

# This Month in the Markets

November 2024



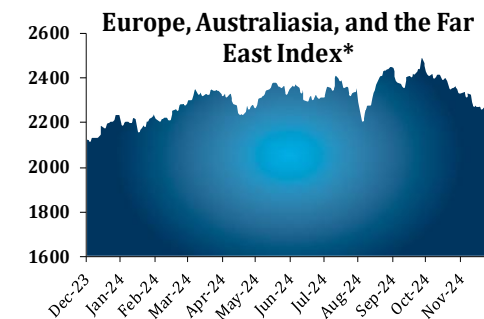
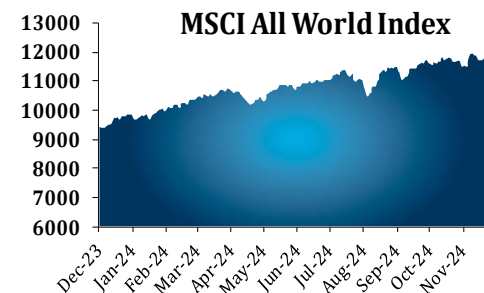
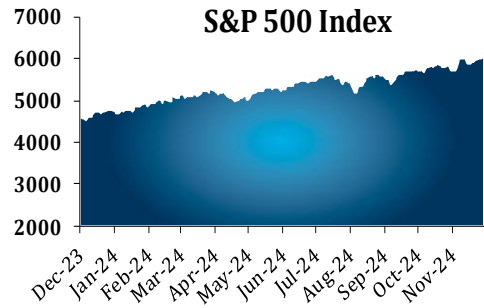
## Equity Commentary: Trump Bump

November saw positive equity returns following the Republican US election sweep. As a result, the MSCI ACWI Index rose 3.8%. The MSCI Emerging Markets Index experienced a drop of 3.6% on fears of higher U.S import tariffs and disappointing Chinese stimulus measures. The S&P 500 Index climbed 5.9% and hit record highs. Value underperformed growth in terms of investment styles, with the MSCI All Country World Growth Index up 4.3% while the MSCI ACWI Value Index was up 3.2%. The MSCI ACWI Consumer Discretionary Index led gains with a jump of 7.4%. Conversely, the MSCI ACWI Materials Sector Index declined by 1.9%, primarily due to an unwinding of the green energy trade which is likely to be pressured under a Trump regime.

The U.S. election results appear to have kindled animal spirits in the U.S. markets as the Republican red sweep increased prospects for further corporate tax cuts, an American First trade policy and continued fiscal expansion. Whether this translates to even further gains in an U.S. equity environment where valuations appear rather rich is still to be seen. Overall, stocks outside the U.S. continue to trade at a discount and the question to answer is whether this is warranted given Trump's more aggressive stance to foreign trade and relations. With reduced regulations and lower taxes boosting earnings growth in U.S. versus the rest of the world, which appears to be mired in political conflict, war, and stagnation, this could be the case. The worry may be that this has been the case already for some time and valuations already reflect positive news in the U.S.

We had one new purchase in November, adding Eli Lilly ("LLY") to the equity portfolio. After lowering its top-line revenue guidance in 3Q24 by a mere 1%, the over-done sell-off in the shares and concerns surrounding healthcare policy changes allowed us the opportunity to add exposure in this big pharma company with the highest industry growth trajectory. The company continues to benefit from the massive demand and uptake for its GLP-1s, namely Mounjaro and Zepbound. Its Oncology, Immunology and Alzheimer drugs are also growing nicely and offer a good source of product diversification. Management continues to invest heavily in research & development (>25% of sales) and remains active in the M&A space to bolster its already healthy pipeline of drugs.

Honda Motor Co Ltd. ("HMC") experienced the largest decline in November, with its stock falling 14.5% on tariff fears and Chinese auto competition. In contrast, First Citizens BancShares Inc. ("FCNCA") was the top performer, with its stock rising 18.6% as the banking sector jumped on the likelihood of reduced banking regulation and capital requirements under the Republican sweep scenario.



## Fixed Income Commentary: Politics in November

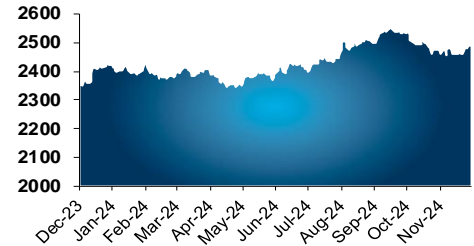
The big news in November was Donald Trump's presidential election victory, which also included the Republicans winning a majority in the House of Representatives and Senate. The scale of the victory meant that hypothetically President Trump will have a clear path to implement his policies. Tariffs and tax cuts are two such policies he was very vocal about on the campaign trail. Trump has stated his intent to reduce the corporate tax rate to 15% from 21% and a 10% tariff on all U.S. imports (and much higher for Chinese imports). As we stated in last month's report, based on Trump's policy proposals on the campaign trail The Committee for a Responsible Federal Budget expects Trump's spending plans to add \$7.5 trillion of debt between 2025-35. Consistent budget deficits which would have to be funded by treasury issuance.

The treasury market appeared to take this to heart after the results came in on November 5th. The 10-year treasury yield rose 0.17% to 4.45%, a five-month high, in the space of a week before trading sideways and ultimately declining to end the month at 4.17%. A catalyst for the decline in rates from mid-November appeared to be the announcement of the Department of Government Efficiency (DOGE) on November 12th, which is to be led by Elon Musk and Vivek Ramaswamy – both of whom cut their teeth in the private sector. Musk has said he wants to cut \$2 trillion of annual government spending, although the initial aim of DOGE (per a WSJ opinion piece authored by Musk and Ramaswamy) will be to cut "the \$500 billion plus in annual federal expenditures that are unauthorized by Congress or being used in ways that Congress never intended." It's worth noting that Elon Musk has cut Twitter's workforce by roughly 80% since purchasing the company in October 2022. Only time will tell how successful DOGE will be, but there appears to be a real desire from the incoming administration to address the USA's government financial standing (the debt to GDP ratio stands at 122%).

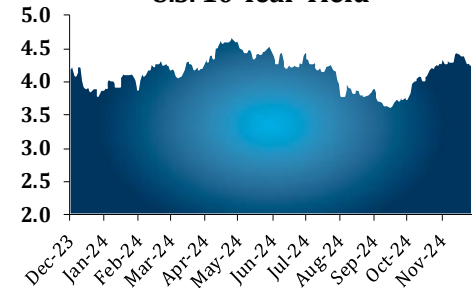
The dollar strength continued in November buoyed by expectations surrounding Trump's policies, a paring of rate cut expectations, and favorable economic growth differentials. The DXY index, a proxy for dollar strength, rose 1.7% in November. At the end of October there was a 94% probability of a 0.25% rate cut at the December meeting, per fed fund futures. At the end of November this probability had fallen to 66%. The green back's strength was notable against the euro (+2.9%). Europe's two largest countries/economies, Germany and France, are experiencing notable government uncertainties. France's prime minister, Michel Barnier, faces a looming vote of no confidence over the budget, while Germany will have a snap election in February 2025. Additionally, both are struggling economically as evidenced by their Markit manufacturing PMI's which remain in deeply contractionary territory (since mid-2022). As a reminder, we don't try to time markets or invest solely based on political policies.

During the month we had one maturity in the bond portfolio as the Walgreens bond rolled off. We reinvested the proceeds into the TransDigm Group Inc. (TDG) debt. TDG provides highly engineered aerospace parts and components to the aerospace industry. While rated just B, we believe TDG has a very strong business and in many cases is the only company that can provide the mission critical parts it supplies. TDG offered a compelling yield for a company that we believe would be investment grade rated if not for their shareholder friendly financial policy. With the spike in rates during the month we also took the opportunity to top up some other fixed income positions.

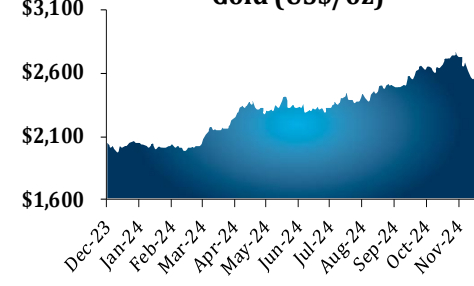
### U.S. Bond Index



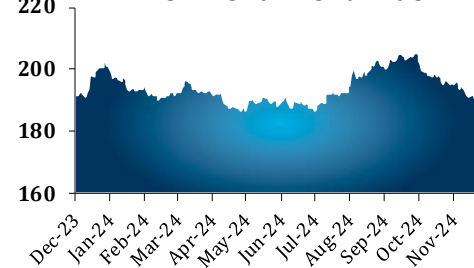
### U.S. 10 Year Yield



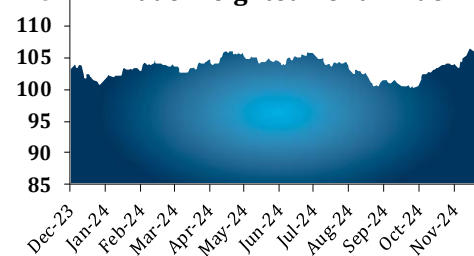
### Gold (US\$/oz)



### Non-Dollar Bond Index\*



### Trade Weighted Dollar Index



\*Merrill Lynch Global Broad Market, Ex US Dollar Index

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