
# ECONOMIC & INVESTMENT PERSPECTIVES

December 2, 2024

## NOVEMBER: US STOCKS & BONDS RISE

POST-ELECTION STOCK RALLY

**Figure 1: 11/30/2024 Returns** (source: Bloomberg)

*Conditional formatting: green (high) to red (low) for each time period*

| Bonds | ETF | Month | YTD | 1YR | vs. 52-wk High | vs. 52-wk Low |
|---|---|---|---|---|---|---|
| US Aggregate Fixed Income | AGG | 1.1% | 3.1% | 6.9% | -2.8% | 4.6% |
| Investment Grade Corp Bonds | LQD | 1.8% | 3.6% | 8.7% | -3.1% | 6.2% |
| U.S. Treasury Bonds | GOVT | 0.8% | 2.2% | 5.5% | -3.1% | 3.9% |
| U.S. 20+ YR Treasuries | TLT | 2.0% | -1.8% | 6.7% | -7.5% | 7.6% |
| Muni Bonds | MUB | 1.7% | 2.6% | 4.9% | -0.3% | 3.0% |
| US High Yield | HYG | 1.6% | 8.8% | 12.3% | -0.4% | 5.9% |
| Non-US Corp Bonds | IBND | -0.8% | 0.2% | 4.2% | -6.5% | 4.6% |
| Emerging Markets Bond LC | EMLC | -0.5% | -0.7% | 2.1% | -6.6% | 1.4% |
| **Global Equity** | | | | | | |
| ACWI Global Equity | ACWI | 4.0% | 20.7% | 26.5% | -0.1% | 24.7% |
| ACWI Global Equity ex US | ACWX | -0.3% | 8.2% | 13.6% | -6.1% | 11.8% |
| International Developed | EFA | -0.3% | 6.7% | 12.4% | -6.6% | 9.3% |
| Emerging Markets | EEM | -2.7% | 8.3% | 12.2% | -8.8% | 15.4% |
| **Global Equity by Region** | | | | | | |
| United States | VTI | 6.7% | 27.7% | 34.4% | -0.2% | 32.8% |
| Europe | IEUR | -1.7% | 4.5% | 10.2% | -8.9% | 7.5% |
| Asia ex-Japan | AAXJ | -2.3% | 11.9% | 15.8% | -9.8% | 21.0% |
| China | MCHI | -3.9% | 16.7% | 14.2% | -20.8% | 33.0% |
| Japan | BBJP | 2.3% | 9.8% | 14.0% | -4.9% | 15.1% |
| Latin America | ILF | -5.8% | -18.1% | -12.4% | -22.3% | 2.9% |
| **US Equity** | | | | | | |
| US S&P 500 | IVV | 5.9% | 28.0% | 33.9% | -0.2% | 32.6% |
| NASDAQ 100 QQQ | QQQ | 5.4% | 25.0% | 32.0% | -1.1% | 33.3% |
| US Large Growth | IWF | 6.5% | 31.9% | 37.8% | -0.6% | 38.8% |
| US Large Value | IWD | 6.5% | 22.6% | 29.4% | -0.3% | 26.8% |
| US Eqwt S&P 500 | RSP | 6.4% | 20.3% | 28.5% | -0.3% | 26.0% |
| US Mid Cap | IJH | 8.9% | 22.7% | 33.4% | -1.4% | 29.6% |
| US Small Cap | VTWO | 11.2% | 21.8% | 36.7% | -1.3% | 32.0% |

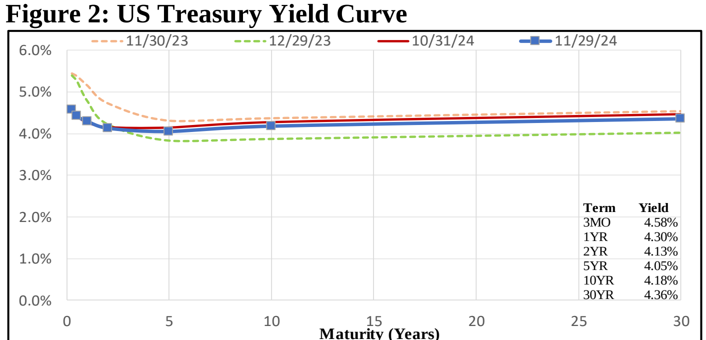
US markets posted solid gains in November while non-US assets lost value after the US elections as investors assessed the potential impact of an "America First" policy agenda on global markets (taxes, deregulation, trade, tariffs, etc.). Performance highlights for the month and year-to-date (YTD) are below.

- Bonds: The US Aggregate index (AGG) rose 1.1% this month (+3.1% YTD) as yields fell. Long-term Treasuries (TLT), which are very sensitive to interest rates, rose 2.0% (-1.8% YTD). Corporate bonds (LQD) gained 1.8% (+3.6% YTD), and high yield bonds (HYG) rose 1.6% (+8.8% YTD). Non-US bonds lost value as the US dollar strengthened.
- Global equity (ACWI): +4.0% in November (+20.7% YTD).
- US Equity: The broad market (VTI) rose 6.7% (+27.7% YTD), and the S&P 500 (IVV) gained 5.9% (+28.0% YTD). Small stocks (VTWO) soared +11.2% this month (+21.8% YTD) on optimism that lower taxes and deregulation will benefit economically-sensitive stocks. At the sector level, Consumer Discretionary (XLY) and Financials (XLF) posted double-digit gains, but Health Care stocks (XLV) were basically flat.
- Non-US Equity: Outside of the US, stocks were mostly down as investors priced in the potential impact of tariffs and trade wars. Developed markets (EFA) fell 0.3% this month (+6.7% YTD), with sizable losses in Europe (IEUR), but Japan (BBJP) gained. Emerging market stocks (EEM) fell 2.7% (+8.3% YTD), with notably weak returns in Brazil (EWZ -8.1%, -24.6% YTD) amid political upheaval. Tariff worries drove Korea (EWY), China (MCHI) and Mexico (EWW) shares lower.

## Interest Rates and the Economy

The yield curve (Figure 2) plots the interest rates (vertical axis) for various US Treasury maturities (horizontal axis). Yields were volatile during the month but ended November slightly lower. The Federal Reserve (Fed) cut rates by 0.25% as expected, bringing the Fed Funds target rate to 4.50-4.75%. Economic data sent mixed signals regarding the path and pace of further Fed rate cuts, with a weaker-than-expected October jobs report and a modest uptick in inflation (October CPI +2.6%). Investors continue to focus on incoming economic data to calibrate expectations for future cuts. US 10-year Treasuries now yield 4.18%.

**Figure 2: US Treasury Yield Curve**

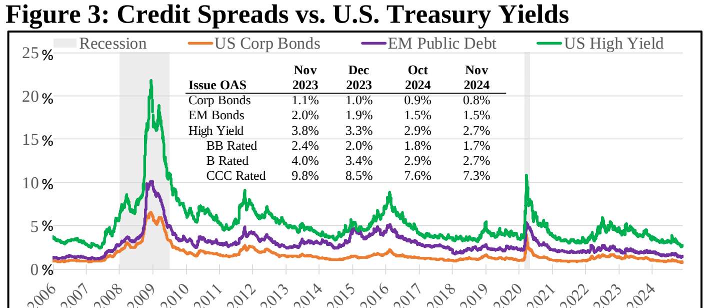



*Source: Board of Governers of the Federal Reserve System via St. Louis Fed (FRED)*

For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism, while high or widening spreads signal fear. Spreads continued to narrow in October and are very tight by historical standards.

- Investment grade corporate bond spreads narrowed to +0.8% and have tightened steadily over the past year.
- High yield (non-investment grade) spreads have narrowed to +2.7% versus +2.9% last month and +3.8% a year ago. Spreads of the riskiest bonds (rated CCC & below) narrowed measurably to +7.3%, confirming investors' strong appetite for risk.
- Emerging market spreads were steady at +1.5% but have tightened over the past year; investors see low risk in EM debt.

**Figure 3: Credit Spreads vs. U.S. Treasury Yields**




*Source: Ice Data Indices, LLC via St. Louis Fed (FRED)*

## US & Global Equity Post-Election Returns

The US equity market has risen strongly since the election, with the S&P 500 up 4.4% since November 5, notching yet another all-time high. History tells us that the post-election gains should not be a surprise. The stock market tends to rise after US elections, regardless of the outcome, because significant uncertainty has been resolved. For example, the stock market posted strong November gains in 2020 and 2016 as well. While a rising stock market was to be expected, it is instructive to explore which market segments have performed well (or not so well) since the election in order to gauge what investors expect under the incoming administration and Congress. Figure 4 lists the returns over multiple time periods for several equity sub-categories: US Equity Size & Style, US Sectors, Global Equity. Within each panel, the post-election ETF returns are sorted high-to-low, with the YTD and one-year returns provided for context. Please note that it is not our intention to present bias for or against any party or its policies; our only goal is to observe and report the market action.

**Figure 4: Equity Returns by Category Since the US Election**
*Conditional formatting: green (high) to red (low) for each time period*

| US Equity Size & Style: | Since 11/5/24 | YTD | 1 YR |
|---|---|---|---|
| US Small Cap (VTWO) | 7.9% | 21.8% | 36.7% |
| US Mid Cap (IJH) | 6.8% | 22.7% | 33.4% |
| US Large Value (IWD) | 5.4% | 22.6% | 29.4% |
| US Eqwt S&P 500 (RSP) | 5.0% | 20.3% | 28.5% |
| US Large Growth (IWF) | 4.6% | 31.9% | 37.8% |
| US S&P 500 (IVV) | 4.4% | 28.0% | 33.9% |
| NASDAQ 100 (QQQ) | 3.6% | 25.0% | 32.0% |
| **US Sectors:** | | | |
| Financials (XLF) | 9.9% | 38.1% | 45.3% |
| Cons Discretionary (XLY) | 9.5% | 25.1% | 32.8% |
| Energy (XLE) | 5.9% | 16.7% | 16.8% |
| Utilities (XLU) | 5.8% | 34.0% | 36.5% |
| Industrials (XLI) | 5.8% | 27.6% | 36.6% |
| Communications (XLC) | 5.7% | 36.6% | 42.6% |
| Technology (XLK) | 3.0% | 22.1% | 27.2% |
| Cons Staples (XLP) | 2.9% | 17.9% | 21.1% |
| Real Estate (XLRE) | 2.7% | 15.0% | 25.1% |
| Basic Materials (XLB) | 1.2% | 12.2% | 17.3% |
| Health Care (XLV) | -0.3% | 9.3% | 14.0% |
| **Global Equity:** | | | |
| United States (VTI) | 5.1% | 27.7% | 34.4% |
| Canada (BBCA) | 4.6% | 19.6% | 27.4% |
| Australia (EWA) | 2.2% | 10.7% | 22.5% |
| Japan (BBJP) | 0.7% | 9.8% | 14.0% |
| India (INDA) | 0.1% | 12.2% | 19.0% |
| United Kingdom (EWU) | -0.6% | 10.4% | 15.3% |
| Mexico (EWW) | -2.8% | -25.3% | -18.6% |
| Eurozone (EZU) | -4.1% | 3.0% | 7.8% |
| South Korea (EWY) | -6.0% | -12.4% | -6.5% |
| China (MCHI) | -7.3% | 16.7% | 14.2% |
| Brazil (EWZ) | -9.1% | -24.6% | -19.7% |

*Source: Bloomberg*

Since November 5, the strongest returns have been in market segments that are highly sensitive to the US economy, while returns outside of the US have been notably weak. Observations include:

- US stocks have risen across the board since the election; with Republicans in control of the White House and Congress, the 2017 tax cuts will likely be extended past 2025 or cut further, which is positive for corporate profit margins and stock prices.
- US Equity Size & Style: After a prolonged period of out-performance by mega-cap growth stocks (i.e., the "Magnificent 7" which dominate the S&P 500, Nasdaq 100 and Large Growth indices), small- and mid-sized stocks have surged since the election. Smaller stocks tend to be more oriented to the domestic economy while larger stocks tend to be global entities.
- US Sectors: The incoming administration's focus on deregulation is benefiting the Financials, Energy and Utilities sectors, while Health Care stocks have lagged due to uncertainty over vaccines and other health policies. Note: More than half of the post-election gains in the Consumer Discretionary sector is due to the 35% rise in Tesla (TSLA), presumably because of founder Elon Musk's close proximity to the White House.
- Global Equity: This is where we see the initial reaction to an "America First" agenda on full display; while US equities have been strong, post-election returns outside of the US are mostly negative, especially in countries and regions that are most vulnerable to tariffs and trade wars (China, Korea, Europe and Mexico). Despite tariff threats, Canadian stocks have been strong due to the heavy concentration in the Financials and Energy sectors. Brazil is an outlier, with renewed political tensions (return of Bolsonaro?) driving high uncertainty.

The preference for US assets can also be observed in the strength of the US dollar (Figure 5), which is near multi-decade highs. A strong dollar benefits US stocks and bonds versus non-US assets.

**Figure 5: US Dollar Index**


*Source: Board of Governors of the Federal Reserve System (US)*

## Bottom Line

In the wake of the US elections, investors have shown a clear preference for US assets, especially the segments likely to benefit from lower taxes, deregulation and a domestic focus (i.e., less exposure to the global economy). But will these trends continue? The executive and legislative leadership changes will not take effect until January, and the devil will be in the details as the specifics of policy and regulatory reforms are worked out over time:

- Tax policy: An extension of the 2017 TJCA tax cuts is virtually assured; further tax cuts would improve profit margins but have debt/deficit implications without significant spending cuts.
- Spending cuts: The new administration seeks to cut spending by $2 trillion; non-defense discretionary spending is less than $1 trillion annually, so substantive cuts would have to include entitlement reform (Social Security and Medicare/Medicaid).
- Inflation and interest rates: Tariffs are inherently inflationary (paid by the importer, often resulting in higher prices for consumers); this impacts the Fed's willingness to cut rates further.

The US election has been resolved, but uncertainty remains regarding the pace, magnitude and complexity of proposed policy and regulatory changes. Stay diversified and stay invested!

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