

Aptus 3-Pointers: November 2024 Highlights

Market Overview

November delivered an exceptional month for equities, with small caps leading the charge, posting gains of nearly 11% compared to 5.3% for the S&P 500. The strength in small caps reflects fiscal and monetary tailwinds, as well as sector-specific advantages. Conversely, international equities faced headwinds from a stronger U.S. dollar, underscoring currency risks in global markets. There continues to be a debate regarding a soft landing versus hard landing for the U.S. economy, with current indicators, such as robust consumer spending and strong jobless claims data, tilting the odds toward a soft landing. Manufacturing remains soft, but its diminished role in GDP lessens the overall impact.

Fixed Income vs. Equities: Policy Expectations and Market Resilience

The Federal Reserve is anticipated to cut interest rates by 25 basis points before year-end, setting the stage for data-dependent decisions in 2025. The Fed's recent rate adjustments have not been a reaction to economic weakness, but a recalibration to maintain inflationary control without stifling growth. Holding excessive cash was noted as a long-term detriment, with hedged equity strategies offering a compelling alternative for risk-conscious investors given their ability to capture equity returns with explicit downside protection. The resilience in consumer activity, supported by real wage improvements, continues to bolster the case for equities over fixed income in diversified portfolios.

Earnings Momentum and Valuations

Earnings for the S&P 500 have not only exceeded expectations but have demonstrated sustained momentum, driven by operating leverage and significant CapEx investments, particularly in the technology sector. Companies like NVIDIA and Meta have contributed meaningfully to earnings growth. Despite concerns over valuations, earnings growth for 2025 is projected to outpace revenue growth, indicating improving economies of scale. Tax policy adjustments under President-elect Trump, such as corporate tax cuts, could disproportionately benefit small-cap companies, further supporting their recent outperformance.

Structural Forces and Economic Growth

Trump's pro-growth policies, including a focus on nominal GDP expansion and reshoring initiatives, are expected to sustain higher neutral interest rates. While some structural challenges persist, such as elevated debt levels, the market has embraced the broader economic resilience, buoyed by robust liquidity and fiscal stimulus.

Looking Ahead: Seasonal Trends and Market Strength

Seasonality trends and structural tailwinds suggest a strong finish to the year, with December historically delivering above-average returns. Momentum remains a critical driver, and the advice remains consistent: stay patient rather than trying to outsmart short-term volatility. Strong earnings, combined with fiscal and monetary support, provide a favorable backdrop for both large- and small-cap equities, though small caps may have the edge in terms of relative value.

Disclosures

Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. The information contained herein should not be considered a recommendation to purchase or sell any particular security. Forward looking statements cannot be guaranteed.

This commentary offers generalized research, not personalized investment advice. It is for informational purposes only and does not constitute a complete description of our investment services or performance. Nothing in this commentary should be interpreted to state or imply that past results are an indication of future investment returns. All investments involve risk and unless otherwise stated, are not guaranteed. Be sure to consult with an investment & tax professional before implementing any investment strategy. Investing involves risk. Principal loss is possible.

Advisory services are offered through Aptus Capital Advisors, LLC, a Registered Investment Adviser registered with the Securities and Exchange Commission. Registration does not imply a certain level or skill or training. More information about the advisor, its investment strategies and objectives, is included in the firm's Form ADV Part 2, which can be obtained, at no charge, by calling (251) 517-7198. Aptus Capital Advisors, LLC is headquartered in Fairhope, Alabama.