The Weekly Market Update – 11/18/24: Still Too Early Post-Election Analysis

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,870.62	-2.08%	1.88%	23.08%	39.98%	6,001.35	2.2%
Dow Jones Industrial Average	43,444.99	-1.24%	2.63%	15.27%	31.44%	44,293.13	2.0%
NASDAQ Composite	18,680.12	-3.15%	2.70%	24.44%	45.36%	19,298.76	3.3%
Russell 2000	2,303.84	-3.99%	3.31%	13.65%	38.59%	2,442.74	6.0%
MSCI EAFE (USD)	2,275.34	-2.63%	-7.83%	1.75%	16.81%	2,506.69	10.2%
MSCI Emerging Markets (USD)	1,085.00	-4.46%	-7.33%	5.98%	18.55%	1,444.93	33.2%
Bloomberg Commodity Index	96.10	-2.07%	-4.22%	-2.58%	-8.14%	237.95	147.6%
Barclays U.S. Aggregate Bond	90.81	-0.90%	-3.43%	-0.97%	7.12%	112.07	23.4%

Source: FactSet

U.S. equities gave back some of the prior week's post-election gains as investors debate a range of outcomes from still undefined Trump Administration policies and economic trends. The widely followed S&P 500 equity index declined -2.1% during the week ended 11/15/24 but remained up +2.9% over the first half of November (as of 11/15). The initial pre- and post-election rally was fueled by investor optimism for less regulation, smaller government, and lower taxes. Those views have not changed, but other post-election factors causing investor uncertainty should be considered. This includes the potential for rekindled inflation and higher interest rates fueled by stronger growth and potential tariffs, but also industry-specific volatility caused by investor fear of policy pivots under the incoming administration. In that regard, last week, as President-elect Trump assembled cabinet nominations (subject to Senate confirmation in January), shares of defense and pharmaceutical stocks (among others) traded lower. This highlights the potential for sector volatility during the presidential transition period, but we caution against making major portfolio changes as investors react to the political news of the day. Investors also navigate economic data to inform views on expected U.S. economic growth and inflation, especially given a rapid rise in interest rates over the past two months. On 11/15/24, the U.S. 10-year Treasury yield closed at 4.44%, its highest level since July and up from 3.62% in mid-September. The trend of surging interest rates could be driven by strong economic growth (the U.S. economy grew +2.8% in the third quarter), but that growth might also drive renewed inflation pressure, eroding progress made over the past 18 months. October inflation data (consumer price index, or CPI) met expectations, but ticked higher to +2.6% year-over-year (Y/Y) from +2.4% in September. Core CPI, which tracks prices excluding food and energy, increased +3.3% Y/Y and has not improved over the past three months. While inflation data has improved substantially from the trends one and two years ago, the path to the Federal Reserve Bank's +2.0% inflation target has proven sticky and could take longer than widely expected.

The 2024 sector rotation that began in July 2024 remains firmly in place. From 6/30/24 to 11/15/24, the S&P 500 increased +7.5% and five of the eleven Global Industry Classification Standards (GICS) sectors increased more than +11.5% (Financials, Utilities, Consumer Discretionary, Industrials, and Real Estate). The Equal Weight S&P 500 (EWSP), which we view as an indicator of the performance of the average large-company stock, gained +9.9%, beating the market capitalization-weighted S&P 500. Outperformance of multiple sectors and the average stock in the second half of 2024 is a reversal from the first six months of 2024 (through 6/30/24) when the EWSP increased +4.1% vs. +14.5% for the S&P 500. In the first half of 2024, just two sectors (Technology and Communication Services) gained more than +10%. We view the second-half sector rotation and broad sector participation positively as, in our view, it reflects improved earnings expectations across large swaths of the economy.

As markets look to set a post-election trajectory, third quarter (3Q24) earnings season winds down and investors will begin looking ahead to the fourth quarter. According to data from FactSet, 3Q24 S&P 500 earnings are expected to increase +5.4% (92% of index companies have reported), trending above the +4.1% estimate at the end of September. Excluding one-time charges, earnings results are better than the reported +5.4% growth reflects, which is important because the consensus estimate for 4Q24 Y/Y earnings growth is +12%. That number requires a strong economy and margin expansion.

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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 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 11/8/24, the fed funds target range was 4.50% to 4.75%.

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 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.