MARKET REVIEW & OUTLOOK

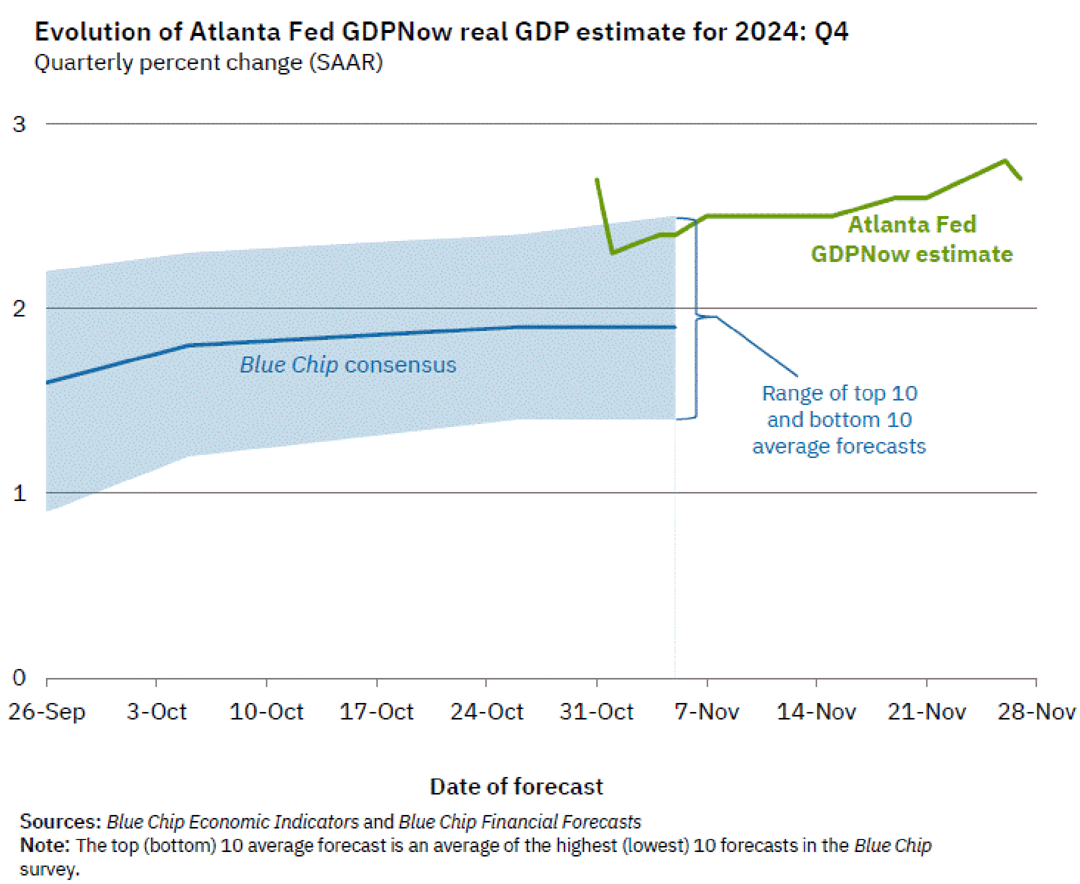
NOVEMBER 2024

KEY TAKEAWAYS

- The equity markets started the month flat, but the unexpected clarity of the Presidential election sent the market to all-time highs with the S&P 500 closing on a high note.
- The U.S. 10-year Treasury Yields spent most of the month near 4.5% on likely continued inflation from spending and tariffs, but yields fell to the lows at the end of the month.
- Crude oil traded in a $5 range and gave back last month's $1 gain.

The U.S. Economy

The second look at 3rd quarter GDP came in at 2.8%, just like the first look. Core PCE, the imbedded inflation measure, fell to 2.1%, matching the original expectations of 2.1%. The estimates for 4th quarter GDP, from GDPNow, continue to look like the 3rd quarter at around 2.7% with the Blue-Chip consensus forecast again just under 2%, as shown in the chart below. Economic activity remains steady, and the PCE deflator is almost down to the sweet spot of "2%" inflation. It continues to seem like a goldilocks scenario, and the market is now less certain the Fed will cut rates in December.



Source : https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

The U.S. 10-year Treasury yield started flat, but the unexpected clarity in the Presidential election seemed to ignite the animal spirits. Either the prospect of continued spending, i.e. inflation, or potential economic growth drove up yields. However, rates stalled just under 4.5% for a couple of weeks then rolled over. It seemed to be the announcement that the new administration was focused on the 3 threes. The most important 3 to the bond market was less than 3% deficit spending which seemed to take some wind out of the inflationary sails and rates with it. The Fed did meet right after the election and cut rates another 25 bps. However, most of the Fed speak after was geared toward the neutral rate may be higher than we first thought and that there is no hurry to cut rates more. The market is now a lot less certain of more cuts this year and is only looking for 3 cuts next year. The sharp late month drop in yields was a nice tailwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF climbed +1.11% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.18%, down modestly from October's close of 4.28%.

The Dow Jones Industrial Average jumped +7.54%, the S&P 500 rose +5.73%, and the small cap iShares Russell 2000 ETF soared +11.07%. The international markets traded much weaker than the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index decreased -0.18%, and the MSCI Emerging Markets iShares Core ETF Index dropped -2.36%.

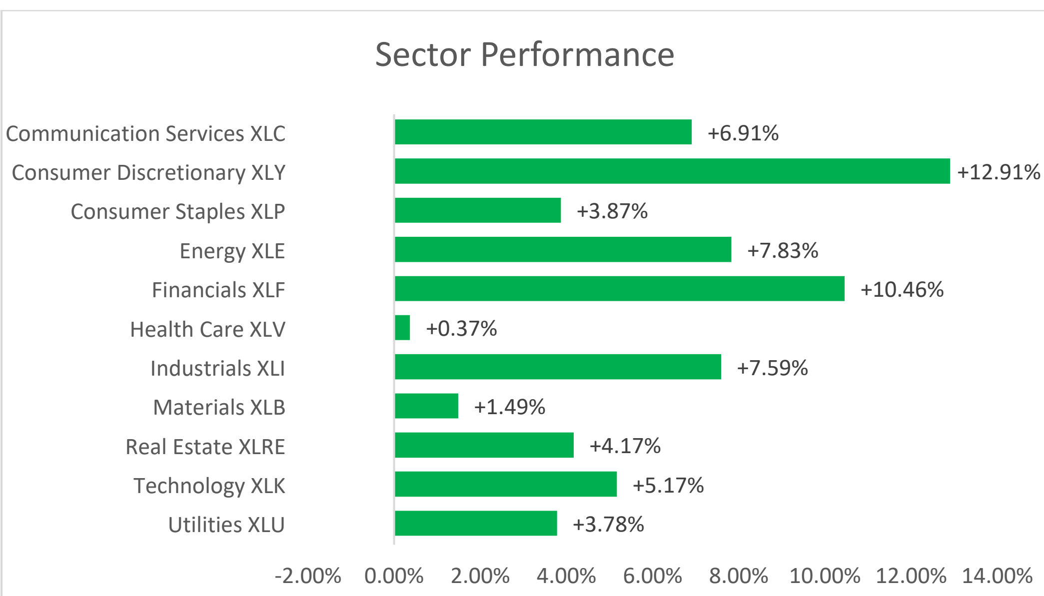
November's sector performance was green and very green.

The best performers were…

- Consumer Discretionary: +12.91%
- Financials: +10.46%
- Energy: +7.83%

The "worst" relative performers were…

- Health Care: +0.37%
- Materials: +1.49%
- Utilities: +3.78%



Source: https://www.morningstar.com

Oil Report

Crude Oil traded around $70 +/- a couple of dollars. There was a confluence of events that seemed to cancel each other out. The ongoing tensions between Israel and Iran and the Ukraine/Russia conflict oscillated between escalation and peace/ceasefire talks. Potential future supply from Trump's drill baby drill and potential economic strength driving demand. The net effect was a stalemate, and the dollar crude made last month was given back this month. The current NYMEX WTI Crude Oil futures settled at $68.15 posting a loss of over 1% from the prior month's close of $69.26 a barrel and a full two-cent drop over the last two months. RBOB gasoline was weaker than Crude for the month and decreased over 3% vs. October's close. Hurricane season had one more surprise almost immediately after I declared hurricane season was over, but fortunately it didn't seem to have much impact on the U.S.

The Rest of the Data

The October ISM Manufacturing Index decreased to 46.5 from September's reading of 47.2, remaining below 50. The ISM Services Index increased to 56.0 in October, from September's print of 54.9. Any reading below 50 generally indicates deteriorating conditions, whereas a reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing jumped back above the normal range and Services prices moderated at elevated levels. Consumer confidence increased to 111.7 in November, which compares to an upwardly revised 109.6 in October. The unemployment rate remained at 4.1%, while the number of jobs added plunged to a very weak 12,000 jobs in October, badly missing expectations of 108,000 jobs. In fact, the private sector lost 28,000 jobs, though this number may have been impacted by the hurricanes. We will have a better picture on Friday with the December jobs report. The Consumer Price Index for All Urban Consumers (CPI-U) was up another +0.2%, now a 4-peat, in October, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate increased to +2.6% on a non-seasonally adjusted basis. The CPI ex Food and Energy remained at 3.3% over the last year. The economic data is good, though the employment report is potentially concerning, and inflation is holding steady over the Fed's target of 2%. On paper, the economy seems in reasonable shape and likely data dependent. Friday will probably be an important economic report with another weak jobs report likely quickly shifting expectations for another Fed rate cut. We will continue to monitor employment along with economic activity and inflation reports.

Summary

The market seems to be taking an optimistic view either of the clarity of knowing who the new President is or hopes that his policies will be good for the economy and markets. Either way, we saw another sharp rally and new all-time highs, even for small caps which likely would be positively impacted by onshoring and tariffs reducing import competition. Even the bond market decided that maybe we won't have another ramp in inflation. It feels like a Goldilocks scenario, which likely means the wrench is about to show up and spoil the party. We will have to wait for a few months to see how the nominations and policy changes come after the inauguration on January 20th. We will continue to filter out the noise and focus on understanding your risk tolerance and building an allocation to match that rather than guessing based only on market outlook.

As always, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/war vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

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