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Market Stats & Commentary

Market Vital Signs as of 10/31/2024

Stock Indexes	October	YTD	1 Year
S&P 500	-0.91%	20.97%	38.02%
Dow Jones Industrial Average	-1.26%	12.50%	28.85%
NASDAQ Composite	-0.52%	20.54%	40.80%
Russell Mid Cap Index	-0.54%	14.02%	35.39%
Russell 2000 Small Cap Index	-1.44%	9.56%	34.07%
MSCI EAFE Developed Int'l Index	-5.44%	6.85%	22.97%
MSCI Emerging Markets Index	-4.45%	11.66%	25.32%
Bond Indexes			
BBgBarc US Aggregate Bond Index	-2.48%	1.86%	10.55%
BBgBarc US Corp High Yield Bond Index	-0.56%	7.28%	16.31%
Interest Rates	10/31/24	12/31/23	10/31/23
Fed Funds Target Range	4.75%-5.00%	5.25%-5.50%	5.25%-5.50%
10 Yr U.S. Treasury Rate	4.28%	3.94%	4.89%

Source: Raymond James

October was broadly negative, with overseas markets being hit the hardest. Longer term interest rates also continued to rise, which led to losses in both the aggregate bond index and the high yield bond index.

Given the YTD gains going into October and anxiety of going into a hotly contested presidential election, it is not really surprising to have a volatile month.

One nugget to watch regarding developed international markets – the German coalition government led by Olaf Schultz has announced snap elections will take place in February 2025. The German economy, easily the most important in Europe, has had growing economic and budget issues since Russia's invasion of Ukraine (sound familiar?) and it has led to a loss of confidence in the moderate coalition which formed after the 2021 elections. Europe needs a strong and stable Germany, so this bears watching.

It's Finally Over

Thankfully, the U.S. election cycle is over and we can go back to seeing advertisements on TV for car insurance and pharmaceuticals we probably don't need rather than political attack ads. Donald Trump will be returning to the White House, Republicans have a Senate majority and it appears they have a majority in the House as well. While there are lot of deeply held feelings about the outcome on both sides, I'm going to focus on economic policy, effects of industry deregulation, and how the interest rate outlook has changed given the Republican sweep.

Economic Policy

The following are some of the key proposals outlined by the Trump campaign:

- End taxation of Social Security Benefits
- Make much of the 2017 tax cut package permanent
- Lower the top corporate tax rate from the current 21% to 15% (before 2017 it was 35%)
- Impose a tariff (less offensive word for tax) of 10% on ALL imported goods
- Impose much higher tariffs on targeted imported goods.

There are a ton of data and variables to analyze, as well as assumptions made, to model out long term effects of this, so I went looking for a good source to gain some insight. I found some great analysis from the University of Pennsylvania's Wharton School of Business. I will highlight some of the conclusions but if you want to dig into the numbers for yourself feel free to do so here: https://budgetmodel.wharton.upenn.edu/issues/2024/8/26/trump-campaign-policy-proposals-2024 .

The conclusions of the analysis are as follows:

- The annual US government budget deficit would grow substantially. The 2025 estimate is $153B and the estimate for 2026 goes to $446B with enactment of the full economic agenda. Note: The report also notes that Harris' economic policies would enlarge the budget deficit, but to a lesser degree.
- GDP rises against current baseline assumptions in the short term (first 4 to 5 years), and then begins falling below baseline as the annual budget deficit and total debt grows. Note: The analysis does not provide a numerical GDP target for any years prior to 2034, only the brief comment about GDP rising in the first half of the next decade before rolling over.
- The report does not estimate the effects on inflation.

One note here, while the Penn analysis does not mention or estimate policy effects on inflation, that is the first thing on most people's minds these days. I have not crunched the numbers, but from a high-level macroeconomic view, higher deficits and import tariffs are probably not going to spur *deflation*…

Industry Deregulation

The post-election rally has been led by two sectors – financial services and energy (consumer discretionary is actually the top performing sector but the bulk of that outperformance comes from 1 stock – Tesla). Why, you ask? Well, both are heavily regulated industries, albeit in very different ways. Federal regulations are typically not driven by congress, thus not up for votes, and can be highly directed by the policy goals of whoever is in the Oval Office. The assumption is that the regulatory environment in general will become relaxed and that these two sectors will particularly benefit from compliance cost savings and fewer hoops to jump through in many of their business units.

Small cap stocks have also rallied on this view, as regulatory and compliance costs can amount to a larger percentage of their expense profile.

That all sounds great, but some regulatory framework is a very good thing – keeps things between the lines, so to speak. It is very much a balancing act. Go too far and you restrict growth, innovation, and profits. Don't go far enough and you get a higher possibility big negative event. Cases in point – the mortgage housing debacle that ended with the Great Recession, the drinking water in Flint Michigan, the Texas power grid failure, etc.

But coming back to the here and now, a more relaxed regulatory environment should translate to corporations' bottom lines fairly quickly, which makes earnings per share go up, which makes stock prices go up.

Interest Rate Outlook

Given the stimulative nature (in terms of near-term GDP), it's not surprising that the market's interest rate outlook has changed. Hitting the gas pedal on economic growth and stiff import tariffs will put at risk the progress made on inflation over the last year or so. If GDP estimates for 2025 start getting ratcheted up, the amount of expected interest rate cuts will go down, and maybe away. There is currently a greater than 80% probability built into markets that the Fed cuts rates by a quarter point in December. After that, the picture gets a bit cloudy. The current odds-on probability for the January meeting is no change with a slim bias toward a quarter point cut in March.

I could go into more depth on these subjects but then this note would be 20 pages instead of 2 and arrive in clients' inbox around mid-December, which defeats the point. Hopefully this has been at least a bit helpful in framing outlook and market reaction. As I said last month, there could be a knee jerk reaction one way or the other regardless of who wins and I intend on letting the dust settle, letting earnings and economics play out, and trying to make rational and reasoned decisions.

David

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Index Descriptions

S&P 500: Representing approximately 80% of the investable U.S. equity market, the S&P 500 measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested.

Dow Jones Industrial Average Total Return: The Dow Jones Industrial Average is a composite of 30 stocks spread among a wide variety of industries, such as financial services, industrials, consumer services, technology, health care, oil & gas, consumer goods, telecommunications, and basic materials. The index represents approximately 23.8% of the U.S. market, and is price weighted (component weightings are affected by changes in the stocks' prices). Maintained by the Averages Committee, components are added and deleted on an as-needed basis.

Russell Midcap: A subset of the Russell 1000 index, the Russell Midcap index measures the performance of the mid-cap segment of the U.S. equity universe. Based on a combination of their market cap and current index membership, includes approximately 800 of the smallest securities which represents approximately 31% of the total market capitalization of the Russell 1000 companies. The index is created to provide a full and unbiased indicator of the mid-cap segment.

Russell 2000: Based on a combination of their market cap and current index membership, this index is comprised of approximately 2,000 of the smaller securities from the Russell 3000. Representing approximately 10% of the Russell 3000, the index is created to provide a full and unbiased indicator of the small cap segment.

NASDAQ: The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.

MSCI EAFE (Europe, Australasia, Far East) Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. As of June 2, 2014, the index consists of 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Market Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2, 2014, the index consists of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and the United Arab Emirates.

Bloomberg Barclays U.S. Aggregate (BCAG): A representation of SEC-registered, taxable, and dollar denominated securities. The index covers the U.S. investment grade fixed rate bond market, with index components for asset-backed securities, government and corporate securities, and mortgage pass-through securities. Must be rated investment grade (Baa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch; regardless of call features have at least one year to final maturity, and have an outstanding par value amount of at least $250 million.

Bloomberg Barclays U.S. Corporate High Yield: Covers the universe of fixed rate, non-investment grade debt which includes corporate (Industrial, Utility, and Finance both U.S. and non-U.S. corporations) and non-corporate sectors. The index also includes Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Must publicly issue, dollar-denominated and non-convertible, fixed rate (may carry a coupon that steps up or changes according to a predetermined schedule), and be rated high-yield (Ba1 or BB+ or lower) by at least two of the following: Moody's, S&P, and Fitch. Also, must have an outstanding par value of at least $150 million and regardless of call features have at least one year to final maturity.

U.S. government bonds and Treasury notes are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. U.S. government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury notes are certificates reflecting intermediate term (2-10 years) obligations of the U.S. government. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise.

International investing involves special risk, including currency fluctuations, differing financial accounting standards, and possibly political and economic volatility.

Investing in emerging markets can be riskier than investing in well established foreign markets.