Weekly Market Insights

November 11, 2024

Remarkable!

Financial Markets

It's over! Yes, the long-awaited presidential election is over, and it was an unexpectedly clean, quick, and uncontested affair. Equity markets rallied similarly to the 2016 election. In many respects, it was a relief rally with investors happy to avoid a long, drawn-out process.

	Total Return (%)		
Index	**Prior Week**	**Year-to-Date**	**1-Year**
S&P 500	4.69	27.17	38.80
S&P 500 Equal Weighted	4.31	18.25	33.53
Dow Jones Industrial Average	4.61	18.50	31.49
NASDAQ Composite	5.76	29.25	42.37

It was the Dow Jones' largest post-election day gain since 1896. Many investors expect a repeat of the president-elect's first term; however, the circumstances differ. As *Barron's* pointed out, when Trump first took office in 2016, inflation was lower with the Core Consumer Price Index (CPI) near 2%, the federal budget as a percent of GDP was less than half of what it is now, and equities were trading at much lower multiples.[1]

Economics

Donald Trump will again take office after one of the most eventful elections in history. He will take the reins of the strongest and fastest-growing economy in the developed world. Given the strong pre-election year-to-date market performance and the post-election market reaction, one might think the incoming president was happily following a president of the same party. That is not the case. This is a significant change, so it is hard to project exactly what comes next.

The election results overshadow all else, but a lot is happening around the globe. In the United States, economic indicators appear strong. The economic data indicates that consumers are still doing quite well despite some signs of strain. As we wrote above, financial markets have been strong, and while inflation remains stubbornly higher than the Fed's 2% target, it is gradually coming down. We will have more to say about inflation when we discuss the Federal Reserve and interest rates.

At a very preliminary glance, the United States economy will likely involve strong equity markets, higher budget deficits, a weaker dollar, and higher inflation. Readers should bear in mind that many market, policy, and economic variables have several unknown inputs, so the path is unclear.

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[1]La Monica, Paul R. "It's Trump's Stock Market Now. How to Play It." Barron's, November 8, 2024. https://www.barrons.com/articles/trump-stock-market-77c1c097.

The Fed Exerts its Independence!

When Chairman Powell held his post-meeting press conference this past week, he was asked two vital questions: 1) Will you resign? and 2) Will you leave office if asked by the president? His answer was no to both, giving investors confidence that monetary policy decisions will continue to be made independently.

The Open Market Committee deviated from the aggressive 50 basis point rate reduction made at the September meeting to a more standard 25 basis point reduction last week. The primary reason for the decision is that the economic data implies a slightly stronger economy than previously thought. Still, the projected path for interest rates is lower. Perhaps the most valuable information came from Powell's discussion of the relationship between inflation and wages over time. Using a weak analogy, we could say inflation, in this case, is the leading indicator, while wages are a lagging indicator. During inflationary waves, prices move up rapidly, and wage increases fail to keep up. Even as wage increases start to catch up, the cumulative impacts of inflation continue to weigh on consumers. So, wages still feel inadequate despite gains, causing understandable frustration among workers. Perhaps this is not the answer people want to hear, but it helps explain why some feel that progress is not being made.

Internationally, two areas that have and continue to concern us, to very different degrees, are the E.U., primarily Germany, and, to a much greater degree, China.

Germany is the anchor holding the European Union back. The country is the E.U.'s industrial hub and has been experiencing economic malaise for some time. Christine Lagarde, President of the European Central Bank (ECB), has been attempting to fight this with easy monetary policy but to little avail.

China, the third of the big three global economies, is in difficult financial straits of its own making. It has been a long time in the making, and it will require a long time to fix. The country spent the past week devising a plan to get out of it, and it appears to be mostly window dressing. China will have to deal with the financial problems alongside President-elect Trump's aggressive trade policies. We will have more on this next week.

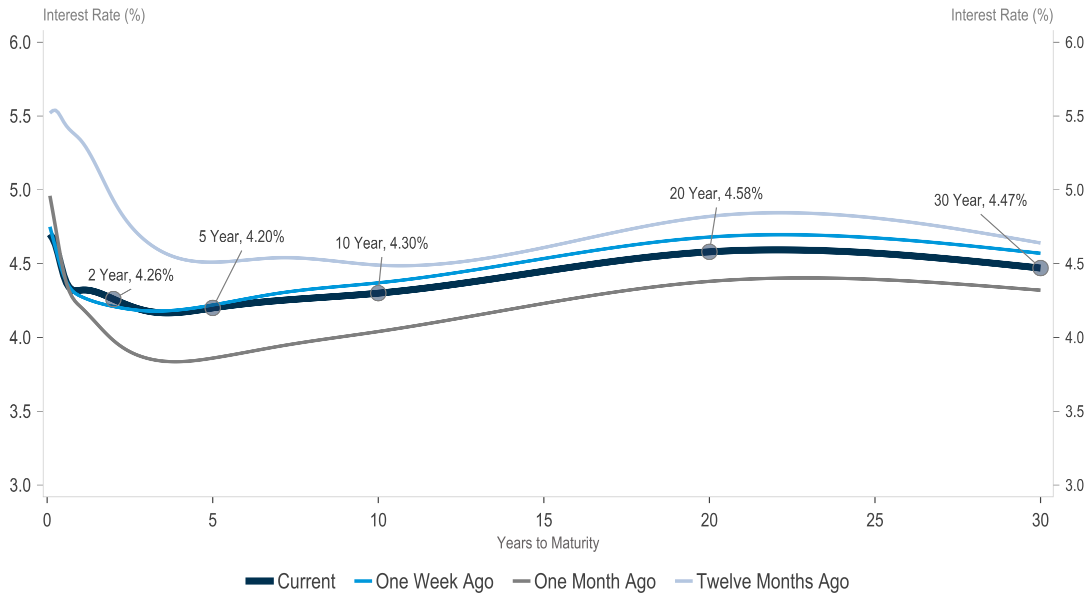
Conclusion

Looking ahead, the possible paths are quite diverse. As usual, this is not the time to get swept up in euphoria or to be a hero risk-taker. We would not shy away from markets but would let some of the dust settle before making any major decisions.

Weekly Market Insights

Yield Curve

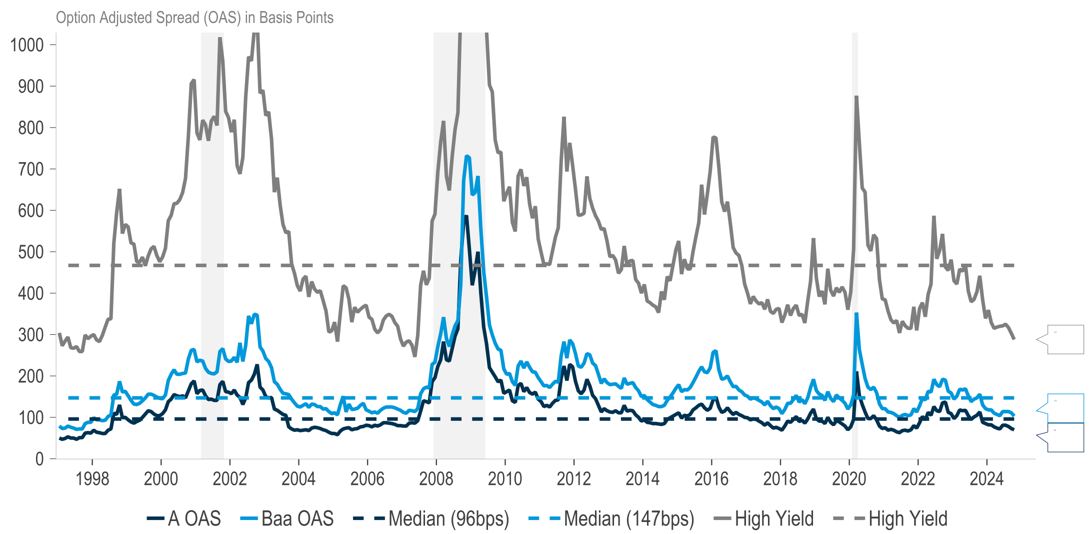
Interest Rates for U.S. Treasury Securities by Maturity Date



U.S. Department of Treasury, Daily Treasury Bill Rates Data
Data as of 11/8/2024

Credit Spreads

Investment Grade and High Yield Bond Yields Compared to Treasury Yields



Recessions indicated by shaded area
Bloomberg, FactSet, ICE BofA
Monthly data available beginning January 1997 to 11/8/2024
Vertical axis truncated to improve scaling so outlier values may not be visible on chart

Michael Olin Clark. Sr. Advisor
moclark@1919ic.com

Ryan Schutte, CFA, CFP®, VP, Sr. Investment Associate
rschutte@1919ic.com

Abigail McKenna, Portfolio Administrator
amckenna@1919ic.com

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