

JANUARY 2025

# HINDSIGHT 2024: UNCERTAINTY REMAINS, RESILIENCY PERSISTS

## Key Takeaways

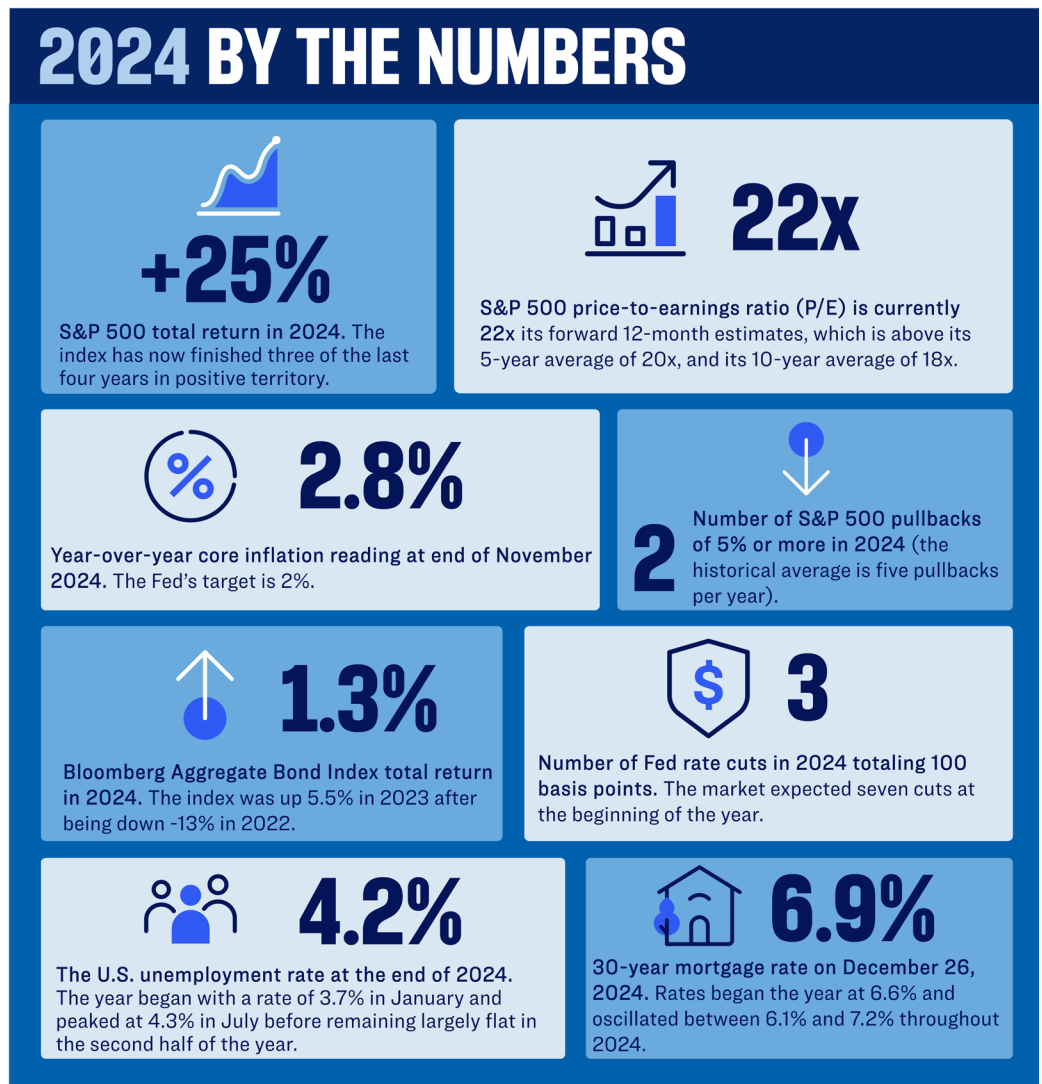
- Despite a turbulent 2024 marked by economic uncertainty, a contentious U.S. presidential election, and escalating global conflicts, the S&P 500 managed to close the year near record highs.
- In 2025, investors should prepare for continued volatility as they evaluate potential policy shifts under the incoming administration.
- TIAA Wealth Management Chief Investment Office (Wealth CIO) provided meaningful, ongoing value to managed account investors in 2024 by taking advantage of tax-loss harvesting and rebalancing opportunities, and keeping them invested in their strategic asset

In 2024, the distortions caused by the pandemic years began to fade, allowing the U.S. economy to grow more organically. Economic growth was fueled by stronger private sector consumption, a better balance between labor market supply and demand, and a steady rise in corporate earnings growth after two years of stagnation. The stock market responded positively, further boosted by enthusiasm for artificial intelligence (AI) as a transformative technology, lifting the S&P 500 to a record high 57 times in 2024. The index finished with a total return (price return plus reinvested dividends) of 25%, marking the second consecutive year of gains exceeding 20%.

Large cap U.S. stocks have now posted gains of at least 23% in four of the past six years. The broad U.S. stock market (as measured by the Russell 3000 Index) again beat non-U.S. stocks, with the Russell 3000 up 24% versus the 5% gain for non-U.S. stocks (as measured by the MSCI All Country World Index (ACWI)-ex. U.S.). U.S. dominance in AI was a key driver of U.S. outperformance, but a 14% gain in the value of the U.S. dollar versus the currencies of major U.S. trading partners was a major contributor as well.

The Federal Reserve (Fed) announced three consecutive interest rate cuts in the second half of the year and is projecting another two interest rate cuts in 2025, tempering market expectations. The broad U.S. investment grade bond market edged out a 1.3% total return in 2024, following the 6% gain in 2023, as fixed income continues to recover from the battering it took in 2021 and 2022 when the Fed raised rates aggressively to combat the worst inflation in 40 years. Lower rated bonds outperformed higher rated bonds in 2024 and short-term bonds beat long-term bonds as the market began to worry about another uptick in inflation. Mirroring the taxable bond market's performance, municipal bonds also recorded a modest 1.3% gain in 2024, the third annual gain in the past four years.

**FIGURE 1**  
2024 By the numbers.



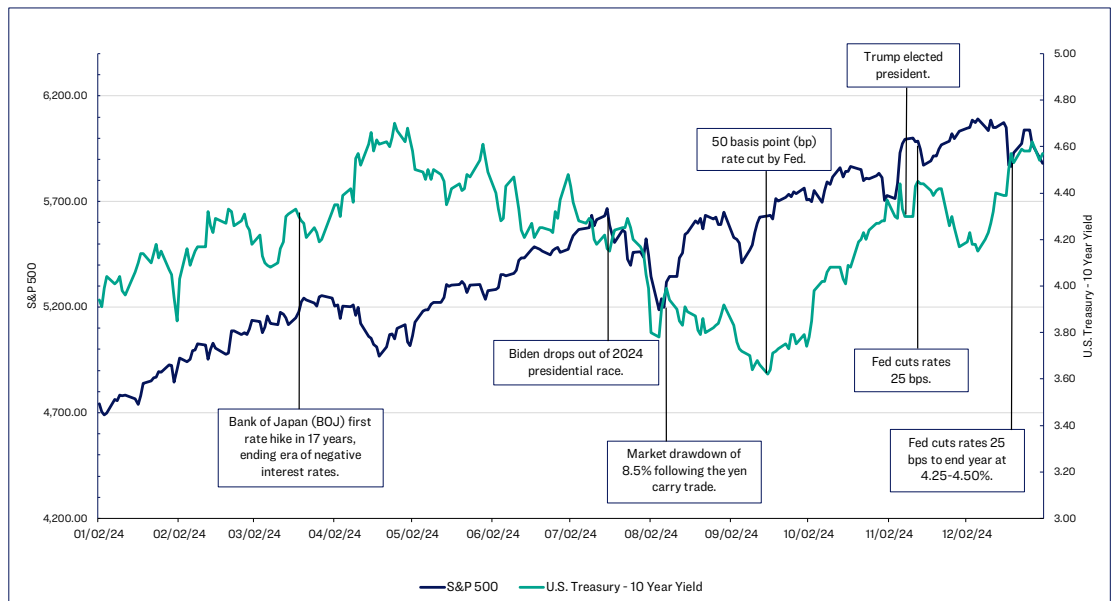
Source: Bloomberg, FRED, TIAA Wealth Chief Investment Office.

### How TIAA Wealth Management contributed to investor success in 2024

Domestic and global events have impacted every facet of our lives, including our investment portfolios. But as 2024 fades and we look ahead into 2025, a clear lesson has emerged: Regardless of the length or severity of the disruption, solid, long-term financial planning, and disciplined investment management are critical in helping investors remain on track toward their long-term financial objectives.

Staying invested and avoiding the temptation to time the market is crucial: Even experienced investors can find themselves making emotionally driven decisions during unusually turbulent periods, which can result in trying to time the market's ups and downs. While past performance is no guarantee of future results, staying invested despite emotional responses to market movement has generally led to positive outcomes for long-term investors. This dynamic is illustrated over the course of just a single calendar year. Despite economic and geopolitical disruptions that occurred in 2024, performance of the S&P 500 benefitted those who stayed invested in their long-term financial plans (Figure 2). Similarly, the bond market dealt with different sets of disruptions as the Federal Reserve cut rates for the first time since March 2020. Bonds managed to finish the year in positive territory, again benefitting disciplined, long-term investors.

**FIGURE 2**  
 S&P 500 Index vs. 10-year Treasury yield, major economic/geopolitical events, and market highlights.



Source: TIAA Wealth Chief Investment Office, FactSet.

**Asset allocation changes:** TIAA’s Wealth CIO develops its annual Strategic Allocations, which provides the framework for our best thinking on behalf of investors. Over and above the strategic asset allocation, the Wealth CIO aims to add value through tactical adjustments to different asset classes based on our macro-economic and portfolio strategy views. We’ve added value to investors by making small changes to portfolio exposures throughout 2024, for example by overweighting U.S. stocks and underweighting international stocks. Moreover, we reduced but not eliminated exposure to lower quality bonds and added to higher quality bonds where possible.

**Fund monitoring and manager changes:** The Wealth CIO performs deep economic and market research, equity and fixed income research, and manager research to inform the portfolio construction process on a continuing basis. The Wealth CIO then combines its portfolio construction expertise, and trading and performance monitoring to optimize investment management for each individual investor.

**Tax-loss harvesting:** With most equity asset classes experiencing positive market returns, opportunities to harvest losses were scarce in those areas of the portfolio. Instead, market volatility primarily in the fixed income markets has provided important opportunities for tax-loss harvesting and portfolio rebalancing in 2024. Tax-loss harvesting is the process of selling portfolio holdings that are trading below their purchase price to lock-in the tax loss in order to offset a tax liability created by realized capital gains. In 2024, the Wealth CIO harvested losses on behalf of managed account investors where it made sense for their long-term goals and tax status.

**Portfolio rebalancing creates alignment with risk tolerance:** 2024 also created opportunities to rebalance portfolios to their target asset allocation and risk levels. This is important because market swings can throw portfolio allocations out of balance, and the Wealth CIO strategically manages the realignment process to keep you on track with your unique goals and risk tolerance. We've seen various areas within a diversified portfolio drive performance throughout 2024 that helped investors succeed while reducing overall concentration risk.

**A heightened focus on communication and engagement:** Transparent communications and investment perspectives are fundamental in helping investors remain focused on their long-term financial plans – particularly during turbulent times. Over the course of the 2024, we continued to launch several new publications and touchpoints for investors, including a monthly market perspective, a quarterly chartbook, a year-end tax planning guide, and both mid-year and year ahead outlooks for the economy and financial markets. These touchpoints are designed to help empower you in your own investment journey.

In 2025, a new administration and Congress means a new paradigm for the economy and policy, which could create more market volatility. Geopolitical and market developments are sure to take unexpected turns, leading to confusing signals for key macro variables such as inflation, interest rates, currencies, consumer and business sentiment.

But for long-term investors, it is prudent to stay invested in strategic, long-term asset allocations and maintain a balance of different asset classes that can help mitigate swings driven by ongoing uncertainty. To learn more about how markets might impact your portfolio and financial plan, talk to your TIAA Wealth Management advisor today.



## IMPORTANT DISCLOSURES

This material is for informational or educational purposes only and does not constitute fiduciary investment advice under ERISA, a securities recommendation under the securities laws, or an insurance product recommendation under state insurance laws. The views expressed are based on information obtained from sources believed to be reliable, but not guaranteed. The information and opinions presented are current only as of the date of writing, without regard to the date on which you may access this information. All opinions and estimates are subject to change at any time without notice. This material does not take into account any specific objectives or circumstances of any particular investor or suggest any specific course of action. It is not an offer to buy or sell any securities or investment services. Investment decisions should be made based on the investor's own objectives and circumstances. Examples included herein, if any, are hypothetical and for illustrative purposes only.

Optional discretionary investment management services for a fee are provided through two separate managed account programs by TIAA affiliates: the Portfolio Advisor program offered by the Advice and Planning Services division of TIAA-CREF Individual & Institutional Services, LLC ("Advice and Planning Services"), a broker-dealer (member FINRA/SIPC), and SEC registered investment adviser; and the Private Asset Management program offered by TIAA Trust, N.A. Please refer to the disclosure documents for the Portfolio Advisor and Private Asset Management programs for more information. TIAA Trust, N.A. provides investment management, custody and trust services. Advice and Planning Services provides brokerage and investment advisory services for a fee. Investment Management Group (IMG) is the investment management division of TIAA Trust, N.A., and provides the underlying investment management services to the Portfolio Advisor and Private Asset Management programs. TIAA Trust, N.A. and Advice and Planning Services are affiliates, and wholly owned subsidiaries of Teachers Insurance and Annuity Association of America (TIAA). Each entity is solely responsible for its own financial condition and contractual obligations.

**The TIAA group of companies does not provide tax or legal advice. Tax and other laws are subject to change, either prospectively or retroactively. Individuals should consult with a qualified independent tax advisor and/or attorney for specific advice based on the individual's personal circumstances.**

All investments involve some degree of risk, including loss of principal. Investment objectives may not be met. Investments in managed accounts should be considered in view of a larger, more diversified investment portfolio. **ASSET ALLOCATION AND DIVERSIFICATION ARE TECHNIQUES TO HELP REDUCE RISK. THERE IS NO GUARANTEE THAT ASSET ALLOCATION OR DIVERSIFICATION ENSURES PROFIT OR PROTECTS AGAINST LOSS. Past performance is no guarantee of future results.**

Investing involves risk and the value of your investments may gain or lose value and fluctuate over time. Generally, among asset classes stocks are more volatile than bonds or short-term instruments and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Although the bond market is also volatile, lower-quality debt securities including leveraged loans generally offer higher yields compared to investment grade securities, but also involve greater risk of default or price changes. Foreign markets can be more volatile than U.S. markets due to increased risks of adverse issuer, political, market or economic developments, all of which are magnified in emerging markets. Foreign securities are subject to special risks, including currency fluctuation and political and economic instability.

**INVESTMENT, INSURANCE AND ANNUITY PRODUCTS ARE NOT FDIC INSURED, ARE NOT BANK GUARANTEED, ARE NOT DEPOSITS, ARE NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY, ARE NOT A CONDITION TO ANY BANKING SERVICE OR ACTIVITY, AND MAY LOSE VALUE.**