ABUNDANCE
WEALTH COUNSELORS

THE DASHBOARD

November 2024

Economy

- (+) Growth
- (+) Employment
- (=) Households

Financial Conditions

- (=) Monetary Policy
- (=) Interest Rates
- (=) Inflation

Market

- (=) Valuations
- (+) Earnings
- (=) Trend

After a strong start to the year, stocks and bonds declined modestly in October. In our opinion, this was not driven by any meaningful negative economic activity but rather quite the opposite. U.S. Real Gross Domestic Product (a measure of economic growth) has continued to show solid growth. Inflation and employment have both shown signs of slowing, but not to a degree that implies any meaningful concern.

The true issue was that interest rates had overshot to the downside and needed to correct during a month of better-than-expected economic news. The 10-year U.S. Treasury note yield advanced from 3.66% on September 30th to 4.21% on October 31st. This was a very big move for one month, and it negatively impacted the pricing of stocks and bonds in the short term (particularly bonds, which were down 2.5% during the month). For context, this was the 8th largest monthly decline for the Bloomberg Aggregate Bond Index in the last 20 years (240 months).[1]

[1] YCharts as of October 31, 2024

800-253-3760
info@abundance.com
232 Regent Ct, State College, PA 16801
abundancellc.com

Election Update & Implications

The recent Republican control of Congress introduces the potential for substantial policy shifts, including tax cuts, deregulation, and higher tariffs. The degree of these changes will largely depend on the size of the Republican majority in both chambers and President Trump's strategic priorities. Key legislative areas likely to be affected include trade, where significant tariffs on imports—especially from China—may reshape global trade relationships. Immigration reform is expected to become stricter, with policies focusing on border security and limited asylum measures. In the energy sector, deregulation could benefit fossil fuel production, though fiscal and inflationary concerns may restrict the full implementation of some policies.

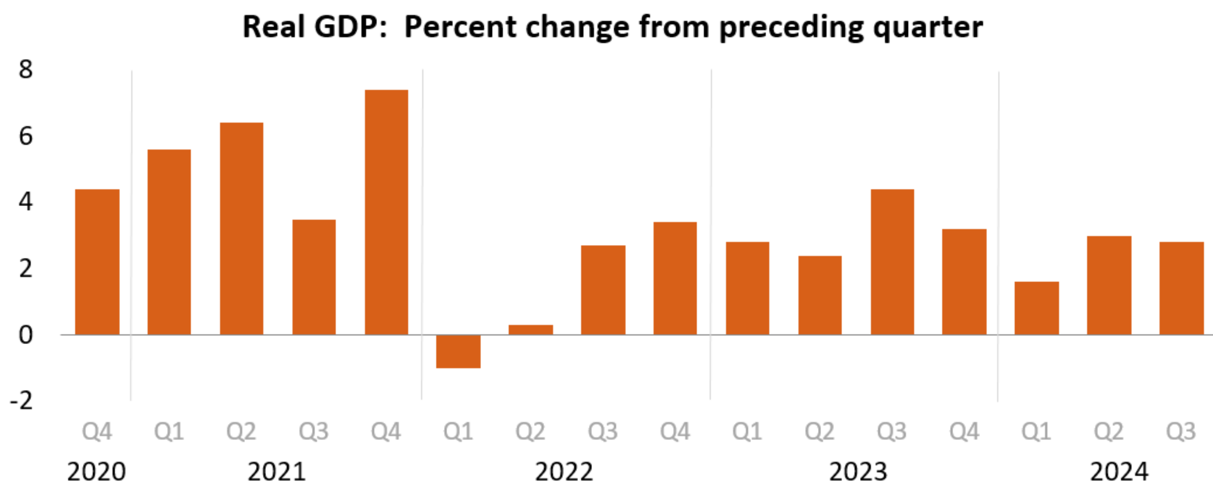
Economic and market reactions to the election results have been swift, with equity markets rallying on expectations of pro-growth policies and deregulation, while Treasury yields and the U.S. dollar have surged due to fiscal concerns. Despite this optimism, uncertainties remain regarding the timing and scope of policy implementation, which could create market volatility. U.S. equities continue to be supported by strong fundamentals, with value and cyclical sectors poised to benefit. However, risks related to higher long-end yields and potential trade disruptions from tariffs are factors to watch. Corporate credit markets are also likely to remain supported, especially in high-yield segments, given their resilience and lower sensitivity to interest rates.

Investment strategies must account for a complex landscape where policy outcomes are uncertain, yet fundamentals remain strong. Historical evidence suggests that while presidential policies can impact markets, macroeconomic factors—like interest rates and global supply-demand dynamics—often play a more significant role in driving returns. For example, President Trump's pro-energy policies did not necessarily translate into better performance for traditional energy stocks, while broader market forces ultimately had a larger impact. Investors should be wary of making investment decisions based solely on political outcomes, as policy intentions often differ from actual implementation.

In the face of potential volatility and fiscal challenges, diversification remains the best defense. The importance of a diversified portfolio is magnified today due to rising equity valuations and the concentration of U.S. equities in global markets, particularly in mega-cap growth stocks. While markets tend to stabilize once election outcomes are known, the elevated risks posed by policy uncertainty under a unified Republican government highlight the need for a balanced and flexible investment approach. Maintaining exposure to a variety of asset classes, such as international equities, real assets, and gold, can help manage these uncertainties and protect against unforeseen risks.

Economic Growth

In the third quarter of 2024, the U.S. economy expanded at an annualized rate of 2.8%, following a 3.0% increase in the second quarter. This growth was primarily driven by rises in consumer spending, exports, and federal government expenditures. Notably, consumer spending saw gains in goods such as prescription drugs and motor vehicles and services, including health care and accommodations. Exports increased, particularly in capital goods excluding automotive, while defense expenditures bolstered federal government spending.[2]



[2] https://www.bea.gov/news/2024/gross-domestic-product-third-quarter-2024-advance-estimate#:~:text=Real%20gross%20domestic%20product%20(GDP,real%20GDP%20increased%203.0%20percent.

Employment

In October 2024, the U.S. economy added 12,000 nonfarm payroll jobs, a significant slowdown from the average monthly gain of 194,000 over the prior year. However, hurricanes Helene and Milton likely impacted the monthly data. The unemployment rate remained steady at 4.1%.

Employment continued to trend upward in health care and government sectors, while temporary help services experienced job losses. Manufacturing employment also declined, primarily due to strike activity.[3]

Corporate Earnings

With more than two-thirds of companies reporting so far, the third quarter earnings season has been a mixed bag, reflecting U.S. consumers' resiliency in uncertain economic conditions. Large financials like JP Morgan and American Express exceeded expectations and highlighted the strength of the consumers, describing overall retail spending patterns as solid and consistent. In the technology sector, enthusiasm and focus remain squarely on the rapid growth of artificial intelligence, the effects of which are spilling over into broader categories such as strong demand for data centers and electrification.

On the other hand, macroeconomic uncertainty and weakness in the manufacturing sector have impacted global industrial companies and driven weaker earnings growth in the energy and materials sectors. Many companies across various sectors cited the U.S. election cycle as a source of apprehension for end consumers. Overall, while challenges undoubtedly remain, companies have delivered year-over-year earnings growth of 8.3%, on average.[4]

[3] https://www.bls.gov/news.release/empsit.nr0.htm
[4] Bloomberg as of November 4, 2024

Bottom Line

Investor expectations regarding interest rates, growth, and inflation moderated in October, and we believe that the market is in better balance today. We expect continued volatility as the U.S. Federal Reserve navigates normalizing its interest rate policy to achieve the elusive economic "soft landing." As shown in the chart below, the S&P 500 has had one of its best first three quarters of the year this century, so a period of consolidation should not be surprising. Still, as growth and employment remain resilient, the long-term environment for investing remains positive.