Your Weekly Investment
Insights
November 11, 2024

VERDENCE CAPITAL ADVISORS

Key **Takeaways:**

- President Trump becomes 47th President.
- What year one may look like?
- Less regulation and more energy.
- Look for tariffs to be a risk to inflation.
- Presidential cycle is much shorter than investment cycle.

Donald Trump is Heading Back to the White House

Last week, Donald Trump joined one other President, Grover Cleveland, to be elected to two non consecutive Presidential terms. He won by flipping key states that Biden won in 2020 (Georgia, Wisconsin, Michigan, Pennsylvania, Nevada and Arizona). In this weekly, we try to ease some of the election angst. We outline what we think Trump's first year in office may look like and what sectors may benefit. In addition, we provide a table of key economic and market data in Trump's first term (pre Covid).

- **Election overview:** Trump won by gaining a historic number of Latino voters.[1] He also won the middle class and 53% of white women which made up 40% of voters.[2]
- **First year outlook**: In his first term, Trump signed the largest number of executive orders since Jimmy Carter. We expect he will do this again in 2025 by first focusing on addressing immigration and clawing back regulations. In his first term he removed almost 25K pages from the Federal Register, more than any other President and eliminated eight old regulations for every one new regulation.[3] Reducing regulations could benefit sectors such as financials, US auto makers, healthcare and infrastructure.
- **Drill, baby, drill:** President Trump has an aggressive plan to reduce energy prices. Through executive orders he can increase fuel production. However, this may inadvertently hurt energy company profits but benefit pipelines, energy transportation and industrials.
- **Increasing tariffs:** During his campaign, Trump proposed adding a 10% tariff on all imported goods, and 60% tariffs on Chinese imports. Mexico and China are a focus for Trump. This could benefit countries like India, Vietnam and Thailand as companies diversify their manufacturing needs.
- **Impact of additional tariffs:** Biden kept many of Trump's initial tariffs, but the concern is that additional tariffs will increase inflation. In 2017 and 2018 when past tariffs were put in place, inflation remained contained. However, we realize we are in a different inflation paradigm post COVID. This could keep interest rates higher for longer and reduce the flexibility of the Fed. Therefore, we would avoid long-term bonds. Tariffs could also benefit domestic over multinational companies (e.g., small cap over large cap).

The Bottom Line:

It is important to remember that the Presidential cycle is four years, and an investment cycle is much longer. We will take Trump's policies into consideration, but valuations are the primary driver of making changes to asset allocation. We also realize it is easy to campaign on promises, but not as easy to fulfill them when in office, even with a full sweep of Congress. Taxes are one of the next key items for the Administration ahead of the expiration of much of the TCJA (end of 2025). We will continue to monitor the proposals and make recommendations as we see necessary. However, currently we are looking at valuations and the economic outlook. The economic challenges that contributed to Trump's win (e.g. inflation, debt) have not disappeared. Therefore, we expect volatility to remain heightened after the initial election boost.

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Weekly Economic Recap –

Federal Reserve Cuts Rates Again, Sentiment Surges Among Consumers

The U.S. service sector expanded to the highest level since July 2022. However, the increase was primarily due to employment and delivery times as every other component of the Index declined for the month.

The Federal Reserve met and decreased interest rates by 25bps to a range of 4.50% - 4.75% in a unanimous vote. The post-meeting statement reiterated, "conditions have generally eased, while the unemployment rate has moved up, but remains low." They removed their comment that they have "greater confidence" that inflation is moving towards their 2% target.

Consumer borrowing increased by $6 billion in September, increasing at roughly half the expected pace. Revolving credit, which includes credit card debt, increased marginally. Nonrevolving credit, including auto loans and student debt, drove the increase in September.

Consumer sentiment, as tracked by the University of Michigan, improved for the fourth consecutive month and reached its highest level in six months. The expectations index surged to its highest since July 2021 and long-run business conditions increased to the most favorable reading in four years. The survey was concluded before the U.S. general election results were finalized.

Key Takeaways:

- Service sector expands on better employment.
- Fed cuts rates by 25bps, remains data dependent.
- Consumer sentiment climbs to highest level in six months.
- Global equities surge on U.S. election; U.S. outperforms.
- Treasury yields volatile after U.S. general election results.
- Gold prices weigh on commodity performance.

Weekly Market Recap –

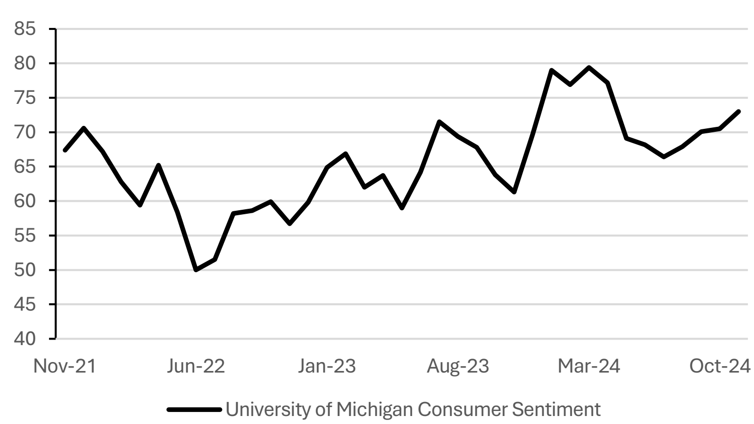
Global Equities Surge on Prospect of Trump Presidency

Equities: The MSCI AC World Index was higher for the first time in three weeks as investors consider President Trump's win good for stocks. U.S. equities led the charge as all major averages surged to record highs. Small-caps as tracked by the Russell 2000 posted their best weekly return since April 2020.

Fixed Income: The Bloomberg Barclays Aggregate Index was higher for the first time in three weeks. Treasury yields were volatile after Trump was named the winner of the 2024 U.S. Presidential election. Inflation concerns contributed to the volatility. All sectors of fixed income were higher, led by investment grade corporate bonds.

Commodities/FX: The Bloomberg Commodity Index was marginally higher for the second time in three weeks. Crude oil was higher for the second time in three weeks as the hurricane risk subsided. Gold prices fell by the most since April as investors fled the safe-haven asset amid the prospect of a Trump presidency.

Consumer Sentiment Climbs to Highest in Six Months



Footnotes: Data is as of November 2024.
Data Source: FactSet Research Systems, Verdence Capital Advisors.

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Performance and Market Data from Trump First Term (Pre-COVID)

		Election Year	Year 1	Year 2	Year 3
	Current	2016	2017	2018	2019
GDP (YoY %)	2.7%	2.2%	3.0%	2.1%	3.4%
Core CPI (YoY %)	3.3%	2.2%	1.8%	2.2%	2.3%
ISM Manufacturing (Avg in Year)	46.5	51.3	57.4	58.8	51.2
Unemployment Rate (Year End)	4.1%	4.7%	4.1%	3.9%	3.6%
Consumer Confidence (Avg in Year)	108.7	99.8	120.5	130.1	128.3
Retail Sales (ex Food and Gas YoY %)	3.7%	2.5%	6.2%	1.2%	6.5%
Federal Deficit (as % GDP)	-6.3%	-3.1%	-3.4%	-4.2%	-4.7%

	Return				
	Trailing 12 Months	2016	2017	2018	2019
S&P 500	38.8%	12.0%	21.8%	-4.4%	31.5%
Consumer Discretionary	35.7%	4.3%	21.2%	-0.5%	26.2%
Consumer Staples	20.0%	2.6%	10.5%	-11.2%	24.0%
Energy	13.4%	23.7%	-3.8%	-20.5%	7.6%
Financials	46.2%	20.1%	20.0%	-14.7%	29.2%
Healthcare	17.2%	-4.4%	20.0%	4.7%	18.7%
Info Tech	48.0%	12.0%	36.9%	-1.6%	48.0%
Industrials	40.1%	16.1%	18.5%	-15.0%	26.8%
Materials	22.3%	14.1%	21.4%	-16.4%	21.9%
Communication Services	45.1%	17.8%	-6.0%	-16.4%	30.9%
Real Estate	27.2%	0.0%	7.2%	-5.6%	24.9%
Utilities	30.2%	12.2%	8.3%	0.5%	22.2%
Russell 2500	38.7%	17.6%	16.8%	-10.0%	27.8%
Russell 2000	42.0%	21.3%	14.6%	-11.0%	25.5%
MSCI EAFE	18.9%	1.0%	25.0%	-13.8%	22.0%
MSCI Emerging Markets	21.4%	11.2%	37.3%	-14.6%	18.4%
Bloomberg U.S. Aggregate	8.0%	2.6%	3.5%	0.0%	8.7%
U.S. Treasuries	6.0%	1.0%	2.3%	0.9%	6.9%
High Yield	14.7%	17.1%	7.5%	-2.1%	14.3%

Footnotes: All data is most recent as of November 8, 2024.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

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Past performance is not indicative of future returns.

Trump Win Boosts Global Equities

U.S. Equities

	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	43,989	4.6%	4.6%	12.0%	31.5%	18.5%
S&P 500	5,996	4.7%	4.3%	13.1%	38.8%	27.2%
Russell 1000 Growth	4,012	5.7%	5.8%	16.5%	43.9%	32.2%
Russell 1000 Value	1,921	4.0%	3.6%	10.5%	33.1%	20.0%
Russell Midcap	3,700	5.7%	5.9%	13.5%	37.7%	20.4%
Russell 2000	2,400	8.6%	9.4%	15.5%	42.0%	19.7%
Nasdaq	19,287	5.8%	6.1%	16.0%	42.4%	29.3%

International Equities

	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	863	3.4%	2.2%	10.8%	32.0%	20.3%
MSCI EAFE (USD)	2,337	0.1%	-2.7%	3.8%	18.9%	7.1%
MSCI Europe ex UK (USD)	2,563	-2.0%	-4.4%	0.5%	16.6%	4.1%
MSCI Japan (USD)	3,993	4.3%	-0.8%	8.7%	20.6%	9.9%
MSCI UK (USD)	1,241	-1.4%	-2.5%	1.4%	19.2%	9.3%
MSCI EM (USD)	1,136	1.2%	-1.8%	8.9%	21.4%	13.3%
MSCI Asia ex Japan (USD)	741	1.4%	-1.8%	11.4%	24.9%	17.6%

Fixed Income

	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	4.7%	0.8%	-1.0%	0.1%	8.0%	2.2%
U.S. Govt/Credit	4.6%	0.7%	-0.9%	0.2%	7.8%	2.2%
U.S. 10 Year Treasury	4.3%	0.7%	-1.9%	-1.5%	5.7%	-0.1%
U.S. TIPS (1-10YR)	4.4%	0.5%	-0.5%	0.9%	6.6%	3.7%
U.S. High Yield	7.1%	0.7%	0.7%	3.7%	14.7%	8.3%
EM Bonds (USD)	6.5%	0.8%	-0.1%	2.9%	15.0%	7.3%
Municipal Bonds	3.6%	0.5%	-0.6%	0.3%	7.4%	1.3%

Commodities

	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	236	0.2%	-1.6%	4.3%	1.0%	4.0%
Crude Oil (USD/bbl)	$68.7	-3.9%	-6.9%	-8.2%	-8.5%	-3.0%
Gold ($/oz)	$2,684.8	-3.8%	-0.9%	8.3%	35.7%	27.7%
Copper	$430.6	-3.6%	-5.0%	7.0%	19.1%	9.8%
Wheat	$572.5	-1.7%	-6.7%	-1.2%	-15.1%	-16.4%
U.S. Dollar	105	1.6%	2.6%	2.3%	-0.3%	4.1%
VIX Index	14.9	-31.7%	-30.3%	-37.2%	3.4%	20.0%

Footnotes: Data is as of November 8, 2024.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

[1]: https://whyy.org/articles/2024-election-how-trump-won-takeaways/
[2]. https://www.usnews.com/news/national-news/articles/2024-11-06/how-5-key-demographic-groups-helped-trump-win-the-2024-election
[3] https://trumpwhitehouse.archives.gov/trump-administration-accomplishments/

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