad Equity Category. Stock market represented by the S&P 500 Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# High stock and bond correlations are more historic than most realize

**Stocks have lost money 32% (379 out of 1187) of calendar months since 1926. How have bonds performed in those months?**

Monthly returns, 1/1/1926 – 11/30/2024



**When stocks have lost money in recent periods, bonds have lost money as well**

Past 3 years, 11/1/2021 – 11/30/2024

Month	Stocks	Bonds
Nov-21	-0.69	0.30
Jan-22	-5.17	-2.15
Feb-22	-2.99	-1.12
Apr-22	-8.72	-3.79
Jun-22	-8.25	-1.57
Aug-22	-4.08	-2.83
Sep-22	-9.21	-4.32
Dec-22	-5.76	-0.45
Feb-23	-2.44	-2.59
Aug-23	-1.59	-0.64
Sep-23	-4.77	-2.54
Oct-23	-2.10	-1.58
Apr-24	-4.08	-2.53
Oct-24	-0.91	-2.48

The last 13 months in which stocks have lost money, bonds have lost as well.

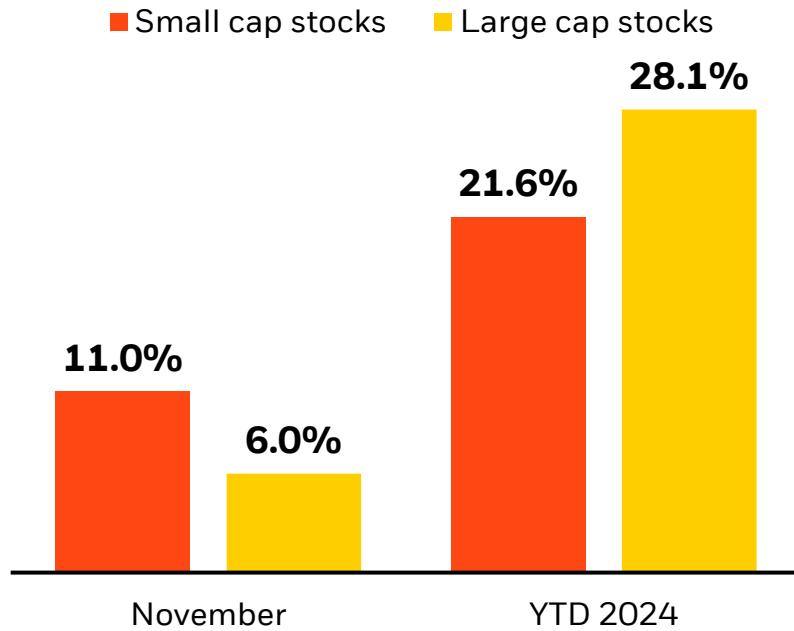
This is the longest streak in history (since 1926); the previous high was 6 months in a row (1994)

Morningstar as of 11/30/24. U.S. stocks are represented by the S&P 500 TR Index from 3/4/57 to 11/30/24 and the IASBBI U.S. Lrg Stock TR USD Index from 1/1/26 to 3/4/57, U.S. bonds represented by the IASBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 11/30/24. **Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only.** You cannot invest directly in the index.

# Small caps bounced in November, but we have seen this before

## Small caps rallied in November

1/1/2024 – 11/30/2024



## November 2024 was only the 19<sup>th</sup> best month for small caps since 1979

1/1/1979 – 11/30/2024

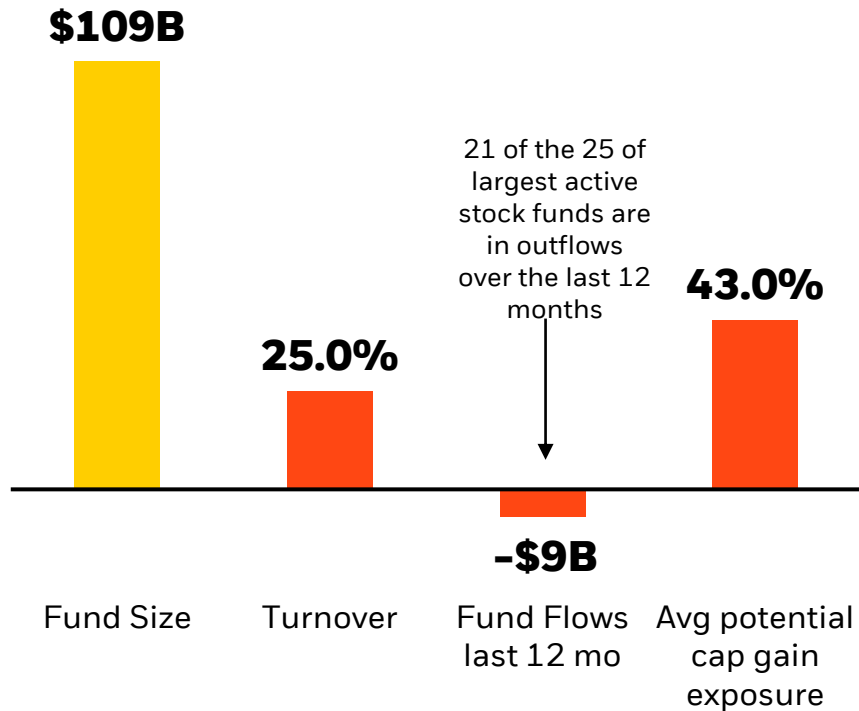
Month	Best 20 months for small cap performance		1 year performance following	
	S&P 500	Small Caps	S&P 500	Small Caps
Nov-20	10.9	18.4	-14.6	-18.5
Feb-00	-1.9	16.5	-16.1	-3.6
Apr-09	9.6	15.5	15.6	25.8
Oct-11	10.9	15.1	19.3	30.1
Oct-82	11.5	14.4	4.7	-8.2
Apr-20	12.8	13.7	15.6	-5.8
Jan-85	7.8	13.2	18.7	5.7
Sep-10	8.9	12.5	18.0	13.4
Dec-23	4.5	12.2	?	?
Aug-84	11.0	11.8	28.4	17.3
Jan-87	13.5	11.6	16.6	25.0
Dec-99	5.9	11.3	-12.2	4.8
Jan-19	8.0	11.2	18.4	20.0
Jul-80	7.0	11.2	-11.5	-18.8
Feb-91	7.2	11.2	10.6	13.2
Nov-16	3.7	11.2	7.3	1.9
May-97	6.1	11.1	21.8	-9.3
Oct-22	8.1	11.0	36.4	26.8
Nov-24	5.9	11.0	?	?
May-03	5.3	10.7	6.3	4.7
<b>Avg</b>	<b>7.8</b>	<b>12.7</b>	<b>10.2</b>	<b>6.9</b>

Source: Morningstar as of 11/30/24. Small cap stocks represented by the Russell 2000 TR Index, Large cap stocks are represented by the S&P 500 TR Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Largest equity mutual funds have potential capital gain distribution challenges

## Average of the top 25 largest stock mutual funds

Top 25 largest active mutual funds, as of 11/30/2024



## Why Gains + Turnover + Outflows Set Up Capital Gains Distributions

- 1 Unrealized gains:** Large stock market gains create large amounts of unrealized gains embedded in mutual funds (almost half the funds today, 43%).
- 2 Selling stocks to meet redemptions or reposition portfolio:** A Mutual Fund that has outflows has to sell stocks in order to meet redemptions, often triggering capital gains distributions.
- 3 Remaining shareowners bear the burden:** A mutual fund shrinking due to redemptions also amplifies the tax consequence for remaining shareowners.

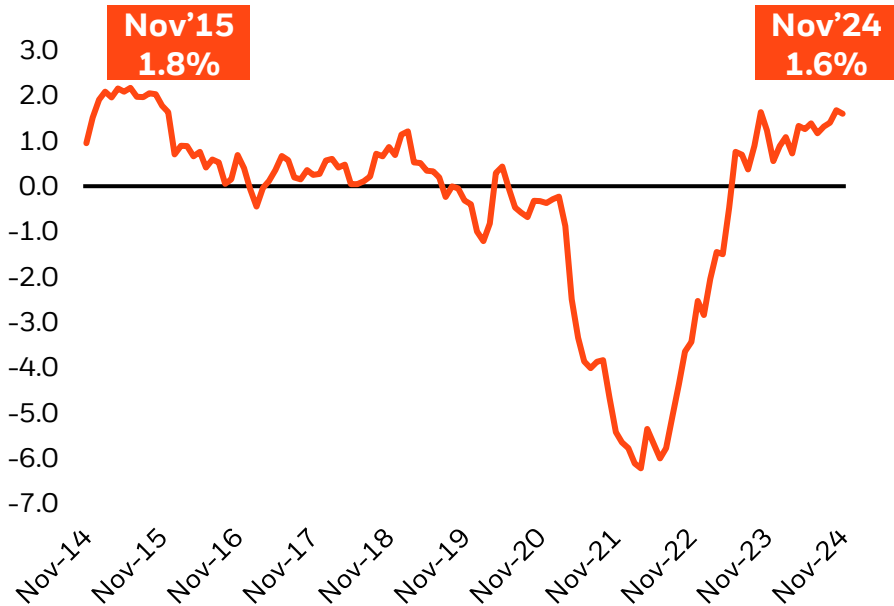
Source: Morningstar as of 11/30/24. Equity mutual funds are represented by the Morningstar Broad Equity category, oldest share class only. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You can not invest directly in the index.



# Real yield (inflation-adjusted) for bonds is back and at the highest level since 2015

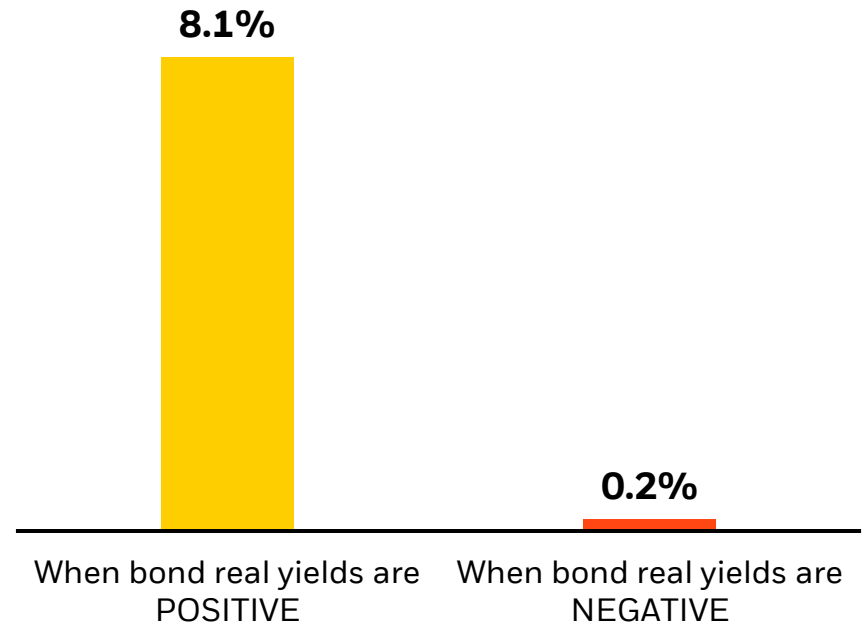
## Real yields for the 10-year U.S. Treasury bond

10-year Treasury minus inflation rates, 11/1/14 - 10/31/24



## Bonds have historically performed significantly better when real yields are positive

Average annual returns over following 12 months, since 1976

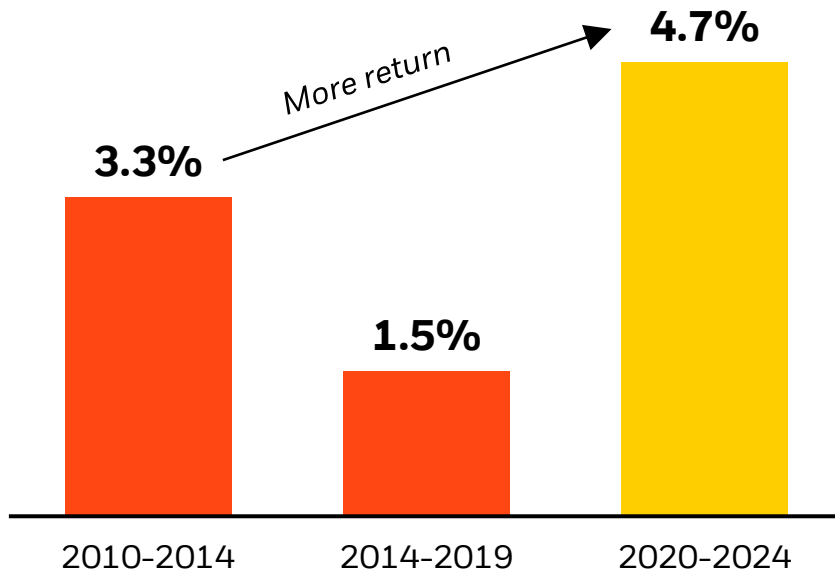


Source: Morningstar and the St Louis Federal Reserve as of 11/30/24. U.S. bonds represented by the Bloomberg U.S. Agg Bond TR Index. Inflation represented by the annual consumer price index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Alternative mutual funds generating more return and better diversification today

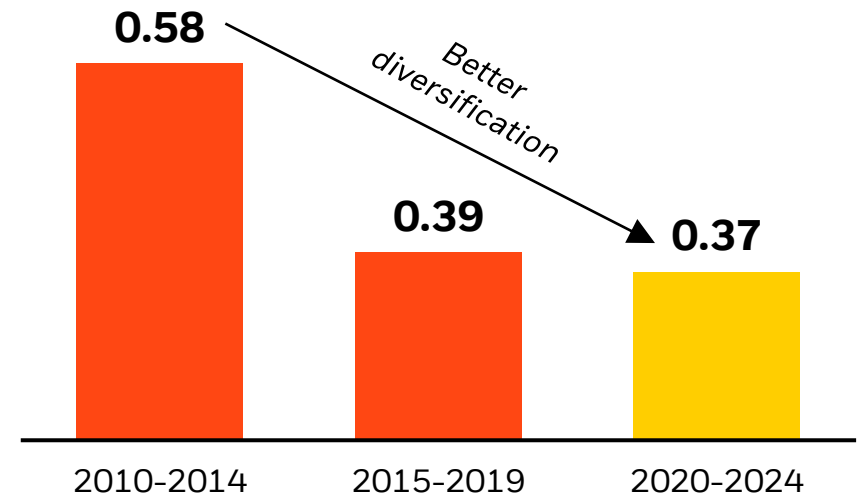
## Alternative mutual funds have seen better performance vs. 10+ years ago...

Average annual decade-to-date returns as of 11/30/24



## ...While correlations to stocks have declined in recent years

Average annual decade-to-date correlation as of 11/30/24



Morningstar as of 11/30/24. Alternative mutual funds are represented by the Morningstar Broad Alternatives Category, oldest share class only. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# Student of the Market: December 2024

Returns as of 11/30/24	1-Year Return	5-Year Average Annual Return	10-Year Average Annual Return
S&P 500 TR USD	33.89	15.77	13.35
Bloomberg US Agg Bond TR USD	6.88	-0.01	1.52
IA SBBI US IT Govt TR USD	6.90	0.51	1.49
IA SBBI US Large Stock TR USD Ext	33.89	15.77	13.35
Russell 2000 TR USD	36.43	9.90	9.05
US BLS CPI All Urban NSA 1982-1984	2.60	4.17	2.89

Source: Morningstar as of 11/30/24. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

## Index Definitions:

- The **S&P 500 TR Index** is an unmanaged index that is generally considered representative of the U.S. stock market on a total return basis. Included are the largest 500 stocks by market cap.
- The **IA SBBI IT US Large Stock TR Index** is an unmanaged index that is generally considered representative of the historical U.S. stock market on a price return basis prior to the inception of the **S&P 500 TR Index** in 1970.
- The **Bloomberg U.S. Agg Bond TR Index** is an unmanaged index that is generally considered representative of the U.S. bond market on a total return basis.
- The **IA SBBI IT Govt TR Index** is an unmanaged index that is generally considered representative of the historical U.S. bond market on a total return basis prior to the inception of the
- The **Russell 2000 TR Index** is an unmanaged index that is generally considered representative of the 2,000 largest stocks in the entire U.S. stock market on a total return basis.
- The **US BLS CPI All Urban NSA 1982-1984 Index** is an unmanaged index that is generally considered representative of the U.S. inflation rate on a non-seasonally adjusted basis.

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