Market commentary notes

Monthly call notes
Monday, December 2, 2024

Eric A. Stubbs
Senior Vice President – Financial Advisor
Senior Portfolio Manager – Portfolio Focus
1211 Avenue of the Americas
Suite 3300
New York, NY 10036
(212) 703-6165
eric.stubbs@rbc.com

Key issues last month and this month:

Jobs — We don't have November new jobs numbers yet, so the best metric available at this point is new jobless claims, which were about even with the previous week at 213,000, seasonally adjusted. [https://www.bls.gov/news.release/empsit.nr0.htm, Nov. 30, 2024].

Black Friday spending — Online spending this year was around $11 billion which is up about 8–9% from last year and compares to an average cybercommerce spend of $3 billion/day. Total Black Friday sales (including in-person) are estimated to have been $74.4 billion, up from $70.9 billion last year. [https://finance.yahoo.com/news/black-friday-hits-record-74-151915913.html, Dec. 1, 2024]. Total holiday season spending is expected to come in around $990 billion, which is up 3.5% from last year. [https://www.npr.org/2024/11/27/nx-s1-5206495/black-friday-deals-2024-shopping-economy, Nov. 30, 2024]. [https://abcnews.go.com/Business/black-friday-online-sales-track-hit-record-high/story?id=116330137, Nov. 30, 2024].

GDP estimate — The second GDP estimate for 3Q was unchanged at +2.8% annualized real growth, although the components changed a little, with consumer spending exports and imports revised down and inventories and nonresidential fixed investment revised up. Once again, it looks like the Fed's interest rate increases had very little net impact on U.S. GDP growth rates. [https://www.bea.gov/news/2024/gross-domestic-product-third-quarter-2024-second-estimate-and-corporate-profits, Nov. 30, 2024].

The Fed – Prices — The latest PCE price estimates—what the Fed allegedly watches—came in at +2.8% for the last year. While that was in line with expectations, it underlines the stubbornness of the inflation rate relative to the Fed's target of 2.0%. That, in turn, raises a question as to how aggressive the Fed will be, or not, in lowering rates in December and next year. Perhaps less than people imagined, despite a new Administration, which has already made clear that they would like lower interest rates. [FactSet, StreetAccount Summary - U.S. Market Recap, 27 Nov, 2024]. Personal incomes in October were up 0.6%—more than expected as was spending at +0.4%. Pending home sales were up 2%, while new home sales were down a bit. Bear in mind that existing home sales are usually 5–8 times the volume of new home sales.

Some of the notable things from the November FOMC meeting minutes include: (1) The FOMC believes that the markets are expecting another 25 bp reduction in December. (2) The markets expect the Fed to stop maturing away their Treasuries by the middle of 2025. That would be putting a cap on intermediate rates. If that happens it would tilt the yield curve upward, and help the financial sector's profits. (3) Real GDP growth was thought to be increasing in Europe and Mexico while inflation is easing there. (4) FOMC members continue to believe that core inflation is in the decline and that's despite the economy doing well on the supply side. (5) Labor market was in balance, and premiums for job changers were falling. Also, consumer spending was a bit stronger than expected. (6) The strains in the commercial real estate market appear to be easing. [https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20241107.pdf, Nov. 30, 2024].

Better November — So far, the major U.S. equity indexes are making a strong showing into the end of the year. Post-election, they climbed, then backed off a little and then recovered a little. The S&P 500 was 3.6% while small caps were down more at -2.6%. REITs also dipped. By 3.6% and international stocks were down even more at -4.9% for developed countries.

Bonds were down too, with the Agg down nearly 2%.

Global stock indexes

Total index	Nov %	YTD %	1 yr %	2024 Est PE Trailing/ projected
S&P 500	5.87	28.07	33.89	25.15/22.1
S&P Mid Cap	8.81	22.67	33.36	20.83/17.1
S&P Small Cap	10.94	18.09	33.20	35.96/28.4
FTSE All REIT	3.57	14.04	24.15	
MSCI All Country xU.S.	-.91	7.62%	13.03	
MSCI Emerg Mkt	-3.59	7.65%	11.86	

Source: Morningstar as of November 30, 2024. Estimated PEs are 12 month values from https://www.wsj.com/market-data/stocks/peyields. Trailing PEs are as of November 29, 2024. Projected PEs are as of November 29, 2024. Midcap refers to IJH, iShares S&P midcap ETF: https://www.ishares.com/us/products/239763/ishares-core-sp-midcap-etf. Small cap from Yardeni Research: https://yardeni.com/charts/stock-market-p-e-ratios/. Figures are provided for comparisons over time.

Fixed income and alternatives

Total return index	Nov %	YTD %	1 yr %
Bloom Agg Intermed	0.85	3.43	6.50
ICE BofA U.S. Convertibles	6.90	16.02	23.02
S&P GSCI	0.06	5.78	2.28
Bloom U.S. Corp HY	1.15	8.66	12.71

Source: Morningstar as of November 30, 2024.

Sector performance — In November, the best sectors were consumer discretionary, financials and industrials. On a YTD basis, the winners were financials, consumer discretionary and info tech. The major components of consumer discretionary are Amazon, Tesla, Home Depot, Costco, Walmart and Netflix. Together these comprise about 40% of the consumer discretionary ETF. Bringing up the rear were health care, materials and real estate. [https://www.spglobal.com/spdji/en/documents/performance-reports/dashboard-us.pdf, Nov. 30, 2024]. [https://digital.fidelity.com/prgw/digital/research/sector, Nov. 30, 2024].

Commodities

Commodity and food price changes, current month and YoY

Total index	Nov %	YoY %
Copper	-5.7	6.6
Lumber	6.4	8.9
Cotton	2.0	-9.5
Sugar	-7.4	-15.9
Coffee	31.3	66.6
Wheat	-7.2	-11.1
Corn	2.7%	-12.4
Oil	0.0	-9.8
NatGas	17.2	20.7

Source: https://tradingeconomics.com/commodities, Nov. 30, 2024.

In November, only three of our nine major commodities experienced price declines, versus eight in October. While there's a lot of fluctuation month-to-month in commodity prices, this suggests that prices are holding steady or rising. On a 12-month basis, five experienced price declines. However, on a simple average basis, the one-year price change was +4.9%.

Looking more broadly at commodities, when we look at 22 categories of agricultural commodities and 26 categories of industrial commodities, 26 of the 48 saw price declines in November, up from 22 last month. 21 saw lower prices than a year ago; about the same as for the prior two months. Having similar declines for the month and for the year suggests that commodity prices are stabilizing, albeit at a higher level.

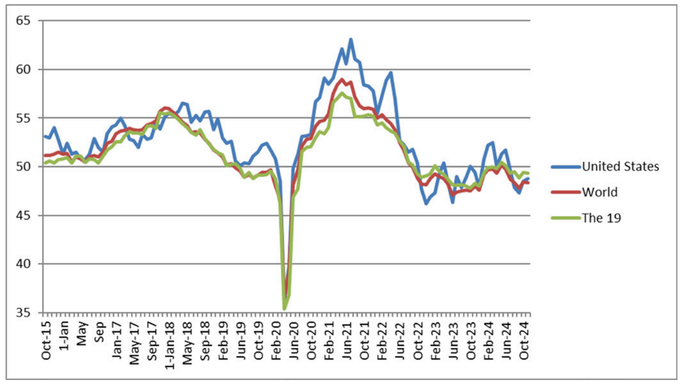
U.S. economy

U.S. PMI statistics — The U.S. Manufacturing PMI came in at 48.8, up a little from last month but still under the 50, "break even" line, as it has been since June. On the other hand, the services PMI—about 80% of our economy—is booming at 57, which is up from 55.3 last month. Overall, this signals continued and decent growth in the U.S. economy. [Trading Economics, PMI statistics https://tradingeconomics.com/country-list/manufacturing-production, Dec. 1, 2024]. [Trading Economics, https://tradingeconomics.com/country-list/services-pmi, Dec. 1, 2024].

International

Manufacturing PMI — Every month I look at the global Purchasing Managers Index (PMI) statistics for 38 countries. We have only partial updates from the previous month, so the number showing survey results above 50 remained the same at 17. Our global index was 48.4. Still down but not by much. There's not much change by region. Eurozone is down slightly and still in the mid-40s with France down a little and Germany up a little. Both still in low/mid-40s. Spain is strengthening further at 54.5. From a services standpoint, Europe backed off a little to 49.2, with Germany, France and Spain all dropping a little. [https://tradingeconomics.com/country-list/services-pmi, Dec. 1, 2024].

Here's our updated graph of Manufacturing PMIs



Source: Author's calculations based on published PMI statistics, as of Dec. 1, 2024.

Table summary

Region	Manu PMI	Last month	12 mo. ago
U.S.	48.8	48.5	49.4
19 majors	49.3	49.4	48.3
38 world	48.4	48.4	48.0
EU	45.2	45.9	44.2
China	50.3	50.3	50.7

Source: Author's calculations based on published PMI statistics, Dec. 1, 2024.

Incoming administration

Part 1: Describe the economy over the next four years

We're assembling a table of possible economic/policy initiatives between now and 2029. It's speculative at the moment but describes things that we think could occur.

It's hard to guess, for instance, what the inflation impact might be of deportations and tariffs. However, here are some rough estimates: If deportations oust 10% of the agricultural and construction work forces, those workers will have to be replaced. That likely entails raising wages for all of the people holding similar jobs. As a rough calculation, that could raise consumer prices by 5% per year for 2 or 3 years. (Labor costs are between 30% and 50% of final product costs for most retail goods and services.)

The impact of tariffs is also uncertain. If we assume that net of exemptions, tariffs affect 50% of imports, and average 20%, that amounts to about $170 billion per year. That amounts to roughly a 3% one-time increase in prices. [https://taxfoundation.org/blog/trump-tariffs-revenue-estimates/, Dec. 2, 2024].

There are also income distribution implications since tariff costs fall most heavily on people living paycheck to paycheck, skewed incomes in favor of the richer, and higher income quartiles of our population.

Policy initiatives

Policy type	Details	Probability of success	Hypothetical impact
Federal Reserve rates decrease	Trump admin believes that lower rates will aid in economic growth. Pressure on Fed and eventual replacement of Powell. (Warsh?)	Medium/ High	Negative short term real rates. Heavily tilted yield curve. Postive for financials. Ambiguous impact on US$ and depends on interest rates in other countries.
Corporate tax rate decrease to 15%	Statutory tax rate is 21%. Corp Inc tax raises about $420 billion/year in FY2023. NIPA corp profits were $3.7 trillion, meaning effective tax rate was 11.3%. Corp income taxes are 9% of Federal tax revenues.	High for 2026	Depends on details. As statutory rate drops, the difference between statutory and effective rate declines. If effective rate drops to 9%, revenue gap is $80–90 billion a year.
Tariffs	Proposals include 10–60% tariffs on China-originating goods, 25% for Canada and Mexico. Availability and impact of exemptions unknown.	High	Absent exemptions, may have significant cost impact on U.S. tech industry and competitive disadvantage for AI. Mexico and Canada tariffs may impact the auto industry, as well as oil. Could raise cost of gasoline in U.S. Japanese refineries can refine Canadian oil, putting U.S. at a disadvantage. In 2023 Canada exported $124 billion worth of crude to the U.S. (4 MM bbl/d). Mexico accounts for 500K bbl/d. Together that is 20% of U.S. consumption. USMCA may be an impediment to tariffs. Because oil is a global commodity, Canada is unlikely to be able to sell to the U.S. at plus-tariff costs, and therefore is likely to seek other non-tariffed buyers instead of exporting to U.S. From a hypothetical revenue perspective, tariffs might raise as much as $300 billion a year if fully implemented. Risk of retaliation by other countries is high with unknown costs.
Reduction of budget deficits	Goal is to reduce deficit. In FY 2024, deficit was $1.8 trillion or 26% of federal expenditures and 6.4% of GDP. Goal is to reduce that to 3% by FY 2028.	Low	Assuming 5% pa nominal GDP growth, 2028 GDP approximately $35 trillion, so a 3% deficit would be $1 trillion or $800 billion less than the current deficit. Curently mandatory programs (Social Security, Medicare, etc.) are 2/3 of the budget. Of the remainder, Defense is half, leaving approximately $1.1 trillion for all other programs. A 1% decline in borrowing rates might save $250–300 billion a year. If tariffs raise $150 billion and reductions in corporate taxes reduce revenue by $80 billion, the net might reduce deficits by $300–350 billion of the $800 billion target.

Relaxation of SEC, CFTC, CFPB, EPA, FDA regulatory efforts	Efforts to reduce regulatory oversight over businesses, including targets of DOGE.	High	May increase entrepreurial ventures, add to busines profitability. Impact on products and consumers unknown but may be negative. May increase foreign investment in U.S. industry and commerce. May raise profile of cryptocurrencies unless it leads to additional FTX-like bankruptcies.
Deportations	Currently U.S. deports approximately 400,000 undocumented aliens per year. Stated intention is to raise this to 2.5 million, which may be logistically impossible.	High	Doubling or tripling of deportation rate may be extremely disruptive to a variety of regions and industries, notably agriculture, food processing, construction and services. Workers pay $34 billion a year in Social Security and Medicare taxes as well as $74 billion in income taxes. Estimated cost to the economy from lost employment is $500 billion a year, in addition to labor shortages in industries above.
Support for oil & gas domestic production	Appears to center on increased access to public lands for exploration and development with a target to increase productin by 3MM bbl/d.	High	All else equal, a 3MM bbl/d increase in oil production may correspond to price declines of 15–30%, making increased U.S. production potentially uneconomic. Effect depends in large part on responses by other oil producing nations.
Support for Israel and Russia. Decreased support for NATO		High	Impact on Middle East unknown but risks of escalation of conflicts may be low or moderate. Risk to territorial integrity in Europe significant, bringing significant economic risks.
Rise in estate tax exemption	Estate tax currently accounts for approx 1% of federal revenues. Greater exemption will have a negligible fiscal impact.	Medium	Small rise in income inequality.

Source: https://fiscaldata.treasury.gov/americas-finance-guide/federal-spending/, https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MCRIMUSCA2&f=M, https://www.reuters.com/markets/commodities/japan-s-korea-refiners-join-china-buying-canadian-tmx-oil-2024-07-15/, https://fred.stlouisfed.org/tags/series?t=corporate+profits%3Bnipa, https://en.wikipedia.org/wiki/Corporate_tax_in_the_United_States, https://cmsny.org/high-growth-occupations-reliant-undocumented-immigrant-workers-nys/.

Part 2: Investment strategy

Trump has been threatening Mexico and Canada with tariffs unless they reduce the inflow of undocumented aliens and fentanyl. In response, the President of Mexico indicated that she and Trump did not reach an agreement, and 16 undocumented individuals were stopped at the Canadian border.

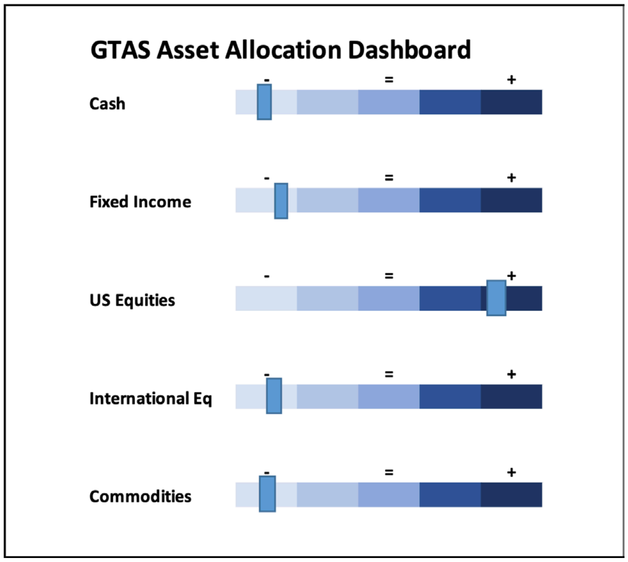
Bessent, nominated for Treasury Secretary, has indicated that he will pursue a policy of "3-3-3" meaning reducing the deficit to 3% of GDP by 2028, getting 3% GDP growth and raising oil production by 3MM bbl/day. He will also pursue tariffs and simultaneously try to lower the value of the U.S. dollar—which sounds like a tall order. [FactSet, StreetAccount Summary, Nov. 25, 2024].

Policy area	Policy specifics	Probability of success	Economic implications	To avoid	May benefit
Corporate tax rates	Reductions in corp rates	High	Positive for equity markets. Negative for deficit. Other countries may copy	Infrastrucuture development	S&P companies probably more than small caps or foreign
Individual tax rates	Reductions at upper end	High	Greater income inequality, leading to lower consumer spending		Some discretionary domestic manufacturers
	Possible liberalization of SALT deduction	Low			
Tariffs	Broad tariffs on imports	High	Consumer inflation, reduced international trade, import substitution	Mass retailers	Domestic foodstuffs
	Preference for companies moving jobs to U.S.	Medium	Small increase in domestic employment		Car manufacturers with U.S. ops (Toyota, BMW)
	Retaliation by trading partners	High	Significant trade decline, decline in export revenues and profits. Recession risk/ stagflation	U.S. export dependent cos. Unclear on Tesla, AAPL	
Mass deportations	Detention and removal of undocumented immigrants	High	Workforce shortages in agriculture and urban areas. Rising food prices	Agric, meat packing, restaurants. May damage industries with significant unionized work force	For-profit prisons
	Border restrictions	High			
	Family separation	High	Chaos and urban stress		
Deregulation	Corporate profit improvement	High	Equity market support		S&P cos.
	Possible long term health and environ consequences	Medium	Medium term social and economic costs		
Health care	Roll back of ACA protections including pre-existing conditions	High	Workforce and child health deterioration. Higher direct costs to hospitals and states	Hospitals	Insurance
	Restrictions on Medicaid	High	Increasing income and wealth inequality with consumption consequences		
	Loosening of pharma price controls	High	Rising drug prices and disposable income inequality leading to consumption declines		
Oil/energy	Promotion of domestic oil and natural gas production	High	Profit implications unclear but not necessarily positive. See items below	Impact on integrated producers unclear	Midstream depends on crack spreads, which may be favorable

NATO/Ukraine	Reduction of support of NATO	Medium	Embolden Russia in conquest of Ukraine		Euro defense manufacturers
	Reduction of support for Ukraine	Medium/High	Conquest of Ukraine leading to social and economic turmoil in Europe		Gold
Israel	Material and public support of Israel's actions in Gaza, West Bank and Lebanon	High	Risks igniting regional conflict with Israel/Iran. May make 45,000 U.S. military in the Middle East into targets. War may not spread beyond Iran but could implicate U.S. Likely cause oil prices to rise globally (also helping Russia's finances).		Gold
Taiwan	Backing from NATO commitments and tariff war may cause China to pressure Taiwan	Medium	U.S. could be drawn into military action or cause loss of suppliers in Taiwan. Negative implications for U.S. equities	TSMC, TSLA, AAPL, NVDA	U.S. defense contractors, gold
Inflation	Combination of tariffs, deportations, military conflicts will add to inflationary pressures	High	Negative for stocks and bonds. May be an inflation surge over 1 or 2 years and not a chronic acceleration. Federal Reserve hikes	Longer maturity bonds, high yield bonds. Gold	Short term TIPS, floating rate, financials. Unclear impact on debt-heavy industries
Deficits	Reduced tax revenues despite tariffs	High	Federal budget imbalance. Calls to reduce social program spending. Implications at state level, especially sunbelt	Lower quality munis	
SCOTUS	Generational change in conservative Justices	Medium/Low	Promotion of corporate interests over individuals Further codification of Unitary Executive powers		S&P cos.
25th Amendment	Replacement of Trump with Vance	Low	Constitutional crisis and turmoil. Good for bonds, bad for stocks. May lead to heightened international tensions	S&P and all equities, domestic and international, corp bonds	Gold, treasuries

Table above constitutes draft estimates.

GTAS Allocation chart



(+/=/-) represents our group's views over a 6- to 18-month time horizon concerning tilts relative to our strategic positions.

+ implies an overweight in that asset class.

= implies a weighting similar to our strategic weight.

- implies an underweight.

Index definitions

Past performance is no guarantee of future results. You cannot invest directly in an index.

Bar Agg Intermed — Bloomberg Barclays U.S. Aggregate Intermediate Total Return index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns for the index are total returns, which includes the daily reinvestment of dividends.

Bar U.S. Corp HY — Bloomberg Barclays U.S. Corporate High Yield Total Return index includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of $100 million, and at least one year to maturity.

FTSE All REIT — FTSE Nareit All Equity REITs Total Return index is an index of publicly traded Real Estate Investment Trusts (REITs) that own commercial property. All tax-qualified REITs with common shares traded on the NYSE, AMSE or NASDAQ National Market List are eligible. Additionally, each company must be valued at more than $100MM USD at the date of the annual review.

ICE BofA U.S. Convertibles — ICE BofA U.S. Convertible Bonds Total Return index tracks the returns of U.S.-traded convertible debt issued by companies with a significant presence in the United States. The index is composed of various combinations of convertible structure and credit quality, e.g., it includes investment-grade, speculative-grade, and non-rated issues. The returns for the index are total returns, which include reinvestment of dividends.

MSCI All Country xU.S. — MSCI All Country World Index Ex USA NR is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The index consists of 48 developed and emerging market country indices. The returns for the index are total returns, which include reinvestment of dividends.

MSCI Emerg Mkt — MSCI Emerging Markets NR index consists of 26 developing economies including Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

S&P 500 — S&P 500 Total Return index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the U.S.; it's often used as a proxy for the U.S. stock market. Total Return (TR) indexes include daily reinvestment of dividends.

S&P GSCI — S&P GSCI Total Return index is a composite index of the commodity futures. It represents unleveraged, long only investments in commodity futures that are broadly diversified.

S&P Mid Cap — S&P MidCap 400 Total Return index is comprised of stocks in the middle-capitalization range, and includes approximately 10% of the capitalization of U.S. equity securities. Total Return (TR) indexes include daily reinvestment of dividends.

S&P Small Cap — S&P SmallCap 600 Total Return index consists of 600 domestic stocks chosen for market size, liquidity, and industry group representation. Total Return (TR) indexes include daily reinvestment of dividends.