Marketline November 2024

Stocks:

I don't want to sound like a broken record, but we often say that the markets are in the process of acclimating to a particular level of uncertainty all the time. Every moment of nearly every day, someone somewhere is voting on value, changing prices mostly in tiny increments in reaction to a risk/reward calculation. Risk and uncertainty are always with us; the market's mechanism is *built* to conduct an ongoing evaluation of how to account for both. When things that were unsettled become settled, prices can rise. We saw that this month, as the US election concluded, and investors were able to gauge the lay of the land more accurately. The result was a substantial stock rally, tallying up increases of 7.5% in the Dow, 5.7% in the S&P and 6.2% over at the Nasdaq. Results overseas were not as great, except for Canada which posted 6.2%. The major European index was up 2.2%.

Unlike recent upward moves in the averages, this one was broad, meaning even small companies participated – not just the tech darlings that have dominated lately. A broad market is a healthy market. Offsetting that salutary outcome is the expensiveness of stocks generally, which has been a complaint for years now. You may read about the "Shiller PE" which is a "normalized" number that puts stocks at sky-high values at around 30 times earnings. Even a non-normalized PE calculation based on the S&P 500 earnings number comes out at about 24 on a next-year basis. However, both these numbers are heavily biased by the numbers calculated into the average from Nvidia, Microsoft, Apple and the other usual suspects. The forward PE ratio (which, as a reminder, represents how much investors pay for every one dollar of earnings) on the equal-weighted index, which knocks tech exposure down considerably, is about 18 – high, but not a nose-bleed level by any means.

High stock prices make finding new names to replace expensive stocks that we're selling down more difficult, but that's our job. In the repertoire of my favorite sayings is another, alongside the risk/reward discussion above – there's almost always something to buy, you just have to find it. We have welcomed back to our buy list a stock we've held in the past – Stanley Black & Decker. SWK, like many companies, experienced a boom in business during Covid, as homeowners utilized spare time to remodel. Most likely, it will be years before the company comes even close to the earnings numbers it posted during that time frame. Of course, since it performed so well, then disappointed, the stock has fallen to a price approximating its low back in 2016. The company, recognizing that all would not be so dandy going forward, began a cost-cutting program two years ago that is now bearing fruit. The road ahead will not be perfect, but at this level, we think a small position in this quality company is warranted.

Bonds:

Rates eased in November after a substantial flurry upward in October. The ten-year closed at 4.17%, down from 4.28%, and the thirty-year ended at 4.36%, off from 4.47%, Initially, post-election results took yields up, denting bond portfolio prices as investors worried about inflation under a new Administration, but that fear eased with an increase in rhetoric around cutting our budget deficit. Meanwhile, the Fed meets shortly to decide upon a rate cut – remember that it controls the short end of the bond market, not mortgage rates. While this upcoming meeting may or may not result in a cut, the trend in short rates will be down over time. We've been planning for that by moving funds from Treasury bills – a good deal when they paid over 5% - to longer term, permanent investments in the occasional municipal and more often, intermediate corporate bonds. The latter remains our favorite sector with a wide variety of merchandise to choose from and 5%+ available – a good rate for prospective and current retirees.

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