Wealth Advisory Market Update

November 13 2024

Market Update

Equities:

October was a busy month, with the start of earnings season and a slew of economic releases leading up to the Presidential election. This was followed by Federal Open Market Committee (FOMC) meeting and once again cutting rates this time by 25 basis points. As a result, volatility picked up throughout the month in both equities and fixed income markets. Interest rates finished the month higher, as market participants expected spending to pick up with whomever was elected and equity markets finished lower.

Information Technology earnings releases brought down the overall market at the end of the month. As we have stated before, many of these large tech names are priced for perfection, so falling short of any metric or forecast will send these names lower. That was the case for both Microsoft and Meta as lower than expected guidance and an increase in expenses was viewed poorly by analysts. We expect this trend to continue over the coming quarters. Overall, 75% of companies have beaten estimates, below the five-year average of 77%. This comes as the earnings per share expectations for the S&P 500 have been lowered over the last six months, as is usually the case. Analysts are too optimistic on the upside and too pessimistic on the downside. We are currently in one of the most expensive markets in history with volatility measures continuing to show no signs of concern. We are also seeing market participants optimism at one of its highest points with household allocation to equities at the highest on record leading me to think of the Warren Buffett quote, “Be fearful when others are greedy and greedy when others are fearful.”

The Presidential election saw former President Donald Trump reclaim the White House. The Republicans have also taken control of the Senate and appear to have control of the House. This would allow for changes in legislation to be enacted. Markets have risen higher in the first few days after the election results led by heavy regulated sectors such as financials and healthcare. The S&P 500 had its best week of the year helped in part to the performance of financials, which have seen a big boost as the assumption of a Republican run government should lessen regulator burden in the coming years. Small caps have also seen a rally as well with the prospect of lower taxes being forecasted.

Economic Indicators and Monetary Policy:

The latest FOMC meeting did not receive the same press coverage as we have become accustomed, as it took place the day after the election. After cutting interest rates by 50 basis points in the last meeting, the economy has shown signs of a resurgence in inflation as well as growth. In fact, mortgage rates have risen over 60 basis points since the cut. This meeting went as the market expected and the Fed reduced the federal funds rate by 25 basis points. The FOMC made changes in their press release that were more hawkish in our opinion stating that “labor market conditions have eased.” Further cuts without continued progress on the labor market and inflation could give the market jitters and cause rates move higher.

In the press conference, Fed Chairman Jerome Powell mentioned that economic activity continued at a solid pace and the labor market remains solid. The Chairman stated that while inflation has moved towards their goal, core inflation remains somewhat elevated. The Chaiman then gave a contradictory remark and said that while the latest report was not terrible, price increases were a little higher than expected. This then begs the question if the labor market and the economy remain solid, yet inflation data remains “somewhat elevated” why would

they continue to reduce rates? In our opinion the Fed is concerned about the labor market. Seven out of nine months this year have seen downward revisions. In our view, the labor market is weaker than BLS numbers are stating and the economy is not as strong as the FOMC is letting on.

Strategy:

While there has been a change in the political landscape that does not alter out discipline. We continue to remain overweight in sectors that have shown the ability to withstand economic slowdowns. Without fiscal spending of $1 trillion every 90-days we would have already seen a recession. What we have witnessed over the last few years is not sustainable and when the spending is cut back, we believe a slowdown will occur. We are not going to drift from our philosophy. We do believe fundamentals will matter again and when that occurs, we will be prepared. Our portfolio will consist of companies that possess a strong balance sheet, have pricing power, and a market dominant position.

Interest rates have made significant moves the past few weeks. As mentioned before, even though the Fed has begun cutting rates, rates have ticked higher at the middle and end of the curve. In our opinion this is due to the thought of continued deficit spending from the US while the Federal Reserve is easing financial conditions. This could lead to a ramp back up in inflation and rates are pricing this in. We have taken advantage of the latest move and are extending duration to lock in higher yields. Higher quality credits still remain favorable as US investment grade credit spreads are the tightest they have been since 1998.

As we navigate this challenging environment, we appreciate the opportunity to collaborate with you in achieving your financial goals.

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