# "President Trump 2.0"

## Market Commentary – December 2024

By Frank C. Fontana, CFA
President, Banyan Asset Management, Inc.
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**The second estimate of Gross Domestic Product (GDP) shows that the output of goods and services produced by labor and property located in the U.S. grew at an annual rate of 2.8% in the third quarter of 2024.** This equals the advance estimate and is less than the 3.0% reading in 2024 Q2. The Consumer Price Index (CPI), which measures inflation in consumer prices, was 2.6% in October. After peaking at 9.0% in June 2022, CPI has ranged between 2.4% and 3.5% in 2024. Meanwhile, unemployment was 4.1% in October, compared with a range of 3.7% to 4.3% in 2024. The Federal Reserve has seemingly accomplished its desired "soft landing", where it tamed inflation without triggering a recession.

**On November 7, the Federal Open Market Committee (FOMC) lowered the target range for the federal funds rate by 0.25% to a new range of 4.5% to 4.75%.** The FOMC statement read that "economic activity has continued to expand at a solid pace", adding that "the unemployment rate has moved up but remains low" and "inflation has made progress toward the…2% objective but remains somewhat elevated". The futures market anticipates the following rate cuts going forward: 0.25% by February 2025, 0.50% by June 2025, 0.75% by November 2025, and 1.0% by December 2026. The Fed's balance sheet had $6.905 trillion in assets on November 27, down $124 billion from October 23 (more than the Fed's reduction commitment of $60 billion per month). The next FOMC announcement on monetary policy is scheduled for December 18.

**Republicans swept the election on November 5, winning the White House, Senate, and House of Representatives.** Donald Trump won 312 electoral votes, easily surpassing the 270 votes required and 226 votes won by Kamala Harris. Following his inauguration on January 20, Donald Trump will officially begin his second term as President of the United States (#47). The Senate will have 53 Republicans and 47 Democrats, while the House of Representatives will have 220 Republicans and 214 Democrats (1 race remains uncalled). Republican control may result in the following: tax cuts (new ones or extensions of old ones), fewer and lighter regulations, and foreign policy designed to emphasize exports while minimizing imports. Financial markets cheered these results with a strong post-election rally.

**Technical factors of the market are bullish (more demand than supply), while fundamentals are fairly priced – therefore, we are mildly bullish on the market.** The Standard & Poor's forecast for S&P 500 operating earnings per share (EPS) through December 31, 2025 is $272.82, which implies a price-to-earnings (P/E) ratio of 22.1 with the S&P 500 at 6,032. The earnings yield (E/P) of 4.52% represents fair value relative to the 10-year U.S. Treasury note yield of 4.18%. The yield spread is 0.34%. The seven largest companies in the S&P 500 make up $17.0 trillion of the $53.5 trillion index market capitalization with a weighted P/E of 34.7. If 31.7% of the index has a P/E of 34.7, then 68.3% of the index has a P/E of 16.3 for the overall P/E to be 22.1. A P/E of 16.3 is an E/P of 6.15%, which is fairly priced compared to the 10-year Treasury note yield of 4.18% (a yield spread of 1.97%).

**The S&P 500 broke out to the upside following the election results, continuing its uptrend.** The index ended November at an all-time high. December may see some tax-loss harvesting, which could cause downward pressure on stock prices. Support areas should include the 50-day moving average (5,839), 200-day moving average (5,455), and September 2024 low (5,400).

**Speculation is becoming more rampant in financial markets, especially following the November election results.** Bitcoin rallied from about $68,000 on November 5 to $97,000 (42% increase in one month). There is a frothiness to the market's tone. Bullish sentiment reigns as the Republican victory, coupled with an accommodative Fed, is causing investors to disregard valuation while bidding asset prices higher. Interestingly, Warren Buffett's Berkshire Hathaway has grown cash to a massive 31% of its market cap. Buffett is famously quoted for advising investors to "be fearful when others are greedy."