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WEALTH MANAGEMENT

The Weekly Market Update – 11/4/24: Election Day Arrives With Uncertainty High

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,728.80	-1.37%	-0.58%	20.10%	36.60%	5,864.67	2.4%
Dow Jones Industrial Average	42,052.19	-0.15%	-0.66%	11.58%	27.23%	43,275.91	2.9%
NASDAQ Composite	18,239.92	-1.50%	0.28%	21.51%	41.93%	18,712.75	2.6%
Russell 2000	2,210.13	0.10%	-0.89%	9.03%	32.96%	2,442.74	10.5%
MSCI EAFE (USD)	2,336.19	-1.07%	-5.37%	4.47%	19.93%	2,506.69	7.3%
MSCI Emerging Markets (USD)	1,122.28	-1.11%	-4.15%	9.63%	22.63%	1,444.93	28.7%
Bloomberg Commodity Index	98.07	-2.16%	-2.26%	-0.58%	-6.26%	237.95	142.6%
Barclays U.S. Aggregate Bond	90.98	-0.74%	-3.25%	-0.78%	7.32%	112.07	23.2%

Source: FactSet

2024 election anticipation will give way to post-election analysis this week beginning on Wednesday. Hanging in the balance is the next President of the United States, as well as party control of Congress, with both the Senate and House of Representatives (House). While it is possible that final results are known quickly, if races are close in consequential states (those with larger electoral votes, or where a House or Senate seat could be flipped to the other party) then official outcomes could be delayed. The 2024 election outcome continues as one of the most uncertain we can remember, and the American public's political views on a range of issues is sharply divided. Equity investors, however, have appeared more sanguine about the 2024 election as the widely followed S&P 500 equity index was up +20.1% (not including dividends) year-to-date (YTD) through 11/1/24, and equities have extended a two-year bull market that began in October 2022. Over the past two weeks, (10/18/24 to 11/1/24), however, the S&P 500 declined -2.3%, its worst stretch since August (although it should be noted that just two weeks ago, the index closed at an all-time high). We attribute recent volatility to interest rates that have surged higher (the U.S. 10-year Treasury yield was 4.30% on 11/4/24, up from 3.62% just six weeks earlier). We believe higher rates were driven by stronger-than-expected economic data (the U.S. economy grew +2.8% in the third quarter, adjusted for inflation) and coincide with former President Trump gaining in many of the national election polls. Both a stronger-than-expected economy and a potential Trump win are associated with upward inflation pressure. Given our view that equity valuations are elevated (on a price-to-earnings, or P/E, basis, the S&P 500 trades at 21.8x FactSet consensus earnings estimates over the next four quarters, vs. a 10-year average of 18.4x), higher interest rates can act as a brake on valuations. In recent weeks, we have also seen relative performance rotate back into many of the large technology-centric growth stocks, an indication that equity investors still favor these leaders in times of uncertainty.

How does the S&P 500 perform post-election? Many investors expect a 'relief' rally in November as votes are counted and the country moves on from the election. In the 16 presidential elections from 1960 to 2020, the S&P 500 posted a gain from election day to the end of November 56% of the time (9 of 16), and the average return of all 16 periods (about three weeks) was +1.4%. The largest gain was in 2020, post-Biden victory, as the S&P 500 gained +9.4% from Election Day through the end of November. The S&P 500 rallied in November 2016 as well, up +3.2% from Election Day through the end of November. The S&P 500 performed even better from Election Day through year-end (12/31), with gains in 75% (12 of 16) of the post-election periods since 1960. Over that 7-week period historically, the average return was +2.4% and the index was higher in the past three elections. The last post-election decline through year-end was in 2008, down -6.5%, coinciding with the global financial crisis. Our takeaway is that the election result is unlikely to cause major market disruption, and investors should remain focused on long-term investment goals.

The U.S. Federal Reserve Bank (Fed) meets this week for the first time since September and is widely expected to lower its overnight fed funds interest rate target by -0.25%. Following September's -0.50% reduction, this would take the target range to 4.50% to 4.75%. The Fed's goal is to bring the rate down gradually over time (at least through 2025) as it sees inflation trending lower and jobs growth slowing. We will watch the post-meeting press conference on 11/7/24 to assess the Fed's clarity on these topics.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The minutes from the most recent FOMC meeting is here. The Federal Reserve Act mandates that the Federal Reserve conduct monetary policy "so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates." Even though the act lists three distinct goals of monetary policy, the Fed's mandate for monetary policy is commonly known as the dual mandate. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. As of 10/28/24, the fed funds target range was 4.75% to 5.25%.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work. The BLS also publishes the Job Openings and Labor Turnover Survey (JOLTS) which measures job openings, hires, and separations from a monthly survey of U.S. business establishments.

U.S. 2024 election day is 11/5/24. On the national level, voters will choose the next president of the U.S. and state election will determine the party control (Democratic or Republican) of Congress, both the U.S. House of Representatives and the U.S. Senate.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

We define a bull market as an index that has gained 20% or more from its most recent closing price low. Growth stocks are generally categorized as companies that are expected to sustain growth rates (in earnings and cash flow) above the overall market, or S&P 500 index.