November 2024

MONTHLY MARKET INSIGHTS

Key takeaways:

- US equities ended slightly lower in October after disappointing end-of-month earnings pared back early-month gains.
- After a disappointing October jobs report and in-line inflation readings, the Federal Reserve ("Fed") is likely to cut rates by 25 basis points ("bps") at their November meeting.
- Despite strong Republican momentum in October, the 2024 election remains "too close to call."

US stocks spent most of October in positive territory before paring back gains on the last trading day of the month, leading to monthly declines for US stock indexes. The S&P 500 declined -0.99% over the month, while the tech-heavy Nasdaq fell -0.85%.[1] Small and mid-cap stocks fared worse than their large-cap counterparts, with the Russell 2000 and S&P 600 posting negative returns of -1.49% and -2.71%, respectively.[2] Growth outperformed value over the month as defensive sectors, such as Healthcare, Materials, and Consumer Staples, proved to be laggards. Overseas, international stock markets broadly lagged the US with the MSCI All Country World Index excluding US declining -4.94% over the month.[3]

US third-quarter corporate earnings have generally been strong; however, mixed results from large S&P constituents, levered to the artificial intelligence ("AI") and obesity trends, led to volatile price action towards the end of the month. Earnings season kicked off with robust reports from the big banks as credit remains benign, and investors perceived future rate cuts and potential loosening regulation favorably. In turn, Financials was the strongest-performing GICS sector in October, posting returns of 2.55%.[5] On the other hand, Healthcare proved to be the worst-performing sector, down -4.73% over the month, primarily due to disappointing earnings from its largest constituent, Eli Lilly.[6] Eli Lilly shares were down sharply after sales of its weight loss drug, Zepbound, failed to meet sell-side expectations. New entrants to the weight loss category seem poised to take market share, likely weighing on Eli Lilly's future earnings potential, but could create opportunities for other companies to capitalize on this growing trend.

The AI trend remains robust, especially on the infrastructure side, with Nvidia returning 13.47% for the month amid continuing demand for its market-leading GPU products.[7] Nvidia has yet to report earnings this quarter, but end-of-month reports from hyperscalers point to healthy demand for cloud computing to help power AI initiatives. Alphabet and Amazon rallied sharply after their respective earnings releases, while Microsoft sold off due to weak guidance despite similarly strong results in cloud computing. Outside of disappointing guidance, OpenAI-related losses, amid heightened capital expenditures, created additional downward pressure on Microsoft. Similarly, Meta shares declined post-earnings as investors scrutinized whether future AI-related revenues will justify the company's elevated level of capital expenditure.

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1. Bloomberg
2. Id.
3. Id.
4. Id.
5. Id.
6. Id.
7. Id.

Overall, we remain constructive on earnings through year-end, yet the weakening outlooks among large S&P 500 constituents may imply a slowdown in 2025 earnings growth compared to sell-side expectations. Sell-side expectations for 2024 earnings growth have declined significantly over the past two years, currently standing at $239, while 2025 earnings expectations have remained range-bound, presently sitting at $274.[8] The implied earnings growth based on current 2025 earnings expectations is inconsistent with previous rate-cutting cycles leading us to believe that earnings expectations will come in sharply over the next few months. In turn, this could create downward pressure on US stock returns in the coming year.

Nonetheless, the setup for equities is favorable through year-end, with economic activity still healthy amid a Fed easing cycle. US real GDP grew 2.8% in the third quarter with consumer spending contributing 2.5% to overall economic growth.[9] The upper-income consumer continues to offset the observed weakening in lower-income cohorts, which leads to robust overall spending. We believe the upper-income consumer will continue to support economic growth until we see a more significant weakening in the labor market.

Non-farm payrolls rose a meager 12,000 in October, well below expectations, with downward revisions of 112,000 jobs to the August and September readings.[10] The weak print reflects a 41,000 drag from the Boeing labor strikes while the Bureau of Labor Statistics could not provide an estimate of the impact from hurricanes Helene and Milton.[11] Although the October jobs report was weak, the effect of the hurricanes and labor strikes materially distorts the data, and we retain the view that the labor market remains on solid footing despite some softening. Inflation remains in an acceptable range for the Fed, with the September core Personal Consumption Expenditure index implying a 2.65% year-over-year growth.[12] Acceptable inflation readings and a weak jobs report nearly guarantee that the Fed will cut 25 basis points at its November meeting. We anticipate another 25 bps cut in December as the Fed attempts to bring rates closer to neutral territory.

Globally, geopolitical tensions continue to escalate, posing a potential risk to investors; however, the impact on returns has been minimal to date. In recent days, North Korea has sent troops to fight for Russia in their ongoing war with Ukraine, prompting the US and NATO to urge China to intervene. In the Middle East, the ongoing conflict continues to spread across the region despite hopes of a ceasefire agreement after the death of Hamas leader Sinwar in Gaza earlier in the month. We would not be surprised if further escalations arise through year-end as foreign entities attempt to capitalize on the US election and transition of power. Commodity markets appear relatively insulated from recent escalations, as seen in flat oil prices month over month. Still, geopolitical tensions remain a significant risk factor that we will retain close vigilance as these conflicts ensue.

Lastly, the most notable event of November will likely be the US presidential election on November 5. Over recent weeks, the Republicans have experienced a surge in momentum, as observed through the betting markets; however, other indicators still point to a Harris victory. US 10-year treasury yields increased 50 bps in October, moving in tandem with betting odds of a Trump victory.[13] Similarly, as Trump's probability of winning has increased, the expected number of Fed rate cuts has decreased. We interpret this as the market believing that Trump's

8. Trennert, Jason. "WEIGHT OF THE EVIDENCE NEUTRAL TO SLIGHTLY POSITIVE ON STOCKS ." Strategas, 1 Nov. 2024, www.strategasrp.com/.

9. Rismiller, Don. "FURTHER EVIDENCE THE U.S. HAS ECONOMIC MOMENTUM." Strategas, 30 Oct. 2024, www.strategasrp.com/Document/Index?strResearchProductID=QT1cQiYlqAiNMtJpA49zWQ%3D%3D.

10. Hatzius, Jan, et al. "USA: Hurricanes and Strikes Slow Payroll Growth; Unemployment Rate Remains at 4.1%." Goldman Sachs, 1 Nov. 2024, www.gspublishing.com/content/research/site/search.html?facets=()&limitTo=%5B%22%22%5D&filter=(title+EQ+$%7B(briefly)%7D$+AND+sources+EQ+$%7B(%22ad68d69c-e1fd-4a2a-a90d-eae33ee4442c%22)%7D$+AND+totalPages+IN+%5B1,99999%5D)&page=1&sort=time&language=%5B%22en%22%5D.

11. Id.

12. Hatzius, Jan, et al. "USA: Employment Cost Index Below Expectations in Q3; Core PCE in Line With Expectations; Initial Claims Fall." Goldman Sachs, 31 Oct. 2024, www.gspublishing.com/content/research/site/search.html?facets=()&limitTo=%5B%22%22%5D&filter=(title+EQ+$%7B(briefly)%7D$+AND+sources+EQ+$%7B(%22ad68d69c-e1fd-4a2a-a90d-eae33ee4442c%22)%7D$+AND+totalPages+IN+%5B1,99999%5D)&page=1&sort=time&language=%5B%22en%22%5D.

13. Bloomberg

policies will be inflationary, requiring the Fed to maintain higher interest rates to combat price increases. On the other hand, the misery index[14], which has correctly predicted 15 of the past 16 presidential elections, currently signals a Harris victory.[15] Across swing states, Trump currently leads in Pennsylvania, Nevada, North Carolina, Arizona, and Georgia, while Harris leads in Michigan and Wisconsin.[16] His lead across swing states suggests that Trump still has the advantage in polling, but notably, all swing state polls are within the margin of error. One notable surprise of this election season is that the Republicans are winning the early vote nationally, which has not happened since 2004, the last time Republicans won the popular vote. Meanwhile, in the 2020 election, the Democrats had a sizable lead in early voting.

While we can observe and analyze a myriad of indicators that may help us predict the election outcome, the reality is that the 2024 election is simply "too close to call." More importantly, history has shown that the result of the presidential election has had a minimal impact on the long-term returns of risk assets. Therefore, we avoid taking draconian action within portfolios regarding the election outcome. Instead, we opt to maintain a disciplined investment approach in adherence to our long-term views on the economy and capital markets.

Assuming there is not a drawn-out, contested election, risk assets are poised to maintain their strength towards year-end as economic activity remains sound and the Fed continues its rate-cutting cycle. However, risks remain prevalent as geopolitical tensions linger and inflation has yet to reach the Fed's stated target of 2%. We retain a cautiously optimistic view toward markets while focusing on quality and diversification to mitigate volatility and protect against downside risk.

14. The Misery Index is an economic indicator calculated by adding the seasonally -adjusted rate of unemployment to the annual inflation rate.
15. Clifton, Daniel, et al. "DC WEEKLY UPDATE." Strategas, 1 Nov. 2024, www.strategasrp.com/.
16. Id.

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