Monthly Commentary

December 5, 2024

Comedian | Steve Henderly, CFA

What are some of the most famous works of art that come to mind? The Mona Lisa, Van Gogh's Starry Night, or perhaps a masterpiece by Picasso or Monet? We often hear of art fetching astronomical sums at auction. Yet the question of what constitutes "art" or how the monetary value is derived can be a topic of fierce debate. While value of art may be in the eye of the beholder, most people would not consider a banana duct-taped to a wall as art. The art world was recently stunned when such a piece, aptly named "Comedian", sold for an eye-watering $6.2 million - accompanied by a certificate of authenticity and instructions for display. In a world where absurdities abound (Bitcoin trading near $100,000 comes to mind), one might wonder: can we really claim monetary policy is too tight when such frivolities command such staggering sums? Does the Fed truly need to consider further rate cuts, or would a pause be more appropriate?

Style	November	YTD
Small-Cap Stocks	+9.9%	+20.0%
Mid-Cap Stocks	+8.3%	+22.9%
Avg US Stock Fund	+7.7%	+23.8%
Large-Cap Stocks	+6.0%	+25.5%
S&P 500	*+5.9%*	*+28.1%*
Bloomberg Bond Idx	+1.1%	+2.9%
Foreign Stocks	-0.0%	+7.7%

November proved to be an exceptional month for investors. Domestic stocks surged beginning the day after the Presidential Election, as the outcome was swiftly determined, avoiding limbo and contention. This offered the investment community clearer insights into potential policy directions for the next four years. Perhaps memories of the stock market rally following Trump's first term played a role. Whatever the case, the S&P 500 climbed 5.7% and made 6 new highs during the month, with mid- and small-cap companies seeing even larger gains. (see chart in margin). It's hard to believe Dow 45,000 and S&P 6,000 are a reality. Call it "animal spirits", a surge in optimism that can reinforce itself.

nvest
WEALTH STRATEGIES
Delivering financial peace of mind.

The remarkable strength of the U.S. stock market in recent weeks occurred despite heightened media focus on tariffs, tax cuts, and immigration policies being revisited under "Trump 2.0." In contrast, international stocks struggled in response to these same concerns. Each of these policies can stoke inflation if not managed carefully, a point of concern given that the Federal Reserve only recently began to feel more comfortable inflation appears under control. For now, investors appear to be prioritizing the prospect that Trump-era policies, credited with boosting corporate profits and economic growth eight years ago, might yield similar results in a second term. Wall Street strategists are racing to revise their 2025 price targets to reflect this renewed optimism!

Morgan Stanley is finally bullish on stocks: Why the firm now sees 11% upside through 2025 *Business Insider*

Yardeni lifts S&P 500 targets as Trump reignites 'animal spirits' *Yahoo Finance*

BMO sets next year's S&P 500 target at 6,700, or a 14% gain from here *CNBC*

Goldman Sachs forecasts S&P 500 target of 6500 for 2025-end, joins Morgan Stanley *Reuters*

Deutsche Bank forecasts S&P 500 at 7,000 for 2025-end; Barclays raises to 6,600 *MSN*

RBC sees S&P 500 rallying 11% through end of 2025 *Investing.com*

Bank of America sees 11% gain for S&P 500 next year and even bigger returns for certain stocks *CNBC*

As we enter the final month of 2024, what might the remaining weeks and the start of 2025 hold? The U.S. stock market's primary trend remains strong, with 77% of S&P 500 stocks trading above their 200-day moving averages. Historically, December tends to perform well when the first 11 months of the year are better than average, as is the case in 2024. This seasonality supports continued market strength into early 2025. However, while the market seems optimistic about the economy, it's worth considering whether bullish sentiment might be running ahead of reality. What could cause the market to temper its enthusiasm?

The Federal Reserve's monetary policy remains a critical factor. In our commentary last month titled "One and Done", we pondered whether the Fed might pause its rate cuts following November's decision. Inflation appears stable, hovering near the Fed's long-term target, and earlier concerns about a weakening economy, evidenced by a slow uptick in unemployment, seem stable. Financial markets show signs of abundant liquidity, ranging from extravagant purchases like a banana selling for millions to soaring Bitcoin prices and robust stock gains, suggest that financial conditions remain loose and "animal spirits" could reheat inflation too.

Should inflation resurface, the Fed might need to respond forcefully via by suspending further cuts or even rate hikes. Based on recent data, it appears the Fed will deliver another quarter-percent cut this month, but would not be surprised to see the Fed's forward guidance adopt a more cautious, wait-and-see approach versus aggressive rate cuts as we enter 2025.

A shift by the Fed toward fewer or slower rate cuts could introduce new volatility in the short term, even if it represents a more prudent course for long-term economic health. Meanwhile, questions about government spending remain in focus. Will the newly established Department of Government Efficiency (DOGE) succeed in delivering meaningful spending reductions? While elevated government spending is a frequent concern among clients (and one we share), it's important to recognize that such spending supports jobs, wages, and economic growth. Any significant cuts could create short-term disruption and add to market uncertainty. The coming weeks will reveal whether the market's optimism can persist or if emerging challenges will temper its momentum.

Nest
Value
Excellence
Stewardship
Team

9757 Fairway Drive
Powell, Ohio 43065
614.389.4646

www.nvestwealth.com
info@nvestwealth.com

What do these conflicting ideas suggest for investment positioning as we turn the calendar to 2025? Following an amazing advance for mega-cap dominated stock market indexes like the S&P500, it seems reasonable to anticipate a more tempered performance. A more tempered performance in 2025 seems especially possible if the richly valued Mag-7 become the "Lag-7" due to their outsized weight in the S&P500. The average bull market runs nearly five years; however, year three often exhibits a more muted return profile.

While the S&P500 began its recovery in late-2022, smaller-sized companies did not bottom until late-2023. Many companies outside the Mag-7 are only entering year 2 of their recovery/advance, and many fundamentals including better valuations support the notion that this area of the market is due for a bounce. This includes greater potential benefit from corporate tax cuts and loosening of regulatory environment promoted by a new administration. Mid- and smaller-sized companies also derive less of their revenues from foreign sources, and on the surface may be less vulnerable to potential international trade tensions which could arise from tariffs.

Russell 2000 (Small Cap) Performance	2-year Return
Current Bull Market from 10/22/2022	26.5%
Historical Bull Market Average	64.3%

International remains a challenged area but provides outstanding valuations from a price to earnings viewpoint. Tariffs and trade restrictions are not helpful, but much of that concern is already baked-in to market prices. Most strategists recall aggressive tariff talk from 8 years ago which often turned out to be more bark than bite; a tactic for initiating negotiation with the "deal" more moderate than initially feared. A conclusion to conflicts on Russia/Ukraine or in the middle-east can also foster a more attractive international investing backdrop. Bottom line: careful not to abandon an asset class based on the rearview mirror or news that's already well-known, especially when valuations are historically cheap.

Concerning bonds: just as sentiment is arguably too optimistic for stocks, it may be too pessimistic for bonds. After the dramatic re-pricing of bonds in 2022 due to the highest inflation and most aggressive rate-hiking in 40 years, many feel bonds offer little benefit. However, remember that bonds are the most important risk control lever in your portfolio. Further, many are surprised to learn that fixed income in client portfolios generated total returns between 8-10% since last October when the Fed signaled no further rate hikes. Caution: be careful judging the merit of bonds by comparing the market value vs. cost basis on your investment report. This does not represent total return; it does not account for the income paid monthly. Cash generated by bond fund income is re-deployed regularly by Nvest pursuant to each client's investment objective.

As we conclude this commentary and 2024, we are thankful for attractive advances by the financial markets with the related benefit to client portfolios. We are encouraged by the prospects for continuation of the bull market. We suspect sentiment is a bit ahead of itself and the pace enjoyed by the S&P500 and Nasdaq may slow, but other areas of the market appear more attractive. Investors will be watching policies related to tariffs, tax cuts, adjustments to immigration, government spending, and regulation which create new crosscurrents and complicate the Fed's decisions around monetary policy. Will policies be more "bark" than "bite"? In 2025, perhaps the most important datapoint to follow will be the yield on the 10-year Treasury. Moves toward or above 4.5% can be interpreted as rising concern about government policies changing in undesirable ways. In what may be a stretch to tie this all back together, we advocate clients watching out for "Comedian" assets - those trading at laughable sums for things of questionable value. Continue to invest in 2025 with prudence and care to achieve long-term financial success.

Thanks for the opportunity to work on your behalf! We wish you and your family a Merry Christmas, Happy Holidays, and prosperous New Year!!

Nvest Engagement: Delivering financial peace of mind is our ultimate goal. A quick summary below of the content our team shared over the past month via LinkedIn and Facebook. We hope you find these updates useful and informative. Please take a moment to follow us to receive on-going updates:

Like us on Facebook | Follow us on LinkedIn

- A dramatic reversal higher in interest rates last month leaves some questioning whether the Fed's recent pivot to rate cuts will be "one-and-done" following the FOMC meeting this week? LINK
- As the end of the year quickly approaches, a reminder to minimize your federal taxes! Bunch itemized deductions, harvest capital losses, execute charitable giving, study Roth conversions, spend remaining $ in flexible spending accounts, maximize retirement contributions, etc. We are always happy to help study these various strategies!
- Current tax rates and estate tax exemptions are scheduled to sunset in 2026; however, many experts anticipate an extension based on the election results. What does this mean for investors? We welcome your questions. LINK
- From your team at Nvest, we wish everyone a blessed and Happy Holiday season!

nvest
WEALTH STRATEGIES
Delivering financial peace of mind.

Nest
Value
Excellence
Stewardship
Team

9757 Fairway Drive
Powell, Ohio 43065
614.389.4646

www.nvestwealth.com
info@nvestwealth.com