PAPAMARKOU WELLNER PERKIN

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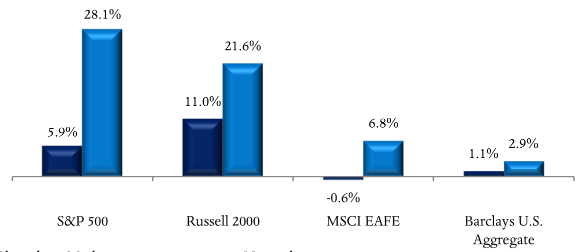
Markets

November saw US stocks achieve their largest monthly gains of the past year. Positive economic data took a back seat to US politics, as markets adjusted to the pro-business consequences of a quick and conclusive Trump presidential victory and Republican sweep of Congress. Policies surrounding deregulation, lower taxes, increased tariffs, and a reduction in immigration, were interpreted as a net positive for financial markets. The S&P 500 index rose +5.9% during the month (+28.1% ytd) to a record high. Notably, the broadening of equity returns, which started in July, continued. The Russell 2000 index of smaller capitalization companies appreciated +11.0% in November (+21.6% ytd), briefly touching its 2021 peak.

Overseas, stocks did not fare as well in November, declining in some instances, as US election results brought increased uncertainty surrounding trade policy. The MSCI EAFE index registered a -0.6% drop for the month (+6.8% ytd). Emerging markets were significant underperformers (-3.6% in November; +8.1% ytd). Chinese equities were mixed (Shanghai composite +1.5% for the month; +15.2% ytd) given worries over relations with the US, countered by the recently announced government measures designed to bolster domestic real estate and restore consumer confidence. The US Dollar's advance over the past two months (+4.9%) has been another headwind for foreign markets, given the perception that Trump's fiscal plans could be inflationary and potentially curtail the Federal Reserve's rate-cutting cycle.

Another month of solid US economic data, amid a shifting presidential administration, drove fixed income markets in November. As expected, the Fed lowered short-term interest rates by 25 bps, to a target range of 4.50%-4.75%, the second move of this down-cycle. The associated FOMC commentary was viewed as slightly hawkish on account of the stability in recent economic data. When coupled with the incoming administration's focus on growth, tariffs, and curtailing immigration, market expectations of future inflation have increased. As a result US rate cut expectations have declined to discount only three in the next 12 months.



Source: Bloomberg Markets

The Bloomberg Commodities Index fell -0.7% in November. WTI crude oil traded -1.8% lower at $68/bbl. Apart from de-escalation of tensions in the Middle East, OPEC+ was reportedly considering delaying a planned increase in oil output due to ongoing weak demand in Asia. Gold declined by -3.3%, given the potential for US fiscal discipline, a stronger Dollar and risk-on sentiment. To the upside, European natural gas was driven by declining Russian deliveries to Europe and the surprising closure of a large LNG plant in Australia, leading prices higher by more than 20%. Meanwhile, cryptocurrency Bitcoin surpassed $100,000, swiftly eclipsing its 2021 high of $68,000, on the back of perceived regulatory easing by the Trump administration.

Geopolitics

Post-election, attention turned to Trump's cabinet nominees, which have generated mixed reactions. Health and Human Services pick Robert F. Kennedy Jr. sent ripples through the healthcare arena. He plans to focus on improving the quality of food and nutrition, namely combating chemicals, pollutants and additives, in a battle against chronic disease. Kennedy, an outspoken vaccine skeptic who has been critical of the FDA's approach to medicine, intends to promote alternative treatments. Treasury Secretary pick Scott Bessent was well received by markets because of his hedge fund background and pro-growth agenda, featuring tax reform and deregulation, as well as the potential for fiscal restraint. The Secretary of Commerce nomination went to Howard Lutnick, the billionaire founder of the financial firm Cantor Fitzgerald. He has championed Trump's plans to use tariffs on foreign imports to build the US economy, a plan many economists believe will lead to rising inflation. He is also a proponent of loosening regulation of cryptocurrencies. Paul Atkins, was nominated to serve as Chair of the US Securities and Exchange Commission, which he previously served on from 2002 to 2008. An advocate for reduced regulatory burdens and increased financial innovation, Atkins has been a vocal supporter of free-market principles in regulatory policy. Notably, a new Department of Government Efficiency will be headed by two billionaire visionaries, businessman Elon Musk and venture capitalist Vivek Ramaswamy.

United States

US economic data continued to shine, though it highlighted that the Federal Reserve may have to maintain higher than expected interest rates on account of steady inflation and labor markets. Third quarter GDP was reported to have advanced 2.8%, with growth of 2.5% expected in the current quarter. November employment significantly rebounded, adding 227,000 new jobs, with average hourly earnings rising by 4.0%. However, the unemployment rate edged higher to 4.2%, as the labor force participation rate moved lower and the labor force itself declined. The Fed's favorite inflation index, the Personal Consumption Expenditures Price Index (PCE) came in at +2.3%, with the core reading (excluding food purchased for consumption at home and energy) ticking higher to +2.8%.

US retail sales increased +0.4% sequentially, slightly more than expected in October, as households boosted purchases of motor vehicles and electronic goods, suggesting the economy kicked off the fourth quarter on a strong note. For Black Friday, in-store shopping is estimated to have grown +3.4% year-over-year, while online spending soared by +14.6%, according to MasterCard. Meanwhile, US manufacturing saw orders growing for the first time in eight months with factories facing significantly lower prices for inputs.

November 2024 Economic Statistics

	Nov-24	Dec-23	Dec-22
Federal Funds Target Rate	*4.50 - 4.75%*	*5.25 - 5.50%*	*4.25 - 4.50%*
Consumer Confidence Index	*111.7*	*110.7*	*108.3*
Manufacturing PMI Index	*48.4%*	*47.4%*	*48.4%*
Unemployment Rate	*4.2%*	*3.7%*	*3.5%*
JPY / USD	*149.75*	*141.06*	*131.11*
USD / EUR	*1.0575*	*1.1036*	*1.0702*
Gold / oz.	*$2,653.55*	*$2,062.59*	*$1,824.40*
Oil (WTI) / bbl	*$68.00*	*$71.65*	*$80.26*

Sources: see disclosure *

Europe

The euro area economy in experiencing a modest recovery so far this year, reaching a two-year high of 0.9%, with some additional acceleration expected in 2025. However, the outlook is uncertain given headwinds faced by manufacturing, due to lingering effects from the energy crisis, weakening external demand, and political turmoil. Also, regional inflation climbed back above the central bank's 2% target, reaching 2.3% in November. Core inflation, excluding volatile energy, food, alcohol and tobacco prices, held at 2.7% for a third straight month, propped up by the stickiness of the services metric, which ticked down to 3.9%.

These readings left European Central Bank rate cut expectations for December unchanged, at 25 bps. The ECB is especially focused on weak forecasted demand from, and collapse of governments in, France and Germany, the two largest regional markets. It is expected that the ECB will bring its policy rate below neutral in 2025, ending the year at 1.75%, down from 3.25%.

The Bank of England exacted a 25 bps cut to its policy rate, to 4.75%, even as it lifted its inflation projections for 2025 and 2026 following October's budget. The latest reading of headline inflation rose from 1.7% to 2.3% with the core metric increasing from 3.2% to 3.3%, indicating an ongoing battle to balance economic growth, which has been the weakest of the G7, with inflation, which has been among the highest.

Asia

Adding to the coordinated stimulus effort by the People's Bank of China, that started in late September, authorities most recently announced a local government debt swap program worth CNY 10 trillion ($137 billion). However, this announcement fell short of expectations as it lacked details on how it might boost consumption or address the sluggish real estate sector. These risk mitigators should, however, help alleviate some financial stress on local governments and the shadow banking system. Further, this attempt at untangling local government finances could enable more effective implementation of future stimulus.

In Japan, third quarter gross domestic product expanded at a 0.9% annualized rate, above consensus of 0.7%. The country's purchasing managers' index (PMI) rose to 50.5% in November, reflecting improving demand spurred by business confidence. On the inflation front, November core CPI came in at 2.2%, with forecasters believing a December interest rate hike is unlikely, but approaching soon thereafter. Generously, a new government stimulus package was approved, featuring cash handouts and electricity and gas subsidies.

Outlook

November marked a pivotal moment, not just for the year, but for potentially reshaping the investment landscape for the foreseeable future, thanks to the Trump administration's business-friendly plans. Tax cuts and deregulation are expected to stimulate the US economy and extend the current growth phase. However, economic momentum may stunt the Federal Reserve's easy monetary policy plans. Fiscal austerity may also prove to be a countervailing force for the economy. With regard to government efficiency, is important to note that only 26% of federal spending (22% of US GDP) is discretionary. Further, more restrictive immigration policies are likely to tighten the labor market. Tariffs would add an additional layer of complexity and inflation. Trump has already mentioned a "Day One" 25% levy on imports from Mexico and Canada, and 10% from China, which the supply chain may not have the slack to absorb like it did in 2017. It is interesting to note that Mexico surpassed China as the largest exporter of goods to the US in 2022, with many Chinese goods being "finished" in Mexico in order to bypass tariffs. Such an environment is likely to feature persistent inflation and positive nominal economic growth.

The US Q3 earnings season ended strongly, showing growth of 5.8% year-over-year, per FactSet. Looking ahead, analysts are calling for low double-digit earnings growth in Q4 (which would mark the best performance in three years), with expectations for accelerating growth over the next year. These estimates assume federal corporate taxes are cut (from 21% to 15%, as proposed by Trump) boosting S&P 500 earnings by 4-5%. With wide swaths of US equities trading at an average 16x earnings, while European stocks indexes are offered at a discounted 13x, and higher growth emerging markets at 12x, we see ample equity investment opportunities. These stocks and markets have been overlooked for extended periods of time, leaving valuation gaps to be filled.

In an inflationary environment, bonds are unlikely to perform their traditional role of augmenting performance and dampening volatility of traditional portfolios. As such, in addition to being long quality equities, we continue to favor select hedge funds and non-market correlated strategies that are nimble and opportunistic. Further, our research indicates that precious metal miner investments, which have trailed the appreciation of gold and silver bullion, offer attractive potential with reduced correlation to equities. For capital appreciation oriented investors, select software equities, with an activist element, appear to be timely investments. We have also identified innovative private equity funds attempting to disrupt the education and healthcare industries.

*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.