Weekly Market Perspectives

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Post-Election Jump in Asset Prices Lift Investor Spirits

U.S. stocks rose to their best levels of the year last week. A post-election jump in asset prices across several areas of financial markets, as well as an interest rate cut from the Federal Reserve, lifted investor spirits in front of an already favorable macroeconomic backdrop and positive seasonality tailwinds.

Last week in review:

- Former President Donald J. Trump will become the 47th President of the United States and will be only the second president to serve two nonconsecutive terms since Grover Cleveland in 1892. The President-elect won the electoral college vote in all battleground states and secured the popular vote as well, something Trump was unable to do in 2016 and 2020. Trump will enter the White House in January with a strong mandate for change, a Republican-controlled Senate, and a likely Republican-controlled House of Representatives.
- As expected, the Federal Reserve continued its rate easing cycle by reducing the fed funds target rate by 25 basis points to 4.50% - 4.75%. That said, nothing significantly changed in the Fed's policy statement, and policymakers continued to point to a data-dependent approach. Fed Chair Powell said he was "feeling good" about the U.S. economy. Notably, Mr. Powell said the Fed has the flexibility to adjust policy based on evolving conditions and is not on a predetermined course. The Fed Chair believes policy remains restrictive and that lower borrowing costs are necessary to achieve maximum employment and price stability. **Bottom line: As long as inflation is hovering around the target and labor conditions are holding steady, we believe there is further room to cut interest rates gradually.**
- The S&P 500 Index touched 6,000 for the first time before settling a touch below the psychologically significant level on Friday. The Index has logged 50 closing highs in 2024 and put in its best week since April 9th, 2020, gaining +4.7%.
- The Dow Jones Industrials Average crossed 44,000 for the first time before ending slightly below the level, gaining +4.6% on the week. The NASDAQ Composite jumped +5.7%, while the Russell 2000 Index shot up +8.6% (its best week since March 2020).
- Small-cap stocks, Financials (+5.5%), and select Big Tech (ex. Tesla +29%) moved higher aggressively on prospects of lower taxes and deregulation. Consumer Discretionary (+7.6%), Energy (+6.2), and Industrials (+5.9%) also posted strong gains.
- U.S. Treasury prices were mostly firmer across the curve, with longer-dated government bond yields seeing added volatility across the week. The U.S Dollar Index rose for the sixth week (jumping by the most in eight years on Wednesday), Gold was down roughly 2.0%, and West Texas Intermediate (WTI) crude edged higher.
- In other items outside of the election and Fed, S&P 500 Q3 earnings continued to outpace expectations at the end of the previous quarter. October ISM services activity rose to its highest level since July 2022, weekly initial jobless claims were in line with expectations, and Michigan consumer sentiment rose to its highest level in six months. Notably, one-year ahead inflation expectations dipped to their lowest level since December 2020.

- Finally, NVIDIA, the leader of the artificial intelligence boom, became a member of the Dow Jones Industrials Average on Friday. However, unlike the S&P 500 and NASDAQ Composite, where NVIDIA commands a sizeable share of each index based on its $3.67 trillion market capitalization, it's only the 22nd most influential stock out of the 30 stocks included in the Dow. That's because the Dow is a price-weighted index instead of market cap weighted, meaning stocks with higher share prices than NVIDIA carry more influence in the index. Intel Corp. and Dow Inc. were removed, while Sherwin-Williams was also added to the Dow on Friday. Interestingly, because Sherwin-Williams carries a higher share price than NVIDIA, its influence on the Dow is roughly three times as great as NVIDIA.

Trump 2.0 investment considerations as fiscal priorities in Washington soon shift.

The non-partisan Committee for a Responsible Federal Budget estimates extending the provisions in the 2017 Tax Cuts and Jobs Act (TCJA) will increase the U.S. federal debt by $5.35 trillion over ten years. Exempting overtime income from taxes, ending taxation on Social Security benefits, and exempting tip income from taxes would add $3.6 trillion to that figure. And lowering the corporate tax rate to 15% from 21% for domestic manufacturers and enacting or expanding tax breaks for small businesses would cost another $400 billion over ten years. **Bottom line: The President-elect has made several promises to the electorate that have very big price tags that, by themselves, could dramatically increase U.S. debt and deficit spending over the next several years.** Notably, in the absence of spending offsets and/or significantly stronger economic growth, we believe these actions would likely erode the fiscal standing of the U.S. over time.

However, President-elect Trump has proposed placing as much as 20% tariffs on all imports, 60% tariffs on Chinese imports, and as much as 200% tariffs on imported vehicles from Mexico (as an example). In addition, Trump has said he would reverse current energy and environmental policies, expand energy production, reduce government waste, fraud, and abuse, and end the Department of Education in support of schools of choice. The Committee for a Responsible Federal Budget estimates these proposals could raise as much as $3.7 trillion over ten years in its central case, leaving a deficit (including net interest of over $1 trillion on the debt) of $7.75 trillion.

The thrust of Trump's deregulation focus could largely fall in the areas of energy and banking/finance. During his campaign, the President-elect said he would reverse a Biden-era pause on new licenses for liquefied natural gas (LNG) exports, roll back emission standards, and accelerate construction of new power plants across the country. In banking/finance, Trump has proposed firing SEC Chair Gary Gensler, which Trump has numerously referenced as "anti-cryptocurrency." In banking, less stringent capital requirements and a more favorable regulatory environment for mergers and acquisitions, as well as initial public offerings (IPOs), are areas the next President has stated he supports.

In our view, the story on taxes and tariffs in a Trump 2.0 administration is clouded by campaign promises, geopolitical bluster, and, in certain instances, limited by Congress or the President-elect's desire to continue to drive a strong economy. On taxes and as highlighted above, Trump's goal is to extend all the expiring provisions of (TCJA) and further cut taxes on the personal and corporate side. Here, Congress will get the last word and likely scale down Trump's more sweeping tax agenda due to fiscal constraints and costs of such proposals. Yet, the sweeping victory made by Trump and Republicans last week suggests, at the very least, that taxes will not be going up for Americans and corporations in the foreseeable future. Bloomberg estimates more plausible tax adjustments could lead to modestly faster growth and higher inflation, with debt projected to reach 141% of GDP by 2023, compared to 134% with no tax changes. If Trump's proposed tax agenda was delivered in full, it could increase U.S. debt-to-GDP to 150% by 2034.

On the tariff front, the President-elect does not need approval from Congress, and most expect Trump to use tariffs as a negotiating tactic or punitive "stick" to enact change across U.S. trade agreements with other countries. We expect tariffs to play a much larger role in a second term, which could be additive or restrictive to growth and corporate profits depending on how and where they are used. China will likely be an immediate focus for the Trump administration. China shipped roughly $500 billion in exports to the U.S. in 2023. Initial reactions from China to Trump's election victory suggest Beijing is already looking for openings to resolve trade frictions with the U.S.

Finally, on immigration, President-elect Trump has promised swift action on deporting as many as one million people residing in the U.S. with no legal basis to stay due to crimes and/or exhausted appeals. Logistically, however, implementing such actions will likely be a challenge, with cost estimates exceeding $300 billion, according to Bloomberg. Already stretched ICE and local law enforcement capacity also makes deporting such a large volume of individuals difficult, in our view. During Trump's first term, deportations never exceeded 360,000 annually, which was lower than former President Obama's tenure. Yet, we expected Trump to immediately reverse executive orders on immigration that undid his first-term policies and look to strengthen the border to reduce illegal immigration. Bloomberg estimates that securing the border could reduce unauthorized immigration to 200,000 annually. If wide-scale deportation and immigration controls are achieved as Trump has proposed, the U.S. population could be reduced by 8.7 million, including all who entered the country illegally since 2020. Bloomberg estimates the economy could shrink by over 3% by 2028, with reduced demand mildly outweighing the supply contraction in labor.

In terms of scope and longer-term market reactions to a Trump 2.0 presidency (outside of the immediate impacts on stocks and bonds last week), there is much undetermined and left open for investors to interpret at the moment. However, as we have outlined above, the focus of the next administration is very clear. As in most cases, we believe investors are best served by maintaining a well-diversified portfolio to help navigate evolving conditions. We would also advise investors to avoid the temptation to make any hard conclusions about how the items above may play out in your portfolio. Often, investors can get the outcome and narrative correct. But it's the market reaction that can trip them up at times and put them offside with their longer-term investment goals and objectives.

The week ahead:

U.S. Treasury markets will be closed on Monday in observance of Veterans Day, though stock markets in the U.S. will be open. Key inflation reports and a fresh update on retail sales are the focus of this week.

- On Wednesday, the October headline Consumer Price Index (CPI) is expected to rise to +2.6% annually, which would be above the +2.4% level seen in September. Core CPI is expected to hold steady at +3.3% annually. Consumer inflation was likely tempered in October by lower gasoline prices. Tougher year-over-year comparisons through the rest of the year could also weigh on annualized measures of consumer prices. However, producer price inflation across headline and core measures is expected to rise in October versus September levels.
- Friday's October retail sales report is expected to hold steady month-over-month and dip slightly lower when autos are excluded. Investors will be looking for a boost in building material sales due to hurricanes, with lower gasoline prices constraining sales last month.

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The **S&P 500 Index** is a basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value (shares outstanding times share price), and its performance is thought to be representative of the stock market as a whole. The S&P 500 index was created in 1957 although it has been extrapolated backwards to several decades earlier for performance comparison purposes. This index provides a broad snapshot of the overall US equity market. Over 70% of all US equity value is tracked by the S&P 500. Inclusion in the index is determined by Standard & Poor's and is based upon their market size, liquidity, and sector.

The **S&P 500 Information Technology Index** comprises those companies included in the S&P 500 that are classified as members of the Global Industry Classification Standard (GICS) information technology sector.

The **NASDAQ Composite** index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The **Dow Jones Industrial Average** (DJIA) is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the smallest 2000 securities in the Russell 3000.

West Texas Intermediate (WTI) is a grade of crude oil commonly used as a benchmark for oil prices. WTI is a light grade with low density and sulfur content.

The **US Dollar Index** (USDX) indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and major world currencies. This is computed by using rates supplied by approximately 500 banks.

The **ISM Services** is compiled and issued by the Institute of Supply Management (ISM) based on survey data. The ISM services report contains the economic activity of more than 15 industries, measuring employment, prices, and inventory levels; above 50 indicating growth, while below 50 indicating contraction.

University of **Michigan Consumer Sentiment Survey** is a rotating panel survey based on a nationally representative sample of households in the U.S. that measures how consumers feel about the economy, personal finances, business conditions, and buying conditions.

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