Smarter Way™ to Invest

MARKET UPDATE NOVEMBER 2024

HOW PROPOSED TRADE POLICIES MAY IMPACT INFLATION

November saw broad positive performance across all asset classes. Markets responded favorably to election outcomes, with equity markets reaching new all-time highs and small cap companies seeing the most impressive returns.

> **"Although widely debated, the actual impact of tariffs remains complex and uncertain, potentially being less inflationary than some market expectations and commentators suggest."**

In November, the Personal Consumption Expenditures (PCE) report indicated continued stability in inflation metrics. Both Headline and Core PCE remained relatively steady year-over-year, with Headline PCE increasing from 2.10% to 2.31%. Core PCE increased slightly from 2.65% to 2.80%. While month to month inflation can be bumpy the overall trajectory toward the Federal Reserve's 2% target remains intact, albeit at a slow pace.

Concerns about a resurgence in inflation persist, with many pointing to the new administration's policy proposals as a potential factor. This is reflected in the fixed income markets, where the 10-Year Treasury yield surged leading up to and following the election, though it has moderated slightly in the latter half of November. Among the proposals, tariffs remain a focal point, with mentions of 20% tariffs on all imported goods, 25% tariffs on goods from Canada and Mexico, an additional 10% tariffs on goods from China.[1,2]

Tariffs, essentially a tax on imports, are designed to protect domestic industries and jobs by increasing the cost of imported goods. Their broader economic effects, however, are far more intricate. Beyond the potential for higher consumer prices and short-term inflationary pressures, tariffs often trigger retaliatory measures from trading partners. Retaliatory tariffs are a common response, and history provides clear examples. The European Union and China, in reaction to previous U.S. tariffs, imposed taxes on key American exports such as bourbon, soybeans, and motorcycles. These measures disrupted U.S. industries reliant on exports, notably agriculture, where retaliatory tariffs resulted in significant employment and income losses. In addition, retaliatory actions often exacerbate trade imbalances. For instance, trading partners might reroute imports, bypassing U.S. suppliers altogether. This diversion reduces demand for American goods, potentially pressuring GDP and affecting domestic industries reliant on global supply chains. The reduced foreign demand for U.S. goods coupled with dampened domestic business activity introduce deflationary forces.

Even if tariffs lead to price increases for certain goods, they may not result in widespread inflation. Job losses in certain affected industries and reduced demand in other industries as a result of lower consumer demand can introduce additional offsetting deflationary impacts. This, coupled with a stronger U.S. dollar—up roughly 5% since September—could mitigate the costs of tariffs by offsetting some price increases. Additionally, It remains unclear whether the administration's rhetoric will align with its actions – blanket tariffs may be unlikely; they will most likely serve as negotiating tools or targeted measures for specific industries.

To approximate the potential one-time price increase from a proposed tariff, we can use the below calculation using a hypothetical blended tariff rate of 25% on all imported goods, an import level of roughly 4 Trillion[3], a conservative tariff pass-through rate estimate of 50% (meaning approximately 50% of the increased cost from the tariff will be passed on to consumers), and a GDP estimate of 30 Trillion[4]. Without considering offsetting inflationary effects, as shown below, the outcome being a one time increase of only 1.67% before accounting for any offsetting effects:

$$\text{Impact on Inflation} = \frac{\text{Pass-through} \times \text{Import Level} \times \text{Tariff Rate}}{\text{GDP}}$$

$$\text{Impact on Inflation} = \frac{0.50 \times 4,000,000,000,000 \times 0.25}{30,000,000,000,000} = 1.67\%$$

Although widely debated, the actual impact of tariffs remains complex and uncertain, potentially being less inflationary than some market expectations and commentators suggest.

Looking ahead to the Federal Reserve, their final FOMC meeting of 2024 will take place on December 18th and will be accompanied by the Summary of Economic Projections (SEP), released only four times a year. The SEP provides valuable insights into expectations for rate cuts, inflation, unemployment, and GDP. Currently, the market is pricing in a 25-basis point rate cut at that meeting and two additional 25-basis point cuts in 2025. However, if the SEP signals additional rate cuts, markets may recalibrate their expectations to align more closely with the Fed's projections, potentially impacting bond yields and interest rates.

1. https://truthsocial.com/@realDonaldTrump/posts/113546215051155542
2. https://truthsocial.com/@realDonaldTrump/posts/113546215408213585
3. https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services
4. https://www.bea.gov/news/2024/gross-domestic-product-third-quarter-2024-second-estimate-and-corporate-profits

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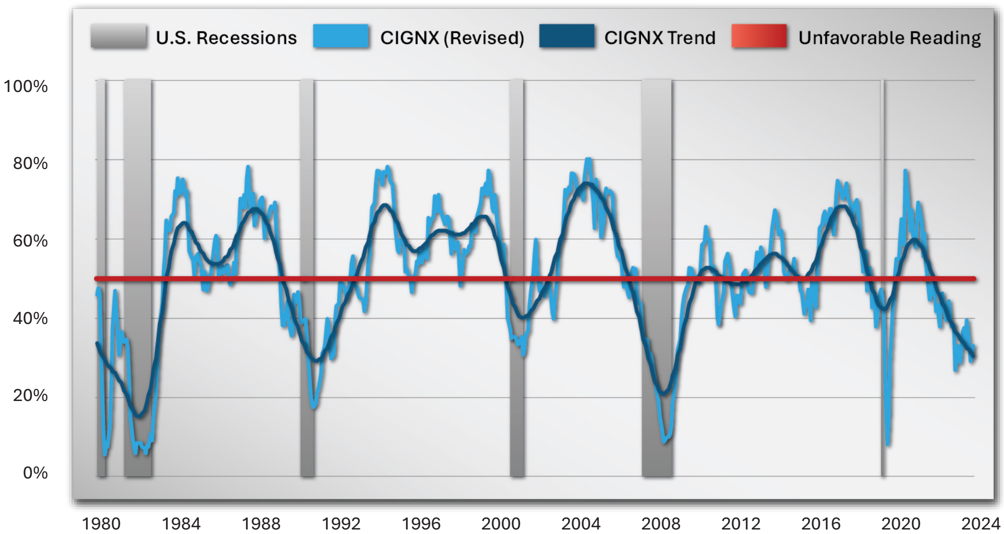
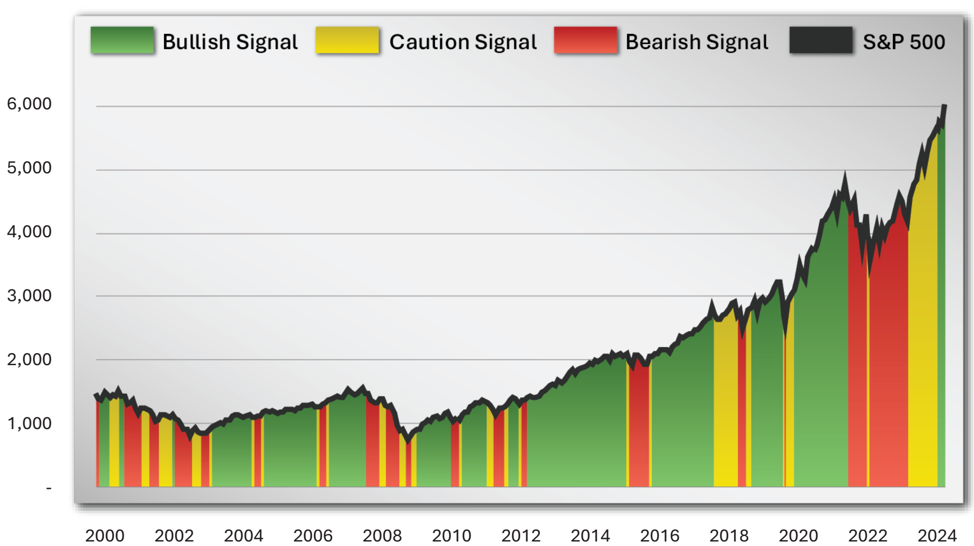
CIGNX = 30.6



Our **CIGNX** Economic Indicator has a reading of **30.6**, down from last month's revised reading of **32.9**. The reading is indicative of sluggish economic activity and a continued unfavorable trend in the economy. This remains well below our baseline threshold of **50.0**, indicative of unfavorable conditions, and below our secondary baseline reading of **40.0**, which we typically interpret as the economy experiencing recessionary conditions. **Our overall economic outlook remains negative.**

MONTH (2024)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
CIGNX (Revised)	32.0	28.8	36.6	37.4	33.6	39.5	33.4	28.9	30.4	32.9	30.6	
CIGNX Trendline	35.2	34.6	34.0	33.5	32.9	32.4	31.9	31.4	30.9	30.4	29.9	

ALPHA = Positive (Buy) OMEGA = Positive (Buy)



Both our short-term **(Alpha)** signal and intermediate-term **(Omega) signal** remained **Positive** during the month of November, indicating the near-term and longer-term market trajectory is favorable. We remain in a "Bullish" positioning across each of our Dynamically managed Portfolios, with an increased exposure to equities. **Our overall market sentiment outlook is Bullish.**

MONTH (2024)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ALPHA	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	BUY	
OMEGA	SELL	SELL	SELL	SELL	SELL	SELL	SELL	SELL	BUY	BUY	BUY	

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U.S. Large Cap Stocks	S&P 500 Index	Monthly: 5.87%	Year to Date: 28.07%

The S&P 500 Index delivered robust performance in November, climbing 5.87%. While it trailed the stronger gains seen in mid- and small-cap indices, the S&P 500 managed to recoup some of the losses sustained in the previous month. This upward momentum propelled the index to fresh all-time highs, driven by reduced uncertainty following the election and a generally supportive environment for rising stock prices. The strong performance reflects renewed investor optimism amid easing concerns about political and economic instability.

U.S. Mid Cap Stocks	S&P 400 Index	Monthly: 8.81%	Year to Date: 22.67%

The S&P 400 MidCap Index posted an impressive gain of 8.81% in November, outpacing its large-cap counterpart and showcasing the strength of mid-cap stocks. This strong monthly performance brings the year-to-date returns to 22.67%, highlighting the resilience and growth potential within this segment of the market. The November rally displayed the investor optimism toward smaller and mid-sized companies as the political and economic climate appears to be stabilizing, and solidifying mid-caps as a key driver of equity market returns this year.

U.S. Small Cap Stocks	S&P 600 Index	Monthly: 10.94%	Year to Date: 18.09%

The S&P 600 SmallCap Index surged 10.94% in November, marking a standout month for small-cap equities and bringing its year-to-date return to an impressive 18.09%. This strong performance reflects investor optimism surrounding potential policy changes, including reduced regulations under the Trump administration, which are seen as particularly beneficial to smaller companies with more domestic-focused operations. The rally underscores the appeal of small caps in a favorable policy environment and amid easing political uncertainties, positioning them as a key area of market outperformance.

U.S. Bonds	U.S. Agg Bond Index	Monthly: 1.06%	Year to Date: 2.93%

The bond market posted modest performance in November, with a monthly return of 1.06%, bringing its year-to-date gains to 2.93%. Although yields had climbed leading up to the election, they subsequently leveled-off and moderated in the latter half of the month as market uncertainties eased. Notably, the option-adjusted spread (OAS) for BBB-rated corporate bonds narrowed to 1.03%, its lowest level since 1997, reflecting strong investor demand for credit and confidence in the economic outlook. These developments highlight a bond market buoyed by improving sentiment and a favorable credit environment.

Alternative Assets	S&P GSCI Index	Monthly: 0.06%	Year to Date: 5.78%

The GSCI Commodity Index was mainly flat in November, posting a negligible gain of 0.06%, while its year-to-date performance has remained moderately positive at 5.78%. Within the index, the performance varied significantly across sectors. Gold declined by -3.12% for the month, reflecting waning safe-haven demand amid stabilizing financial markets. Crude oil also dipped slightly, with the GSCI Crude Index down -0.87% for November. Conversely, agriculture as measured by the GSCI Agriculture Index performed the strongest of the commodities, rising 2.45% for the month.

U.S. Real Estate	S&P 1500 Real Estate	Monthly: 4.00%	Year to Date: 14.90%

The S&P 1500 Real Estate Index saw strong performance in November, increasing by 4% for the month and reaching a ear-to-date (YTD) return of 14.9%. This sector has benefited from several factors, including favorable interest rate expectations and stabilization of the broader economic and political climates. The robust monthly performance helped to further solidify the positive trajectory for real estate, with continued investor interest in both the stable income-generating and growth potential as the sector's performance over the past years has continued to reflect the broader trend of market sentiment and economic conditions.