OBSERVATIONS

- Markets surged after Trump clinched the Presidential election led by US small caps (Russell 2000) which gained +8.6%, while the S&P 500 gained +4.7%. The yield on a 10-year Treasury spiked to almost 4.45% immediately after the election, but ended the week at 4.31%—down -8 basis points from last Friday.[1]
- The ISM Services PMI came in better than expected at 56—any number above 50 denotes expanding economic activity—which is the highest reading since July-22 and strongly suggests the largest portion of the US economy is solidly growing.[1]
- Initial unemployment claims registered 221k new claims last week, which was up +3k from the week prior, but remains low and approximately -2k less than the number of claims the same week last year.[1]
- The Michigan Consumer Sentiment Index increased for the fourth consecutive month to 73.0 in November. Sentiment around current conditions was largely unchanged, but future expectations improved across the board including personal finances, short-run and long-run business conditions.[1]

EXPECTATIONS

- The Federal Reserve cut interest rates by -25 basis points last week—this move was fully anticipated by the market—but gave little guidance on the pace of future Fed rate cuts. Chairman Powell noted that the Fed was poised to ease rates further, but emphasized that all future cuts had to be weighed against the dual (and opposing) risks of either cutting too fast and allowing inflation to re-accelerate or cutting too slow and allowing damage to economic growth and the labor market. Powell went on to indicate that it was too early to say how the next Trump administration's policies would reshape the Fed's economic outlook.[2]
- The Bank of England, similarly, cut its main policy rate by -25 basis points to 4.75% but signaled that any further cuts were unlikely before early 2025, in part, because the new Labor government had announced a new budget which was likely to increase inflationary pressures.[3]
- Over 90% of the S&P 500 have reported their Q3 earnings and 75% of companies have beaten earnings estimates, which is below the five-year average (77%), but on par with the 10-year average (75%). The blended earnings estimate of Q3 EPS growth is +5.3% year-over-year and sales growth of +5.5% YoY.[4]

ONE MORE THOUGHT: Trump Wins, Markets React[1]

For the first time in over a hundred years, a President has won re-election in non-consecutive terms—history buffs know this was last accomplished by Grover Cleveland in the 1890s. Trump's re-election was much more decisive than his first election in 2016. Not only did he carry each of the seven swing states and increase his margin of victory in the electoral college, but he also won the popular vote, helped flip the Senate to Republican control and carried enough Republican representatives to victory to likely ensure that the House will be retained by the Republicans. The Trump camp is characterizing this as an historic political comeback and a clear mandate to break with the policies of the Biden administration. The market took note of the results beginning at roughly 9PM on election day when it became clear that Trump was on a path to victory. Bitcoin, which had in recent months received strong support from Trump, began to surge to new record highs, small cap stocks (Russell 2000 Index) gained over 7.0%, whereas the dollar rallied against most developed market currencies as well as several emerging market currencies, particularly the Chinese Renminbi (see Chart of the Week). Some other markets also saw initial

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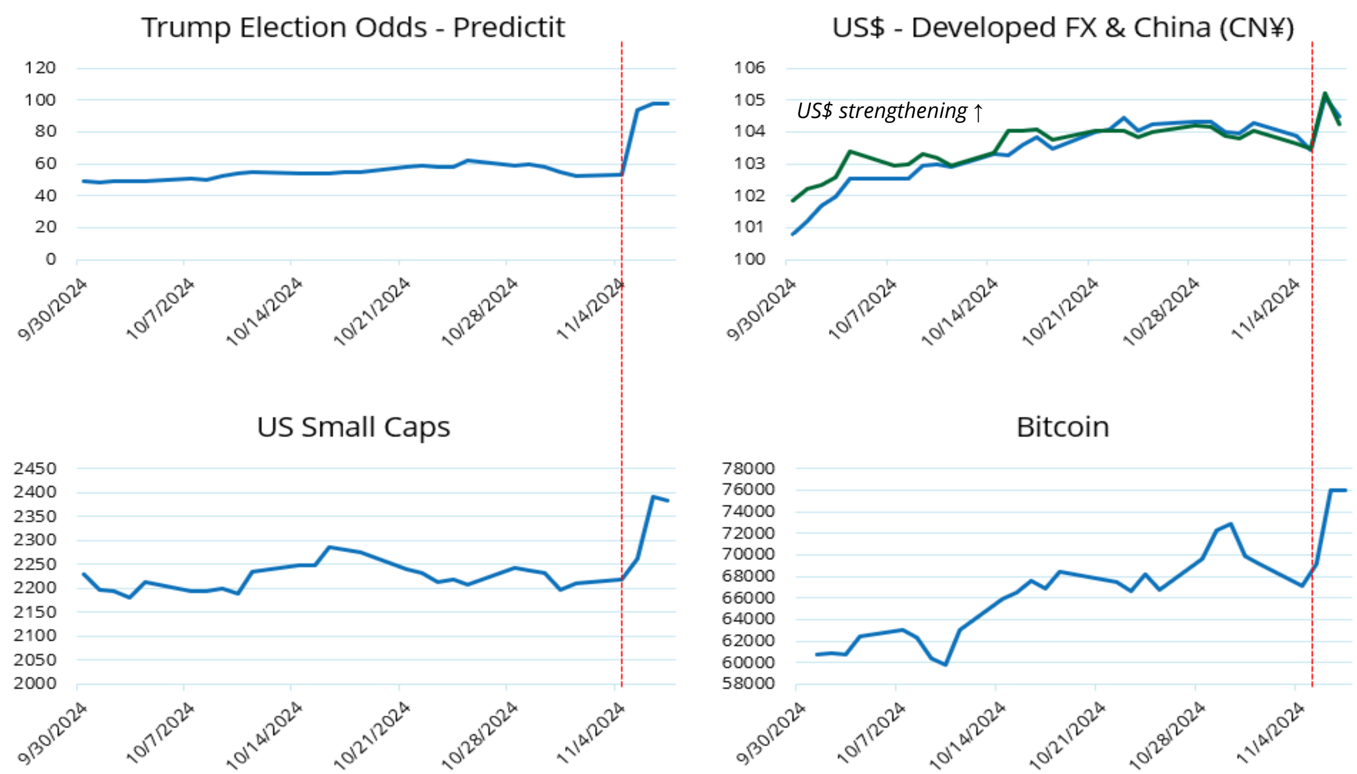
[1] *Bloomberg LP, 11/8/2024*
[2] *https://www.federalreserve.gov/newsevents/pressreleases/monetary20241107a.htm*
[3] *https://www.ft.com/content/2bbaacb2-7d2d-436a-8ba1-c6aa8fa3226b*
[4] *FactSet Earnings Insight 11/8/2024*

swings in their value after the election, but have since given back most their initial post-Trump election movement. These include the yield on a 10-year Treasury, which initially backed up over 15 basis points to nearly 4.45%, but ultimately ended the week nearly unchanged from where it began the week on the Monday before the election. Similarly, the Mexican Peso initially depreciated about -4.0% in the early hours of last Wednesday only to restrengthen to pre-election levels by last Friday morning. Trump's strong election showing strongly suggests that his plans for tax cuts, tariffs, deregulation, and strict immigration controls are likely to be enacted—at least in some version. Several of these policies could help bolster economic growth (taxes and deregulation), while others (immigration and tariffs) may have some inflationary impact over the medium-term. Post-inauguration, Congress will have to raise the debt ceiling in H1-2025 and eventually balance longer-term problems with deficits, entitlement spending, and defense spending needs that stem from an inherently more dangerous, multi-polar world. As clarity emerges on Trump's choices for his cabinet as well as the details of his policies become clearer, we will have further analysis of their impact on portfolios and markets.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP 11/8/2024

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