Summit Trail Advisors

Monthly Download
November 2024

Summary

Donald Trump's U.S. election victory was the primary driver of market performance in November. U.S. markets responded favorably to the conclusive decision for a second Trump presidency and the Republican party securing a narrow majority in both the House and the Senate. The market believes the policies of the next administration will better support corporate profits via tax cut extensions and deregulation. Non-US equity performance was weak as the election results were met with some caution overseas. Trade policy risks and a stronger US dollar were the main headwinds for global markets during the month. The Federal Reserve cut rates by 25 basis points in November with Chairman Powell messaging that the decision was supported by progress on disinflation and a normalizing labor market.

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Market Overview

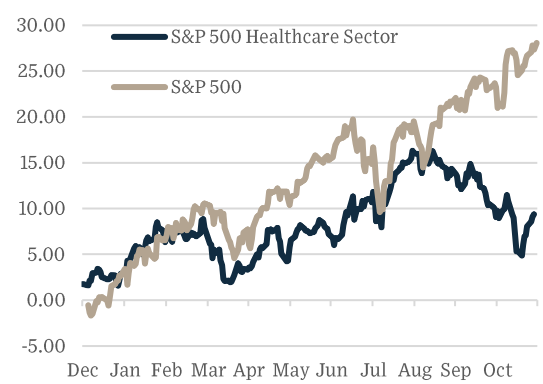
- **Equity markets** were led by US stocks, which were boosted by election results and expectations for bolstered corporate profits due to deregulation and tax cuts. Positive macro data was also a contributor to the US market rally. Smaller companies were the main beneficiaries, though Large Cap stocks also posted strong positive returns for the month. Growth slightly outperformed Value as concerns about disruption from the new administration's cabinet picks and higher interest rates weighed on sectors like Utilities, Staples, and Health Care.
  - US Large Cap stocks (S&P 500) added 5.9% in November, closing the month at all-time highs with all sectors finishing higher. Election results and the GOP sweep should allow for the Trump administration to enact policies including tax cut extensions that are estimated to increase S&P 500 earnings by 4-5%. Year to date performance moved higher to 28.1% for 2024.
  - US Small Cap stocks (Russell 2000) posted an 11.0% gain for the month as smaller domestic companies are expected to benefit most from Trump policies with deregulation and lower taxes. Small caps also tend to have less non-US dollar revenue and therefore less exposure to tariffs or non-USD impact on earnings. Year to date gains now stand at 21.6%.
  - Non-US stocks (MSCI EAFE Net) fell 0.6% during the month as the election outcome was met with caution. Data also showed inflation accelerating in the eurozone in November. Year to date performance is now up 6.2%.
  - Emerging Markets (MSCI Emerging Markets Net) ended the month down 3.6%. Chinese equities declined over trade policy expectations and concerns that Chinese government measures are insufficient to stimulate their economy in the face of US trade policy and continued real estate issues. Year to date gains fell to 7.7%.
- **Interest rates** finished slightly lower as concerns about Trump's policies causing a second wave of inflation lowered US rate cut expectations for 2025. The 10-Year Treasury began November at 4.28% and ended the month at 4.18%. The US dollar index gained 1.8% in November, following a 3.2% gain in October. The strong USD also had an impact on global performance and weighed most on Asian markets.

- High Grade Taxable bonds (Bloomberg US Aggregate) returned 1.1% in November on the interest rate decline and narrower credit spreads. High Grade Taxable bonds are now up 2.9% in 2024.
- Municipal bonds (Bloomberg 1-10 Year Muni Bond) rose slightly less than their taxable counterparts during the month, adding 1.0%. Municipal bond performance for 2024 now stands at +1.7%.
- High Yield spreads remained tight in November as US corporate earnings are poised for strong growth which allays any default concerns for now. Investment Grade bonds (Bloomberg Corporate Investment Grade) and High Yield bonds (Bloomberg Corporate High Yield) returned 1.3% and 1.2% in November, respectively. Year to date gains for Investment Grade and High Yield bonds now stand at 4.1% and 8.7%, respectively.

◆ **Commodities** recorded a modest monthly gain of 0.4% in November, led by agriculture and energy sectors. Cocoa and EU natural gas were standout performers in the index, while precious metals weighed on performance. Gold fell nearly 2.5% and ended its four month rally. Oil also fell 1%. Year to date gains for commodities now stand at 4.3%.

Economic Commentary

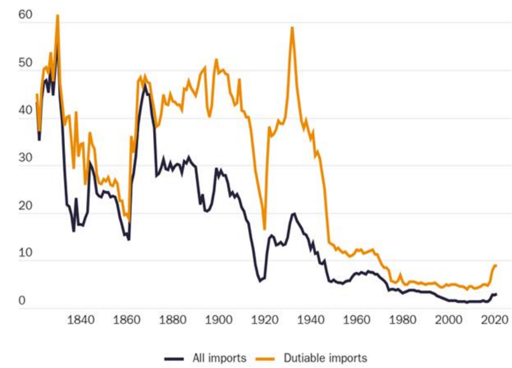
Trump's cabinet nominations generated mixed market reactions as the administration moved quickly to deliver on campaign promises. Among the most important selections from a market perspective was Scott Bessent, who received the nomination to lead the US Treasury department following weeks of speculation. Investors reacted positively to this choice given his market-oriented resume for the role with a hedge fund background and his support for Trump policies related to tax reform and deregulation. The bond market in particular liked the Treasury selection, taking comfort in Bessent's perceived ability to navigate deficit spending and manage the Treasury's balance sheet accordingly. Bessent's stance on tariffs will be one of the most closely watched issues as he has indicated that he views Trump's tariff ideas to be extreme in some cases and sees the tariff threats as a "maximalist negotiating position." After securing the nomination for Treasury Secretary, Bessent said his first priority will be to follow through on the tax cuts promised by the Trump campaign. His "3-3-3 policy" has also provided Wall Street some insight into what his goals will be, which include cutting the budget deficit to 3% of GDP by 2028, driving 3% GDP growth through deregulation, and producing an additional 3 million barrels of oil or its equivalent per day. Another notable cabinet pick that impacted markets in November was the selection of RFK Jr. to run the Department of Health and Human Services. The Health Care sector was the worst performing sector in the S&P 500 for November and Health Care-related ETF products saw outflow pressure during the month as investors grew uneasy about policy uncertainty from RFK's nomination. Share prices of pharmaceutical and hospital companies have been most impacted by the nomination to date. RFK Jr.'s stances on vaccines, chronic disease, and US food supply have raised concerns among vaccine makers and food companies. Also contributing to concerns of future disruption in Health Care policy was the unexpected appointment of Dr. Oz to head the Centers for Medicare and Medicaid Services (CMS). Dr. Oz ran unsuccessfully for Senate in 2022 after a long television career and supported expanding Medicare coverage as a candidate. RFK Jr.'s nomination being approved by the Senate is not a certainty which could create further volatility for the health care sector early in 2025. We have liked the sector as a defensive area of the market that is second only to Technology according to Factset in its expected contribution to S&P 500 earnings in 2025 but without sky-high Technology valuations. Ironically, Health care policy



Total Return: S&P 500 Index vs. Health Care Sector
Source: Factset

Summit Trail Advisors LLC ("STA") is a SEC registered investment advisor headquartered in New York, NY. Please see the Important Information section for additional disclosures was not a major focus of the 2024 election for the first time since 2008. Yet, the policy uncertainty created by Trump's nomination creates a headwind for the sector until market see if nominations are approved and what policies will follow.

Inflation implications from President-elect Trump's policies continue to be a hot button topic among investors. History tells us that single periods of heightened inflation are rare (there were 4 inflation waves in the 1970s), so the chances of the US economy experiencing a second wave of inflation are not insignificant. Current policy under the Biden administration remains inflationary despite the Fed's progress in reducing inflation from peak levels in 2022. "Bidenomics" delivered growth via substantial deficit-funded government spending as well as policies like student-debt cancellation. While markets initially were concerned that Trump policies could be even more inflationary than the status quo, expectations have settled in recently especially after the nomination of Scott Bessent for Treasury Secretary. Deregulation, low corporate taxes, and the Department of Governmental Efficiency (DOGE) proposals have the potential to offset inflation by increasing productivity via increased capital expenditures on technology, shifting resources to the private sector, and overall reductions to government spending. Yet, the two signature campaign policies of Trump's victory, tariffs and reversing illegal immigration, are viewed as overwhelmingly inflationary by economists. Trump has not wasted time getting back into shape on talking tariffs, the US President-elect threatened 25% tariffs on Canada and Mexico and an additional 10% tariff on all products from China when he takes office in January. The threats towards our neighbors are despite the fact Canada and Mexico are under a trade agreement negotiated as part of the first Trump administration that runs through 2026. A tariff is defined as a type of tax applied to the import of a foreign good. Tariffs as economic policy are not really in debate, with 95% of respondents from the American Economics Association in 2021 agreeing that "tariffs and import quotas usually reduce general economic welfare". The question is who bears the consequences of a tariff. A tariff is legally the responsibility of the person or firm importing the foreign good and the proceeds are received by the government levying the tariff. But economists generally believe that the end consumer or domestic competitor often bear the vast majority of the tariff costs via increased prices, competition, or currency gains. The cost burden for consumers was evident from economic studies of tariffs levied during the first Trump administration that were maintained by President Biden. Markets are optimistic that President Trump is simply using tariffs as a negotiating tool to achieve various policy gains from foreign countries, both friend and foe. If that is the case, markets and the economy performed well from 2017 to 2019 until the Covid-19 pandemic while inflation remain subdued. The possibility of a universal tariff on imports has potential to do more economic damage and would likely raise inflation expectations immediately. Economists have less consensus on illegal immigration, and the nature of the economic impact is considered dependent on where we are in the labor cycle. During its initial phase, mass immigration can be beneficial for an economy, producing higher growth and downward wage pressure; however, as new migrants further integrate themselves into society and use credit, inflation becomes more likely. In terms of the shift in policy under the Trump administration, the mass deportations promised by the Trump campaign have the potential to be inflationary by creating a sudden shock to labor markets. The Fed worked aggressively starting in 2022 to reduce tightness in US labor markets and bring down inflation. A sudden reversal in labor supply could push inflation higher through increased wages from tighter labor markets. At their extremes, the combination of significant tariff increases and mass deportations would have the market on guard, and significantly increase the likelihood of a second wave of inflation.



Average Tariffs in the US, Percent of Total Goods Imports
Source: Bureau of the Census, Cato Institute

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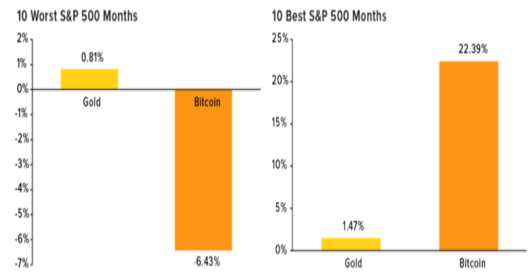
Speculative trades boomed following the Republican sweep in November. Most notably, the price of Bitcoin exceeded $100,000 in early December, up from $16,000 in 2022 when crypto prices declined broadly in the face of the market sell-off and Fed Hikes. The 2022 price declines combined with substantial leverage and transparency issues exposed the crypto industry's vulnerability to numerous frauds and illegal practices. Yet, as the market recovered in the 4th quarter of 2022, so to did most crypto prices, especially Bitcoin. Perhaps if the equity market had bottomed in June instead of October 2022, FTX and Sam Bankman-Fried would still be with us. Regardless, 2022 seems like a very long time ago as Bitcoin and Ether exchange-traded funds saw record inflows for the month of November, totaling close to $8 billion of net inflows according to Bloomberg data. The melt-up has come to fruition after President-elect Donald Trump became a crypto advocate in his third presidential campaign, embracing the group while other candidates were largely indifferent. Prices were pushed even higher during the month when SEC Chairman Gary Gensler formally announced his plans to step down on January 20th, further clearing the way for Trump's pledge to put more favorable crypto regulations in place[1]. In the weeks since Trump was declared the winner of the US presidential race, the crypto market has grown by $1.2 trillion. New ways to gain exposure to Bitcoin have also helped generate traction for the asset class in 2024. Spot Bitcoin ETFs began trading in January 2024 and offer investors a convenient way to gain exposure through traditional financial markets without directly holding the cryptocurrency directly. The availability of these ETFs also lowered the risk of exposure to a fraudulent custody practices like the aforementioned FTX. Just last week, the debut of options trading on Bitcoin ETFs, beginning with BlackRock's iShares Bitcoin Trust (IBIT), introduced a new level of sophistication to the crypto market. The launch of IBIT ETF options provides tools for investors that are likely to enhance liquidity, reduce volatility, and generate even more institutional participation. Demand could also continue to grow if large governments were to participate meaningfully and consider owning digital currency like they have traditional gold. Trump has supported the idea of creating a national stockpile of Bitcoin, likely comprised of the approximately $200 million of crypto assets that the government has already seized during investigations into illicit activity. It is not clear however that there would be enough support in Congress to succeed in establishing this concept. Given the new administration's support and the supply versus demand environment adoption creates for Bitcoin, it is hard to imagine bearish scenarios for Bitcoin in the short term other than its correlation with other speculative investments.



Gold vs. Bitcoin During Market Downturns and Rallies (% change)
Source: Bloomberg, US Global Investors
Note: Past performance does not guarantee future results.

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[1] *President Trump formally nominated Paul Atkins to lead the SEC in early December. Atkins is viewed as favorable to crypto markets and his prior firm was a consultant to financial firms involved in digital currencies.*