TRUST COMPANY
OF THE SOUTH

Monthly Market Dashboard

November 2024

ELEMENT	TREND	COMMENTS
VALUATION	Negative	Valuations are higher, certainly for the largest companies.
INTEREST RATES	Neutral	Longer term rates, which had jumped, have eased somewhat.
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.

November "Reign"

In the wake of the presidential election, stocks turned in their best performance of the year in November. Investor sentiment throughout the month was one of continued optimism, as markets anticipate an increasingly business-friendly environment under the new administration, with lighter regulation and potentially lower corporate tax rates.

Risk assets of all kinds have benefited from heightened animal spirits. Stocks rose globally, but particularly here in the U.S., with the S&P 500 returning 5.9% during November. Small-cap stocks performed even better, with the Russell 2000 advancing 11% for the month, as smaller, U.S.-centric companies are seen to benefit particularly from the incoming administration's more industrial, even protectionist, trade policy. Other classic "bro trade" assets also took off during the month. Tesla, seen to benefit from Elon Musk's closeness to President-elect Trump, rose 38%. Meme-stock darling GameStop soared 35%. Bitcoin is trading at all-time highs, just shy of $100,000.

Paradise City

While tariffs of some degree or another are likely to be implemented (President-elect Trump has said he would immediately enact 25% tariffs on Canada and Mexico), markets do not seem to be pricing in anything remotely close to an all-out global trade war. Tariffs are easily the most controversial economic and trade policy position the incoming administration has taken to date, but numerous officials in Trump's orbit have downplayed the speed and extent to which they might be implemented.

Markets also welcomed Trump's choice of Scott Bessent as treasury secretary. While some of Trump's other nominations may have been intended to ruffle feathers, the choice of Bessent, a billionaire former hedge fund executive, seemed intended to reassure Wall Street that the administration would not go out of its way to rankle financial markets.

Major Equity Index Performance

	2022	2023	1Q24	2Q24	3Q24	Oct.	Nov.	YTD
MSCI All Country World	-18.3	22.2	8.2	2.9	6.6	-2.2	3.7	22.2
S&P 500	-18.1	26.3	10.6	4.3	5.9	-0.9	5.9	26.3
DJIA	-6.9	16.2	6.1	-1.3	8.7	-1.3	7.7	16.2
NASDAQ	-32.5	44.7	9.3	8.5	2.8	-0.5	6.3	44.7
Russell 2000	-20.5	16.9	5.2	-3.3	9.3	-1.4	11.0	16.9
Russell 2000 Value	-14.8	14.6	2.6	-3.7	10.1	-1.5	9.7	14.6
Russell 2000 Growth	10.0	18.5	7.5	-2.9	8.4	-1.3	12.5	18.5
Russell 3000	-19.2	25.9	10.0	3.2	6.2	-0.7	6.7	25.9
Russell 3000 Value	-8.0	11.6	8.6	-2.3	9.5	-1.1	6.5	11.6
Russell 3000 Growth	-29.0	41.2	11.2	7.8	3.4	-0.4	6.8	41.2
International*	-16.0	15.6	4.7	1.0	8.1	-4.9	-0.9	15.6

Source: Bloomberg, Trust Company of the South

*MSCI ACWI ex USA Net Total Return USD Index

The Bessent choice certainly helped calm Treasury markets, sending yields lower versus a month ago. Yields, which move in the opposite direction of prices, have been climbing since September. We think it's interesting to note that for months earlier this year, the Fed Funds futures markets reflected market expectations that short-term rates would be well below the Fed's own estimates—now the opposite is true. The higher-for-longer camp is prevailing at the moment.

Higher interest rates support a stronger U.S. dollar, which has been soaring since the election. The U.S. dollar index, also benefiting from expectations of a smaller trade deficit, rose by more than 2% during November. As a result, U.S. equities have outperformed their international counterparts. Currency policy will be an interesting area to watch because the president-elect is a staunch advocate of a weaker dollar.

Knockin' On Heaven's Door

There's quite a lot to like about this market. Solid earnings growth prospects, lighter regulation, and potentially lower tax rates each contribute to a favorable environment. There's just one thing—it's expensive.

We've been writing about the market's premium valuation for a very long time, but now is probably not the time to stop. Historically, buyers of stocks at these levels have had a difficult time making money, at least over the short term. The last time the S&P 500 was this expensive (on a price/earnings basis) was during the wacky pandemic-stimulus market when the federal government blasted trillions of dollars in stimulus at the economy and everyone could ignore the level of near-term corporate earnings knowing that better times were probably ahead. The time before that was the aftermath of the dot-com bust.

Furthermore, the market remains highly concentrated, with almost 37% of the market capitalization of the S&P 500 in just ten stocks.

We are not calling for a major market downturn. But we are saying, like always, that maintaining a margin of safety, and being fearful when others are greedy and greedy when others are fearful, are strategies that have worked well over the long term. We expect they will continue to work well, well into the future.

Just remember the words of the great value investor Axl Rose:

"Nothing lasts forever, and we both know hearts can change."

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