ALTMAN
INVESTMENT MANAGEMENT

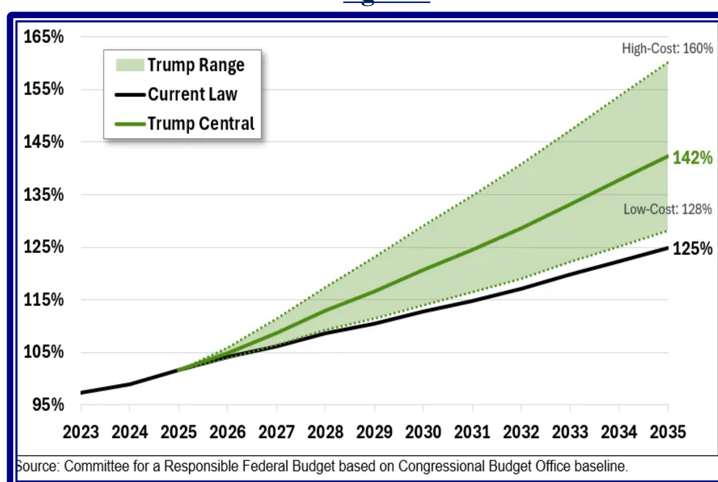
MARKET PERSPECTIVE

NOVEMBER, 2024

IN FOCUS:

Now that the results of the election are in, we can make a more focused assessment on the implications for global markets with greater focus on the U.S. economy. Fiscally, the overall outlook in the near term is expansionary, suggesting a mild pro-growth investment stance reflecting broad-based monetary accommodation globally. We will likely see lower corporate tax rates in the U.S., plus an increased cap on the state and local tax deductions. The Tax Cuts and Jobs Act is due to expire in December of next year, and Congress will be looking to extend some of the provisions. Upon expiration, tax rate hikes would take effect on all income levels; however, extending certain provisions may not necessarily be as stimulative given current economic strength. Plus, a rising national deficit puts pressure on the already extended Debt to GDP ratio. According to the non-partisan Committee for Responsible Federal Budget, the Republican plan could increase debt between $1.65 and $15.55 trillion. Over the longer-term, this anticipated debt burden poses certain risks to fiscal sustainability given higher inflation and interest rates. This is reflecting in higher bond yields that we expect will continue into next year - and underscores our asset preference for stocks versus bonds and shorter duration fixed income instruments.

Debt as % of GDP Under Current Law versus GOP Agenda



Source: Committee for a Responsible Federal Budget based on Congressional Budget Office baseline.

The new incoming administration has proposed a 60% tariff on all goods from China, up from an average of 19% currently. According to Bank of America Global Research, the increase in tariffs to China could be worth ~0.9% of consumer spending which translates into the same or less impact on inflation. Some pass through to consumers could be mitigated with appreciation in the U.S. dollar/Chinese Renminbi that may occur as a result of a trade war. The potential for price elasticity or supply chain substitutions could also mitigate inflation impact. The new administration has a smaller by comparison plan for tariffs on Mexico and Canada, in an effort to prevent China from subverting direct trade policies. There is ongoing debate surrounding the potential drag on economic growth as well as the impact of tariffs on the Federal Budget, i.e. the potential that declines in tax revenues could be partially offset by increased tariff revenues. Right now, the market appears to be favoring the general pro-business policies of the Republican party and seems skeptical of Trump pursing the full extent of his actual proposed policies. Our view is that the risk to inflation is on the upside for the longer term, and interest rates could stay higher for longer as a result.

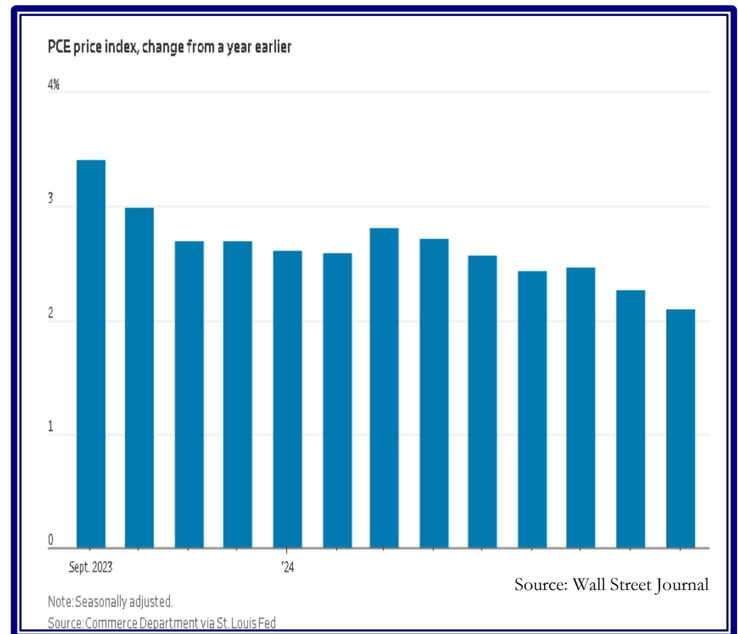
However, the economic and policy climate remains pro-risk, offsetting otherwise worrisome geopolitical developments and the uncertainty surrounding how the Trump Administration will respond. As we experience record stock prices, tightening credit spreads, and steepening yield curves, financial conditions are easing and central banks are likely to continue to move in this direction as 2025 unfolds. Earlier fears of a U.S. recession will continue to dissipate, after a solid Q3 earnings season and job market data remains resilient.

Aggressive immigration policies are another factor that could add to labor headwinds and thus inflationary pressures. The resulting impact on GDP growth will depend upon the severity and timing of crackdowns. Mass deportations could create higher costs in areas that rely on labor for leisure or other people-intensive industries. Should inflation remain above the Fed's target rate as we expect, the Fed may curtail the size or pace of its interest rate cuts to avoid adding to inflationary pressures.

Deregulation initiatives of the Republican platform provide support to Financials. Fewer regulatory hurdles for large corporate deals, coupled with lower corporate tax rates, boosts business at big banks. Furthermore, financial regulation reform may reduce capital requirements for banks. The new administration is also expected to dial back regulations within the Energy sector favoring fossil fuels over alternative energy sources. This would translate into lower energy costs for producers and increase supplies in the short term. Longer term energy prices will depend upon global demand trends and U.S. foreign policies regarding the global supply of oil. Sanctions and tariffs have the potential to incite trade wars and disrupt global oil outflow, pushing oil prices higher.

The Federal Reserve unanimously cut rates by another 25 basis points in November bringing the benchmark rate to 4.5-4.75%. Personal Consumption continued to cool in September. The Fed will have reason to continue cutting rates should inflation remain on this path and the labor market softens. If inflation proves to be sticky, the Fed will have to reconsider the pace of its rate cuts. The path towards neutral rate will depend upon incoming data to gauge the temperature of economic conditions.

Inflation Continues to Cool



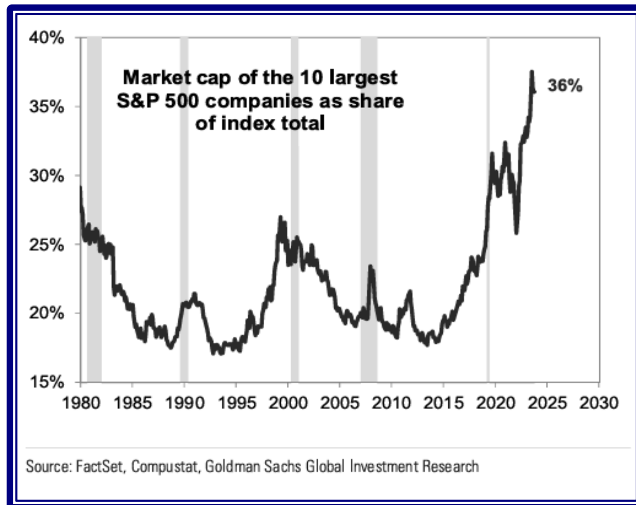
Source: Wall Street Journal

Never the less, bond yields have climbed since the Feds initial cut at the end of the third quarter raising the costs of borrowing. This is notable in mortgage and car loan rates. Continued solid economic data is leading investors to believe that a recession is unlikely. This insinuates rates could stay higher for longer.

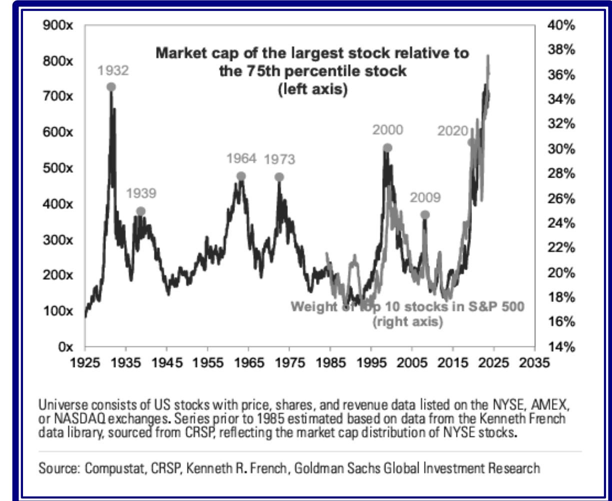
The economy as a whole continues to show strength. GDP is estimated to have run at a 2.8% in the third quarter and the consumer remains resilient. Productivity is steady and is driving corporate profit margins. The labor market is relatively solid along with easing inflation. The Fed and the central banks are cutting interest rates as confidence in underlying inflation is headed toward the neutral long-term rate and restrictive monetary policy is no longer required. Despite lingering economic growth anxieties, the current risk appetite implied in stock valuations, especially in the U.S., highlights greater confidence that both the earnings outlook and effective monetary policy have won the day. This optimism is imbedded in stock valuations that are presently at premiums we haven't seen in two decades.

Historically, when the profit cycle accelerates and earnings growth becomes increasingly abundant, markets should follow the historical precedent and broaden out versus the narrow market leadership we've experienced over the past two years. Forecasting long-term S&P 500 returns is always challenging given the plethora of variables, as well as forecasting monetary and fiscal policy adjustments. However, the over concentrated nature of the U.S. market suggests that the range of return expectations over the next decade will likely be very muted as compared to the annualized rate of 13% during the prior decade. Dividends contributed only ~¼ of this return. This past decade has exceeded that of prior decades dating back to the 1930s that produced a long-term average total return of 11%, according to a recent study by Goldman Sachs Research.

The 10 Largest Stocks in the S&P 500 Account for More Than 1/3 of Total Market



U.S. Equity Market Concentration 1925-2024



IN SUMMARY:

It is still too early to determine to what extent particular campaign promises will in fact be pursued once Trump is in office. We can only surmise that it will be a more ambitious agenda than his prior administration, with a focus on trade policies, deregulation, immigration, and increased fossil fuel production.

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Any performance reference represents a hypothetical composite compiled from actual equity, fixed income or balanced client portfolios and includes cash. These three composites reflect aggregated returns that address differing objectives. As such, the performance of each composite does not reflect the actual total portfolio returns earned by our clients. The investment performance records are compiled from a capital weighted average of the equity, bond and cash components of a broadly representative group of discretionary accounts that meet certain minimum size thresholds.

No gross performance returns that are referenced that are calculated after brokerage commissions but before investment counsel fees are presented without the comparable net performance figures after both commissions, investment counseling fees and other custodial charges. The net counseling fees are the actual average counseling fee calculated across all the portfolios included in the composite. All performance figures are presented on a time-weighted total return basis and assume all income is reinvested. The investment advisory fees are disclosed in Part II-A of the Investment Form ADV. Some clients may benefit from available discounting in the management fee schedule associated with the overall size of the portfolio. Management fees will reduce overall returns to the client.

The composites were created in 2001 and the inception dates start on August 17th, 2001.The composites include only discretionary fee-paying accounts managed in the strategies, and additional information associated with the composites are available such as: dispersion in individual portfolio results as well as the % of the firms AUM in the strategy. All performance calculations are presented within the GIPS® guidelines of the CFA Institute. The CFA institute does not endorse or promote this organization nor does it warrant the accuracy of the content herein.

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