The Longo Group
Independent Financial Firm

Week of December 2, 2024

Ho Ho Ho Santa Already Delivering Presents

It's not Christmas yet, but Santa's sleigh is full of gifts for investors.

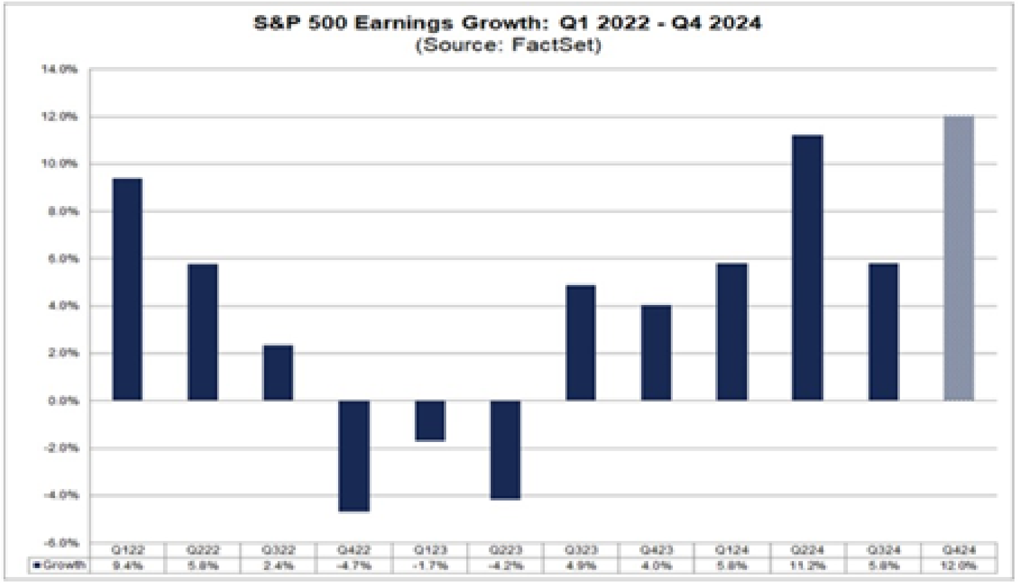
Third quarter earnings have come in strong with fourth quarter earnings expected to come in even stronger; inflation remains sticky but is coming in as expected; and President elect Donald Trump has announced his pick for Treasury Secretary: Scott Bessent, a hedge fund veteran – a move celebrated by the bond market, with interest rates coming down.

S&P 500 Earnings Growth Looks To More Than Double

FactSet is reporting earnings growth for the S&P 500 of 5.8% for Q3 2024. However, for Q4 2024, the estimated earnings growth rate for the index is expected to more than double to 12.0%. If 12.0% is the actual growth rate for the quarter, it will mark the highest year-over-year earnings growth rate reported by the index since Q4 2021 (31.4%).

The expected improvement in earnings growth in Q4 2024 is coming from 8 of the 11 sectors. Six of these 8 sectors are expected to report double-digit earnings growth for the quarter: Financials (38.9%), Communication Services (20.7%), Information Technology (13.9%), Utilities (12.9%), Health Care (12.6%), and Consumer Discretionary (12.5%). Technology and Tech-related companies remain our favorite sector for 2025. In Financials, we favor the Banks and the Capital Markets.

Earnings Power Ahead For S&P 500



Source: FactSet, November 22, 2024

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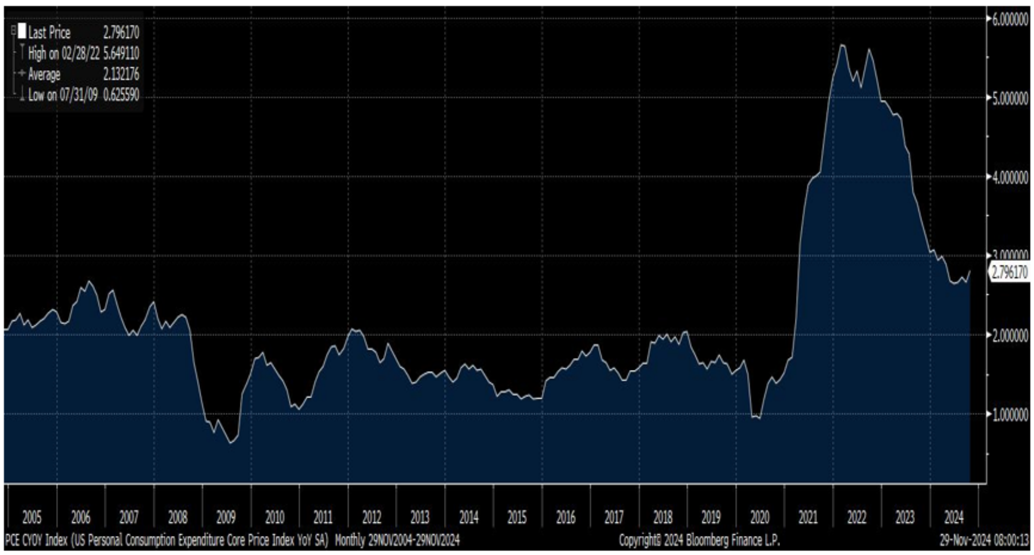
Inflation Trending Down But Remains Sticky

With the holiday slowdown last week, the Federal Reserve's (Fed) favorite inflation gauge, the Core Price Consumption Expenditure (PCE) Index, was released and came in as expected at 2.8% for the month of October. Interest rates remained stable to down on this release, but what really drove rates down was the announcement of Scott Bessent as President-elect Trump's pick for Treasury Secretary.

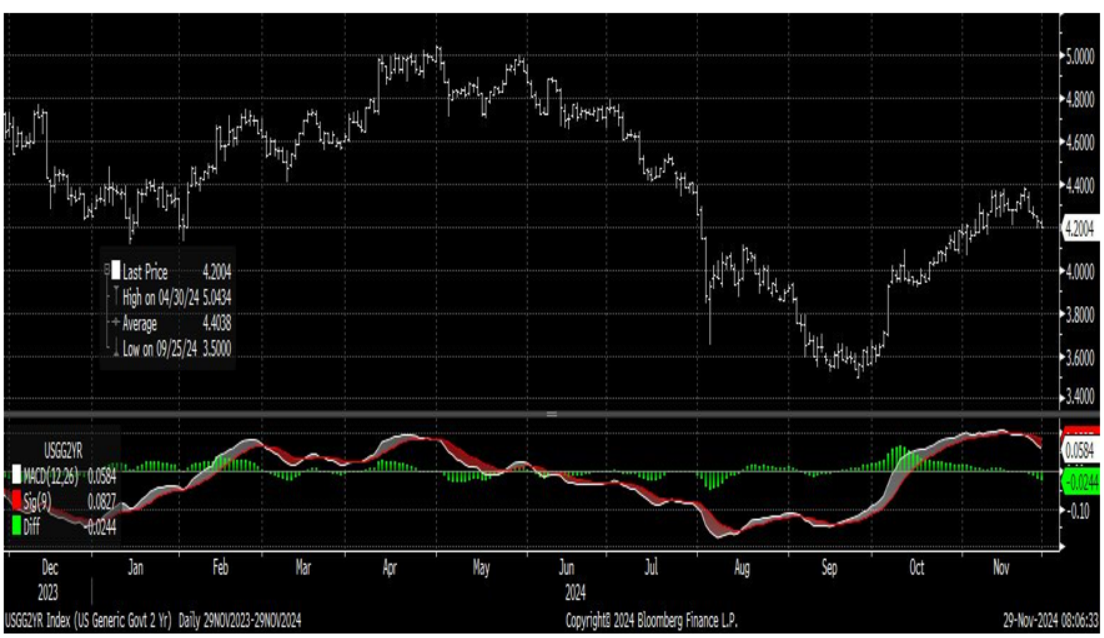
Core Price Consumption Expenditure (PCE) Declining But Sticky



Rates Falling & A Tailwind For Equities

The 2-Year Treasury yield hit resistance near 4.4% and the price momentum indicator Moving Average Convergence/Divergence (MACD) has turned negative, pointing to short rates falling over the coming weeks, which supports equities pricing moving higher. We believe 2-Year yields could approach the 4% level.

2-Year Treasury Yield With MACD: Rates Looks To Fall Near 4%



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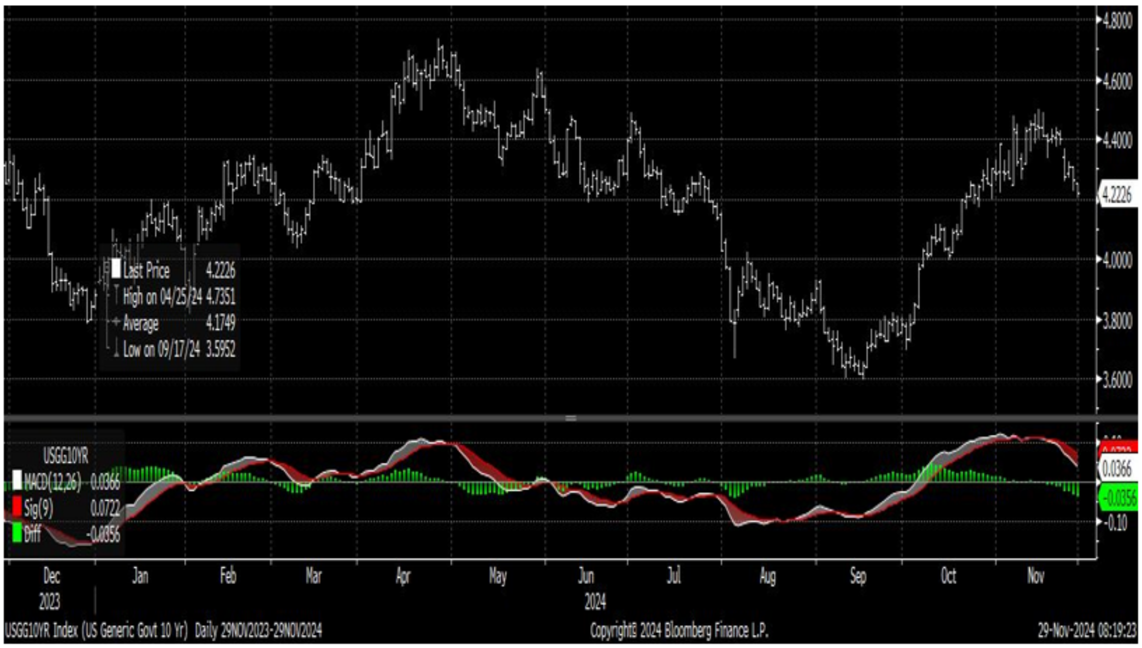
The 10-Year Treasury yield is also falling with negative price momentum. Support is near 4.2% but, if this breaks, the next level to test is 4.0%. The bond market became very happy with the Bessent nomination by Trump.

10-Year Treasury Yield With MACD: Rates Falling Support 4.2%-4.0%



A Liquidity Bazooka On Its Way Which Should Boost Risk Assets

This gets a little detailed, but it's important context for further belief that the Bull will keep charging. There is a backlog of 1.4 million claims for the Covid 19 Employee Retention Tax Credit (ERTC) at the IRS – estimated at over $100 billion. The U.S. government began this program to offset the effects of the contracting economy during the Covid pandemic in 2020. The IRS suspended these payments in September 2023, but the courts and Congress are pressing the IRS to begin paying claims once more. So far, the IRS has paid only 4% of the backlog, leaving more than a $100 billion still to go. If this money continues to get released, we expect it to help smaller businesses and strengthen GDP growth. This should keep the consumer spending and allow small cap companies to continue to outperform the broader equity market.

Meanwhile – and very importantly – the U.S. government will hit its debt ceiling on January 1, 2025. The debt ceiling is the limit set by Congress for how much new debt the government can borrow. In other words, the Treasury can replace maturing old debt with an equal amount of borrowing, but it cannot increase its indebtedness until Congress says it can. To pay for continuing government activities, the Treasury will need to spend from the Treasury General Account (TGA) rather than borrow new funds. This effectively injects cash into the economy, because, when the government borrows extra money, that creates a "crowding out" effect on other borrowers which, in time, if done, could move interest rates higher. Dan Clifton at Strategas notes that while the Republicans maintain a slim majority controlling the House of Representatives, they will need some Democrats to vote with them in order to raise the debt ceiling. Clifton does not expect this to occur until possibly as late as August 2025. The TGA stood at over $750 billion in mid-November and should still be at least $700 billion at year-end. All this money should be injected into the economy. This would be a significant liquidity boon for risk assets, including equities.

Furthermore, the Treasury Borrowing Advisory Committee (TBAC) has recommended that the Fed conclude its policy of quantitative tightening (QT) in the first quarter of 2025. [Note: QT is a method of monetary tightening that works by absorbing money from the banking system when that money is used to purchase securities sold from the Fed's balance sheet.] Right now, the Fed sells $25 billion of Treasury securities from the Fed's books every month. This will be $25 billion of Treasuries the market will no longer need to absorb. As we mentioned above, Treasury borrowing for new funds will probably be suspended January 1, so that means the government will be spending out of its TGA – and that means the reduction in QT will add even more money to the banking system.

These three areas of liquidity create a bazooka of money getting shot into the economy, money that must be put to work somewhere. The easiest and fastest way to do this is to put some of that money into the equity market. We believe this should last until around April 2025, when tax payments will cause seasonal tightening in the banking system.

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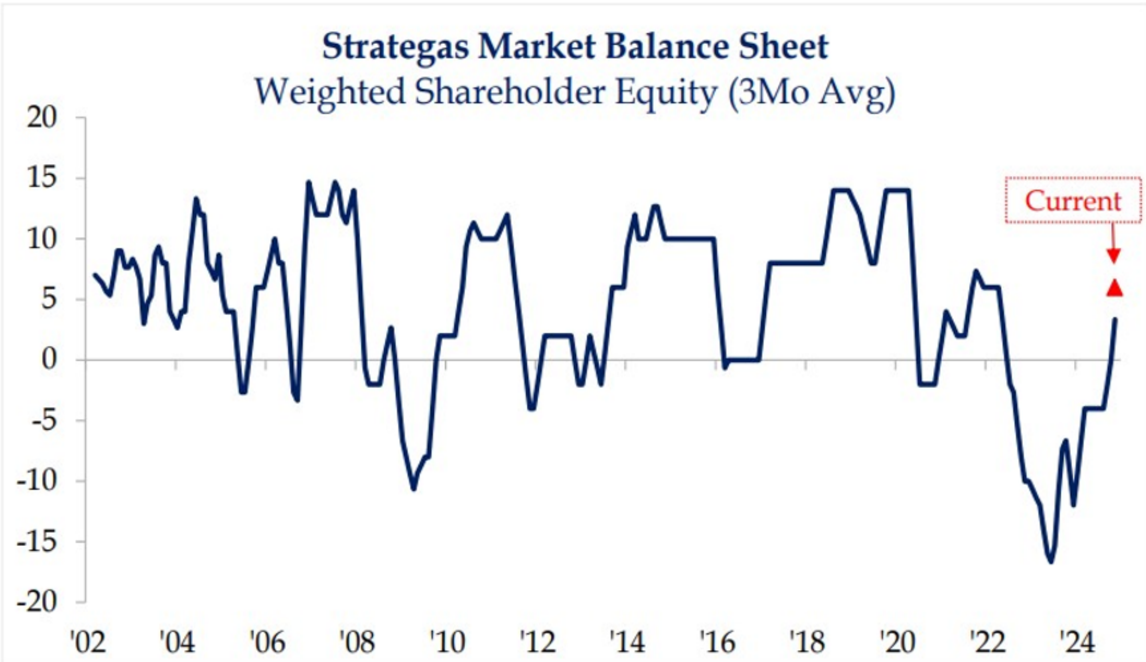
Market Balance Sheet Expected To Continue Expanding: Helping The Bull To Keep Charging



Source: Strategas, November 29, 2024

Market Balance Sheet Element Weightings

Important x1	More Important x2	Most Important x3
Administration	Dollar	Economic Growth
Demographics	Technical Picture	Liquidity
Free-Trade/Protectionism	Fiscal Policy	Profit Growth/Margins
Fiscal Health	Inflation	Sentiment
	Monetary Policy	Valuation
	Commodity Prices	War vs. Peace

Source: Strategas, November 29, 2024

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S&P 500 Fighting Resistance At 6000 – Need To Clear This Level To Rally

The seasonals for the equity market remain very bullish and price momentum, as measured by the MACD, remains positive. But the S&P 500 has hit resistance at 6000 and needs to clear this level to continue its rally. Our outlook for 2025 remains bullish with a target range of 7200-7400 or 20% gain from current levels. The last time the equity market had 20%+ gains in 5 consecutive years was 1995-1999 – which was the last time we had a significant productivity gain from new technologies (computers and the internet). The new technology is Artificial Intelligence and Blockchain, with Web 3.0 (read/write/own) on its way. [To read more about the impact of this new era of innovation, please see our 2025 YEAR AHEAD REPORT "All That's Old Is New."]

S&P 500 With MACD: Price Momentum Positive But Need To Clear 6000

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Market Performance

	Last 11/29/2024	Month End 10/31/2024	Month to Date	Quarter End 9/30/2024	Quarter to Date	Year End 12/29/2023	Year to Date	Year Ago 11/30/2023	Year To Year
S&P 500	6032.38	5705.45	5.7%	5762.48	4.7%	4769.83	26.5%	4567.80	32.1%
NASDAQ Composite	19218.17	18095.15	6.2%	18189.17	5.7%	15011.35	28.0%	14226.22	35.1%
NASDAQ 100	509.74	483.85	5.4%	488.07	4.4%	409.52	24.5%	388.83	31.1%
Russell 2000	2434.73	2196.65	10.8%	2229.97	9.2%	2027.07	20.1%	1809.02	34.6%
S&P Consumer Discretionary Sector	1789.44	1580.24	13.2%	1605.41	11.5%	1418.09	26.2%	1336.91	33.8%
S&P Consumer Staples Sector	900.88	861.70	4.5%	887.78	1.5%	762.32	18.2%	744.26	21.0%
S&P Energy Sector	724.06	681.25	6.3%	676.47	7.0%	640.05	13.1%	641.28	12.9%
S&P Financial Sector	851.98	773.41	10.2%	754.16	13.0%	626.35	36.0%	595.09	43.2%
S&P Health Care Sector	1713.71	1711.50	0.1%	1796.48	-4.6%	1590.36	7.8%	1527.10	12.2%
S&P Industrials Sector	1214.04	1131.09	7.3%	1147.06	5.8%	964.73	25.8%	902.92	34.5%
S&P Information Technology Sector	4558.68	4359.55	4.6%	4403.72	3.5%	3397.16	34.2%	3273.08	39.3%
S&P Materials Sector	594.62	586.14	1.4%	607.70	-2.2%	539.62	10.2%	517.20	15.0%
S&P Real Estate Sector	281.69	270.90	4.0%	280.46	0.4%	251.58	12.0%	233.02	20.9%
S&P Communications Sector	330.15	320.25	3.1%	314.60	4.9%	246.00	34.2%	234.77	40.6%
S&P Utilities Sector	418.72	405.90	3.2%	410.28	2.1%	321.92	30.1%	316.57	32.3%
S&P 500 Total Return	13227.13	12493.74	5.9%	12608.07	4.9%	10327.83	28.1%	9879.02	33.9%
3 month Treasury Bill Price	98.88	98.86	0.0%	98.85	0.0%	98.66	0.2%	98.65	0.2%
3 month Treasury Bill Total Return	255.95	254.95	0.4%	253.94	0.8%	243.98	4.9%	242.84	5.4%
10 Year Treasury Bond Future	111.19	110.47	0.7%	114.28	-2.7%	112.89	-1.5%	109.80	1.3%
10 Year Treasury Note Total Return	299.38	296.88	0.8%	305.92	-2.1%	294.12	1.8%	284.84	5.1%
iShares 20+ Year Treasury Bond ETF	93.97	92.45	1.6%	98.10	-4.2%	98.88	-5.0%	91.56	2.6%
S&P Municipal Bond Total Return	281.36	277.16	1.5%	280.82	0.2%	272.94	3.1%	266.64	5.5%
iShares S&P National Municipal Bond NAV	108.15	106.78	1.3%	108.52	-0.3%	108.42	-0.3%	106.63	1.4%
S&P 500 Investment Grade Corporate Bond Total Return	473.45	468.10	1.1%	478.79	-1.1%	455.89	3.9%	437.89	8.1%
S&P Investment Grade Corporate Bond	92.03	91.37	0.7%	93.58	-1.6%	91.76	0.3%	88.64	3.8%
S&P Investment Grade Corporate Bond Total Return	503.62	498.19	1.1%	508.34	-0.9%	482.66	4.3%	464.60	8.4%
SPDR Bloomberg High Yield Bond ETF	97.36	96.30	1.1%	97.79	-0.4%	94.73	2.8%	92.68	5.0%
iShares iBoxx High Yield Corporate Bond ETF	80.04	79.14	1.1%	80.30	-0.3%	77.39	3.4%	75.71	5.7%
Gold	2643.15	2743.97	-3.7%	2634.58	0.3%	2062.98	28.1%	2036.41	29.8%
Bitcoin	97460.39	69937.51	39.4%	63785.09	52.8%	41935.34	132.4%	37750.77	158.2%

Source: Bloomberg, Sanctuary Wealth, November 29, 2024

Fed Keeps Us All Fixated On Jobs Data

This week will give the Fed the jobs data it's focused on, setting the stage for another rate cut – on not.

Among the fair amount of economic reports this week, what will get all the attention – especially at the Fed – will be the jobs information found in the JOLTS (Job Openings and Labor Turnover Survey), the ADP National Employment Report, and the November employment data. We're all looking for signs as to whether the Fed is likely to cut interest rates again in December. About two-thirds (around 66%) of The Street is anticipating a 25 basis point cut. We'll see on December 18.

Calendar

Mon.

9:45 am S&P final U.S. manufacturing PMI
10:00 am ISM manufacturing, Construction spending
Earnings: Credo Technology Group*

Tue.

10:00 am Job openings
TBA Auto sales
Earnings: Bank of Nova Scotia, Salesforce, Okta

Wed.

8:15 am ADP employment
8:45 am St. Louis Fed President Musalem speaks
9:45 am S&P final U.S. services PMI
10:00 am ISM services, Factory orders
2:00 pm Fed Beige Book
Earnings: Campbell's, Cheewy, Dollar Tree, American Eagle Outfitters, Five Below

Thu.

8:30 am Initial jobless claims, U.S. trade deficit
Earnings: CIBC, Toronto-Dominion Bank, Ulta Beauty, DocuSign, Lululemon Athletica, Smith & Wesson Brands, Victoria's Secret

Fri.

8:30 am U.S. employment report
10:00 am Consumer sentiment (prelim)
10:30 am Chicago Fed President Goolsbee speaks
3:00 pm Consumer credit
Earnings: Genesco

*Earnings reflect highlights
Source: CNBC, Kiplinger's, MarketWatch