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NOVEMBER 13, 2024 | 3:17 PM EST

Weekly Market Guide

Last week's eventful calendar of a Presidential Election, Fed Decision, and Q3 Earnings Season resulted in the best weekly performance all year and new all-time highs for the S&P 500. The headliner was a Republican sweep (not quite over yet, but highly probable), which has the market quickly pricing in potential pro-growth policies (i.e. lower taxes, less regulation, higher fiscal spending, and "America First" mentality).

Pro-cyclical momentum pushed the small caps, banks, industrials, and consumer discretionary sharply higher as the biggest "election beneficiaries." Bond yields also moved sharply higher on the potential for higher economic growth and inflation. Interest-sensitive areas lagged, as did tariff-exposed and clean energy. The market has been very quick to discount positive policy outcomes and paint the "beneficiary" areas with a broad brush. In reality, the political process is unlikely to be smooth and will contain various nuances. For example, tariff rates may be drastically lower than campaigned on with exclusions for some heavily-impacted consumer areas. A hallmark of President-elect Trump's first term was the "Art of the Deal," where negotiations involved shooting-high before walking-back to a final outcome. This can impact volatility- and when emotions run high, it often presents opportunity.

Reactionary momentum may persist for weeks. Financials and Industrials were two of the best-performing areas in the 2016 election aftermath and maintained that relative strength into early December. For what it's worth, their relative performance then became choppier as the next year progressed. An important lesson from this is the initial reaction does not always sustain strength for a prolonged period of time. **As markets often do, they move too fast in one direction on hype and then need to digest those moves as reality plays out.**

Big picture, the election results increase pro-growth potential. When you add Fed easing to the mix and a market at all-time highs, they also increase the odds that inflation rears its head again though. That is probably one of the biggest risks over the next year- i.e. sentiment and positioning- because there is still a lot of uncertainty on the economy and path of inflation. Those drivers will influence Fed expectations, interest rates, and valuation multiples. Investors will remain sensitive to the monthly data, and we have seen sentiment and positioning shift rapidly. All in all, those risks do not knock us from a **positive overall market stance. The economy is more important than inflation at this stage. But inflation potential, relatively higher/volatile rates, trade headline risk, and less Fed cuts can affect the pace of upside and choppiness along the way.**

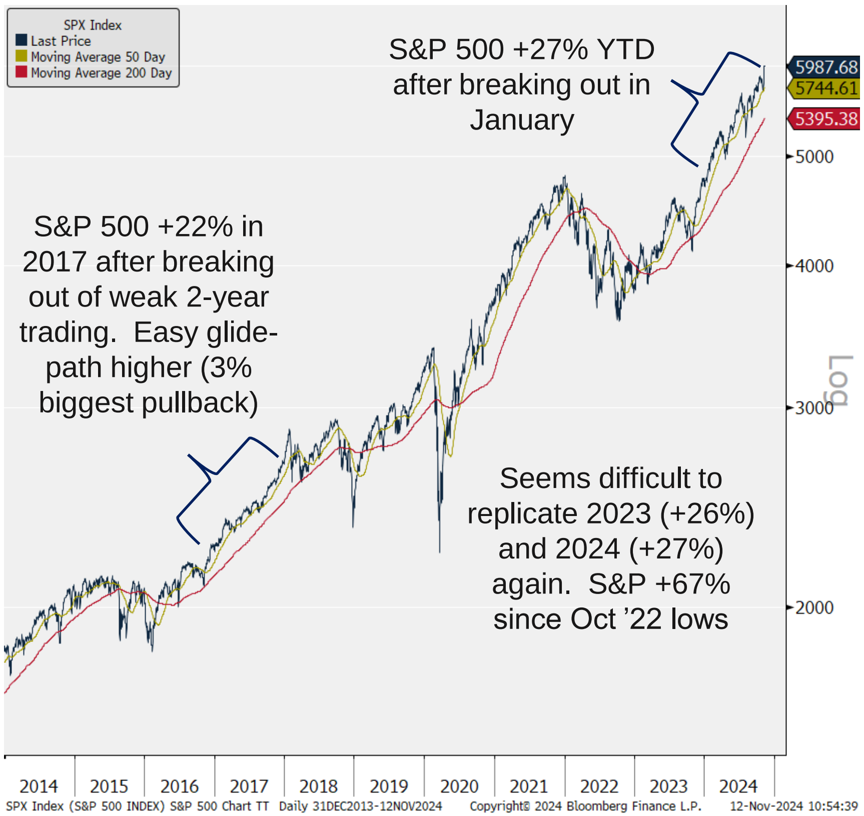
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	16.5%	28.1%
S&P 500	25.5%	35.5%
S&P 500 (Equal-Weighted)	16.1%	30.2%
NASDAQ Composite	28.4%	39.7%
Russell 2000	18.0%	40.3%
MSCI All-Cap World	17.9%	28.6%
MSCI Developed Markets	2.6%	14.0%
MSCI Emerging Markets	7.8%	16.3%
NYSE Alerian MLP	12.5%	16.4%
MSCI U.S. REIT	9.8%	27.7%

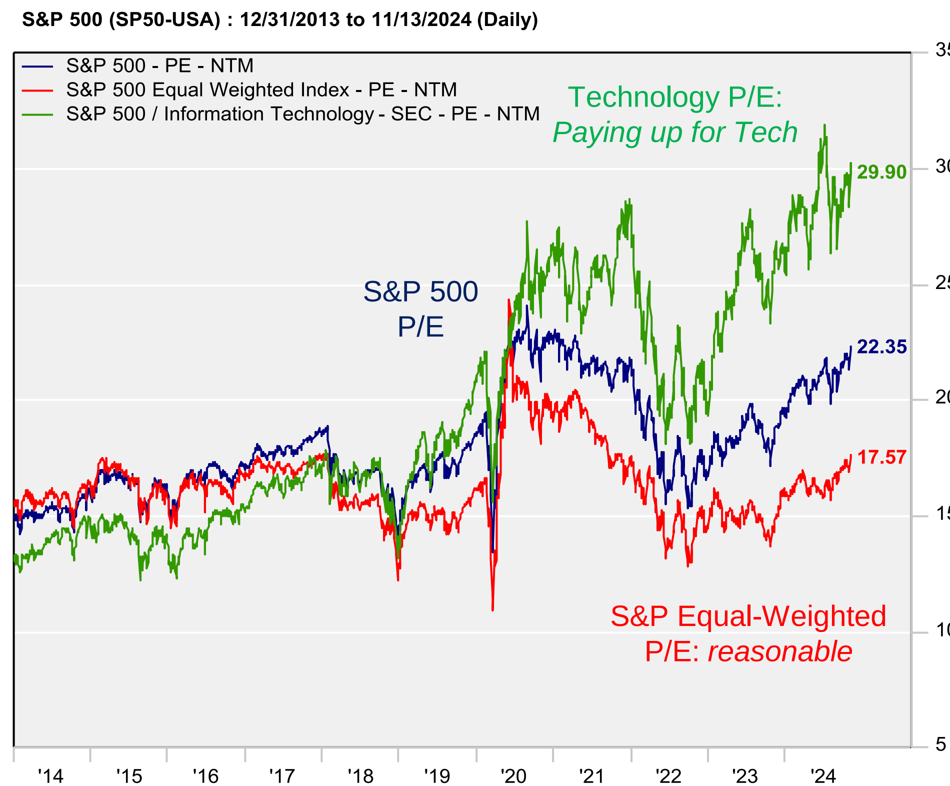
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	36.2%	9.1%
Information Technology	35.5%	31.9%
Financials	31.9%	13.6%
S&P 500	***25.5%***	-
Industrials	24.3%	8.6%
Utilities	23.7%	2.4%
Consumer Discretionary	23.6%	10.6%
Consumer Staples	13.8%	5.5%
Energy	12.1%	3.4%
Health Care	7.8%	10.7%
Materials	7.7%	2.1%
Real Estate	6.8%	2.0%

Source: FactSet

2025 Unlikely To Replicate 2017

2025 is unlikely to match 2017. The Republican sweep in 2016 resulted in a breakout to new highs, as the S&P 500 exited a two-year trading range (out of the 2014-2016 "US manufacturing recession"). The S&P 500 then experienced a glide-path higher in 2017, rising 22% on virtually no volatility (largest pullback in the year was 3%). This time around, the S&P 500 broke out of its two-year bear market back in January and is further along in the newfound momentum. It will likely be difficult to replicate the past two years' 25%+ returns again. Valuation is much higher currently than 2017. This is mainly due to the strength and concentration in Tech mega-caps, stretching the index P/E to lofty levels. The equal-weighted S&P 500 P/E is more reasonable and in-line with 2017, which may bode well for a broadening out in participation ahead- and diversified strategies.





Source: Bloomberg, FactSet

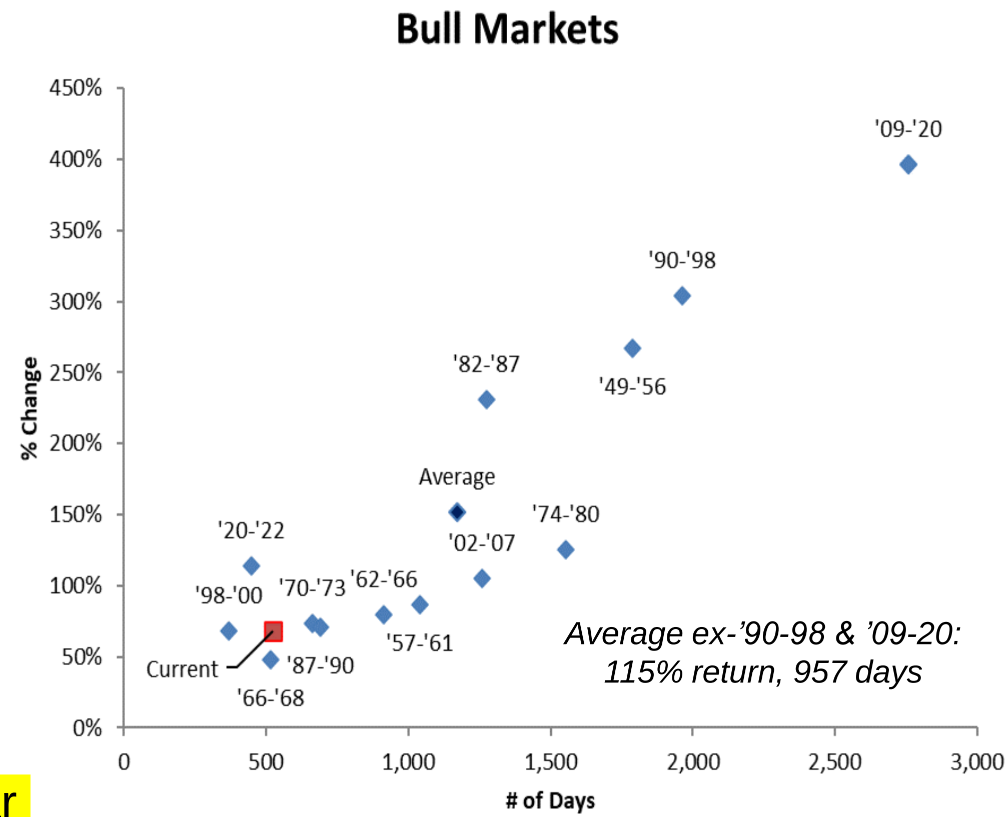
More To Go In This Bull Market

Don't lose sight of the long-term. The S&P 500 has risen 68% over the past 522 days so far (since the Oct '22 lows), but likely has more to go in this bull market. Historically, bull markets have risen 152% on average over 1173 days. Even excluding the two biggest bull runs (i.e. '90-'98 and '09-'20) suggests we likely have more time and gains in the current run. As stated previously, the pace of returns may slow (and volatility may pick up), but we would look at the current equity market with a positive lens.

Bull Markets

Trough	Peak	Price Change	# of Days
6/13/1949	8/2/1956	267%	1,789
10/22/1957	12/12/1961	86%	1,042
6/26/1962	2/9/1966	80%	913
10/7/1966	11/29/1968	48%	516
5/26/1970	1/11/1973	74%	665
10/3/1974	11/28/1980	126%	1,555
8/9/1982	8/25/1987	231%	1,277
10/20/1987	7/16/1990	71%	691
10/11/1990	7/20/1998	304%	1,963
10/8/1998	3/24/2000	68%	368
10/10/2002	10/11/2007	105%	1,259
3/6/2009	2/19/2020	396%	2,758
3/23/2020	1/3/2022	114%	450
Average		***152%***	***1173***

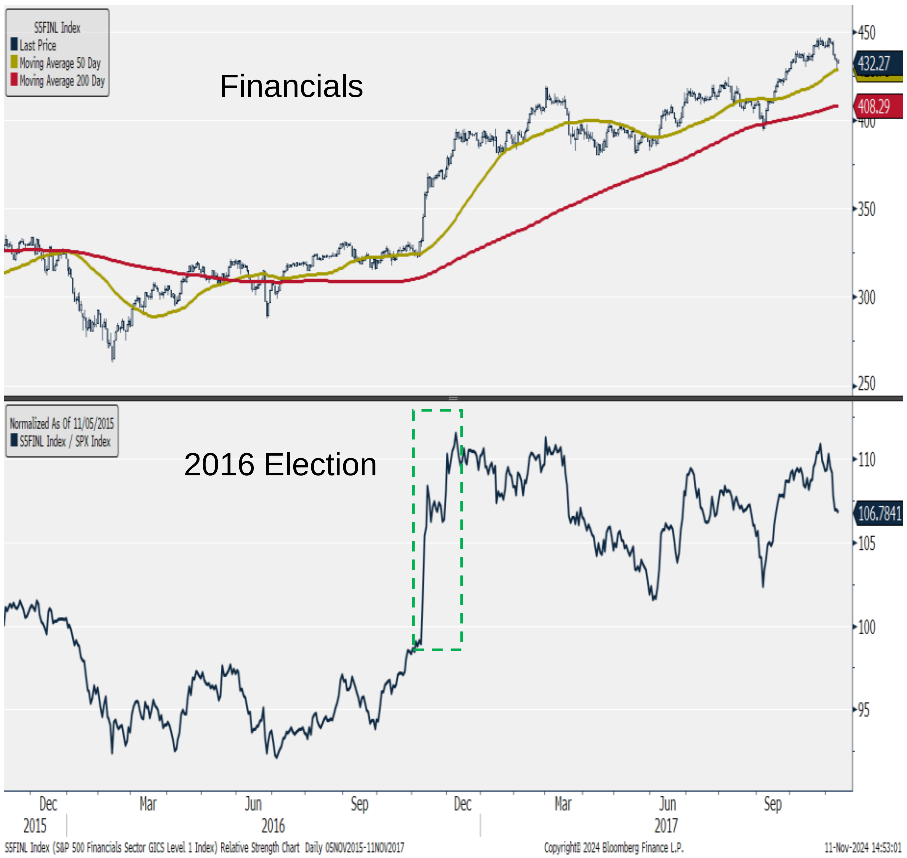
S&P 500 +68% over 522 days so far

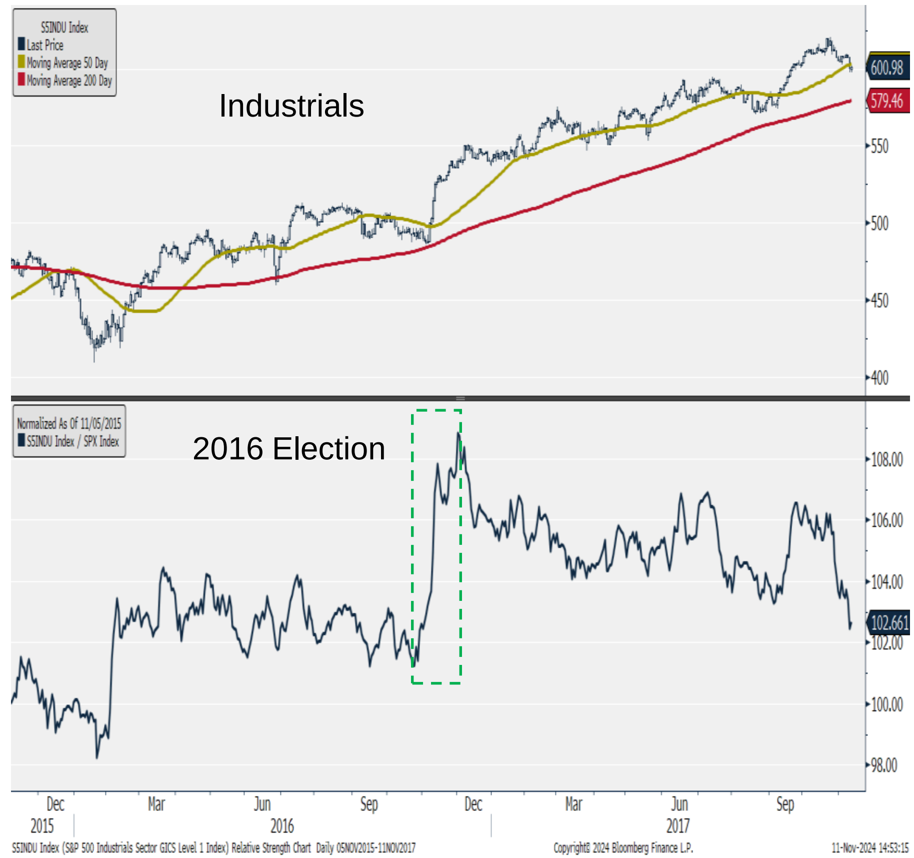


Source: Bloomberg, FactSet

2016 "Election Beneficiaries"

Pro-cyclical momentum pushed the small caps, banks, industrials, and consumer discretionary sharply higher as the biggest "election beneficiaries." This reactionary momentum may persist for weeks. Financials and Industrials were two of the best-performing areas in the 2016 election aftermath and maintained that relative strength into early December. For what it's worth, their relative performance then became choppier as the next year progressed. An important lesson from this is the initial reaction does not always sustain strength for a prolonged period of time. As markets often do, they move too fast in one direction on hype and then need to digest those moves as reality plays out.

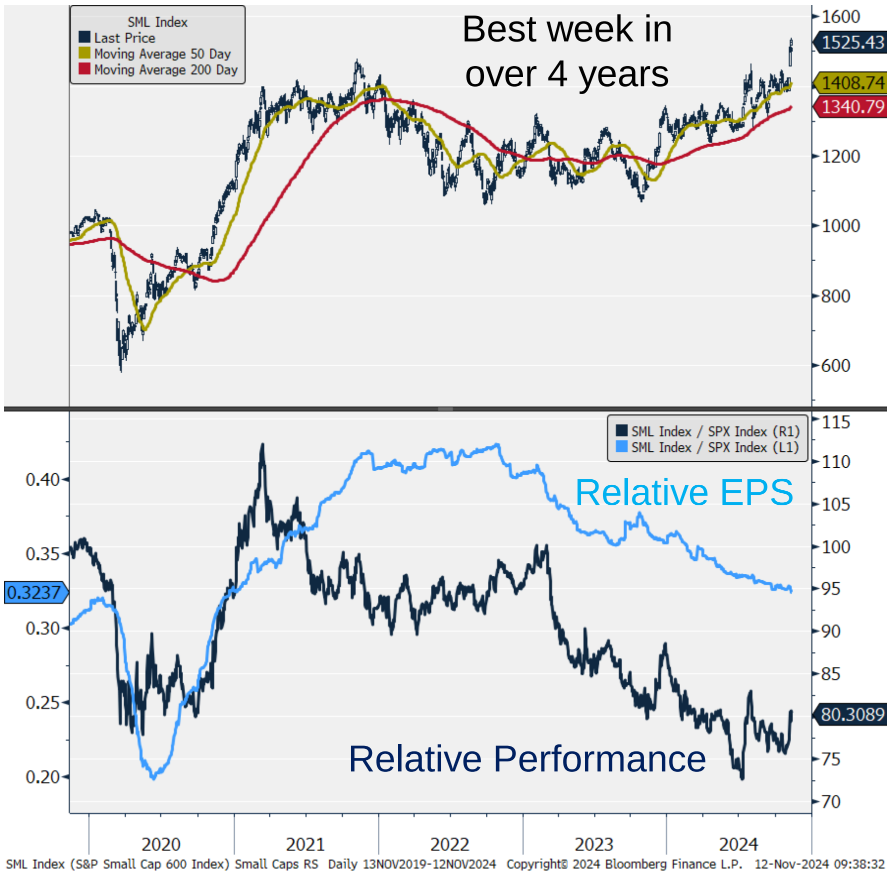


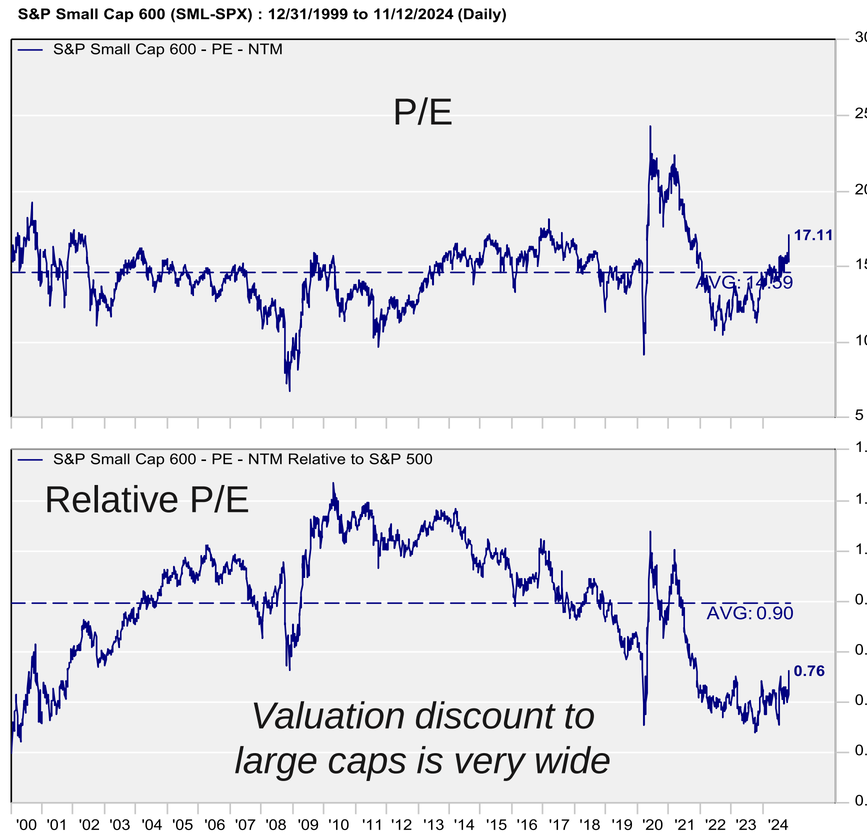


Source: Bloomberg, FactSet

Small Caps

The small caps had their best weekly performance in over four years and moved to new all-time highs (finally breaking out of a 3-4 year sideways range). Relative strength trends still need to build upside momentum in order to increase conviction, and relative earnings trends are still moving downward (which has been a headwind). But the market often moves ahead of the fundamentals, and there is reason for optimism. Aside from the technical breakout, the valuation discount for small caps vs. large caps is very wide. (Continued on the next page)

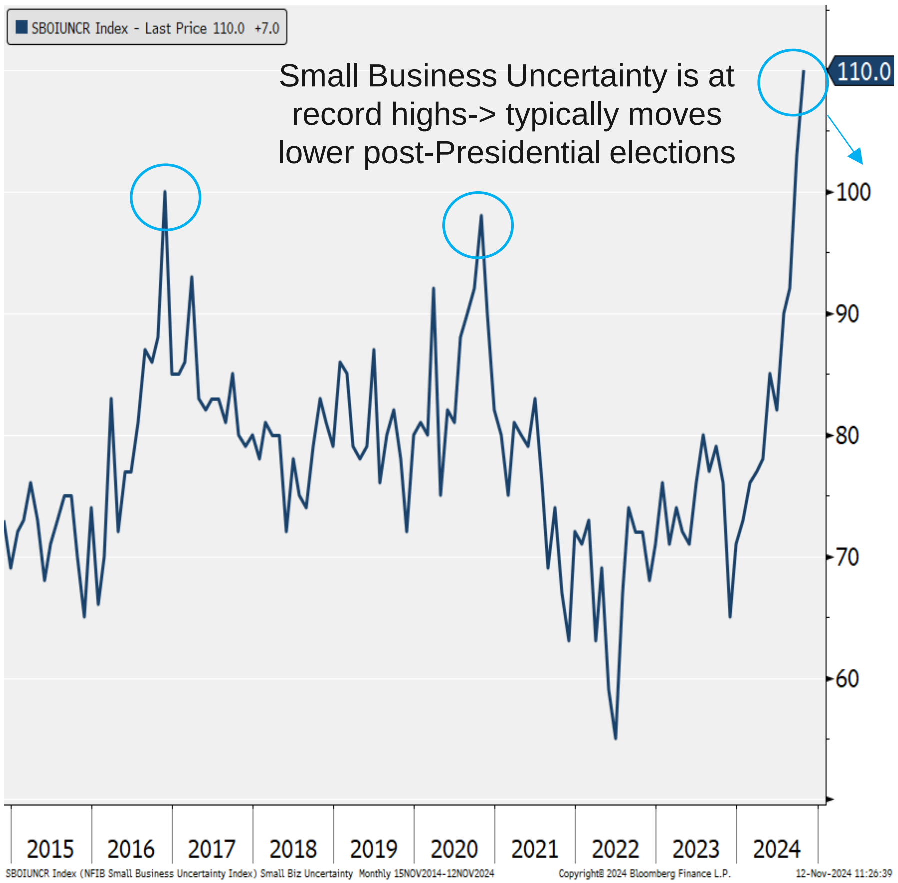


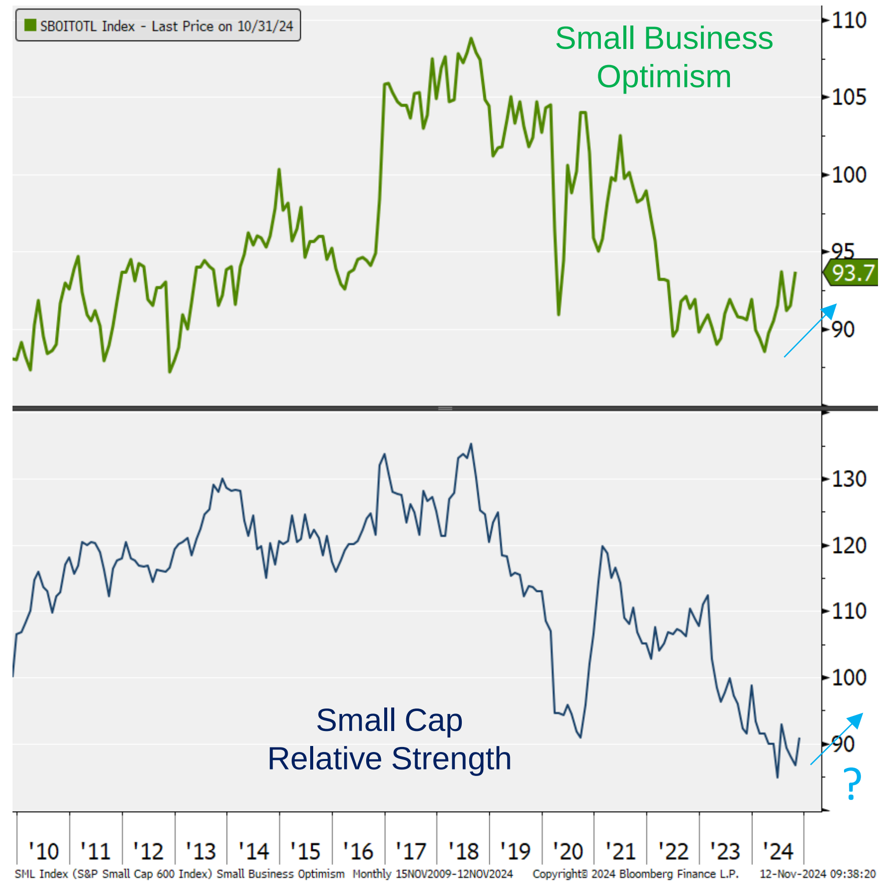


Source: Bloomberg, FactSet

Small Caps

Additionally, small business uncertainty is at record highs. In the aftermath of the election results, this is likely to move lower (as it usually does post-Presidential election). There has been a positive correlation directionally with the NFIB Small Business Optimism index and small cap relative performance, both of which have been low in recent years. As we start to talk more about pro-growth policies (i.e. lower taxes, less regulation, higher fiscal spending, and “America First” mentality), small business optimism may start to rise- which would bode well for small cap performance.

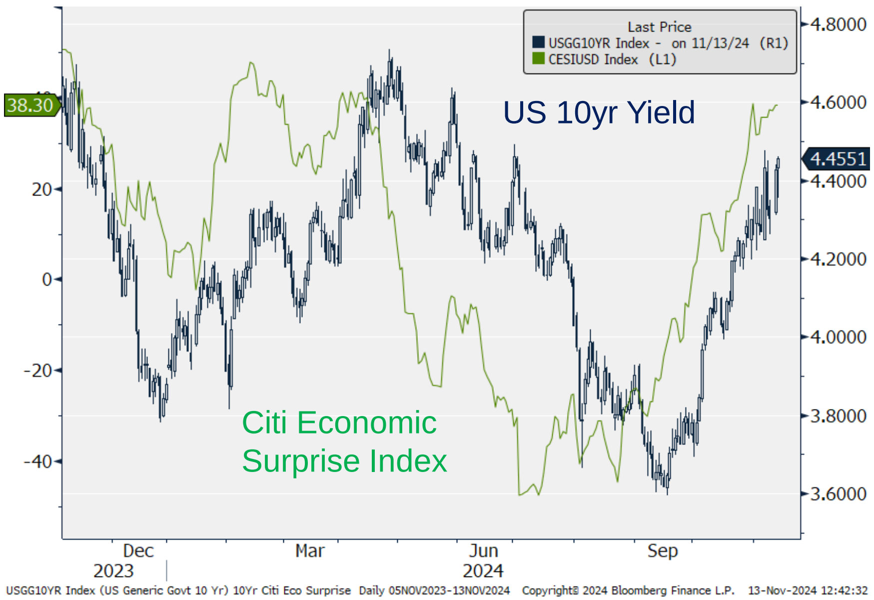


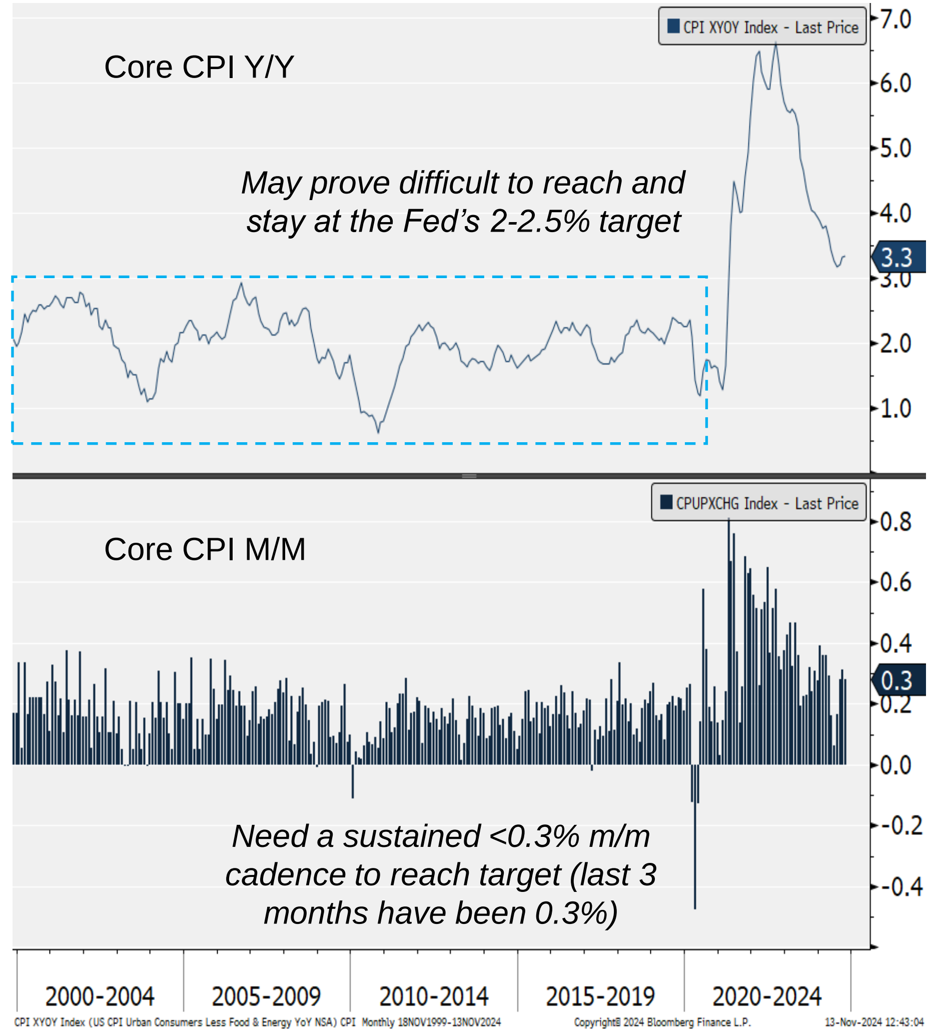


Source: Bloomberg, FactSet

Inflation & Bond Yields

In the midst of election-talk, we had a Fed decision last Wednesday- where the FOMC cut rates by 0.25% (0.75% in total the last two meetings). The press conference did not reveal much. The Fed stated its intent to remain flexible on the incoming data and will not get ahead of itself with forecasts based on potential policy changes at this point. The tone and market interpretation is leaning toward another cut in December, followed by two more in 2025. Stronger economic data and upside surprises to inflation are removing Fed cuts from the market's outlook, resulting in sharply higher bond yields since September. We expect this to remain a key influence over the next year. The economy is more important than inflation at this stage. But inflation potential, less Fed cuts, and higher/volatile rates can affect the pace of market upside and choppiness along the way.

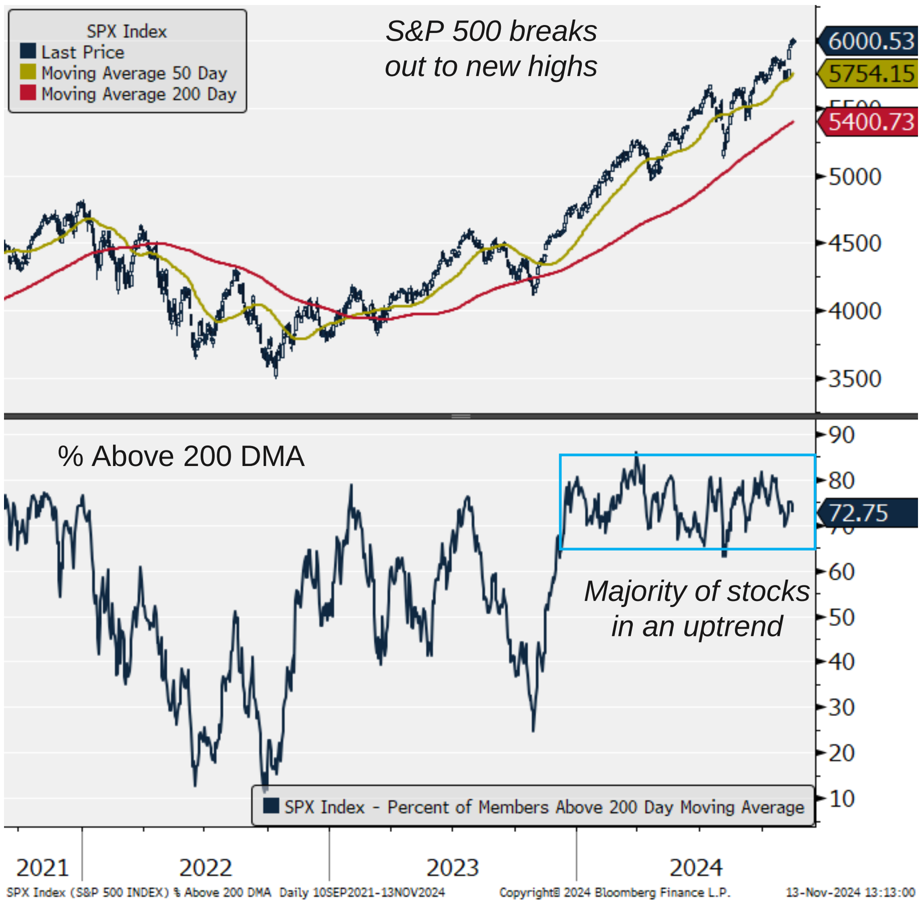


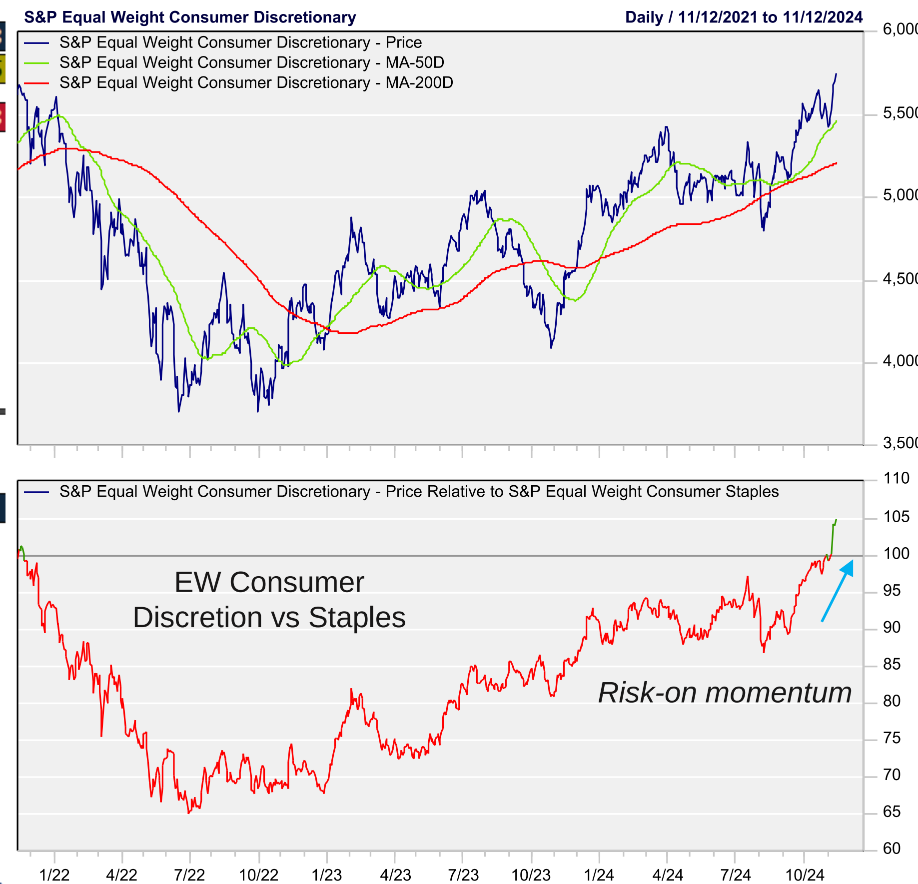


Source: Bloomberg, FactSet

Technical: S&P 500

The S&P 500 was able to break out to new highs on pro-cyclical momentum beneath the surface. This is supportive of the uptrend and keeps the path of least resistance higher. One dent is a lack of broad momentum on the break-out (i.e. the recent strength has been in selective areas). Nonetheless, importantly, the majority of stocks remain in an uptrend. This bodes well for intermediate term returns.





Source: Bloomberg

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Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

Europe: DAX (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

Asia: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

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