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Monthly Market Dashboard

November 6, 2024

ELEMENT	TREND	COMMENTS
VALUATION	Negative	Valuations are higher, certainly for the largest companies.
INTEREST RATES	Negative	Besides short-term rates, interest rates have been rising sharply.
INFLATION	Neutral	Inflation is much lower, but still slightly above benign levels.
VOLATILITY	Positive	Volatility is now falling, which is near-term bullish.
MONETARY POLICY	Positive	The Fed will continue to cut interest rates, though the pace is debatable.
DOMESTIC POLICY	Positive	Domestic economic policy now seen as decidedly pro-business.
GEOPOLITICAL	Neutral	Middle East on the brink as the world processes the U.S. election.

Trump Wins A Resounding Victory

Donald Trump was re-elected president of the United States, completing a remarkable comeback amid a polarizing political environment. While polls suggested the race would be close, political betting markets had indicated for some time that Trump's chances of winning were good. Even so, the swift conclusion to the presidential election, certainly in comparison to the last one, was a surprise. Republicans won a decisive victory that can be viewed as a mandate.

Equity markets are greeting the news with enthusiasm, with major indices surging higher this morning. Trump supports lowering the corporate tax rate, and his administration is widely expected to usher in an era of lighter regulation. Markets are also welcoming his stated plans to enact a more activist industrialist policy. The US dollar strengthened, and, for what it's worth, cryptocurrencies did too.

The picture for bonds is a bit murkier. Treasury yields, which had been climbing steadily higher over the last month amid encouraging economic data (and as betting markets began to predict a Trump victory), have surged again, with the 10-year spiking toward 4.5%. This is amid speculation that inflation could re-emerge and that Trump's plans to lower tax rates would blow out the federal budget deficit without offsetting spending cuts.

This fact pattern would raise the possibility that higher interest rates could inhibit the economic growth that the new administration will be working to deliver, and it also raises the question of how a potentially more political Fed might respond. In short, as always, it's complicated.

In the meantime, equity investors have every reason to celebrate, with the S&P 500 hitting new all-time highs. Small-cap stocks, and in particular, small-cap value stocks, are among the biggest outperformers today, as investors are betting that Trump's protectionist tendencies will especially benefit smaller domestic companies. We are happy to report that many client portfolios are overweight in this area of the market.

October Review

Major market indices in October were slightly lower last month. Markets generally climbed throughout the month, but softer-than-expected outlooks offered by tech giants Microsoft and Meta spooked investors in the final week. While earnings reports for these companies were solid, forward guidance was a little fuzzy, and when stocks are priced for perfection and perfection doesn't materialize, it can be painful. These companies and others are expected to spend $200 billion this year on AI development, so the stakes are high, and investors won't wait forever for signs that there is some revenue, let alone cash flow, on the other side of this mountain of capital expenditures.

	2022	2023	1Q24	2Q24	3Q24	October	YTD
S&P 500	-18.1	26.3	10.6	4.3	5.9	-0.9	21.0
DJIA	-6.9	16.2	6.1	-1.3	8.7	-1.3	12.5
NASDAQ	-32.5	44.7	9.3	8.5	2.8	-0.5	21.2
Russell 2000	-20.5	16.9	5.2	-3.3	9.3	-1.4	9.6
Russell 2000 Value	-14.8	14.6	2.6	-3.7	10.1	-1.5	7.2
Russell 2000 Growth	10.0	18.5	7.5	-2.9	8.4	-1.3	11.7
Russell 3000	-19.2	25.9	10.0	3.2	6.2	-0.7	19.7
Russell 3000 Value	-8.0	11.6	8.6	-2.3	9.5	-1.1	14.9
Russell 3000 Growth	-29.0	41.2	11.2	7.8	3.4	-0.4	23.5
International*	21.0	17.9	5.6	-0.6	7.8	-4.2	8.4

Source: Bloomberg
*MSCI Daily TR Net World Ex USA USD

Another factor contributing to the month's tough end was rising interest rates. While the Fed began its rate-cutting campaign with a bang, lowering short-term rates by 50 basis points in September, longer-term interest rates have actually moved meaningfully higher since then. Yes, short-term rates have moved lower, but the 10-year Treasury yield has moved more than 50 basis points higher in the last three months, mostly in the last month. That is a sizable move in a surprising direction.

What was causing this? Some of it can be attributed to generally strong economic data that continued to emerge during the month. A strong non-farm payrolls report and a warmer-than-expected CPI report provided evidence that the economy continues to motor along. Also, seeing the post-election moves, it seems that markets were sorting through the election tea leaves and starting to reflect the reality that no matter who won the election, the federal deficit would continue to expand meaningfully. Now that the winner is known, interest rates are continuing to move higher, as the market seems to be asking for a higher return for the so-called "risk-free" creditworthiness of the United States.

Election Takeaways

Equity markets are responding favorably to Trump's victory, while bond markets seem to be taking a more cautious view. While we're not making wholesale adjustments to client portfolios based on the changing political backdrop, we observe that markets are reacting in a logical manner to new information. Equity markets love lighter regulation, new federal spending and lower taxes and can generally manage through some inflation over time. Bond markets will take some convincing.

As always, we are not trying to make bold predictions about the future. However, we can still point to history as a guide and come back to the observation that markets have done well for many years under presidents of many stripes. While politics may matter at the margin, underlying economics and market forces matter more. Moreover, the markets themselves may yet have some influence on the extent to which global trade is affected and on how much deficit spending the government can pursue. Perhaps the long dormant bond vigilantes will weigh in.

We often remind clients to voice their political views at the ballot box, not in their portfolios. That's in part because political views are based on the personal experiences or morals of the individual. In our experience, it's not a good idea to take a moral argument to Wall Street. Wall Street, despite its detractors, is not immoral, but it is definitely amoral. Market prices, unencumbered by political agendas or moral considerations, reflect expectations of economic reality. A market narrative may persist for some time, but eventually, there comes a time to put up or shut up. Either the cash flows materialize or they don't.

In a world of vastly different and competing narratives, isn't that refreshing?

FOR MORE INFORMATION, PLEASE REACH OUT TO:

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