

November 2024 Market Commentary

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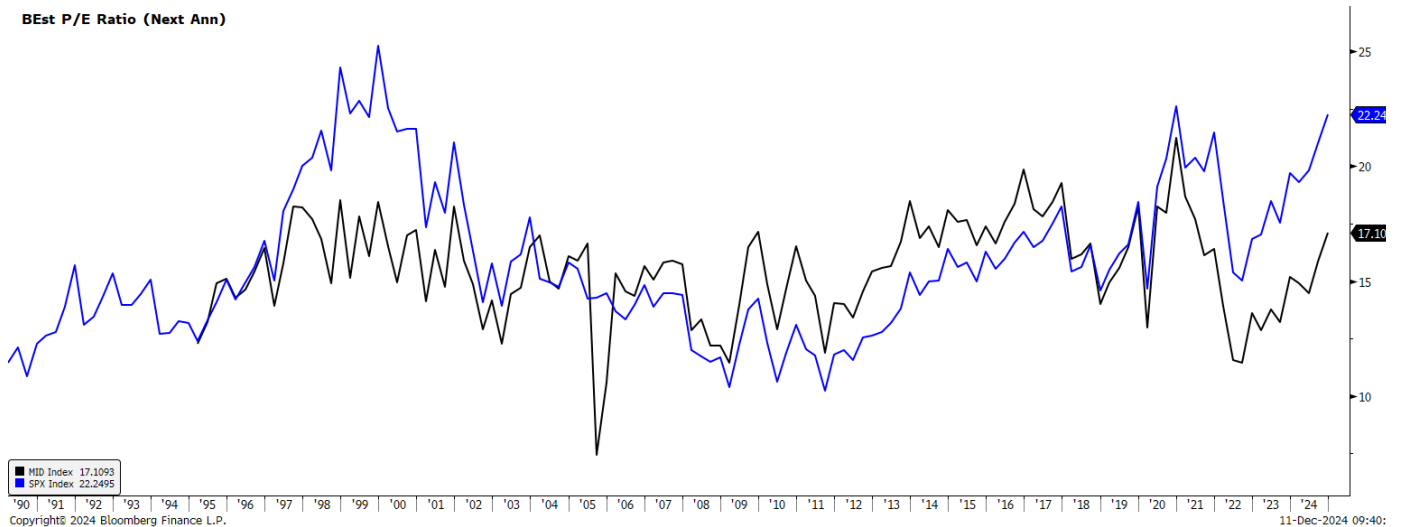
December 11, 2024

Stocks improved on their post-election day gains to finish the month sharply higher as investors cheered the Trump 2.0 agenda promising lower taxes, less regulation, and a more nationalist trade policy. The S&P 500 finished November up 5.9%, the NASDAQ gained 6.3%, and the Dow Jones Industrial Average jumped 7.7%. Small caps were the standouts with the Russell 2000 gaining 10.8%, given their potential outsized benefits from lower taxes and reshoring. From a sector perspective, all eleven sectors finished November in the black, led by Consumer Discretionary (+12.9%), Financials (+10.5%), and Energy (+7.8%), which are all perceived as key beneficiaries of the incoming administration's economic policies. Healthcare was the worst-performing sector, up less than half a percent, weighed down by uncertainty posed by the nomination of Robert F. Kennedy Jr. to lead the Department of Health and Human Services. Other pockets of underperformance included housing-related and other interest rate-sensitive areas and stocks that could bear the brunt of higher tariffs.

We continue to see the potential for stocks to trade well over the intermediate term, but there will likely be more volatility than over the past year, and a pullback early next year would not be surprising. Economic growth remains resilient, consumer spending is holding up better than we expected, the labor market is moderating, but not collapsing, and inflation is contained for now, allowing the Federal Reserve to continue cutting interest rates over the next few quarters. On top of that, Trump 2.0 provides a generally more positive policy backdrop for business investment and sentiment (could manufacturing break out of a ~2-year slump?). Yet, much of this seems likely reflected in currently high valuations for the broader equity indices (S&P 500 trades at 22x+ forward earnings, the highest level in more than 4 years and closing in on the all-time record ~25x set during the internet bubble) and many measures of sentiment are elevated (U.S. equities saw an inflow of \$141 billion over the last month, the largest monthly inflow in history). Accordingly, any number of likely excuses, such as renewed geopolitical concerns or delays in policy implementation, given slim Republican majorities in both houses, could result in a quick market reset. Still, any pullback will not likely mark the start of a deeper or longer-lasting selloff. For that to develop, it will likely take a recession, an AI-related spending retreat, a resurgence in inflation, or a significant policy misstep, none of which appear to be in the offing in the near term but are risks we will continue to monitor for. Taken together, we see a better setup for mid-cap and smaller stocks next year, given they will be significant beneficiaries of lower interest rates, onshoring/tariff protections, and deregulation and still trade at a substantial discount to larger-cap peers.

Mid-Cap stocks trading at 17x are at a substantial discount to the S&P 500 at 22x

BEst P/E Ratio (Next Ann)



Source: Bloomberg

As always, we would enjoy hearing from you. Please reach out with any comments or questions.

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