

## Standing Tall & Looking Out 11.22.2024

In the two and a half weeks since the election, markets have navigated various geopolitical events at home and abroad. Participants have had to process lingering election results, President-elect Trump's staff and cabinet picks, the Federal Reserve meeting, and further escalation of the Russo-Ukrainian War. Despite these challenges, the markets have remained resilient, with the S&P 500 nearing another record high. The economy and stock market foundations remain strong, with low unemployment, moderated inflation, steady consumer spending, and robust corporate earnings. While 2025 presents challenges, there are also several positive catalysts.

President-elect Trump has been actively appointing key members of his administration. Overall, his agenda has been well-received by the broader market, though some sectors and companies have experienced volatility. The creation of the Department of Government Efficiency (DOGE) has unsettled stocks that are heavily reliant on large government contracts. Additionally, RFK Jr.'s appointment as the U.S. Department of Health and Human Services Secretary has caused a stir in the healthcare community. On the positive side, stocks and sectors benefiting from deregulation and a domestic focus have performed well, with financials and U.S.-based producers and service providers leading the way. We believe observing how the market reacts to new information is important.

Looking ahead to 2025, the new administration will have a lot on its plate. The U.S. will hit its debt limit early in the year and confront \$4 trillion in expiring tax cuts by the end of the year. Congress will need to raise the debt ceiling and pass a budget to extend most of these tax cuts. Although full partisan control simplifies these tasks, narrow margins in the House and Senate will still pose challenges. Policymakers will also have to be careful not to reignite inflation. While down from its 2022 peak, it remains persistent in some areas.

Despite these challenges, policymakers will have substantial support. They will operate from a position of strength, with no current signs of stress in the labor market. In addition, once the debt limit is reached, the Treasury will flood the economy with liquidity. No more bonds will be issued, and the government will pay its bills from an account outside the banking system. These changes will result in a net inflow to the banking system of roughly \$400 Billion. This will provide a cushion as policymakers work through negotiations. There is also flexibility in figuring out how to pay for the \$4 Trillion tax cut extension, with several options available to legislators.

While there will be significant noise in the coming year, there is plenty for markets to look forward to. Further development of AI, reducing bureaucratic hurdles, and potential additional tax cuts could greatly benefit stocks. Still, investing in the right stocks will be crucial in this environment, as there will be clear winners and losers based on the implemented policies. It is a stock picker's market.

Thanks,  
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