Citi Global Wealth
Investments

NORTH AMERICA INVESTMENT STRATEGY

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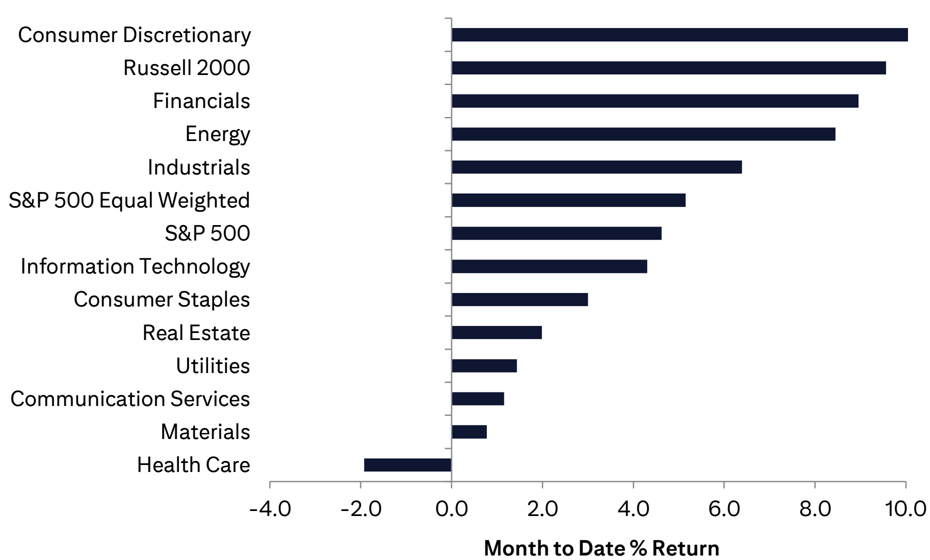
Adjusting to Election, Earnings and Fed

- Last week, the S&P 500, Dow and Nasdaq gained 1.68%, 1.96% and 1.73% (Figure 4). Stocks are trying to find their place after a post-election reaction, 3Q24 earnings, and a Fed that is easing but at a pace dependent on the incoming data. The stock market has responded to the prospects of lower taxes and a lighter regulatory touch with Consumer Discretionary being the month's best-performing sector, so far, followed by Financials and Energy (Figure 1). Industrials stand to benefit from a tariff policy next year that could make it harder to export to the US but more economical to produce in the US. The Russell 2000 small cap index is up 9.56% this month, outperforming its large cap S&P 500 peer. With nearly all S&P 500 firms reporting, 3Q24 EPS are up 9.0% versus 3Q23 and analysts are forecasting 12.8% EPS growth in 2025. The market expects one 25 basis point Fed rate cut between now and January, most likely at the December 18 FOMC meeting. The 10-year Treasury yield ended the week at 4.42%.
- This week will provide clues on home prices, consumer confidence, the Fed's thinking at its last policy meeting, and inflation (Figure 3). The Core PCE index, which excludes food and energy, and is closely watched by the Fed is expected to run at a 2.8% y/y clip versus 2.7% a month ago. The stock and bond markets are closed for Thanksgiving on November 28. They reopen on Friday, but the stock market closes at 1pm for Black Friday.
- The Global Investment Committee (GIC) made changes to its asset allocation last week. Please click here for Quadrant or read on.

FIGURE 1: Equity Market and S&P 500 Month-to-Date Sector Returns



Source: FactSet and Haver Analytics as of November 22, 2024. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only. Index returns do not include any expenses, fees or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**

3 THINGS TO KNOW

Broaden Investment Horizons

The Republican sweep of the US election generated a market response similar to late 2016 when Donald Trump was first elected US President. The US dollar has jumped more than 3% against a basket of liquid currencies and US yields have edged up. US equities have risen 2.6% while non-US equities fell 2.8% in US dollar terms. We fortunately pre-positioned for this with a 6.0% US equity overweight and 1.5% non-US underweight across themes and regions through early this week. Now we believe it's time to start diversifying more broadly while bearing trade friction and other risks in mind.

US Megacap Tech Drives High Levels of Equity Valuations

If one wants to stay focused solely on US opportunities, consider that profitable US small and mid-cap growth shares trade at 19.3X expected EPS over the coming year compared to 27.8x for large caps. This is in line with long-term average valuation, while large cap growth trades about 33% above its own average. Our continued focus here is not on "submerging" companies with high leverage, but instead, growing firms where investors have not already judged them as the long-term victors in their industry. We see these more domestically-focused firms as less impacted by potential tariff conflicts and retaliation if trade friction resumes.

Lessons from 2016 – Highly Discreet Market Adjustments

The Republican sweep in the 2016 election extracted a quick "toll" on non-US assets before positive returns resumed. Could the worst already be over for global shares, scarred by 2018 trade war memories and campaign promises of dramatically higher tariffs? We wouldn't want to share false confidence. History, however, suggests that markets have done much of the work already. Outside of the US, local returns have been flat or negative in all the large regional markets save Canada.

Start Broadening Investment Horizons

The Global Investment Committee shifted its asset allocation to add diversification following strong gains in US large cap equities. With a variety of shifts within and across regions, we remain overweight global equities by a net 3.5% versus 4.5% previously. Our upward adjustments to Asian equities and Brazil emphasized markets which might benefit from supply chain diversification or areas where US trade exposure is minimal.

Domestic-focused markets like India and Brazil look more isolated from US pressures and have either good growth prospects or especially low valuations. While we've slightly raised fixed income exposure, we've also added international diversification.

FIGURE 2: US Share of World Market Cap vs Earnings

Source: Bloomberg as of November 18, 2024. US proxy is MSCI USA. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**

What does this mean for investors?

After changes this week, we continue to overweight US equities by 3.0%, and non-US by just 0.5%. However, we think long-term investors are better served by building portfolios that will generate returns differentiated from the S&P 500. We focus on "broadening" strategies to offset concentration risk in US mega caps. Growth at a reasonable price can be found in US SMID, where profitable growth companies can be found trading at 19.3X expected EPS vs 27.8X for large caps.

Broaden Investment Horizons

As we wrote in last month's Quadrant, we continue to expect the US economy to outgrow the developed world in the next two years. But US EPS growth is becoming somewhat less exceptional after a poor year for global trade and the hits from rising interest rates and currency pressures. With recessionary expectations, this weakened many industries in 2023. But now, EPS gains are broadening across industries and regions of the world. While the US is certainly seeing broadening profit gains, US market cap has been rising significantly faster than EPS with an ever more confident outlook among investors in US large cap technology firms.

As we will discuss in our Wealth Outlook 2025 report scheduled for December 11, 2025, we believe there will be specific beneficiaries of US deregulation with global applicability. These include energy and power infrastructure and transportation as well as banks and digital assets innovators. At a time when the new US administration is still forming, we would still emphasize a greater need for diversification after the strong US-led bull run of the past two years.

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With great products, great execution and a share of "good fortune," three US-tech related firms have risen to more than $10 trillion in value, or about the value of all the publicly-traded firms in Asia or Europe. The largest US technology goods producers bear trade war risks, with significant production and demand in China. In recent years, they have sustained performance in a way that bucks historical trends. For the past three decades, a strategy of holding only the largest 10 equities in the S&P 500 by market cap and rebalancing each year underperforms the S&P 500. Yet in the past two years, the "buy the largest stocks" strategy outperformed the S&P 500 by a record amount. This occurred as the largest tech-related firms saw rapid EPS gains in 2023,bucking the economy-wide performance. Yet it has been accompanied by both increased valuation and idiosyncratic risks for these shares.

Lessons from 2016 – Highly Discreet Market Adjustments

The share price gains from the 2016 election through 1H 2017 suggests promise. For example, in that six-month period, banks gained far more than they have in the past few weeks. As discussed in our CIO Bulletin, to the extent that Fed rate cuts steepen the US yield curve, it generates improved economics for lenders. Expectations of deregulation have already boosted large bank share prices, but the gains have come on low valuations and severe underperformance for nearly two decades.

Importantly, the returns of the longer 2017-2019 period are informative. As we discussed above, non-US shares have lagged behind the US returns for a record 15 years (Figure 2). But even with "trade wars" and 200 basis points of Fed tightening, shares outside the US provided a 13% annualized return during the period. This was at a valuation for equities with a weaker US dollar than we observe today.

Portfolio Considerations

Clarity over new US administration policies will come in time. We see deregulation beneficiaries in the US and beyond, including energy and power infrastructure, transportation, banks, and digital asset innovators. Yet there is also more policy uncertainty, arguing for broader portfolio diversification than our recent positioning.

Economic Calendar and Financial Market Returns

FIGURE 3: US Economic Releases

Date	Time	Event	Period	Economist Median Estimate	Prior Actual Reading
11/25/2024	8:30	Chicago Fed Nat Activity Index	Oct	-0.28	-0.28
11/25/2024	10:30	Dallas Fed Manf. Activity	Nov	-2.4	-3
11/26/2024	8:30	Philadelphia Fed Non-Manufacturing Activity	Nov	--	6
11/26/2024	9:00	FHFA House Price Index MoM	Sep	0.30%	0.30%
11/26/2024	9:00	House Price Purchase Index QoQ	3Q	--	0.90%
11/26/2024	9:00	S&P CoreLogic CS 20-City MoM SA	Sep	0.30%	0.35%
11/26/2024	9:00	S&P CoreLogic CS 20-City YoY NSA	Sep	4.60%	5.20%
11/26/2024	9:00	S&P CoreLogic CS US HPI YoY NSA	Sep	--	4.25%
11/26/2024	10:00	New Home Sales	Oct	725k	738k
11/26/2024	10:00	New Home Sales MoM	Oct	-1.80%	4.10%
11/26/2024	10:00	Conf. Board Consumer Confidence	Nov	111.8	108.7
11/26/2024	10:00	Conf. Board Present Situation	Nov	--	138
11/26/2024	10:00	Conf. Board Expectations	Nov	--	89.1
11/26/2024	10:00	Richmond Fed Manufact. Index	Nov	--	-14
11/26/2024	10:00	Richmond Fed Business Conditions	Nov	--	-4
11/26/2024	10:30	Dallas Fed Services Activity	Nov	--	2
11/26/2024	14:00	FOMC Meeting Minutes	7-Nov	--	--
11/27/2024	7:00	MBA Mortgage Applications	22-Nov	--	1.70%
11/27/2024	8:30	GDP Annualized QoQ	3Q	2.80%	2.80%
11/27/2024	8:30	Personal Consumption	3Q	3.70%	3.70%
11/27/2024	8:30	GDP Price Index	3Q	1.80%	1.80%
11/27/2024	8:30	Core PCE Price Index QoQ	3Q	2.20%	2.20%
11/27/2024	8:30	Advance Goods Trade Balance	Oct	-$102.0b	-$108.2b
11/27/2024	8:30	Wholesale Inventories MoM	Oct	-0.10%	-0.20%
11/27/2024	8:30	Retail Inventories MoM	Oct	--	0.80%
11/27/2024	8:30	Durable Goods Orders	Oct	0.50%	-0.70%
11/27/2024	8:30	Durables Ex Transportation	Oct	0.10%	0.50%
11/27/2024	8:30	Cap Goods Orders Nondef Ex Air	Oct	0.10%	0.70%
11/27/2024	8:30	Cap Goods Ship Nondef Ex Air	Oct	0.10%	-0.10%
11/27/2024	8:30	Initial Jobless Claims	23-Nov	217k	213k
11/27/2024	8:30	Continuing Claims	16-Nov	1889k	1908k
11/27/2024	9:45	MNI Chicago PMI	Nov	45	41.6
11/27/2024	10:00	Personal Income	Oct	0.30%	0.30%
11/27/2024	10:00	Personal Spending	Oct	0.40%	0.50%
11/27/2024	10:00	Real Personal Spending	Oct	0.20%	0.40%
11/27/2024	10:00	PCE Price Index MoM	Oct	0.20%	0.20%
11/27/2024	10:00	PCE Price Index YoY	Oct	2.30%	2.10%
11/27/2024	10:00	Core PCE Price Index MoM	Oct	0.30%	0.30%
11/27/2024	10:00	Core PCE Price Index YoY	Oct	2.80%	2.70%
11/27/2024	10:00	Pending Home Sales MoM	Oct	-2.00%	7.40%
11/27/2024	10:00	Pending Home Sales NSA YoY	Oct	--	2.20%

Source: Bloomberg as of November 22, 2024. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. **Past performance is no guarantee of future results. Real results may vary.**

FIGURE 4: Financial Market Returns

Close as of (11/22/24)	Yesterday Closing Price	Latest Week % Chg	One Month % Chg	Three Month % Chg	Six Month % Chg	52 Week % Chg	Yr to Date % Chg
US Markets							
S&P 500	5,969.3	1.68	2.0	7.2	12.5	31.0	25.1
Russell 2000	2,406.7	4.46	7.8	11.9	15.6	34.0	18.7
Russell 1000 Growth	3,967.5	1.69	2.5	8.4	14.5	35.4	30.0
Russell 1000 Value	1,943.0	2.40	3.2	7.8	11.0	27.0	19.2
NASDAQ Composite Index	19,003.7	1.73	2.3	7.9	13.1	33.2	26.6
DJ Industrial Average	44,296.5	1.96	3.2	8.8	11.7	25.6	17.5
S&P 500 Sectors							
S&P 500 / Consumer Discretionary	1,748.9	1.6	10.6	18.3	21.5	31.3	23.3
S&P 500 / Consumer Staples	887.6	3.1	0.6	1.6	6.7	19.9	16.4
S&P 500 / Energy	738.8	2.3	6.3	8.8	5.5	15.0	15.4
S&P 500 / Financials	842.7	1.7	7.5	15.3	20.9	44.0	34.5
S&P 500 / Health Care	1,678.6	1.6	-4.7	-6.8	-1.5	10.6	5.5
S&P 500 / Industrials	1,203.4	2.5	3.8	11.3	13.6	34.4	24.7
S&P 500 / Information Technology	4,547.3	1.5	-0.6	6.0	14.7	38.7	33.9
S&P 500 / Materials	590.7	2.9	-2.6	2.5	2.8	16.3	9.5
S&P 500 / Real Estate	274.7	2.3	0.0	3.0	15.5	21.6	9.5
S&P 500 / Communication Services	323.9	-0.3	2.3	7.4	8.8	34.0	31.7
S&P 500 / Utilities	411.7	2.6	-0.3	8.2	13.0	30.5	27.9
International Markets							
MSCI Canada	2,530.1	2.8	2.5	8.2	12.2	25.5	15.5
MSCI EM (Emerging Markets)	1,087.3	0.2	-4.8	-1.2	-0.7	10.5	6.2
MSCI Europe	2,018.3	-0.1	-6.0	-7.8	-6.3	6.3	-0.1
MSCI United Kingdom	1,231.3	1.7	-4.0	-4.9	-3.0	10.8	4.6
MSCI Japan	3,849.1	-0.9	-1.1	-5.2	-1.1	9.6	4.1
MSCI AC World	854.1	1.4	0.3	3.8	7.7	23.7	17.5
Fixed Income, Commodities & US $							
10-year Treasury (%, end of period level)	4.42	4.44	4.20	3.86	4.42	4.41	3.88
Crude Oil WTI (NYM $/bbl)	71.24	6.5	-0.5	0.3	-2.1	0.5	8.7
Gold (NYM $/ozt)	2712.20	5.5	-1.7	7.8	10.0	28.3	24.6
United States Dollar Index	107.55	0.8	3.3	6.0	2.5	3.5	6.1

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Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
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Low grade (speculative)	B	B	B
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Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

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Changes in Regulatory or Tax Treatment of Energy Related MLPs. If the IRS changes the current tax treatment of the master limited partnerships included in the Basket of Energy Related MLPs thereby subjecting them to higher rates of taxation, or if other regulatory authorities enact regulations which negatively affect the ability of the master limited partnerships to generate income or distribute dividends to holders of common units, the return on the Notes, if any, could be dramatically reduced. Investment in a basket of Energy Related MLPs may expose the investor to concentration risk due to industry, geographical, political, and regulatory concentration.

Mortgage-backed securities ("MBS"), which include collateralized mortgage obligations ("CMOs"), also referred to as real estate mortgage investment conduits ("REMICs"), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as extension risk).

Additionally, the underlying collateral supporting non-Agency MBS may default on principal and interest payments. In certain cases, this could cause the income stream of the security to decline and result in loss of principal. Further, an insufficient level of credit support may result in a downgrade of a mortgage bond's credit rating and lead to a higher probability of principal loss and increased price volatility. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. Default risk may be pronounced in cases where the MBS security is secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans.

MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements. Price volatility may also occur from other factors including, but not limited to, prepayments, future prepayment expectations, credit concerns, underlying collateral performance and technical changes in the market.

An investment in alternative investments can be highly illiquid, is speculative and not suitable for all investors. Investing in alternative investments is for experienced and sophisticated investors who are willing to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include:

- loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices;

- lack of liquidity in that there may be no secondary market for the fund and none is expected to develop;
- volatility of returns;
- restrictions on transferring interests in the Fund;
- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
- complex tax structures and delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- manager risk.

Individual funds will have specific risks related to their investment programs that will vary from fund to fund.

Asset allocation does not assure a profit or protect against a loss in declining financial markets.

Diversification does not guarantee a profit or protect against loss. Different asset classes present different risks.

The indexes are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

Past performance is no guarantee of future results.

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