

## October 2024 Market Commentary

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*November 11, 2024*

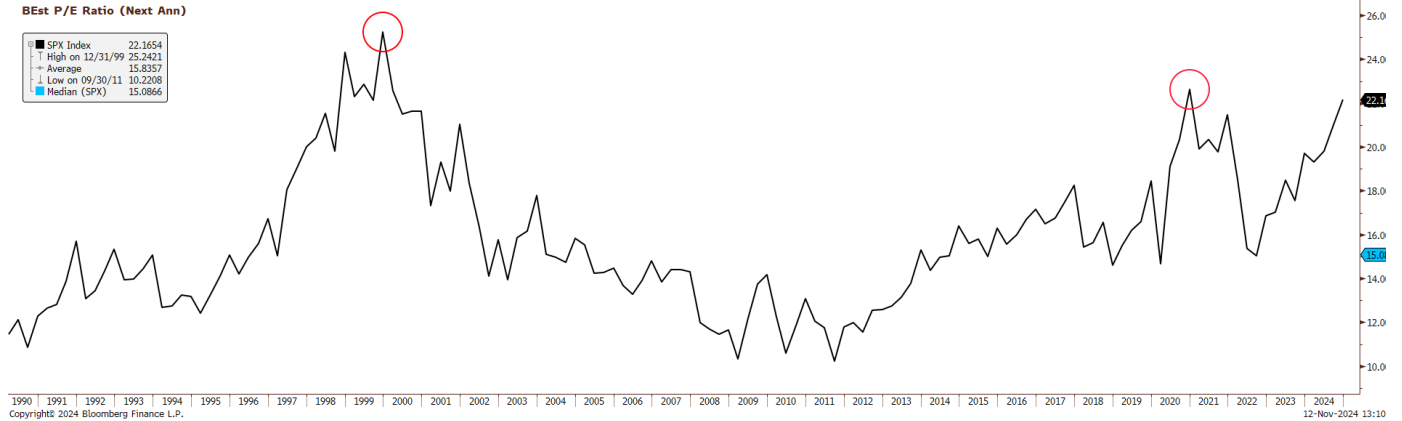
**The anticipation...** Stocks took a breather in October as investors grew anxious ahead of US elections, mega-cap earnings results, and the next Federal Reserve meeting. Investors ruminated about the potential for a drawn-out vote count and the possibility of a contested election. The S&P 500 was down 0.9% for the month, ending a 5-month win streak, the NASDAQ fell by 0.5%, and the DOW Jones Industrial Average lost 1.3%. Smaller-cap equities underperformed, with the Russell 2000 Index dropping 1.4%. From a sector perspective, there were only three sectors in the black, led by Financials (+2.6%), which got a boost from strong third-quarter earnings results from the money center banks, Communication Services (+1.8%), and Energy (+0.9%), as geopolitical tensions continued to simmer. A solid preliminary reading of third-quarter GDP contributed to the largest monthly selloff in Treasury bonds since September 2022, pushing yields sharply higher. The spike in bond yields put pressure on some of the more defensive and interest rate-sensitive stocks, with Healthcare (-4.6%), Staples (-3.5%), and Real Estate (-3.3%) the three worst-performing sectors.

**... is usually worse than the outcome.** Despite the tight polling and fretting over the potential for a contested election, the results were straightforward, with President Trump securing the Electoral College and winning the popular vote. The markets breathed a sigh of relief and went on to have their best three-day run since November 2022, with the S&P 500 gaining roughly 5%. The removal of political uncertainty coupled with expectations for tax cuts, deregulation, and a more friendly antitrust regime under a Trump administration and possibly Republican control of both chambers of Congress should help continue to bolster stocks in the near term, particularly since we are in a traditionally seasonally strong period of the year, investors with gains will be reluctant to sell before the end of the year for tax reasons, and the Fed will likely cut interest rates again in December. Yet, we may be borrowing returns from the future with valuations continuing to climb closer to prior peak levels with the S&P 500 forward P/E now at 22x--nearly back to April 2021 levels preceding the last downdraft, which was only topped by the 1999 peak at 25X.

## S&P 500 Forward Price-to-Earnings Multiple Looks Expensive

BEST P/E Ratio (Next Ann)

SPX Index	22.1654
High on 12/31/99	25.2421
Average	15.8357
Low on 09/30/11	10.2208
Median (SPX)	15.0866

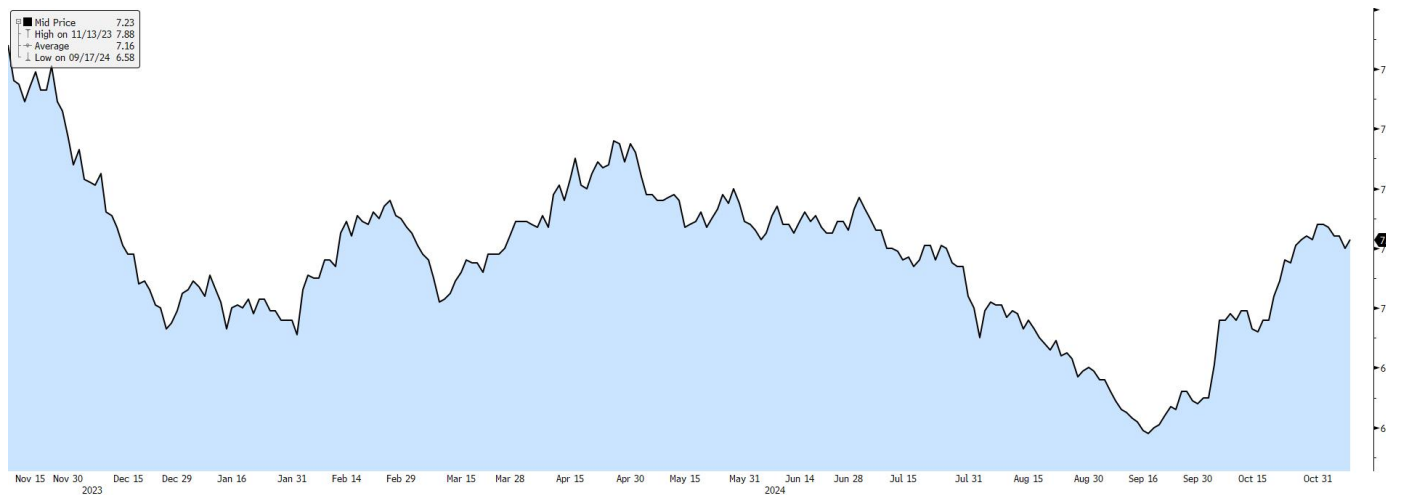


Source Bloomberg

As the inauguration draws closer, the litany of proposed policy changes and timelines for implementation will be scrutinized more closely. Some proposed policies could contribute to higher inflation (e.g., expanding deficit, higher tariffs, immigration crackdown) and less Fed easing, complicating the longer-term outlook and likely creating more dispersion between winners and losers. We do not like the implications for housing, an important driver of the economy, from the recent move higher in mortgage rates despite the Fed cutting rates.

## 30-Year Mortgage Rates

Mid Price	7.23
High on 11/13/23	7.88
Average	7.16
Low on 09/17/24	6.58



Source Bankrate.com

For now, we will enjoy the honeymoon period, and our positioning remains largely intact with some modest tweaks. We are incrementally more constructive on natural gas, given prospects for deregulation coupled with a likely step change in demand from the buildout of energy-intensive AI data centers. Meanwhile, we are more cautious on defense-related names, given the potential for less support for funding Ukraine and the potential need to find cuts somewhere to fund other budget priorities.

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

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