

WEEKLY INSIGHT

December 6, 2024

Equities Approach 30% Gains on the Year

Equities finished the week up 1.5% as the NASDAQ led the way with gains of 3.6%. Small caps were basically flat on the week. Equities are entering one of their seasonally strong periods with the S&P 500 up 29% year-to-date. Strong up years through November usually see some of the strongest gains in December.

How rare are 30% years? Not as rare as you would think. There have been five times in 25 years the S&P 500 achieved a 30% calendar year total return. Each time, the following year was positive and had an 18% average return. So, does a 30% return year, if achieved, set us up for another solid year next year? Maybe, but there would need to be continued multiple expansion.

Valuation, while a poor timing tool, has been a reliable tool at forecasting 10-year forward returns.

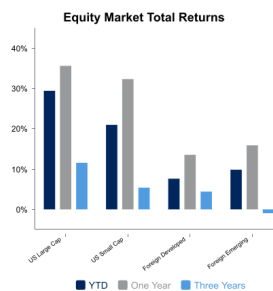
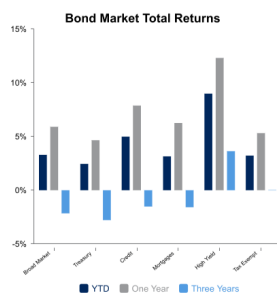
- In the 15 years since 2009, the S&P 500 forward price-to-earnings (P/E) has gone from 8x to 22x.
- S&P 500 forward earnings estimates have gone up 4x.
- The net result is a 16% compound annual growth rate (CAGR) in the total return on the S&P 500.
- The S&P 500 forward P/E is a full 2 standard deviation above the 25-year average.
- In the last 25 years, the forward P/E was only higher in 2021 and 1999-2000.

More and more analysts are revising up their long-term equity return assumption to incorporate what they view as a new normal. However, if history is a guide, one should be doing the opposite as long-term return assumptions will need to embed multiple contraction.

Bonds Rally Back

Bond yields have been moving lower as of late, helped by President-elect Donald Trump's cabinet picks, as well as weaker than expected data. The Citigroup Economic Surprise Index (CESI) has dipped lower as of late. The global developed economic surprise index is now back in negative territory. ISM services came in weaker than expected on Wednesday and sent bond yields down by almost 10 bps in quick order. Now that consensus is for better growth, when it disappoints, the path of least resistance is toward lower yields.

Employment indicators remain well positioned with low, jobless claims and strong results from ADP. This likely indicates a strong nonfarm payrolls report on Friday. However, the estimate is for 203,000 private payroll gains, which has only been hit three times in the last 12 months. It wouldn't be a surprise to see a number just short of estimates lead to lower bond yields and higher equities on the day.



Interest Rates (%)	Current	12M Ago	3YR Ago
Fed Funds Rate (Upper)	4.75	5.50	0.25
3-Month T-Bill	4.45	5.36	0.04
10-Year Treasury	4.18	4.16	1.34
30-Year Treasury	4.34	4.30	1.67
10-Year Corporate AA	4.93	5.14	2.09
10-Year High Yield Corp	6.31	6.95	3.90
Commodity Prices (\$)	Current	12M Ago	3YR Ago
Gold (\$/oz)	2,649.90	2,019.36	1,783.29
Oil (WTI, \$/barrel)	68.54	72.32	66.26
Currencies	Current	12M Ago	3YR Ago
USD (Dollar Index Spot)	106.32	104.05	96.12
USD/EUR	0.95	0.93	0.88
USD/JPY	150.59	147.15	112.80

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