

Changes Coming

Weekender

November 23, 2024

The ultimate test of a moral society is the kind of world that it leaves to its children.

Salvation is free, but discipleship will cost you your life.

We are not to simply bandage the wounds of victims beneath the wheels of injustice, we are to drive a spoke into the wheel itself.

The person who's in love with their vision of community will destroy community. But the person who loves the people around them will create community everywhere they go.

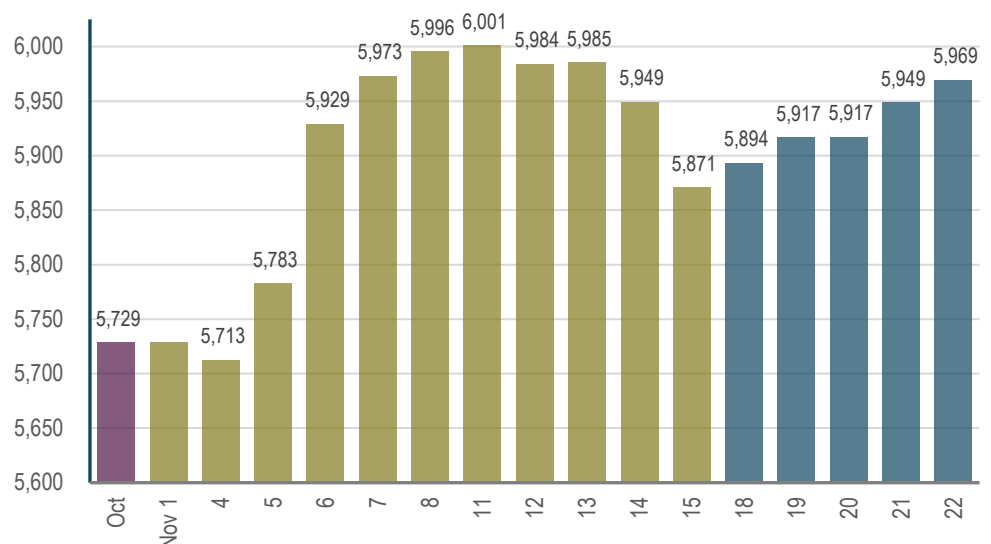
Dietrich Bonhoeffer

Bonhoeffer will be the subject of our next One More Thing Segment

Good morning and welcome to the *Weekender* for Saturday, November 23, 2024. Gains in US equities following the US elections of November 5, 2024, remain largely sticky. As measured by the S&P 500, equities rose by 1.7% on the week, while the gains for the month of November are 4.5%.

S&P 500 Index Levels

(Source: Bloomberg)

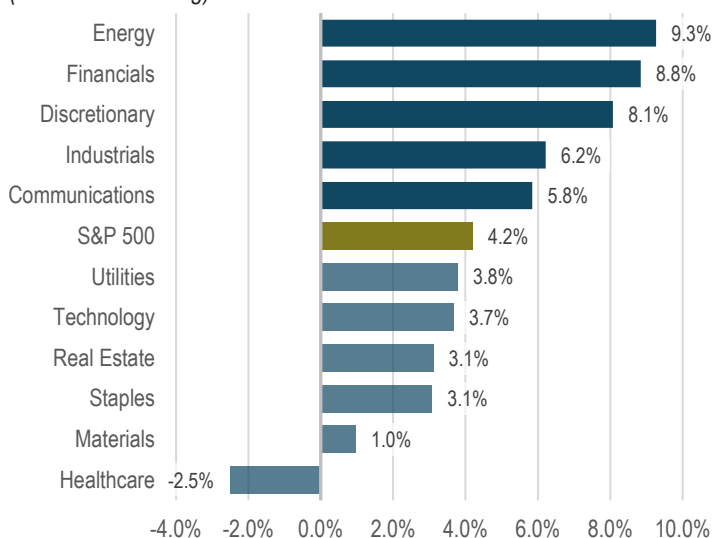


Markets are already trading on the expected outcomes of Trump's policies. As policies move from press snippets to policy and then implementation, markets will refine their expectations. Since the beginning of November, energy has been the best performer, up 9.3%. Lighter environmental regulations and a more open attitude to fossil fuel development are the primary drivers. At the same time, a lot of wind has come out of the electric vehicle revolution. This has less to do with Trump and more with a lost opportunity from the Biden Administration. A robust offering of electric vehicles has not overcome an embarrassing lack of charging infrastructure.

Sector Gains

November 1 - November 22, 2024

(Source: Bloomberg)



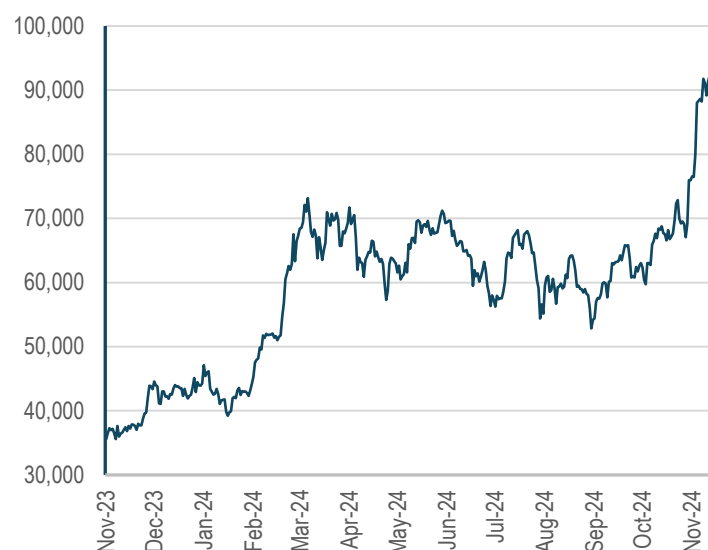
Financials are better bid due to expectations of more robust economic growth and interest rates that could stay higher for longer, providing upward support for banks' net interest margin. Cryptocurrencies are getting a boost from the incoming Trump administration. Most of Trump's would-be cabinet are supporters of Bitcoin and its band of merry men. Bitcoin closed Friday shy of the \$100,000 mark, a new record. Bitcoin is the talisman for financial services innovation. We expect financial services and cryptocurrencies to be increasingly linked over the years ahead. That's incredibly dangerous—more on that in our year-end *House View*.

Strong moves in consumer discretionary, industrials, and communications reflect solid economic expectations for Trump's second administration. Protective sectors continue to underperform. We no longer

Bitcoin US Dollar Cross

November 8, 2023 - November 22, 2024

(Source: Bloomberg)



consider utility investments from their historic haven lens. In the burgeoning world of artificial intelligence, electric power, natural gas, and nuclear energy are shedding their widow and orphan status and becoming growth stocks.

Politics and Presidential Elections

We do not take political views but analyze the political environment as delivered. Our last *Weekender* caused some consternation among some readers due to the title *Hail to the Chief*. No endorsement or appellation was being made. It's merely the title of music played for all presidents.

Presidential elections illicit a gut response from markets, which often persists through an administration's typical 100-day honeymoon period. Since this is President Trump's second presidential term, the honeymoon will likely be shorter. As soon as Congress is seated, considerable pushback on Trump's policies, cabinet members, and initiatives will begin, blunting some of the goodwill he currently enjoys from what was a relatively compelling mandate.

President Trump's transition team is much better organized this time. His cabinet is already taking shape, and policy positions are articulated well before the inauguration. President Trump was surprised to win in 2016 and was a little unprepared and flat-footed. He was also accustomed to being the head of a corporation where his ideas and commands were carried out

without equivocation. Bureaucracies don't work that way. But we believe this time will be different. He also benefits from using the last four years to gin up support for his policies and vet cabinet members who can act decisively within the bureaucratic system. His first term was a bit of a thumb to the system. We believe his second and last term will be influenced by a desire to leave a lasting legacy.

Investment Strategy

In terms of investment strategy, Trump is much more business-friendly. He is pragmatic as opposed to ideological. Lower tax rates for individuals and corporations will drive profit, investment, and growth. He is unlikely to permit taxation on paper investment gains and will tighten the screws on regulations. Higher trade barriers will strain global systems in favor of a return to more exclusive bilateral trade deals with favored nations. All of these things are positive for equity in the medium term. A few key sectors where we have been underweight in the past, most notably energy and financials, are ready for adjustment in the first quarter.

While not wholly a response to the election, our positions in technology have been in large companies that we believed would be the first movers laying the infrastructure for artificial intelligence. It has been a good strategy for the last two years but is unlikely to continue to outperform as markets broaden. Except for companies like Nvidia, which we feel will continue to deliver over the next five years, the more significant AI gains will likely come from smaller companies working on niche applications. We expect to trim some of our positions in the magnificent seven in preference for more minor prospects with significant upside.

Discretionary companies have performed exceptionally well in the consumer sectors but are expensive. Even companies we like a lot, like Costco, have reached a level where fundamentals cannot support their valuation. As a fun fact, Costco currently trades at the most expensive ratio relative to earnings in its history (55.4x). We anticipate thinning such positions in preference to names that have not yet taken such a run. Utility-related options that will benefit from completely transforming the nation's electric power infrastructure are a primary focus. President Trump will likely accelerate this transition.

We continue to watch potential policy initiatives related to government spending. While policy rates will likely continue to fall slowly, market rates are heating up. More government bond issuance, a foregone conclusion, will pressure rates to the upside. This may keep us on fixed income longer than anticipated, taking advantage of yields we have seen for generations. Higher rates will also ensure continued stress in the housing market. However, low inventory will keep pricing taut.

In every direct investment, we look for quality balance sheets, astute management teams, pricing power in primary products, services, and markets, and unit sales growth. We focus on the discipline of selecting investments for the long term. However, when markets move outside our range of acceptable value, we believe in thinning positions and deploying the profits in more fertile ground.

We are making some internal changes to our portfolio management system, which will be completed by the end of the year and ready for deployment on January 1, 2025. These changes will enable us to take full advantage of structural changes in financial markets as they morph in the coming years. In addition to the targeted return portfolios, we will roll out several more opportunistic options. These will be fully described to clients and subscribers by mid-December. While the Weekender will continue, several additional research publications will accompany the new portfolios, providing clients with more direct investment insights.

The *First Quarter 2025 House View*, a detailed economic and market analysis, will be released on December 31, 2024.

Conclusion

That's it for this *Weekender*. Due to the US Thanksgiving holiday, we will not publish a weekender next weekend. Our next Weekender will be released on Saturday, December 7, 2024.