OBSERVATIONS

- Markets traded higher last week led by US small caps (Russell 2000), which gained +4.5% while the S&P 500 gained +1.7% and the yield on the 10-year Treasury fell -4 basis points to end the week at 4.40%.[1]
- The Cass Freight Index showed that the freight market declined in October by -5.9% year-over-year (YoY) which was less of a decline than in September (-6.6% YoY). The fall was due to both a decline in freight volumes, down -2.4% YoY, and softer shipping prices which fell by –3.6% YoY.[2]
- Housing starts fell to 1.311 million units (annualized rate) in October, down -3.1% month-over-month (MoM) from September's level. Compared to October-2023, new home starts were down -4.0% YoY and new building permits are down to 1.416 million (annualized rate), which was a -7.7% YoY decline from Oct-2023.[1]
- Meanwhile, existing home sales edged up in October to 3.96 million sales (annualized rate), which was in-line with expectations, but compared to Oct-2023, existing home sales were up +2.9% YoY—which is the first year-over-year increase since mid-2021.[1]
- Homebuilder sentiment improved in November moving up 3-points to 46 from October's 43 sentiment level. The increase in homebuilder sentiment was broad based with improvements in current sales conditions, expectations for sales over the next six-months and customer traffic in model homes.[3]
- Initial unemployment claims fell to 213k last week which was a -6k decrease from the week prior.[1]

EXPECTATIONS ***Research Corner will take a break and return on Monday 9-December***

- Additional Fed speakers last week reinforced the notion that the Fed is not in any hurry to lower rates. As a result, the Fed Funds Futures market has priced in just over a 50% chance of another rate cut this year. Prior to the Fed's final 2024 meeting in mid-December, it will receive another jobs report and a few inflation readings—a strong jobs report and inflation data inconsistent with progress towards the Fed's 2% inflation target would likely cause the Fed to forego a rate cut in December.[1]
- About 95% of the S&P 500 has reported—including NVIDIA which beat expectations for both earnings and revenue—and the earnings growth for Q3 is 5.8% YoY, with 75% of firms having a positive earnings surprise—which is on par with the 10-year average (75%), but below the 5-year average (77%).[4]

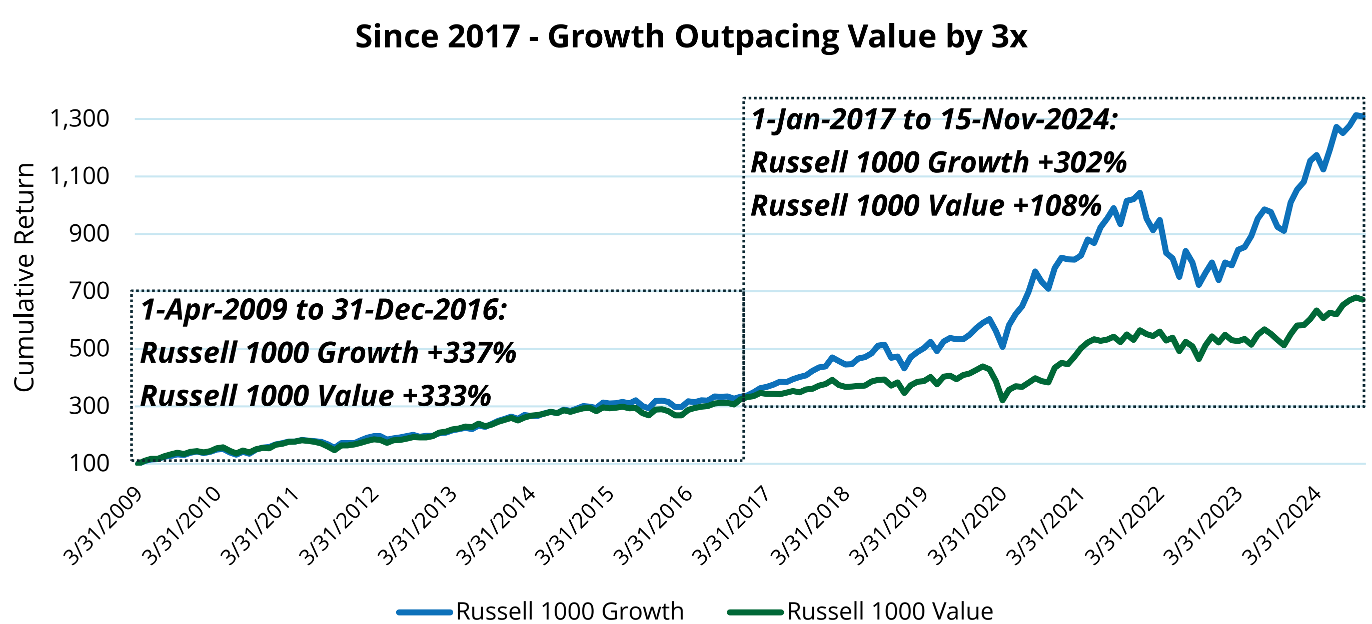
ONE MORE THOUGHT: Growth Stocks Approaching 8-Years of Outperformance[1]

US equities bottomed in March-2009 and then began a nearly 11-year bull market that lasted until the Covid pandemic of March-2020. However, that bear market lasted 5-months and then began a new bull market that continues to today. What is striking, however, is for the first nearly eight years since the markets bottomed after the Great Financial Crisis (GFC), there was little difference between growth (Russell 1000 Growth Index) and value stocks (Russell 1000 Value Index)—see Chart of the Week. However, beginning in 2017 growth stocks began to outperform value stocks. In fact, US large cap growth stocks have largely outperformed all other asset classes with annualized returns of 19.3% from Jan-2017 to 15-Nov-2024. In that nearly eight-year period—including the over -30% decline in 2022—the Russell 1000 Growth Index has had close to a 3x return of that of the Russell 1000 Value Index. In the period from 2017 to 2020, many attributed the outperformance of growth stocks to the macroeconomic environment—a period of low interest rates and below-trend growth—however since the Covid pandemic, growth stocks have outperformed in a period of rising interest rates and above trend growth, which

[1] *Bloomberg LP 11/22/2024*
[2] *https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/october-2024*
[3] *https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index*
[4] *https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_112224.pdf*

suggests that other catalysts are at play. While in short periods of time many factors such as macroeconomic news, geopolitical events, changes in regulations, and sentiment can impact individual stock prices, over the long run there is strong evidence that a firm's stock price reflects its underlying earnings growth. The mega-cap tech stocks that have powered the Russell 1000 Growth Index to new highs over the past eight years have nearly unrivalled earnings growth dynamics. Microsoft, for instance, had earnings of about $3.00 per share at the end of 2016, but it is likely to end 2024 with more than $12.00 earnings per share—a 4x increase over the past eight years. Many of these firms are semi-monopolies with a deep amount of intellectual property and human capital to buttress their competitive positions, protect their margins, and grow their earnings in the quarters and years to come. Economic theory posits that competitors will seek to crowd into many of the sectors dominated by the US tech giants which may diminish future returns and these tech giants themselves may someday become subject to disruption by an upstart firm. Equally, investors must always weigh the current outlook for a stock or an index against its price-to-earnings ratio—how much am I paying for future earnings. All of this suggests caution after this long stretch of outperformance by US tech firms. But as we look out at the investment landscape of 2025, we expect that the earnings growth of US large caps, and growth companies in particular, are poised to outpace most—if not all—of the rest of the world.

CHART OF THE WEEK



Source: Clearstead, Morningstar 1-Apr-2009 to 15-Nov-2024

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