



Market Commentary

Red

November 2024

Summary

- U.S. equities rallied post-election. Large-cap stocks rose 6%, and small-cap stocks increased by 11% in November. International equities not only underperformed but ended the month in the red.
- The Federal Reserve cut rates by 0.25% in November, and another 0.25% reduction is expected in December. Inflation edged higher in October, primarily due to rising housing costs.
- Donald Trump won the 2024 presidential election with 312 electoral votes to Kamala Harris's 226, and the Republican Party gained control of Congress.
- The appointment of Scott Bessent to the Treasury brings a renewed focus on the deficit and better alignment with the Fed's policy of trying to grow the U.S. out of massive deficits.

Overview

Markets posted mixed returns in November. U.S. large-cap stocks, represented by the S&P 500 index, ended the month up 5.9%, while the small cap Russell 2000 index ended the month up 11.0%. In contrast, international equities underperformed their U.S. counterparts and ended the month in the red. International developed market large cap stocks declined 0.6%, and emerging market stocks ended November down 3.6%. U.S. intermediate-term bonds, as represented by the Bloomberg U.S. Aggregate Bond Index, ended the month up 1.1%.

GDP estimates show the U.S. economy growing at an annualized rate of 2.8% quarter-over-quarter in the third quarter, supported by robust consumer and government spending. Consumer spending posted its best quarter so far this year as it increased by 3.5%, while government spending increased by 5.0%.¹ The services sector of the economy continues to expand, with the ISM Services PMI registering 52.1 in November.²

Although notably lower than its June 2022 peak of 9.0% year-over-year, inflation, as measured by CPI, remains sticky and above the Fed's stated target of 2%. In October, headline inflation increased slightly to 2.6% year-over-year from 2.4% the prior month, while core inflation remained at 3.3% and has averaged 3.5% throughout 2024.³ Housing inflation continues to be the main driver of higher inflation, as the shelter component of inflation rose by 0.4% month-over-month (accounting for over half of all the monthly increase) and 4.9% year-over-year.³

October marked the start of the U.S. government's 2025 fiscal year, and the budget deficit has already reached \$257 billion—the second-largest October deficit since at least 1981, surpassed only by October 2020.⁴ The Congressional Budget Office projects the fiscal 2025 deficit will closely align with 2024 levels, hitting approximately \$1.9 trillion.⁵ Net interest payments remain a substantial component of federal outlays at 14%.⁴

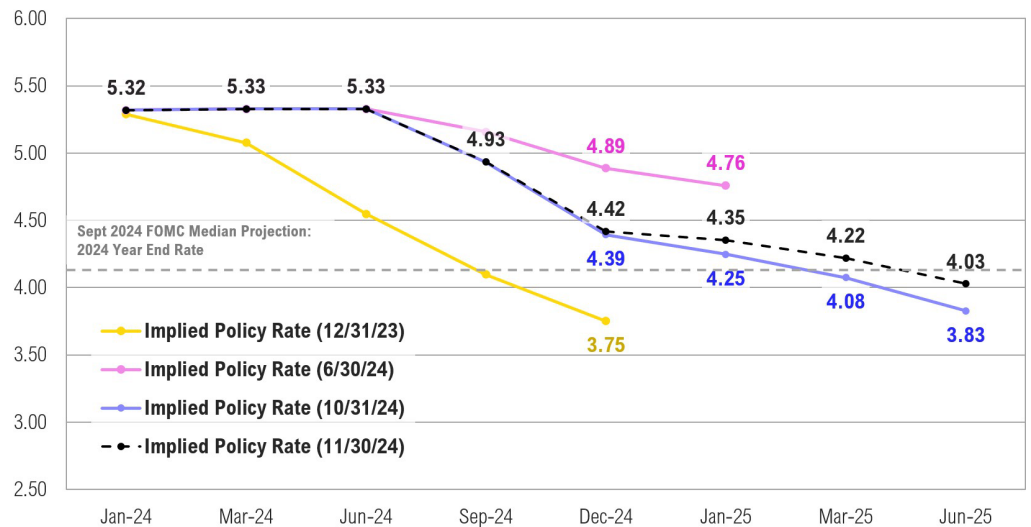


As widely anticipated, the Federal Reserve cut interest rates by 0.25% at the November Federal Open Market Committee (FOMC) meeting.⁶ Another 0.25% rate reduction is expected at the December FOMC meeting. This would bring the total rate reduction for the year to 1.0%.⁷ Given strong economic growth and sticky inflation, one 0.25% rate cut has been priced out for 2025, and markets expect the equivalent of three 0.25% cuts next year.⁷ On November 14, at a speech in Dallas, Fed Chair Jerome Powell stated that the Fed isn't in a hurry to cut rates:

*"I expect inflation to continue to come down toward our 2% objective, albeit on a sometimes-bumpy path... The economy is not sending any signals that we need to be in a hurry to lower rates."*⁸

Rate Cut Expectations for 2025 Have Declined

Implied Fed Funds Rate, %



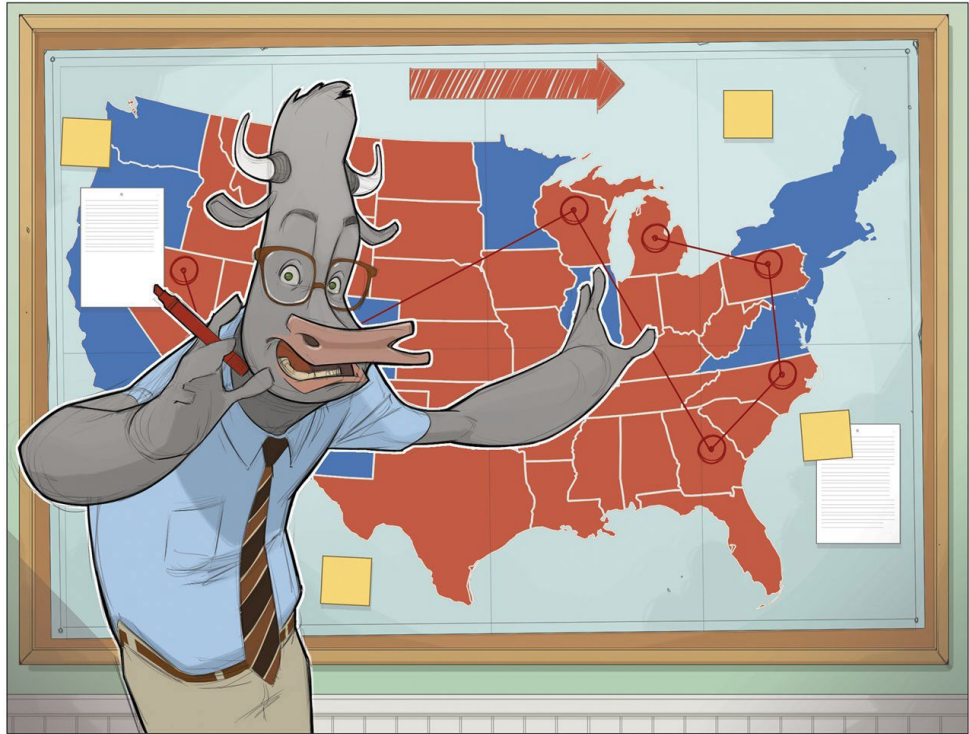
Source: Bloomberg

Over 95% of S&P 500 companies have reported third-quarter earnings results. Earnings growth estimates improved over the quarter, increasing from 4.2% to 5.8%, primarily driven by a handful of mega-cap technology companies and select sectors, such as communication services (+23%), consumer discretionary (+9%), and financials (+7%).⁹ Full-year earnings growth for the S&P 500 in 2024 is projected to reach 9.4% due to significant contributions from the communication services, financials, and consumer discretionary sectors.⁹ Earnings growth estimates for 2025 are currently expected to be 15.0%, which would be the best growth rate since 2021, when it was over 35%.⁹ As of the end of November, the S&P 500's price-to-earnings (P/E) ratio was at 22.5x, compared to 30.1x at the peak of the tech bubble. However, the top 10 S&P 500 companies account for 34.8% of the Index, compared to 25% at the tech bubble peak.¹⁰

Red

On November 6, with 277 of the 270 required electoral college votes, Donald Trump was announced the winner of the 2024 presidential election. By the final count on November 10, Trump amassed 312 electoral votes to Kamala Harris's 226.¹¹ The Republican party has also kept control of the House and gained a majority in the Senate. Trump won each of the seven swing states, and the race in Pennsylvania—widely considered the key determinant—was called in the early hours of November 6. Exit polls showed that for the

first time in at least twenty years, self-identified independents accounted for a larger share of voters (34%) than Democrats (32%) and were tied with Republicans (34%).¹² Trump is also the first Republican president to win the popular vote in twenty years.

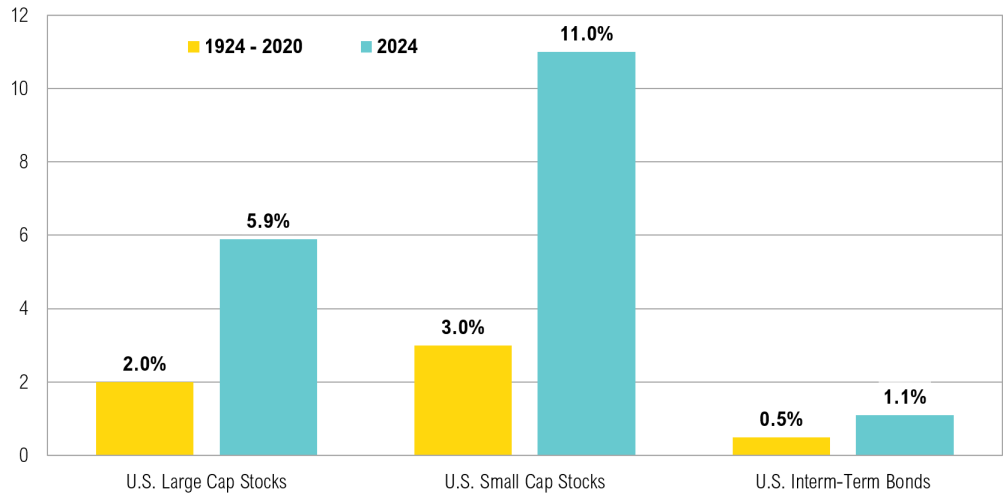


Source: SpringTide, Noah Kroese

Historically, markets tend to rally following elections as uncertainty subsides, and 2024 has proven no different. In fact, 2024 market returns are above average: between 1924 and 2020, U.S. large cap stocks have increased 2% during the month in which an election was held, while U.S. small cap stocks have increased 3%. In 2024, U.S. large-cap stocks gained 5.9% during election month, while U.S. small-cap stocks gained an impressive 11.0%. U.S. intermediate-term bonds also outperformed historical norms, rising 1.1% over the election month compared to the historical average gain of 0.5%.

2024 Election Month Returns Were Above Historical Averages

Average Returns During Election Month, %

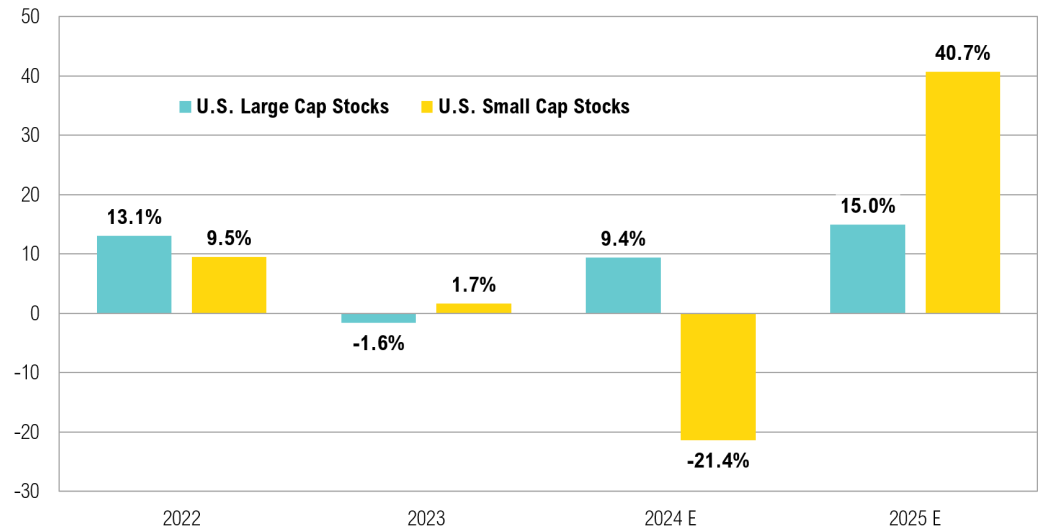


Source: Bloomberg

While U.S. small-cap stocks outperformed large-cap peers by 4.1% since Election Day, they lag by an annualized 6.4% over the past three years. A similar pattern occurred when President Trump won the election in 2016 and small-cap stocks outperformed large-cap stocks by 7.6%. Historical precedent aside, small-cap stocks could benefit from contained interest rates, onshoring initiatives, and reduced regulation under the new administration. By the end of November, full-year 2025 earnings growth estimates for the Russell 2000 stood at 41%, compared to 15% for the S&P 500.

Despite 2024's Low Base, Small Cap Earnings Are Expected to Accelerate in 2025

Earnings Per Share Growth, Y/Y %



Source: Bloomberg

Long-term Treasury yields declined in November. After peaking at 4.5% on November 13, the 10-year Treasury yield ended the month at 4.2%. The bond market appeared to respond positively to the nomination of Scott Bessent as U.S. Treasury Secretary. Bessent has a decades-long career in finance, including his role as a partner at Soros Fund Management and as the founder of Key Square Group, both global macro hedge funds.^{13,14} His platform includes advocating for tax cuts, reducing government spending (and deficits), strong national defense, targeted and gradual tariffs, and a focus on lowering inflation. Bessent has proposed a “3-3-3” target, aiming to achieve 3% economic growth, a reduction in the deficit to 3% by 2028, and an increase daily oil production by 3 million barrels, which is about a 20% increase from current levels.^{15,16,17} When asked about his decision to accept the nomination, Bessent remarked:

“This election cycle is the last chance for the U.S. to grow our way out of this mountain of debt...”¹⁸

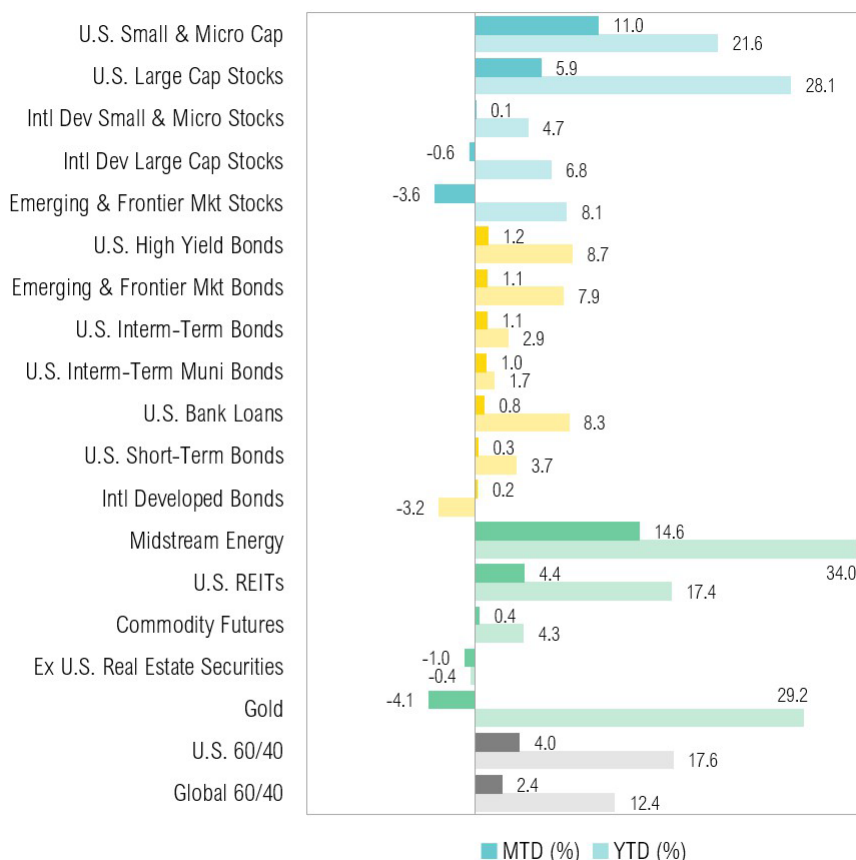
The new administration will usher in a more supportive regulatory regime for digital assets. Both Trump and Vice President-Elect J.D. Vance have expressed strong support for cryptocurrencies.^{19,20,21,22} Bitcoin surged 39% in November and is up 119% year-to-date. With a pro-crypto administration taking office in 2025, expectations are rising for eased regulations on exchange-traded funds for cryptocurrencies, such as Ethereum and Solana.^{23,24} There is also speculation about the establishment of a U.S. strategic bitcoin reserve.²⁵ Regulatory clarity introduced by the new administration could pave the way for broader institutional and advisory adoption of digital assets. This perspective is best captured by incoming Charles Schwab CEO, Rick Wurster, who recently stated that:

“We will get into spot crypto when the regulatory environment changes, and we do anticipate that it will change, and we’re getting ready for that eventuality.”²⁶

Markets

U.S. equity markets fared significantly better than their international counterparts in November. U.S. large-cap stocks ended the month up 5.9%, but international, developed market, large-cap stocks saw red as they ended the month down 0.6%. Similarly, while U.S. small-cap stocks ended the month up 11.0%, international developed market small-cap stocks ended the month up 0.1%. Emerging market stocks ended November down 3.6%, driven by declines in Brazil, South Korea, and Taiwan. A similar pattern occurred in fixed income markets. U.S. intermediate-term bonds gained 1.1%, but international developed market bonds ended November up only 0.2%.

November 2024 Key Market Total Returns



Source: Bloomberg

In geopolitical developments, on November 17 President Biden approved Ukraine's use of U.S. missiles on Russian territory.²⁷ In response, Russian President Vladimir Putin signed a new doctrine on November 20, lowering the threshold for deploying nuclear weapons.²⁸ After climbing to \$72.5 per barrel on November 5, West Texas Intermediate (WTI) crude ended the month \$4 lower on news of a ceasefire between Israel and Hezbollah in Lebanon, which came into effect on November 27. By early December, the ceasefire was in a precarious state due to exchanges of fire from both sides.²⁹ Gold ended the month down 4.1%.

Looking Forward

With a decisive red sweep, market participants have more clarity on the direction of U.S. policy. Most importantly, the appointment of Scott Bessent to the Treasury brings a

renewed focus on the deficit and better alignment with the Fed's policy of trying to grow the U.S. out of massive deficits. This, in turn, could keep longer term interest rates contained, which would not only help support elevated equity valuations but also buy time for policy measures to be implemented and further shape the economy.

Given this landscape, we maintain that diversification should include healthy exposures to risk, minimal longer-term bonds (given that upside appears limited), and hedges against policies that will result in the continued erosion of purchasing power.

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Performance Disclosures

All market pricing and performance data from Bloomberg, unless otherwise cited. Asset class and sector performance are gross of fees unless otherwise indicated.

Asset Class Definitions

Asset class performance was measured using the following benchmarks: U.S. Large Cap Stocks: S&P 500 TR Index; U.S. Small & Micro Cap: Russell 2000 TR Index; Intl Dev Large Cap Stocks: MSCI EAFE GR Index; Emerging & Frontier Market Stocks: MSCI Emerging Markets GR Index; U.S. Interm-Term Muni Bonds: Bloomberg Barclays 1-10 (1-12 Yr) Muni Bond TR Index; U.S. Interm-Term Bonds: Bloomberg Barclays U.S. Aggregate Bond TR Index; U.S. High Yield Bonds: Bloomberg Barclays U.S. Corporate High Yield TR Index; U.S. Bank Loans: S&P/LSTA U.S. Leveraged Loan Index; Intl Developed Bonds: Bloomberg Barclays Global Aggregate ex-U.S. Index; Emerging & Frontier Market Bonds: JPMorgan EMBI Global Diversified TR Index; U.S. REITs: MSCI U.S. REIT GR Index, Ex U.S. Real Estate Securities: S&P Global Ex-U.S. Property TR Index; Commodity Futures: Bloomberg Commodity TR Index; Midstream Energy: Alerian MLP TR Index; Gold: LBMA Gold Price, U.S. 60/40: 60% S&P 500 TR Index; 40% Bloomberg Barclays U.S. Aggregate Bond TR Index; Global 60/40: 60% MSCI ACWI GR Index; 40% Bloomberg Barclays Global Aggregate Bond TR Index.

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