

Commerce Trust Market Brief with Scott Colbert

November 21, 2024 – Market Reactions to the 2024 Presidential Election

Scott Colbert: Good morning. It's Thursday, November 21, and the markets are open and trending higher. Let's review what the market financial returns have been so far, year to date, post the election. The S&P 500 (Index) is up more than 25% having its second consecutive exceptionally good year. We've seen a bit of outperformance as we've talked about the market broadening out, with the S&P 400 MidCap stocks (S&P MidCap 400 Index), the next 400 largest companies in the country, up about 17.75%. The Russell 2000 (Index), a measure of the smaller cap stock universe, up 16% now year to date, catching up on those large cap returns.

The international large-cap stocks (measured by the MSCI EAFE Index) are up 3.85% and for a while this year those were almost up 10% on a year-to-date basis. And the emerging market stocks (measured by the MSCI Emerging Markets Index) are up over 9%, having been boosted by the significant stimulus over in China.

Fixed income results have been a bit disappointing because interest rates have trended up just a bit this year. The Bloomberg Aggregate (Bond Index), the broadest measure of investment grade bonds is up about 1.5%, and municipal bonds (measured by the Bloomberg Municipal Index) have had a similar performance.

Taking a finer look at the returns, particularly returns post-election, we see that the stock market has continued in its upward bend. We've seen large-cap stocks up, but we've seen mid-cap and small-cap stocks outperform those large caps by a bit. On the international side though, we've seen a give back in return, post the election. The dollar has strengthened materially since the election. This has pressed international results down a bit. And then in the fixed income space because inflationary expectations have increased just a touch, we've seen a rise in longer term interest rates and a give back of some of the return to the broad investment grade market.

Post the election, we've noticed five key trends. Those trends are a change in sector leadership, a continued broadening out, if you will, of the market, a focus on trade and tariffs, probably a change in energy policy, and then a likely lighter touch in regulation. What has this meant for the markets? Well, in terms of sector leadership, the two most positive sectors post the election have been energy and financials. Energy – oil and gas – I think we understand likely to be a positive move towards oil and gas at the expense perhaps of clean energy or green energy, and financials due to probably less regulation as well as higher interest rates for longer, as most banks and financials make a little bit more money in a higher interest rate environment.

This market broadening out we just showed you with the S&P MidCap 400 and the Russell 2000 outperforming the large cap sector is really a continuation of a trade that started on July 16th when the market made up its mind that the Federal Reserve (Fed) would eventually be pushing interest



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rates down. In terms of trade and tariffs, this has increased the value of the dollar, which of course hurts international returns, and of course the tariff and trade policy is most likely to be inflationary. Since it's inflationary, this is also pushed up the interest rate level. That's what's hurt the bond market just a touch. And it's probably also then going to put the Fed on more notice and probably make them less assertive in terms of cutting interest rates next year. We've talked about energy being one of the leaders, but the policy in the energy space is likely to change materially.

And then of course, a lighter touch in regulation. This is already helping some of the tech sector, notice that Google is under the anti-trust watch of the government right now. And of course, in terms of financial regulation, there's been a lack of merger and acquisition in the financial space, given the current scrutiny and regulation of the financial sector.

Specifically in terms of sector rotation, we've highlighted the three best performing sectors since the election and the three worst performing sectors and notice that tech isn't even on the page because it's somewhere in the middle. Consumer discretionary stocks have gotten a boost as (President-elect Donald) Trump's policies are likely to focus more domestic and inwardly. The financials of course being the second-largest gainers and the energy stocks taking a lead, at the expense of real estate. Real estate probably lagging because of the higher interest rate environment. Materials because of lack of construction likely to occur, perhaps even some cutbacks on the CHIPS (and Science) Act and the IRA (Inflation Reduction Act). And healthcare has lagged the most probably on likely changes in healthcare policy.

One of the biggest possible surprises post the election has been the increase in interest rates. And maybe when you step back, it probably shouldn't be terribly surprising. The tariff and immigration and trade policies likely coming from the new administration basically are likely to put pressures on inflation, and you've seen this back up in interest rates now a few basis points, 10 to 15 basis points.

In fact, since the Fed started to cut interest rates in the middle of September, we've actually seen the 10-year Treasury rate back up by about 70 basis points. This happens to be, after a 60-day period of time, the most that interest rates have ever backed up after the Fed began to reduce interest rates since 1983. We have only two other instances where rates actually went up after the Fed started to cut interest rates, and those were the two soft landings in the 1990s.

So, quite obviously, there's a heck of a lot going on. We'll be monitoring all the changes in policy closely and back to you shortly to discuss all the likely implications for your investment portfolios.



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