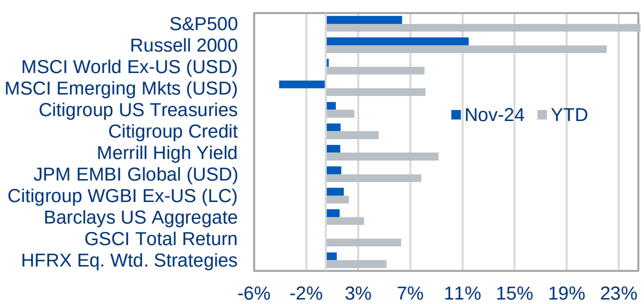
Global Market Review

A strong post-election rally propelled the U.S. equity market to another record high in November. Equities outside of the U.S. fared considerably less well, however. Markets in November were dominated by speculation over the likely winners and losers under the new administration. Perceived winners like Tesla and Bitcoin rose 38%. Losers thought likely to be most hurt by tariffs, including Chinese and Latin American equities and emerging market currencies, lost ground. While impressive, these speculative swings are occurring against a backdrop of continued elevated uncertainty over which policies will eventually be adopted and when their impact will ultimately be felt. The Fed – data driven as always – cut rates in November as expected but would not be drawn into attempting to divine the implications of the new administration's policies for the future path of the federal funds rate. The dollar rose against most currencies. Gold prices tumbled but remained near their October record high. Oil prices fell.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



U.S. equity markets surge ever higher.

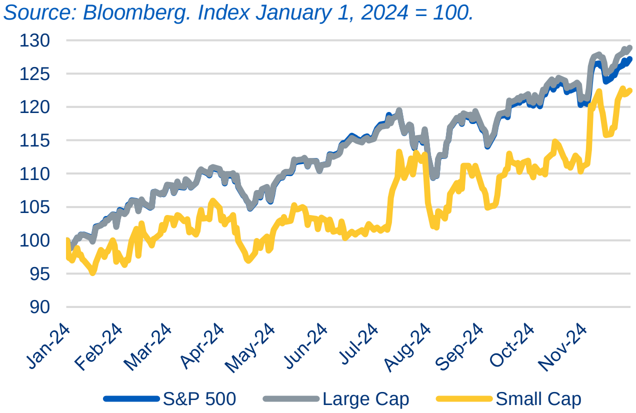
U.S. Equities Surge to Another Record High

The U.S. equity market continued to outperform other major bourses in November. The S&P 500 gained 5.9% – the strongest monthly performance this year – and closed the month at another record high. Small cap stocks rose 11% in November in the expectation that reduced competition from imports would boost the fortunes of small firms (Exhibit 1). Bank stocks performed especially well, jumping 13.6% in November, on speculation that reduced regulatory constraints would boost revenues from merger and acquisition deal making. Growth and value stocks performed equally well in November, returning 6.8% and 6.6%, respectively.

So far in 2024, the S&P 500 has gained 28.1%. Over this period, growth has outperformed value, rising 31.8% versus value's 22.4%. The financial, technology, telecom, and utility sectors lead all others, gaining between 32-37%. The health sector is lagging but is still up 7.8% so far in 2024.

Exhibit 1. Post-Election U.S. Equity Rally

Source: Bloomberg. Index January 1, 2024 = 100.



The U.S. equity market has handily outperformed other equity markets so far this year, gaining 28.1% versus the 7.6% increase of the ACWI ex. US Index of advanced and emerging equity markets. The persistent outperformance of the U.S. equity market over many years has increased the U.S. market's share of global equity indices. The U.S. market now represents about 65% of the total market capitalization of the ACWI Index of developed and emerging equities, up from 45% in October 2011. The U.S. represents 73% of the developed markets included in the MSCI World Index.

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The concentrated exposure of these global equity indices to the U.S. is mirrored in the S&P 500's concentrated exposure to its 10 largest constituent firms. The share of the 10 largest companies in the total market capitalization of the S&P 500 has risen to about 35%, a record level, exceeding the heights of the 2000 tech bubble by a wide margin. The U.S. market's concentration largely reflects the outsized the outperformance of a handful mega-cap tech stocks, which also represent a disproportionate share of U.S. corporate earnings. High levels of market concentration, equity valuation, and fundamental policy uncertainty make for a potentially volatile mix, not just for the U.S. equity market but by extension also for other broader global equity market indices.

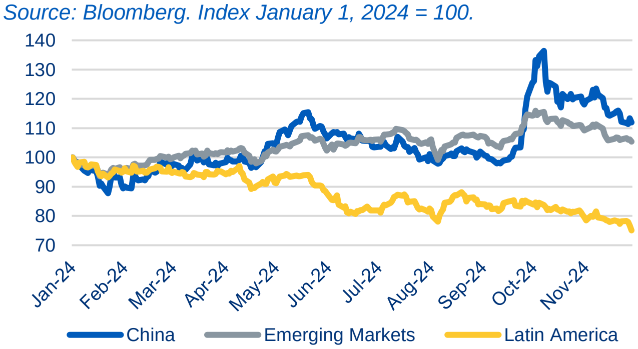
Non-U.S. Equity Markets Struggle

The MSCI World ex-U.S. index of advanced economy stocks eked out a gain of 0.2% in November, bringing its return for the year to 7.6%. European markets fell 1.7% in November following a 5.9% drop in October, as continued disappointing corporate earnings, weak economic growth, and mounting political instability in Germany and France weighed on sentiment.

Emerging equity markets lost 3.6% in November after falling 4.4% in October. They nevertheless remain up 7.6% so far this year. Latin American exchanges have underperformed other regions throughout the year. This poor relative performance was amplified in November by fears of the impact of restrictive trade policies on their exports and currencies (Exhibit 2). Chinese equities lost 4.4% in November, despite further announcements of policy measures to boost economic growth, shore up the financial system, and brighten investor sentiment. Despite these declines, the Chinese equity market remains up 16.3% so far this year, largely owing to the market's 23.1% surge in September following the announcement of a large package of fiscal and monetary stimulus measures.

Exhibit 2. Tariff Tremors Shake Emerging Equity Markets

Source: Bloomberg. Index January 1, 2024 = 100.



Fed Remains Data – Not Election – Driven

The Fed cut rates by 25 basis points to 4½ - 4¾% as expected, noting that growth remained solid, labor market conditions were easing, and inflation was making progress toward its target. In the press conference after the November 7 FOMC meeting, Chair Powell noted that "in the near term, the election will have no effects on our policy decisions." He emphasized that the timing, substance, and impact of the administration's policies were essentially unknowable, and declared that "we don't guess, we don't speculate, and we don't assume." The futures market, always ready to guess, speculate, and assume, is placing a 76% probability on a further 25 basis point rate cut at the FOMC's December meeting.

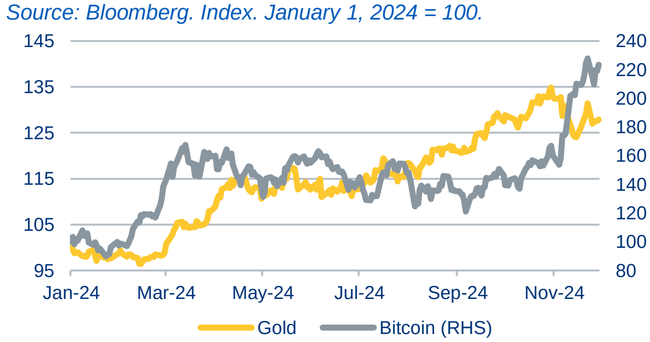
U.S. Treasury yields fell slightly during the month. The broad U.S. Treasury index rose 0.8% in November, with the 10+ year maturity segment gaining 1.8%. So far this year, the broad index is up 2.2% while the 10+ year segment is down 0.5%. In the credit markets, investment grade and high yield bonds both rose about 1% in November. For the year as a whole, investment grade and high yield bonds are up 3.0% and 8.9%, respectively.

Bitcoin Blasts Off

The prospect of regulatory policies favorable to crypto currencies sent Bitcoin soaring 38% in November to $97,500. Boosters prophesized that the $100,000 milestone would soon be surpassed (Exhibit 3). Gold, which had reached a record high in October, gave up some ground in November but remained within 4.5% of its all-time high. These gains came even as the U.S. dollar strengthened against most major currencies. In real effective terms (an index of the U.S. dollar versus major trading partners adjusted for inflation differentials), the U.S. dollar is within 8.1% of its all-time high of the mid-1980s, a level that at the time led to the Plaza Accord, a concerted international effort to reduce the dollar's value. The dollar is likely to appreciate still further as a result of the increase in tariffs planned by the new administration.

Exhibit 3. Bitcoin Hopes for Widespread Acceptance

Source: Bloomberg. Index. January 1, 2024 = 100.



Performance of Major Market Indices through 11-30-2024

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	5.9%	4.9%	28.1%	33.9%	11.4%	15.8%
Russell 2000	11.0%	9.4%	21.6%	36.4%	5.0%	9.9%
MSCI World Ex-US (USD)	0.2%	-4.9%	7.6%	13.5%	4.5%	6.3%
MSCI Emerging Mkts (USD)	-3.6%	-7.9%	7.7%	11.9%	-1.3%	3.2%
Citigroup US Treasuries	0.8%	-1.6%	2.2%	5.6%	-2.5%	-0.5%
Citigroup Credit	1.1%	-1.2%	4.1%	8.5%	-1.7%	0.7%
Merrill High Yield	1.1%	0.6%	8.7%	12.7%	3.7%	4.6%
JPM EMBI Global (USD)	1.2%	-0.6%	7.3%	12.5%	0.2%	1.0%
Citigroup WGBI Ex-US (LC)	1.4%	0.4%	1.8%	4.6%	-3.4%	-1.8%
Barclays US Aggregate	1.1%	-1.4%	2.9%	6.9%	-2.0%	0.0%
GSCI Total Return	0.1%	0.5%	5.8%	2.3%	11.1%	7.9%
HFRX Eq. Wtd. Strategies	0.8%	0.3%	4.7%	6.4%	1.7%	2.7%