Market Perspectives

November 2024

TURTLE CREEK WEALTH ADVISORS

Decisive Trump victory drives powerful market rally in November.

Index	MTD	QTD	YTD	1 Year	2023
S&P 500	5.87	4.91	28.07	33.89	26.29
Dow Jones Industrial Average	7.74	6.39	21.21	27.19	16.18
Russell 2000	10.97	9.37	21.58	36.43	16.93
NASDAQ Composite	6.29	5.77	28.86	36.05	44.64
Europe, Australia, & Far East (EAFE)	-0.55	-5.95	6.75	12.44	18.85
MSCI Emerging Markets	-3.58	-7.75	8.15	12.42	10.27
Bloomberg Barclays U.S. Aggregate Bond	1.06	-1.45	2.93	6.88	5.53

As of 11.30.24; Returns in percent

FINANCIAL MARKET PERFORMANCE

US equities rallied strongly in November. The S&P 500 rose 5.87%, finishing higher for the ninth time in the last eleven months. The index ended November up 28% for the year, on track for consecutive annual gains of at least 20% for the first time since 1995 -1998. The Nasdaq Composite jumped 6.29%, while the small cap Russell 2000 was the standout, gaining 10.97% and posting its biggest monthly gain since December 2023. The key driver was Donald Trump's US Presidential election victory, which removed the uncertainty surrounding the election outcome and eased fears of a drawn out and contentious vote counting process.

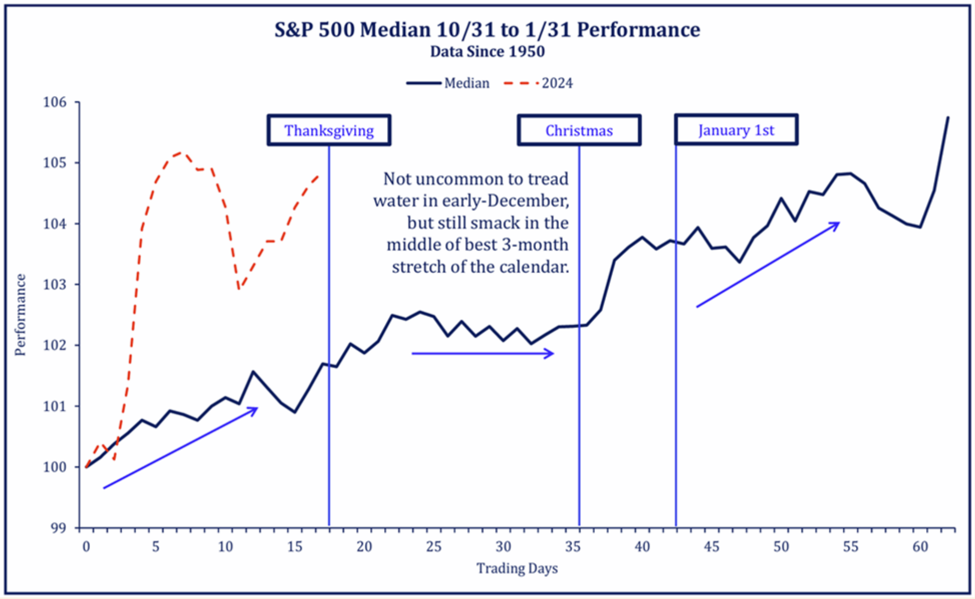
Foreign equities fell during the month, with the MSCI EAFE dropping 0.55%, while the MSCI Emerging Markets Index declined 3.58%. The rally in the US dollar as well as concerns over certain foreign election results were key drivers of the decline.

US Treasury yields were narrowly mixed with 2-year yields up just over 2 bp and 10-year yields down nearly 10 bp. The Bloomberg Barclays US Aggregate Bond Index rose 1.06% and has now produced a gain of just under 3% for the year. The US dollar gained 1.8% following a 3.2% rally in October. Gold lost nearly 2.5%, snapping a big four month winning streak during which it gained nearly 18%. Renewed optimism about the US economy drove the decline in Gold. Bitcoin futures surged 39%, the biggest monthly increase since February on the belief that Trump will look to expand the viability of cryptocurrencies. WTI crude fell 1% as the Iran/Israel conflict cooled a bit.

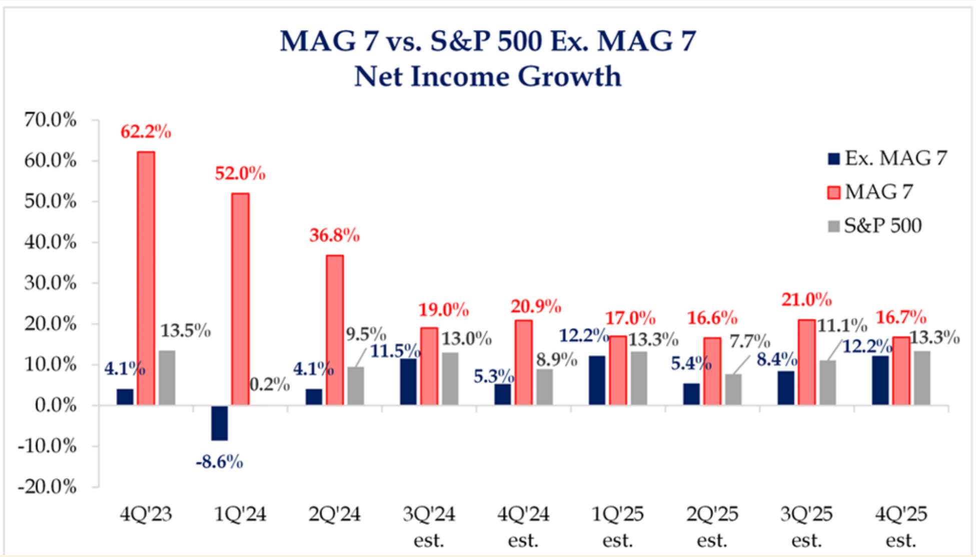
PERFORMANCE DRIVERS

The big tailwind for equities in November was the quick and decisive Presidential election outcome that helped foster a reduction in concerns about the impact of the election. The fact that Trump prevailed provided additional support for the post-election rally given the expectation for stronger economic growth and more corporate capital spending, as well as a more business-friendly deregulation environment. In addition, the GOP sweep opened the door for a corporate tax cut that could boost S&P 500 earnings by 4-5%. The removal of the election overhang also put some focus back on very favorable equity market seasonality into year-end (see chart below) and the resumption of corporate buyback activity.

Strong results and upbeat guidance from Nvidia provided further support for the AI secular growth theme. This is important because Magnificent 7 & AI-related companies are expected to produce a large percentage of US corporate earnings growth in 2025 (see chart below). Also, the quarterly earnings beat and raise in guidance from Wal-Mart played into the consumer resilience theme (recall that consumer spending accounts for 70% of US GDP). In addition, expectations for low double-digit earnings growth in Q4, which would mark the best performance in three years, held steady. Investors are also looking for earnings momentum in 2025 with all four quarters expected to see double-digit growth. While Trump's cabinet picks generated some very mixed reactions, the Treasury Secretary pick (Bessent) matters most for the market and was very well received.



Source:Strategas; As of 12.02.24



Source:Strategas; As of 12.02.24

BEARISH TALKING POINTS

While the path of least resistance remained higher in November, there were still a number of concerns. The biggest seemed to revolve around stretched valuations, with S&P 500 trailing P/E at over 27x (see chart below), the fourth highest in the last 125 years, while US stocks are trading at a record P/E premium to the MSCI World ex-US Index of nearly 60%. While the rise in bond yields was the big story in October, select upward pressure on short-term yields in November was another area of scrutiny. Some of this was a function of better than expected economic data, though heightened deficit concerns surrounding the GOP sweep and potential for Trump tariffs to derail already frustrating disinflation traction were the bigger issues. This brought more talk about a higher long-term Fed Funds rate, while Fed Chair Powell and other officials left the door open for a December pause, i.e. no cut. Trump tariffs were also flagged as a possible growth drag. Geopolitical tensions were also elevated as Ukraine carried out its first strike in Russian territory with missiles supplied by the US, while Russia updated its nuclear doctrine and fired its first ICBM at Ukraine since its 2022 invasion.

Source: FactSet; As of 12.02.24

Despite concerns over stock valuations, the upward trend in the S&P 500 going into election day is consistent with continued solid equity market returns over the next 3 & 6 months.

S&P 500 Forward Performance vs. S&P Trend on Election Day

S&P in an Uptrend	+3-Months	+6-Months
Average	5.4%	7.0%
% Positive	84.6%	84.6%
S&P in a Downtrend	**+3-Months**	**+6-Months**
Average	-2.6%	-0.1%
% Positive	40.0%	40.0%

Source: Strategas as of 12.02.24

In addition, macro research firm Strategas believes the bull market still has legs given that only 2 of their 9 "Bull Market Top" items are currently flashing red.

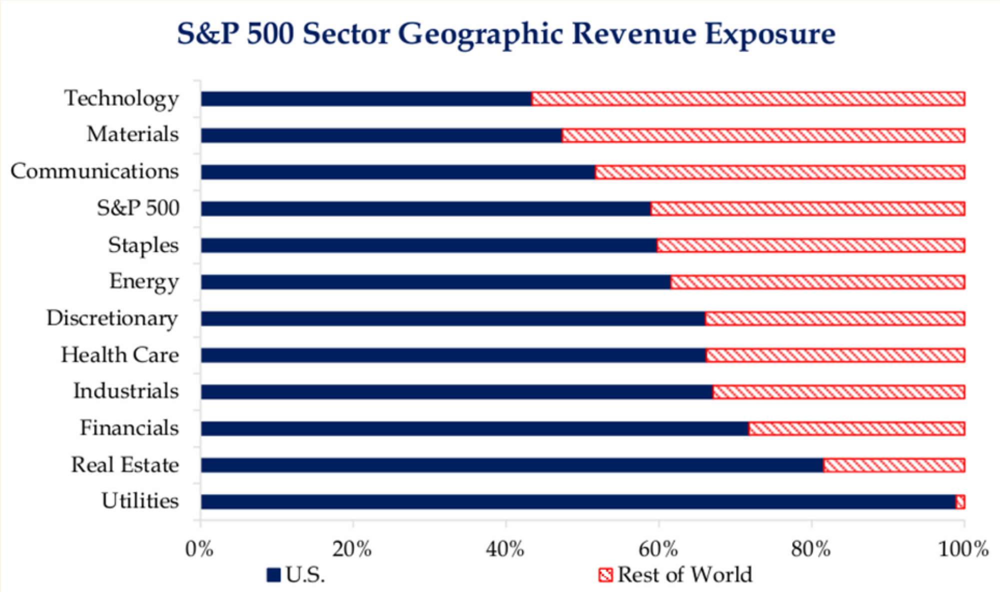
BULL MARKET TOP CHECKLIST

	2000	2007	Current	Comments
1. Blow-off top	✓	✓	X	The S&P 500 today sits just ~9% above its 200-day SMA, elevated but not historically extreme. >18% is a 2 σ event.
2. Heavy inflows into equity market funds	✓	✓	✓	Over the trailing 65days, there has been $240billion into equity ETFs. Leveraged product volumes are blowing out.
3. Big pick-up in M&A activity	✓	✓	X	M&A activity has seen a pickup recently especially in the energy sector. There will likely need to be a significant increase to feel frothy.
4. IPO activity	✓	✓	X	IPO activity has been rather lackluster thus far and there are few signs it will turn euphoric in the near-term.
5. Rising real interest rates	✓	✓	✓	More recently real rates have been falling, but it's certainly fair to say that are sufficiently restrictive. Just 3 weeks ago they were 30 basis points higher.
6. Weakening upward earnings revisions	✓	✓	X	Earnings revisions have begun to turn higher here. Based on figures reported by Standard & Poor's, operating and reported earnings have bottomed.
7. Erosion in number of stocks making new highs	✓	✓	X	New high data continues to be supportive of the markets. Over 50% of the Russell 3000 hit a one-month high.
8. Shift towards defensive leadership	✓	✓	X	There have been no durable signs of a shift towards defensive leadership, but it is worth noting the last few days defensives have picked up.
9. Widening credit spreads	✓	✓	X	High-yield and investment grade credit spreads remain tight by any historical standard. BAA spreads are at an all-time low.

Source: Strategas as of 12.02.24

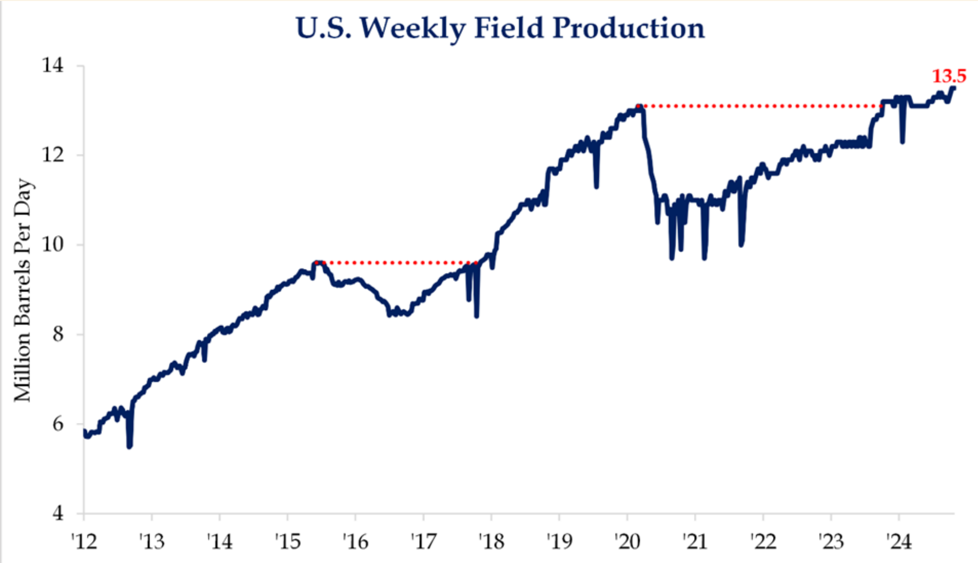
POTENTIAL IMPLICATIONS OF TRUMP POLICIES

There has been a lot of discussion about the potential for large tariffs coming from the Trump administration and the negative impact such tariffs could have on economic growth and inflation. We are in the camp that believes the ultimate outcome will not be anywhere near as bad as feared, and that the threat of tariffs is being used more as a negotiating tactic than a true policy position. In any event, it's important to note which sectors of our economy would be most impacted by tariffs, based on the percentage of revenue derived from foreign sources. The chart below shows that companies in the Technology and Materials sectors have the highest foreign revenue and likely most risk from tariffs.



Source: Strategas; As of 12.02.24

"Drill Baby Drill" has been a recurring theme for the Trump campaign but given that production is now at an all-time high, it's difficult to envision a scenario where production rises materially from here even in the event of deregulation. It's far more likely that a diminished regulatory burden flows through to the bottom line for energy firms than to actual increases in production. Technological advancements have been more impactful on the industry as a whole and driven efficiency gains (e.g. drilling more oil with less rigs).



Source: Strategas as of 12.02.24

INVESTMENT PORTFOLIO IMPLICATIONS

Given the high potential for risk asset volatility over the near term, we believe portfolio diversification is extremely important for investors today. Therefore, a portfolio of US and foreign equities as well as investment grade and high yield fixed income remains appropriate. In addition, the low correlation and risk-to-reward benefits that private investments offer continue to make sense in our view. Note that data demonstrates the valuation of companies purchased by Private Equity firms today is significantly cheaper than that of the average stock in the S&P 500.

Thank you for your support of Turtle Creek Wealth Advisors. We are committed to helping you and your family meet your long-term financial goals. Please contact us if you have any questions or thoughts about this newsletter or if we can help in any way.