the us and global markets in 2024: a bubble waiting to burst

Mixed signals, volatility and underlying economic fragility driven by record-breaking highs on Wall Street; this is the U.S. and Global Markets in 2024.

The S&P 500 and NASDAQ Composite soared by 23% and 31% respectively, to record levels fueled by heightened investor enthusiasm and a sharp 40% surge in trading volumes following the U.S. election. Trump's election victory has skyrocketed equity market confidence, driven by massive de-regulatory policies and tax cuts worth 0.2% of GDP, which are anticipated to boost short-term corporate profits. The latter has led to 15.4 billion shares traded daily, the highest in years. However, Goldman Sachs has cautioned that this optimism could create a "perfect storm" as rising inflation, weakening GDP growth, and concentrated market gains increase the likelihood of instability.

Despite the impressive rally, gains were narrowly concentrated with the top 2% of the S&P 500 contributing 59% of its rise since the October 2022 bottom; the top three alone accounted for a record 21% of the index's market cap. The gains were heavily skewed toward tech companies, evident in the 37.57% Dow Jones U.S. Technology Index return growth, significantly outperforming every other industry's equity growth; an evident tech skew in the US equity markets. Meanwhile, the bottom 480 stocks contributed only 30%, reflecting a lopsided market where just 17% of stocks outperformed the index in December 2024, the lowest share since 1986. This, a lack of breadth highlighting the fragility beneath the surface, raises concerns about whether the U.S. can withstand potential shocks to its very top companies.

Further, corporate bankruptcies in the U.S. hit a 14-year high, with 686 companies filing for bankruptcy, an 8% increase from the previous year and the highest figure since 2010, according to the S&P GMI. Thirty of these filings involved liabilities exceeding $1 billion, with notable collapses including Tupperware, Spirit, and Party City. The latter cited inflationary pressures, rising costs, and weakened consumer spending as the fatal factors for its 700 closed stores, underlining the disparity between soaring equity markets and US enterprises who face a vastly contrasted, challenging environment.

Compounding this fragility is the rise in U.S. Treasury yields, which could signal growing uncertainty surrounding sticky inflation and Trump's policy proposals, which could ripple across global markets. The benchmark 10-year yield climbed to 4.76%, the highest since November 2023, whilst the policy-sensitive two-year yield surged to 4.38%. These increases were triggered by robust U.S. labour market data in December, with unemployment falling to 4.1% and hourly earnings rising by 0.3%, indicating an economy confident about the forthcoming growth potential, but tentative about the imminent rise in inflation. The upward pressure on yields has made domestic and global borrowing more expensive which, if continued, could result in a slowdown for business investment and growth.

Despite strong S&P 500 and NASDAQ Composite equity performance, investor confidence in both U.S. and global bond markets remains precarious. Credit spreads have tightened to 2008 Financial Crisis levels, signalling heightened risk in bond markets. Meanwhile, defaults on U.S. credit card loans have also climbed to their highest levels since 2008, reflecting the financial strain on lower-income households after years of elevated inflation. Bond markets, already on edge, may face further volatility as the Fed weighs its next steps in easing rate cuts. While it has indicated a modest 0.5% rate cut going into 2025, some economists believe that the easing cycle is over. Bank of America cited strong labour market data as a key reason for halting rate cuts, as Citi pushed its forecast for the next cut from January to May, and Goldman Sachs reduced its outlook for 2025 quarter-point rate cuts from three to two. Fed Governor Lisa Cook has warned that financial markets appear “priced to perfection” and could be vulnerable to market shifts led by speculation. The looming release of non-farm payroll data and the December CPI (forecast to show a third consecutive month of acceleration, to 2.9% inflation) will be critical tests for the market in early 2025.

Globally, Trump’s trade policy promises have exacerbated uncertainties surrounding trade flows. The President-elect’s aggressive tariff agenda, including a blanket 20% tariff on imports and an additional 10% for Chinese imports, has raised the threat of renewed trade wars. Kristalina Georgieva, Managing Director of the IMF, noted that the unpredictability of U.S. trade policy is driving up global borrowing costs, as reflected in rising long-term interest rates worldwide. Goldman Sachs, in particular, has warned that universal tariffs could push U.S. inflation above 3% and subsequently reduce GDP growth by 1.25%. Historically, protectionist measures have disrupted trade flows and amplified global economic tensions with trade flows and further protectionism. If executed, Trump’s radical tariff policies will have far-reaching consequences for the markets, leading to substantial inflationary pressure on a global scale and stagnating GDP growth beyond borders, as a result.

The outlook for the U.S. economy in 2025 is one of uncertainty. Record highs in the equity markets are masking significant structural risks, including concentrated gains, rising bankruptcies, and fragile consumer finances. Trump’s unpredictable trade policies and the Fed’s cautious stance add further complexity to an already volatile environment. Investors are betting on continued growth, but the warning signs are impossible to ignore. The lessons of 2024 are clear; record highs have masked underlying weaknesses, and an uncertain foundation of market growth could quickly give way to turbulence in interconnected and uncertain global markets.

The US and Global Markets, though resilient in many respects, may be headed towards a tipping point where a layer of unpredictability could have far-reaching consequences for global trade, growth and economic stability.