Market Commentary

November 2024

Equity and Bond Market Update

(as of November 12, 2024)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+18.3%	+30.6%
S&P 500 Total Return Index	+26.9%	+37.5%
Russell 2000 Total Return Index	+19.3%	+42.3%
MSCI EAFE Index (net)	+5.10%	+17.1%
MSCI Emerging Markets Index (net)	+10.1%	+19.2%
Bloomberg US Aggregate Bond TR	+1.5%	+8.0%

Recent Economic Indicators

	Statistic	Data as of
Unemployment Rate	4.1%	Oct 2024
Gross Domestic Product (GDP)	+2.8%	Q3 2024
Consumer Price Index (CPI) – Y/Y	+2.6%	Oct 2024
Consumer Confidence (1985=100)	108.7	Oct 2024
30-year fixed mortgage rate	6.91%	Wk of Nov 10
Housing Starts (single family)	1,027,000	Sep 2023
10-Year Treasury Yield	4.43%	11/12/2024

U.S. equity markets experienced strong rallies beginning the day after the November 5th elections which lasted through the end of the week, with the S&P 500 Index advancing almost +4% in just three days, while the small-cap Russell 2000 advanced over +6% over the same period. Foreign developed and emerging markets did not participate in this short rally, closing out flat for the remainder of election week, mostly due to the notion that a Trump administration may be challenging for foreign companies due to potential tariffs and reshoring of U.S. business interests.

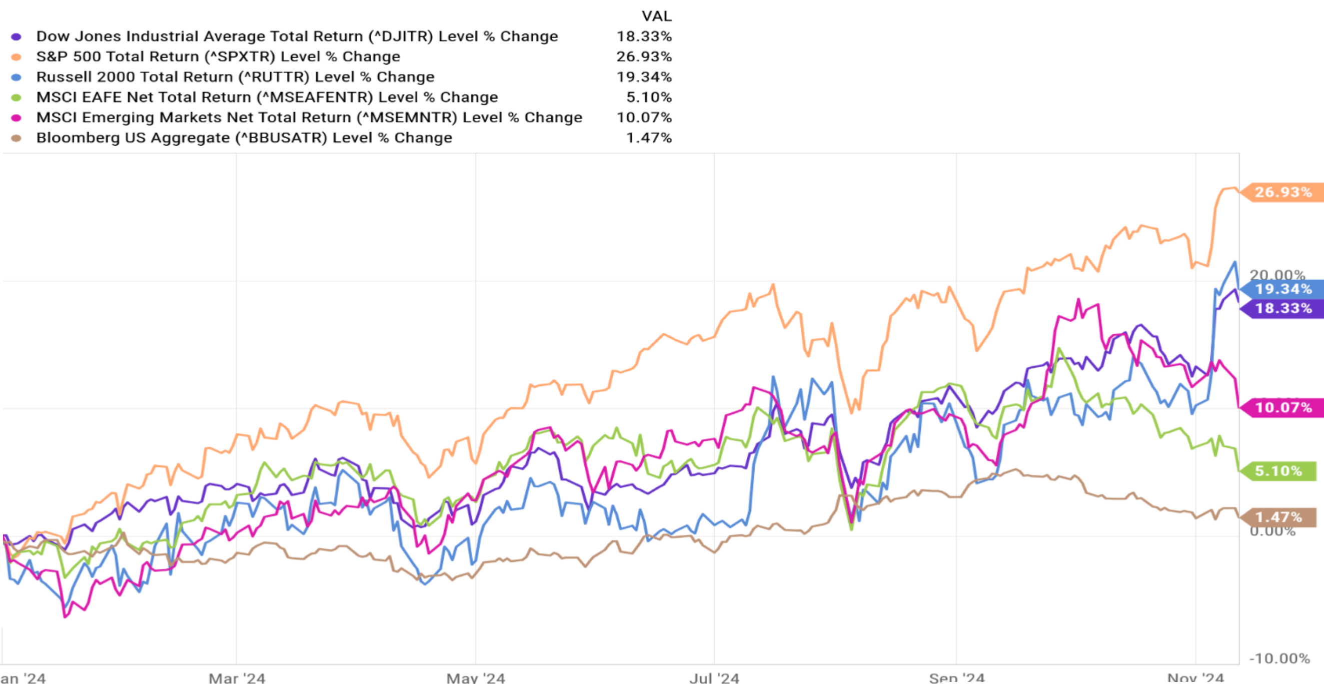
Year-to-date, U.S. stock markets are having a banner year, with the broad-based large-cap S&P 500 Index advancing almost +27% as of yesterday's close, and small-caps have been leading a recent charge since late October, and also up just under +20% so far in 2024. Foreign equity markets, on the other hand, have struggled to match their domestic counterparts, with developed foreign markets up just +5% this year, and emerging markets up just over +10%. Up until the first fed rate cut in mid-September, the bond market was also doing well, but since has pulled back to only advancing about +1.5% year-to-date. Shorter-term bonds, represented by short-term 3-month Treasuries that are tied closely to the prevailing Fed funds rate, have returned just shy of +5% in 2024, a bright spot for the risk-free bond market.

Now that we have had time to take a deep breath and absorb the results of the U.S. election, it is time to get back to the basics of positioning portfolios for the end of the year and looking forward to 2025. As we have mentioned in previous commentaries, we don't make adjustments to model allocations based on politics. Given that, however, we have observed that of all the different makeups of the U.S. federal government (i.e. which party holds the presidency and which parties have control of Congress), complete control of both by Republicans have netted +12.9% in S&P 500 Index returns annually over those periods. Of course, past performance is not an indication of future results, but historically, those periods have been pretty good for equity markets.

Portfolio positioning at this time is more reflective of our outlook on inflation, interest rates, expected corporate earnings and current valuations, among other factors. Consumer Price Index numbers for October came in a bit hotter than expected, at +2.6% over the last twelve months (an increase from +2.4% in September). Although we have seen much improvement in the inflation rate since the highest increases over the last couple of years, the rate has been stubborn over the last year and has been very sticky above the Fed's 2% target.

Inflationary pressures from (1) potential tariffs and (2) the extension of 2017 Tax Cuts and Jobs Act past the current expiration at the end of 2025 could prevent the Fed from cutting interest rates at the frequency and extent the market currently is forecasting. Currently, according to Fed funds futures, there is about a 40% chance that we are done with fed funds cuts for the year, and a 60% chance we could see one more 25bp cut at the last meeting for 2024 in December. As for the end of 2025, currently the highest probability of where we will be is 75bps below our current target rate. These probabilities have pared back from where they were prior to the election and the Fed meeting last week. In addition, the last Fed "Dot Plot" graph release after their September meeting showed Fed governors median level for the end of 2025 being in the 3.25%-3.50% range, a full 125bps below our current level. It will be interesting to see how this may change when they release their next Dot Plot in December, reflecting election results and anticipated economic environments for the next

Major Market Indices Price Return (YTD through November 12, 2024)



Source: YCharts

couple of years. (Note: currently the Dot Plot also shows a terminal rate, or the goal rate, of 2.75%-3.00% at the end of both 2026 and 2027).

Stock market valuations are high by historical standards, with the broad S&P 500 Index currently carrying a Price-to-earnings (P/E) ratio of about 24.7. What we need to break down from this is that there are large sectors of the index that are pushing this average P/E ratio up. For instance, the technology sector, representing 32% of the index currently has a P/E ratio of 37.0, obviously pushing the overall average up. There are areas of the stock market that are undervalued by historical measures, most notably value, small-cap and foreign markets. If we do see downward pressure in equity markets, it will be those asset classes that are highly valued by historical measures that would most likely be hit the quickest and hardest. We saw a short example of this earlier this year when the technology sector, which had performed the best in 2024 up to around mid-July, fell the most (by roughly twice as much as the S&P 500 Index) over a quick three-week period. Since then, the tech sector has again entered the top three returning sectors up to current.

Given the high valuation of the technology sector, though, we also must be careful not to discount the tremendous opportunities that the technology sector has to offer. Higher valuations may be justified due to the shift in focus to more A.I.-centric companies that are positioned for tremendous growth as everything from small and large companies to government agencies will be demanding more and more of the technology, driving demand for more chips, servers, electricity, and real estate for data centers. There is a lot of substance to this paradigm shift we will experience in the years and decades to come, and careful consideration to the industries and companies that will benefit from providing and using A.I. should yield superior results as increased revenues, cash flows and profit margins materialize.

A final note that we have always stressed the need to stick to a financial plan and investment strategy that fits your own unique situation. Working with one of our advisors allows you to visit with someone and discuss your wants, needs and desires, and determine how they fit within your pre-retirement or post-retirement life. You should rarely change your investment strategy based on advancing or declining investments or markets (and politics for that matter), but rather only when your life situation changes – whether that be you are approaching retirement, in retirement, have come into unexpected wealth, or experienced some hardship. Only then should you adjust your financial plan to fit your new and unique situation.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 612-2035 or by email at **pjackson@lsaminc.com** should you have any questions or comments.

Sources:
- S&P Dow Jones Indices website (us.spindices.com)
- MSCI Barra website (http://www.mscibarra.com)
- The Conference Board (www.conference-board.org)
- Bureau of Economic Analysis (www.bea.gov)
- JP Morgan Guide to the Markets
- CME FedWatch Tool (www.cmegroup.com)
- FTSE Russell (www.ftserussell.com)
- Bankrate.com (www.bankrate.com)
- Bureau of Labor Statistics (www.bls.gov)
- United States Census Bureau website (www.census.gov)
- Federal Reserve Bank of Atlanta (https://www.atlantafed.org/cqer/research/gdpnow)

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The S&P 500® Equal Weight Index is the 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 in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Barclays US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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