

December 2024

MONTHLY MARKET INSIGHTS

Key takeaways:

- Donald Trump and the Republicans delivered a decisive election victory that eliminated any chance of a contested election. President Trump won all seven swing states along with the popular vote, and the Republicans retained control of the House while winning back the Senate.
- US equities had their strongest month of the year in November to close at an all-time high. Prospects for more substantial economic growth and less regulation drove outperformance in financials, cyclicals, and the Russell 2000 index.
- The Federal Reserve (“Fed”) cut the Fed-funds rate by 25 basis points (“bps”) at its November meeting. We believe the Fed will cut rates another 25 bps at its December meeting and then pause for several months to assess incoming economic data.

US equities registered their most significant monthly gain of the year in November as election uncertainty gave way to a decisive victory for Trump and the Republicans. Investors celebrated Trump’s convincing victory by driving up stock prices, especially financials, cyclicals, and small-caps. For the month, the S&P 500 gained 5.73%, while the tech-heavy Nasdaq rose 6.21%.¹ The S&P 500 is now up 26.5% for the year and is on pace for back-to-back yearly gains of at least 20% for the first time since the late-1990s.² Not to be outdone, the Russell 2000 small-cap index outperformed its large-cap peers with an impressive gain of 10.84%, which was the index’s best month since December 2023.³

Even though US equities entered November with strong gains for the year, many market participants were worried about the possibility of an extended, contested election that would weigh on stock prices and further divide the country. Many leading pollsters were feeding into the nervousness, suggesting that the election was a toss-up and that it was likely that the winner would not be known for several days after the election. Interestingly, leading offshore betting markets were telling a different story. In the weeks leading up to November 5th, Trump’s odds of winning the election steadily rose in the betting markets. Trump’s odds began to surge in mid-October, around the same time that a mysterious Frenchman placed several large election wagers in favor of Trump on betting site Polymarket. It is believed this unidentified speculator made \$85 million in profit from Trump’s decisive victory.⁴

Trump’s convincing election-night win put a conclusive end to the election cycle and allowed investors to refocus on the fundamentals. With Republicans also winning control of both houses of Congress, investors quickly embraced the Republican agenda of tax cuts and deregulation while brushing off Trump’s tariff threats as posturing. Not surprisingly, financials and small-caps led the rally as the former benefitted from expectations of regulatory relief and the latter from expectations for stronger economic growth and an improved mergers and acquisitions market. US stocks also got a boost from the Fed, which cut rates an additional 25 bps two days after the election and signaled a continued desire to normalize rates over time. We believe the Fed will cut rates another 25 bps at its next meeting on December 18 and then pause for several months to assess incoming economic data.

1. FactSet.

2. Id.

3. Id.

4. TheFP. “How a French Whale Made \$85 Million off Trump’s Win.” <https://www.thefp.com/>, The Free Press, 26 Nov. 2024, www.thefp.com/p/french-whale-makes-85-million-on-polymarket-trump-win.

Other early beneficiaries of Trump's victory include the US dollar, crypto, and Elon Musk. The dollar index rallied 5% over the past two months as investors priced in increasing odds of inflation and higher interest rates resulting from Trump's tariff agenda.⁵ Bitcoin and other cryptocurrency prices surged as investors anticipated the end of current SEC Chair Gary Gensler's tenure, which became official when he announced he would resign on January 20, 2025. Chairman Gensler was often at odds with cryptocurrency interests while policing the industry through litigation rather than providing clear regulation. Alternatively, Trump repeatedly embraced the sector throughout his campaign and proposed that the US establish a strategic bitcoin reserve of one million bitcoins. Finally, Elon Musk and his slew of companies have emerged as huge winners. Musk campaigned fervently for Trump in the closing months of the election and has emerged as one of Trump's closest confidants. Investors have responded by bidding up the shares of Tesla and several of Musk's private companies, such as xAI and SpaceX, anticipating that Musk's close relationship with the President will prove beneficial to these companies.

Despite the US market's strong outperformance, there were some notable sources of underperformance. Major stock indices in Europe, Japan, and China all closed November in the red while the MSCI ACWI ex-US index dropped -1.04%.⁶ Trump's aggressive tariff agenda is expected to accelerate deglobalization and disproportionately hurt leading exporters, weighing on sentiment abroad. Within the US, the Materials and Healthcare sectors were the two biggest underperformers. Materials are most closely correlated with China and growth abroad, while Healthcare suffered after Trump nominated RFK Jr. to run the Department of Health and Human Services. RFK Jr. is expected to take an aggressive stance against big pharma and other drug companies, especially regarding vaccine requirements and the ability to advertise directly to end customers. Finally, while big tech was broadly positive, most of the Magnificent Seven underperformed as investors rotated exposure into other areas of the market that are expected to benefit from the new regime.

Curiously, despite expectations for stronger growth and rising odds of tariff-induced inflation, Treasury yields ended the month near where they began. After drifting higher for most of the month, two-year and ten-year Treasury yields declined sharply the last week of November, ending the month down two bps and 11 bps, respectively.⁷ The late-month drop in yields was puzzling, given that economic data points to a resilient economy and that recent inflation data suggests that the disinflation trend is abating. Perhaps Trump's threat of higher tariffs is starting to weigh on economic growth expectations.

As we look ahead to year-end, momentum, seasonality, and an improved earnings outlook all point to higher stock prices in December. November's broad equity rally led by small-caps bodes well for a Santa Claus rally.⁸ While we believe Trump's Presidency will benefit the tech industry, we expect small-caps and cyclicals will continue to outperform in December as the rotation that began in November endures. While we are bullish in the short term, we are mindful that equity ETFs have experienced record inflows of \$265 billion over the last 65 days,⁹ and valuations are stretched. Animal spirits and positioning, combined with high valuations and the likelihood of a tariff war, are building as potential risks to equities. Nonetheless, those are concerns that investors will have to address in 2025.

5. FactSet.

6. Bloomberg.

7. Id.

8. A Santa Clause rally is a calendar effect that involves a rise in stock prices during the last 5 trading days in December and the first 2 trading days in the following January.

9. Sohn, Todd. "ETF Research." Strategas, 3 Dec. 2024, www.strategasrp.com/.

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