Gallagher

Financial Market Commentary

November 2024

Leaves Have Fallen, But Earnings Are Still Growing

The fall season tends to be a time of adjusting to colder temperatures, which means slowing growth outdoors and preparing for the holidays. For the financial markets however, November and December have historically been great months for investors, and this past month was no exception. November kicked off with the conclusion of the 2024 U.S. Presidential Election. After a long and contentious year of politics consuming time on the airwaves, Americans can now take a deep breath as even if it wasn't their candidate who won, the election is indeed over, and the results were conclusive the day after election day. Investors quickly turned to digest what the future may hold under the new administration as well as the final earnings season of the year, leading to an impressive surge for U.S. stocks over the month. Overall, we certainly have learned a lot over the past month and are here to unpack it all.

Selected Market Returns: November 2024

Asset Class	Index	End of 2023 Value	Ending Value (Yield for Bonds)	1Q	2Q	3Q	Oct	Nov	4Q	YTD
Stock Markets										
U.S. Large Cap Stocks	S&P 500	4,769.83	6,032.38	10.6%	4.3%	5.9%	-0.9%	5.9%	4.9%	**28.1%**
U.S. Large Cap Stocks	Dow Jones Industrial Average	37,689.54	44,910.65	6.1%	-1.3%	8.7%	-1.3%	7.7%	6.4%	**21.2%**
U.S. Large Cap Stocks (Tech. Focused)	NASDAQ Composite	15,011.35	19,218.17	9.3%	8.5%	2.8%	-0.5%	6.3%	5.8%	**28.9%**
U.S. Small Cap Stocks	Russell 2000	2,027.07	2,434.73	5.2%	-3.3%	9.3%	-1.4%	11.0%	9.4%	**21.6%**
Int'l. Developed Markets Stocks	MSCI EAFE	2,236.16	2,315.77	5.7%	-0.3%	7.3%	-5.4%	-0.6%	-6.0%	**6.2%**
European Stocks	MSCI Europe	160.64	170.79	5.2%	0.5%	6.6%	-5.9%	-1.7%	-7.5%	**4.3%**
Japanese Stocks	MSCI Japan	1,448.28	1,647.29	10.5%	-3.8%	5.7%	-3.9%	0.7%	-3.3%	**8.7%**
Emerging Markets Stocks	MSCI Emerging Markets	1,023.74	1,078.57	2.1%	5.3%	8.7%	-4.4%	-3.6%	-7.9%	**7.7%**
Chinese Stocks	MSCI China	55.95	63.15	-2.3%	7.2%	23.5%	-5.9%	-4.4%	-10.1%	**16.3%**
Bond Markets										
Broad Bond Market	Bloomberg U.S. Aggregate Bond	4.53%	4.64%	-0.8%	0.1%	5.2%	-2.5%	1.1%	-1.4%	**2.9%**
Government Bonds	Bloomberg U.S. Government Bond	4.09%	4.23%	-0.9%	0.1%	4.7%	-2.4%	0.8%	-1.6%	**2.2%**
Municipal Bonds	Bloomberg U.S. Municipal Bond	3.22%	3.45%	-0.4%	0.0%	2.7%	-1.5%	1.7%	0.2%	**2.5%**
Corporate Bonds	Bloomberg U.S. Corporate Bond	5.06%	5.05%	-0.4%	-0.1%	5.8%	-2.4%	1.3%	-1.1%	**4.1%**
High Yield Bonds	Bloomberg U.S. Corporate High Yield Bond	7.59%	7.14%	1.5%	1.1%	5.3%	-0.5%	1.2%	0.6%	**8.7%**
Highlighted Commodities										
Oil	Crude Oil (West Texas Intermediate/WTI)	71.65	68.00	16.1%	-2.0%	-16.4%	1.6%	-1.8%	-0.2%	**-5.1%**
Gold	Gold Spot Price ($/oz)	2,062.98	2,643.15	8.1%	4.3%	13.2%	4.2%	-3.7%	0.3%	**28.1%**

Source: Bloomberg

The Starting Gun

Outside of the conclusion of the third quarter's earnings season, the comments and insights from the Federal Reserve or "Fed" continue to be one of the major catalysts for financial markets. Nevertheless, focus certainly has shifted away from dissecting every word from the Fed's press conferences, and back to stock & bond fundamentals; and November's stock market performance certainly reflected this. The starting gun for November's rally wasn't anything the Fed said, nor was it a good inflation print. This time, it was the conclusion of the 2024 U.S. Presidential Election cycle. Prior to election day, the S&P 500 index was already up nearly 23% year-to-date. The day after the election, many Americans woke up to the conclusive news that former President Trump was going to be the country's next president. The fact that the election would not be a drawn-out process led to an impressive relief rally for U.S. stocks.

A major theme that we have been watching evolve over the course of the year has been the broadening of the U.S. stock market rally that started just over two years ago[1]. The day after the election, we saw a number of areas of the market rise to new highs as investors repositioned their portfolios based on anticipated changes coming from President-elect Trump's incoming administration. This rotation fueled a further broadening of the rally in many large cap names as well as for small cap stocks.

Gauging the Current U.S. Stock Market Rally

Since 1950, U.S. large cap stocks, as expressed by the S&P 500 Index, have had five secular markets. These secular markets have each tended to last between 15-20 years. The most recent secular bull market started in 2016, which leads us to believe that by historical standards we are approximately halfway through this current secular bull market. While some strategists and articles are arguing over how much higher the stock market might climb, zooming out might provide a useful perspective to this question.

Managing Expectations for the Current Bull Market – 2024 S&P 500 Index

Source: Bloomberg

Looking at the year-to-date performance in the above chart helps to provide general perspective that can take the day-to-day emotion out of investing that can often lead to irrational actions. In addition to the price performance of the S&P 500 Index, we have added a trendline for the Index (dotted line) as well as the upper and lower "guardrails" (blue lines) that illustrate the current channel or range that the index has generally traded within. Looking at this chart, we can make a few key observations. First, over the month of November, the market has stayed close to its trendline, which has held steady for most of the year[2]. Second, having spent a significant period of time close to the trendline with the rally broadening, as opposed to only a few companies leading the index higher, is generally a pattern seen before another outsized rally begins. Ultimately, with the S&P 500 Index having broached 6,000, this chart helps to confirm that the market appears to be relatively healthy from a technical perspective. While the questions in the minds of many investors today circle around "how much higher can stocks rise", this chart is one

[1] The bottom of the recent bear market as measured by the S&P 500 Index was October of 2022. Since then, the Index has recovered all losses from the bear market and continues to set new highs.

[2] This is important as we generally see the trendline as the "neutral" point within the channel. Moving below the trend line, and certainly below the lower guardrail has potential to indicate that the current trajectory for the market is over.

of the pieces that provides confidence that there is still room for further growth that wouldn't be considered out of the ordinary.

Earnings Season

One of the other primary factors that supports the U.S. economy as well as the U.S. stock market is the health of corporate America. With the third quarter's earnings season more or less concluded, investors were given another great view into the prevailing strength of public companies across the country. Looking at companies within the S&P 500 Index specifically, the vast majority once again performed very well by reporting an impressive degree of earnings growth that, in many cases, exceeded analyst expectations.

S&P 500 Third Quarter 2024 Earnings Analysis

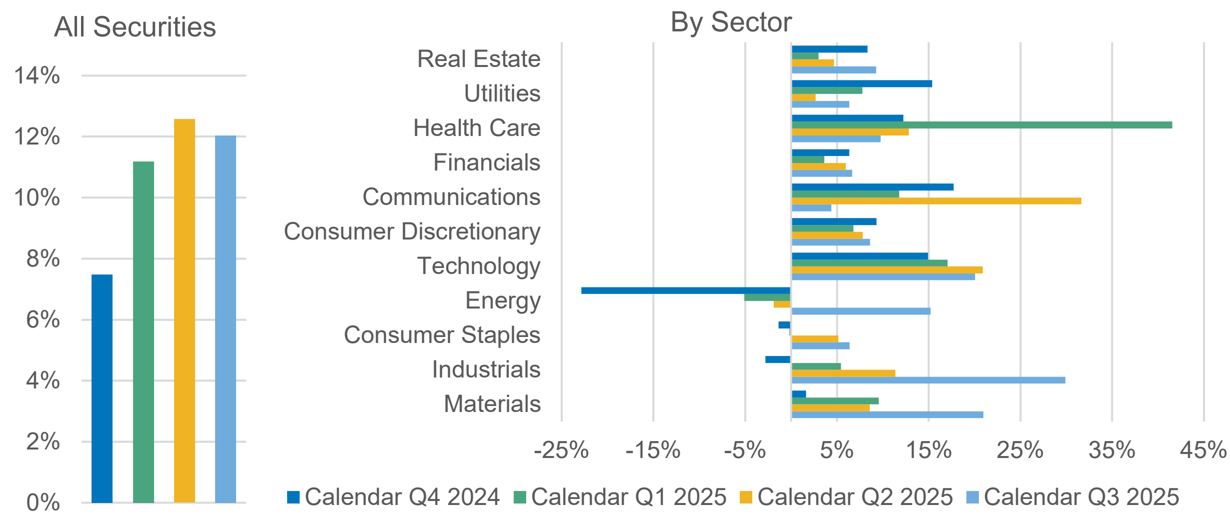
	Percent	Sales		Earnings	
Sector	Reported	Growth	Surprise	Growth	Surprise
Materials	100%	-0.2%	-0.6%	-7.0%	-0.7%
Industrials	99%	-0.8%	-0.5%	-11.2%	3.2%
Consumer Staples	87%	2.0%	0.3%	3.2%	3.4%
Energy	100%	-4.7%	2.4%	-23.7%	5.1%
Technology	91%	9.0%	1.4%	18.0%	3.8%
Consumer Discretionary	96%	4.6%	1.3%	16.6%	10.0%
Communication Services	100%	9.1%	0.9%	21.7%	14.1%
Financials	100%	6.9%	1.3%	6.4%	7.2%
Health Care	99%	10.5%	3.2%	14.1%	9.0%
Utilities	100%	3.9%	-1.3%	13.0%	10.3%
Real Estate	100%	5.7%	1.7%	1.4%	-1.1%
Total S&P 500 Index	**97%**	**4.6%**	**1.3%**	**8.2%**	**6.9%**

Source: Bloomberg

This earnings season helped to provide unique insight into the health of public corporations across all sectors in the U. S. as well as many areas of the world thanks to the global footprint for many of these companies. These earnings reports also help us craft our view of the markets for the remainder of the year and into the new year. Although this earnings season did not produce double-digit earnings growth like last quarter, overall, 8.2% earnings growth is still quite impressive. Digging into the details, earnings growth for the third quarter was broad based as eight of the eleven GICS sectors reported year-over-year gains. These eight sectors were led by the Communications, Technology, and Consumer Discretionary sectors reporting impressive 21.7%, 18.0%, and 16.6% growth respectively. Once, again it is no surprise that technology companies had a stellar quarter. Being in what many still think is the very early stages of the artificial intelligence revolution, companies like Nvidia (NVDA), and its competitors to a certain degree, have been confidently in the driver's seat throughout the year. All eyes were on Nvidia when it released earnings after the closing bell on November 20th. Although the company beat expectations for revenue by what many would have viewed as a landslide, expectations for earnings beats are so high for this top performer that it wasn't enough to exceed the lofty projections of analysts following the company. Nevertheless, the impressive earnings growth that Nvidia alone experienced, added nearly 2% to overall earnings growth for the S&P 500 Index. One unfortunate sector that is putting downward pressure on overall earnings growth is the Energy sector, which reported an earnings decline of nearly 24% as the vast majority of oil and gas companies had a tough quarter. Nevertheless, this quarter's earnings growth supports the view that the recovery in corporate earnings is here to stay, at least for the intermediate term.

Sales growth for the S&P 500 Index has also remained healthy at nearly 5%, which is about the same overall growth the index experienced last quarter. As we prepare to turn our calendars to a new year, both sales and earnings growth for the S&P 500 are expected to rise further[3] as inflationary pressures continue to ease, anticipated lower corporate tax rates loom, and the rally broadens out to other areas of the market. The chart below shows Bloomberg consensus estimates for S&P 500 earnings growth by sector for each earnings season in 2025.

2025 Quarterly Earnings Consensus Projections



Source: Bloomberg

Earnings Season & The Consumer

Over the last quarter, the consumer inflation gauges of Consumer Price Index (CPI) and Personal Consumption Expenditure (PCE) have both continued their downward trend towards the Fed's long-term targets. With inflation concerns in arrears, we can shift our focus to consumer behavior as we enter the holiday season. An interesting element of the 2024 holiday season is that there are 26 days between Black Friday and Christmas, compared to 31 days in 2023. Despite this fact, the National Retail Federation is projecting record holiday spending with an average $902 per person on gifts, food, and decorations. While there are several reasons for this outlook, the main drivers include strong stock market returns, low unemployment, and positive consumer sentiment. Although in-person Black Friday shopper growth remained relatively flat compared to last year, online sales grew close to 20% compared to last year.

Analyzing the earnings of key retailers can provide valuable insights into consumer behavior and emerging trends. Using Walmart's (WMT), Target's (TGT), and Home Depot's (HD) earnings as proxies, we can evaluate consumer behavior and trends that emerged over the past quarter. Starting with Walmart, the company handily exceeded estimates this quarter due to continued strength from consumers searching for, and prioritizing value. While growth of transactions slowed, average ticket size, or in other words average receipt total, grew 2.1% over last year driven by customers in upper income households. To contrast, shares of Target fell 20% following their earnings release due to flat sales growth, and the continued fear of losing market share to Walmart. Consequently, the company saw a decline in spending, especially in nonessential items,

[3] Based on Security Analyst expectations for constituents of the S&P 500 Index in Bloomberg.

despite the increase in shoppers. Ultimately, the emphasis on value shopping is still very relevant, and may be impacting customers' choice of store. Meanwhile, Home Depot found itself in a similar situation as last quarter. They have continued to stall major renovation projects due to elevated interest rates and a degree of economic uncertainty. Overall, Home Depot is hopeful that demand will return sometime in 2025 as economic conditions continue to improve, and the Fed continues to reduce rates.

Looking to the end of the fourth quarter, these companies should benefit from the upcoming holiday season. While discretionary spending has remained relatively light throughout the year, the holiday season often helps to offset this trend. It gives consumers a reason to make large-ticket purchases on those nonessential items that may not fit into their typical day-to-day shopping trips. Therefore, we expect to see the impact of these purchases in next quarter's earnings season and will closely monitor any changes in related trends and overall consumer behavior.

Looking Ahead

With the final earnings season of the year wrapped up and 2025 on the horizon, investors have gained useful insight into how public companies perform as both inflation and interest rates continue to tick down. Once again, we saw earnings expectations, especially for the "Magnificent Seven", remain elevated and if reports were anything but stellar, the company's stock price would likely bear the brunt as we saw with Nvidia[4]. Overall, we are pleased with this quarter's earnings season as corporate sales and earnings continue to build off last quarter's stellar results. Our team remains optimistic for the rest of the year, as when looking through a number of lenses we see a vibrant and healthy economy. Of course, we do expect turbulence along the way, but that is par for the course. As we gear up for the new year, we have chosen to position portfolios to capture the trends we see developing and are increasingly relying on actively managed strategies to help capitalize on shifts that take place as new opportunities arise. With that being said, we believe portfolios are well positioned to capture value and look forward to a busy end of the year.

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[4] Although the stock did rebound the day after their earnings release.

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Asset class risks

Bonds: are subject to market, interest rate and credit risk; and are subject to availability and market conditions. Generally, the higher the interest rate the greater the risk. Bond values will decline as interest rates rise. Government bonds are subject to federal taxes. Municipal bond interest may be subject to the alternative minimum tax; other state and local taxes may apply. High yield bonds, also known as "junk bonds," are subject to additional risks such as the increased risk of default. Debt securities may be subject to call features or other redemption features, such as sinking funds, and may be redeemed in whole or in part before maturity. These occurrences may affect yield. Like all bonds, corporate bonds tend to rise in value when interest rates fall, and they fall in value when interest rates rise. The longer the maturity of the bond, the greater the degree of price volatility. If you hold a bond until maturity, you may be less concerned about these price fluctuations (which are known as interest rate risk or market risk), because you will receive the par or face value of your bond at maturity.

Stocks of Large Growth and Value Companies: Portfolios that emphasize large and established U.S. companies may involve price fluctuations as stock market conditions change.

Stocks of Small- and Mid-Capitalization Companies: Tend to involve more risk than stocks of larger companies. Investments in small- and mid-sized corporations are more vulnerable to financial risks and other risks than larger corporations and may involve a higher degree of price volatility than investments in the general equity markets.

International/Global/Emerging Markets Investments: International investing may not be suitable for every investor and is subject to additional risks, including currency fluctuations, political factors, withholding, lack of liquidity, the absence of adequate financial information, and exchange control restrictions impacting foreign issuers. These risks may be magnified in emerging markets.

Commodities: Commodities are assets that have tangible properties, such as oil, metals, and agricultural products. An investment in commodities may not be suitable for all investors. Commodities may be affected by overall market movements and other factors that affect the value of a particular industry or commodity, such as weather, disease, embargoes, or political and regulatory developments. Commodities are volatile investments and should only form a small part of a diversified portfolio. Diversification does not ensure against loss. Consult your investment representative to help you determine whether a commodity investment is right for you. Market distortion and disruptions have an impact on commodity performance and may impact the performance and values of products linked to commodities or related commodity indices. The levels, values or prices of commodities can fluctuate widely due to supply and demand disruptions in major producing or consuming regions.

Index definitions

S&P 500 Index: is a capitalization weighted index that is generally considered representative of the U.S. Large Cap market. It consists of 500 of the leading large cap U.S. companies.

Dow Jones Industrial Average Index: is a price weighted index that is generally considered representative of the U.S. Large Cap market. It consists of 30 blue-chip stocks that are generally regarded as the leaders in their industry.

NASDAQ Composite Index: is a capitalization weighted index that is generally considered representative of the U.S. Technology market. It consists of all three tiers of the NASDAQ: Global Select, Global Market, and Capital Market.

Russell 2000 Index: is a capitalization weighted index that is generally considered representative of the U.S. Small Cap market. It consists of 2,000 of the leading small cap U.S. companies.

MSCI EAFE Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of developed international markets. The EAFE region includes developed market countries in Europe, Australasia, the Far East, and Israel.

MSCI Europe Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of European developed markets.

MSCI Japan Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of the Japanese market.

MSCI Emerging Markets Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

MSCI China Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of the Chinese market.

Bloomberg U.S. Aggregate Bond Index: is a broad-based flagship benchmark that measures the investment grade U.S. dollar denominated, fixed-rate, taxable bond market. The index includes Treasuries, government-related and corporate securities, Mortgage-Backed Securities or “MBS” (agency fixed-rate pass-throughs), Asset-Backed Securities or “ABS”, and Commercial Mortgage-Backed Securities or “CMBS” (agency and non-agency).

Bloomberg U.S. Government Bond Index: consists of the U.S. Treasury and U.S. Agency Indices. This index includes U.S. dollar denominated, fixed-rate, nominal U.S. Treasuries and U.S. agency debentures (securities issued the U.S. government owned or government sponsored entities, and debt explicitly guaranteed by the U.S. government).

Bloomberg U.S. Municipal Bond Index: covers the U.S. dollar denominated long-term tax-exempt bond market. The index includes four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds.

Bloomberg U.S. Corporate Bond Index: measures the investment grade, fixed-rate, taxable corporate bond market. The index includes U.S. dollar denominated securities that are publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers.

Bloomberg U.S. Corporate High Yield Bond Index: measures the U.S. dollar denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating from the ratings agencies (Moody’s, Fitch, and S&P) are Ba1/BB+/BB+ or below. Bonds issued from an emerging market country are excluded from the index.

Crude Oil: is represented by the generic front month futures contract for West Texas Intermediate (WTI) crude oil.

Gold Spot Price: is represented by the current spot price of one Troy Ounce of gold in U.S. dollars.

Inflation: is measured by the year-over-year change for the Consumer Price Index or “CPI”. This index represents the changes in the prices of all goods and services purchased for consumption by urban households. User fees (such as water and sewer) and sales and excise taxes paid by consumers are also included.

Fed Funds Rate: is the target interest rate set by the U.S. Federal Reserve (Fed) or “Central Bank”. This index reflects the Fed’s efforts to influence short-term interest rates as part of its monetary policy strategy. The index value is calculated by using the midpoint of the Fed’s rate policy when they target a rate range (i.e., 0.25% - 0.50%).

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