UNITED METHODIST FOUNDATION OF MICHIGAN

Investment Insights: A Look at Market Trends and Faith-Driven Investing

As the books have closed on 2024, now is a great time to reflect on the performance of the markets and the important lessons that may inform our future positions. The U.S. equity market experienced another year of growth, although the fixed income space saw some mixed results. As we consider these outcomes, a long-term, value-aligned investment strategy – one that aligns with our faith and guiding principles – continues to be the foundation for sustainable financial success. The Foundation continues to emphasize our commitment to responsible investing by prioritizing companies and initiatives that align with our values and mission.

Equity Markets: A Tale of Big Wins and Narrow Breadth

In 2024, the U.S. equity market posted impressive results. The S&P 500, a stock market index that tracks the performance of 500 of the largest publicly traded companies in the U.S., generated a total return of approximately 25%. This marks the second consecutive year of strong growth – a feat not seen in twenty-five years. However, while the headline returns look encouraging, some underlying trends are worth noting.

1. *Large-Cap Dominance*: Large-cap stocks dominated the market with the largest companies, driving much of their success. For example, the broad index tracking the largest U.S. companies saw a gain of nearly 25% for the year. On the other hand, smaller companies posted significantly lower returns. In fact, small-cap stocks have been underperforming compared to their larger counterparts for several years now.

2. *The Power of Mega-Cap Growth*: The market's growth was largely driven by a handful of mega-cap growth stocks, often referred to as the "Magnificent Seven." These seven corporations are Apple, Amazon, Microsoft, Meta, Google, Nvidia, and Tesla. These companies alone represented over 33% of the total market capitalization of the S&P 500 by the end of the year. On an equally weighted basis, giving each of the Magnificent Seven stocks the same level of importance, the group posted an impressive 64% return in 2024. This concentration in just a few stocks highlights a broader market trend where returns are increasingly dependent on the performance of the largest firms.

3. *International Markets*: The performance of international equity markets was notably weaker compared to the U.S. In particular, large and mid-sized companies across Europe, Australasia, and the Far East posted a minor gain of 3.5% for the year. This performance is a clear reminder of the risks of diversifying outside of the U.S. in a year when the domestic market outperformed.

In summary, the 2024 U.S. equity market returns were highly concentrated in a few large companies. While U.S. stocks saw strong growth, many smaller and international stocks lagged notably. For investors, this highlights the importance of a diversified approach to investing, as well as the value of considering both short-term trends and long-term potential when constructing a portfolio.

Fixed Income Markets: A Mixed Year with Divergent Returns

The U.S. fixed income (bond) market presented a more complex picture. Some areas of the market performed well, while others faced challenges. The key driver of these mixed results was the Federal Reserve's interest rate policy. In 2024, the Federal Reserve began reducing interest rates, which had a significant impact on bond prices and yields.

1. *Short-Term Bonds Outperformed*: Bonds with shorter maturities (those that are due in the near future) generally performed better than those with longer maturities. For example, short-term Treasury bonds posted a solid return of more than 5% for the year, while some longer-duration bonds experienced a loss of over 8% as rates at the longer end of the yield curve unexpectedly moved higher. This inverse relationship is critical to understand. When interest rates fall, bond prices move higher; conversely, when interest rates increase, bond prices fall.

2. *Investment Grade and High-Yield Bonds*: Another trend in 2024 was the relative strength of corporate bonds, both investment-grade and high-yield bonds. Bond funds focusing on high-yield corporate bonds saw gains of nearly 8%. This return demonstrates that credit risk – investing in bonds issued by companies rather than governments – can be rewarding in the right market environment, as corporate bonds offer higher yields to investors.

3. *Municipal Bonds*: In the municipal bond market, which includes bonds issued by local governments, shorter-term bonds again outperformed longer-term bonds. Short-Term National Muni Bonds had a positive return of just over 2%, while longer-term municipal bonds delivered more modest returns.

For investors, these trends underline the importance of understanding how interest rate changes can impact bond markets. As we saw in 2024, shorter-term bonds often provide better protection in a rising or fluctuating rate environment, while longer-term bonds are more susceptible to price declines when rates are rising.

The Importance of Long-Term, Value-Aligned Investing

At the United Methodist Foundation of Michigan, our approach to investing is rooted in faith-driven principles that guide not only our financial strategies but also our corporate engagement. We are committed to aligning our investments with the Social Principles of The United Methodist Church, ensuring that the companies and funds we support reflect our shared Wesleyan values.

The year 2024 was a reminder that successful investing is not just about chasing short-term gains but about making decisions that have long-term value – financially, socially, and ethically. We encourage our investors to stay committed to this long-term approach, recognizing that investments made with a sense of purpose can contribute to a better world.

Performance of Our Funds: Stock, Bond, and Balanced Fund Returns

The Foundation's investment funds have also reflected these broader market trends. For instance, our Stock Fund, which focuses on equity investments, showed strong performance in line with the broader U.S. equity market, benefiting from the gains of large-cap companies. This fund has experienced growth driven by the strong performance of top-performing sectors, particularly technology and consumer discretionary. The Stock Fund showed a 2024 gain of 17.60%.

Meanwhile, our Bond Fund faced some challenges in line with the broader fixed income market. Due to rising interest rates earlier in the year, bond returns were more muted. Shorter-duration bonds fared better than longer ones. However, the Bond Fund has continued to provide a stable and predictable income stream, benefiting from an emphasis on high-quality bonds. The Bond Fund finished 2024 up 2.45%, well ahead of the broad bond market return of just 1.25%.

For the majority of church investors who seek a more balanced approach, our Balanced Fund performed well by blending stock and bond investments. This fund delivered strong returns. It benefited from the growth in equities, while providing stability of fixed income investments to mitigate volatility. This diversified approach provided our investors with a steady return, balancing growth with risk management. The Balanced Fund rose 11.54% outperforming its relative benchmark – a custom blend of 60% MSCI ACWI (All Country World Index) and 40% US AGG (Bloomberg Barclays US Aggregate Bond index) which was up 10.27%.

Looking Ahead: A Sustainable Investment Future

As of the end of January 2025, the stock market has shown resilience. Large-cap stocks continue to drive growth, but the market is showing signs of returns broadening out with better distribution across sector, size, and company style. Bond markets, on the other hand, are wrestling with uncertainty as to what the Fed is going to do next. As such, fixed income investors face a more volatile landscape as central banks continue to navigate inflation and economic uncertainty. This uncertainty could impact both equity and fixed-income investments over the course of the year. Diversification and careful risk management are imperative strategies in the year to come. The recent change in U.S. political leadership is already bringing shifts in fiscal policy, regulatory approaches, and economic priorities. These factors may influence market sentiment and investment strategies. As usual, our fund managers will adjust their portfolios as necessary in response to changes in the economic landscape.

As we look ahead to the remainder of 2025 and beyond, keeping a close watch on both the financial markets and the broader social and environmental issues that influence them is essential. A value-aligned investment approach, such as the one we advocate for at the Foundation, helps ensure that our investments contribute to positive change while also providing the financial returns necessary to support our mission and ministries.

In the coming years, we expect to see more opportunities to engage with companies on issues related to sustainability, social impact, and governance. By remaining focused on these long-term goals, we can help build a future where investments work not just for today but for generations to come. As always, thank you for your continued partnership and commitment to responsible investing.