

Doll's Deliberations[®]

Weekly Investment Commentary



Robert C. Doll, CFA
CEO/CIO

Summary:

Our prediction #10 (made last December) was “The White House, Senate, and House all switch parties in November,” implying a Republican president, a Republican Senate, and a Democratic House. The first two parts have come true, the last part is still undecided (but probably leaning Republican).

Election observations:

1. Donald Trump has remade the Republican party—many more non-whites, many more lower-income workers, fewer “country club” folks, more economic nationalists.
2. Donald Trump won every one of the seven battleground states and won the popular vote (surprising almost everyone).
3. Kamala Harris underperformed Joe Biden (2020 election) in every county (and therefore every state) in the U.S.
4. The election was a choice between Trump’s unpopularity (44% favorable to 54% unfavorable) and the unpopularity of the Biden-Harris agenda. (Biden’s approval is 40% favorable to 58% unfavorable.)
5. Americans chose Trump, despite all his well-known flaws, over Harris, choosing who could bring necessary change.
6. The U.S. election continues the pervasive global trend in 2024 of incumbents losing and challengers winning. (This is the first time in 120 years that the U.S. incumbent party has lost the presidency three time in a row.)
7. The Republican win in the Senate (capturing 53-54 seats) exceeded expectations of 51-52 seats.
8. The economy (in particular, negative real wage growth) and immigration were by far the biggest issues on voters’ minds, with nothing else close.
9. Unlike the 2016 victory (which was unexpected by all), the Trump team has lots of transition plans already in motion, and cabinet and other appointments will be quick due to the significant Republican advantage in the Senate.
10. As a second-term president, Trump will possibly take higher risks and attempt earlier actions than if he were in his first term.

EQUITY MARKETS (INDEX TOTAL RETURN %)	LAST WEEK	YEAR-TO-DATE
DJIA	4.61	18.50
S&P 500	4.69	27.17
NASDAQ	5.76	29.25
RUSSELL 1000	4.47	26.20
RUSSELL 1000 GROWTH	5.74	32.21
RUSSELL 1000 VALUE	3.99	20.04
RUSSELL 2000	7.83	18.86

S&P EQUITY SECTORS (INDEX TOTAL RETURN %)	LAST WEEK	YEAR-TO-DATE
COMMUNICATION SERVICES	3.72	36.10
CONSUMER DISCRETIONARY	7.63	23.60
CONSUMER STAPLES	1.20	16.75
ENERGY	6.24	15.21
FINANCIALS	5.60	32.35
HEALTHCARE	1.61	11.48
INDUSTRIALS	5.96	25.99
INFORMATION TECHNOLOGY	5.47	36.93
MATERIALS	1.46	11.56
REAL ESTATE	2.69	12.33
UTILITIES	1.30	28.04

Election impacts

Investors generally view a Republican-controlled government as favorable for deregulation, and more favorable on the potential for more mergers and acquisitions and proposed tax cuts. However, concerns over the large and growing federal deficit and increased tariffs have sparked concerns about an uptick in inflation.

1. The strength in equities and rise in yields prior to the election seem to have been in part due to expectations that Trump would win.
2. Interest rates and inflation will likely remain higher than in a Biden/Harris world.
3. The magnitude of the Trump win coupled with better-than-expected Republican Senate gains is an extra tailwind to risk assets.
4. While the tailwind for risk assets may last longer, we are skeptical that guarantees a good 2025.
5. President Trump will likely get his 2017 tax cuts (due to expire in 2025) extended, possibly get his corporate tax cut proposals enacted, but will unlikely achieve significant further tax cuts.
6. Regulation will be reduced. (Biggest beneficiaries are the financial stocks.)
7. Attempts at significant cost-cutting (budget cuts, selected entitlement reform) are likely, perhaps with Elon Musk overseeing the efforts.
8. Fighting crime and deportation of illegal criminals will get significant attention. But total deportation is unlikely.
9. Traditional fossil fuels will be emphasized and nuclear will likely make a comeback.
10. It is uncertain how tariffs will play out. Some modest ones are almost definite. Beyond that, the threat may be a negotiating tool. Failure to come to the table to negotiate likely will be met with tariffs.
11. Foreign policy changes are likely to be significant. Trump will attempt to settle the Ukraine-Russia conflict. Zelensky may not last, and Putin may be rewarded with a province or two in order to save face.
12. The U.S. is likely to provide a "blank check" to Israel to complete the elimination of rebel forces. Eventual regime change in Iran and/or eliminating the nuclear threat is possible. (No ceasefire until Israel is secure.) A Saudi-Israel peace deal is again possible.

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN %)	LAST WEEK	YEAR-TO-DATE
MSCI ACWI	3.30	20.24
MSCI ACWI EX U.S.	1.26	10.20
MSCI EAFE	0.81	7.86
MSCI EM	1.64	13.78

FIXED INCOME MARKETS (INDEX TOTAL RETURN %)	LAST WEEK	YEAR-TO-DATE
BLOOMBERG U.S. AGGREGATE BOND	0.59	2.00
BLOOMBERG U.S. CORP HIGH YIELD	0.47	7.99
BLOOMBERG U.S. GOV/ CREDIT	0.49	1.92
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.05	4.59

ALTERNATIVES (INDEX TOTAL RETURN %)	LAST WEEK	YEAR-TO-DATE
REAL ESTATE (FTSE NAREIT)	1.20	9.91
COMMODITIES (DJ)	0.15	4.04
GLOBAL LISTED PRIVATE EQUITY (RED ROCKS)	4.03	20.93
CURRENCIES (DB CURRENCY FUTURE HARVEST)	0.53	12.11

Data from Bloomberg as of Nov. 8, 2024

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