First
Carolina Wealth

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THOUGHTS TO [CONTINUE] YOUR WEEK

President-Elect Trump's Tax Plans

Let me start with assurances that this update will be substantially shorter than the one I envisioned if the election had resulted in different winners. Without being political in any way, and given that Trump has said nothing since the election regarding his tax plans, let us review his proposals during the election.

- Perhaps most importantly, make his 2017 tax cuts due to expire at the end of 2025 permanent and possibly expand on them.
- End the 2017 law's cap of $10,000 per couple per year for deduction of state and local taxes ("SALT").
- End income tax on social security payments, tips and overtime pay.
- Provide deductions for the total cost of home generators bought after September 1 and for interest paid on car loans.
- Lower corporate tax rate from 21% to 15% on U.S.-based income.
- Maintain the tax breaks for pass-through business owners.

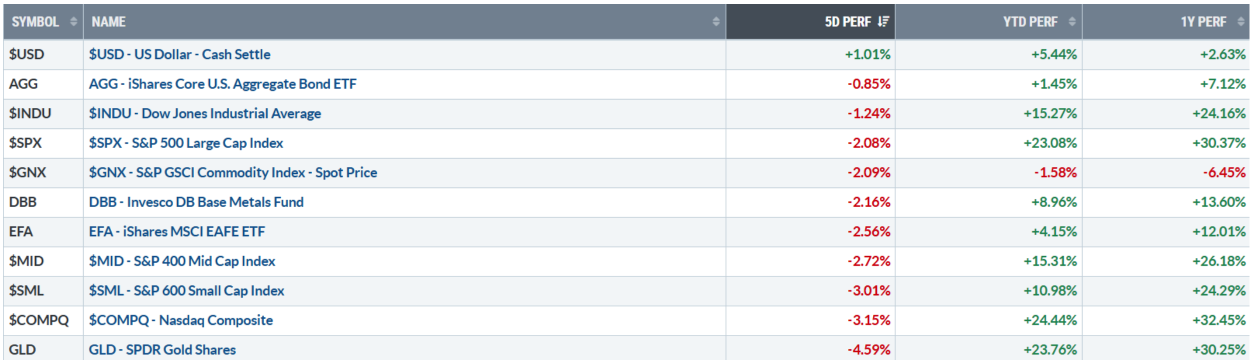
Trump has proposed universal tariffs on imported goods of 20%, with up to 60% for Chinese goods. These tariffs could cost up to $2.7 trillion and the tax cuts above could cost $9 trillion over the next 10 years, which would be added on to the current national debt of $36 trillion.

Very little has been discussed about these tax cuts, but the Republicans control all three branches of the federal government, so the time might be ripe to accomplish them. Regardless, much will be discussed soon, and we will revisit the subject in a future issue.

Weekly Economic Insights From Our Investment Managers

Federal Reserve Chair Jerome Powell emphasized a cautious approach to cutting interest rates last week amidst rather firm (not too hot) inflation data while President-elect Trump announced several cabinet appointments, sparking tariff concerns. Equity markets shed some of their post-election gains as interest rate concerns seemingly dominated investor mindsets.

Commodities traded with a heavy tone as well, while stronger interest rates continued to support the US dollar's rise. When all was said and done, the major stock indices were down 1-2% along with industrial metals. The riskier small and mid-caps gave up about a percent more. Oil approached this year's lows, continuing on the "Trump Trade," and gold took the elevator down over 4%.



SYMBOL	NAME	5D PERF	YTD PERF	1Y PERF
$USD	$USD - US Dollar - Cash Settle	+1.01%	+5.44%	+2.63%
AGG	AGG - iShares Core U.S. Aggregate Bond ETF	-0.85%	+1.45%	+7.12%
$INDU	$INDU - Dow Jones Industrial Average	-1.24%	+15.27%	+24.16%
$SPX	$SPX - S&P 500 Large Cap Index	-2.08%	+23.08%	+30.37%
$GNX	$GNX - S&P GSCI Commodity Index - Spot Price	-2.09%	-1.58%	-6.45%
DBB	DBB - Invesco DB Base Metals Fund	-2.16%	+8.96%	+13.60%
EFA	EFA - iShares MSCI EAFE ETF	-2.56%	+4.15%	+12.01%
$MID	$MID - S&P 400 Mid Cap Index	-2.72%	+15.31%	+26.18%
$SML	$SML - S&P 600 Small Cap Index	-3.01%	+10.98%	+24.29%
$COMPQ	$COMPQ - Nasdaq Composite	-3.15%	+24.44%	+32.45%
GLD	GLD - SPDR Gold Shares	-4.59%	+23.76%	+30.25%

Source: Stockcharts.com

Key Takeaway:

Last week's price data and President-elect Trump's appointees rekindled inflation fears, further supporting recently elevated treasury yields and taking a little wind out of the sails on the recent stock market's advance. Given the precipitous rise over the past couple of weeks, the markets were due for a pause—last week's data provided the perfect excuse for profit taking and digesting all the recent positive momentum drivers.

The Week Ahead:

This week's most important reports are coming Thursday and Friday. One to watch is Friday's Flash Composite PMIs, offering the first national snapshot of November's economic activity. Other significant reports include Weekly Jobless Claims and the Philly Fed Manufacturing Index (Thursday). Investors will look for signs that align with last week's surprising strength in the Empire Manufacturing Index. If growth readings come in more moderate, concerns from last week's stronger-than-expected inflation data could ease. With Fed rate cuts being a key driver of this rally, positive data could keep the momentum going.

Current Observations

Economic Growth: The economy appears to be growing at a moderate pace, not too hot. GDP expanded 2.7% year-on-year in the third quarter of 2024, slowing slightly from a 3% rise in the previous period and has averaged 3.16 percent from 1948 until 2024 (*Source: U.S. Bureau of Economic Analysis).*

Inflation: Inflation has been cooling over the past year but appears to be a little "sticky" in recent months. The annual inflation rate in the US accelerated to 2.6% in October 2024, up from 2.4% in September which was the lowest rate since February 2021. This marks the first increase in inflation in seven months while core consumer prices, which exclude volatile items such as food and energy, remain unchanged from September *(Source: U.S. Bureau of Labor Statistics).*

Employment: The jobs market remains robust despite the recent rise in unemployment from historically low levels and the decreasing number of job openings. Put simply, the labor market was on fire just a few months ago and is cooling off to sustainable levels. The unemployment rate in the United States fell to 4.1% in September 2024, the lowest in three months, down from 4.2% in the previous month. *(Source: U.S. Bureau of Labor Statistics).*

Monetary Policy: The Fed lowered the federal funds target range by 25 basis points to 4.5%-4.75% at its November 2024 meeting, following a jumbo 50 basis point cut in September in an effort to balance inflation confidence with labor market concerns. An effective Fed Funds Rate of 4.625% is still considered "restrictive policy," yet the Fed has telegraphed this is only the beginning of a rate cut cycle *(Source: Federal Reserve).*

Sentiment: Investor psychology is presently bullish. According to AAII, retail investor Bulls currently outweigh the Bears by a decent margin, approaching euphoric levels despite the recent pullback. Active money managers appear to be near fully invested in stocks, with the NAAIM Exposure index exceeding the 90% level, while the CNN Fear & Greed Index, which measures seven different aspects of market behavior to gauge the "mood" of the stock market, is in neutral territory.

Volatility & Speculative Demand: The VIX (CBOE Volatility Index), which is known to be Wall Street's Fear Gauge, remains "Complacent" following election week. This falls in line with what Yield Spreads, the difference (or spread) between yields for junk bonds and safer government bonds, have been signaling all year—as they are at historical lows—which is a sign that investors may be willing to take on more risk with regards to their fixed income investments and confidence in the overall economy.

Stocks: The major Indices (Dow Jones Industrial Average, S&P 500, and NASDAQ) are trading at, or near, all-time highs signifying a positive trend. Outside of the US, Developed and Emerging Markets Indices, which peaked in late September, have spent the last month retreating with their currency hedged counterparts holding up much better.

Bonds & Interest Rates: Bonds have had a relatively rough time since the Fed cut rates in September. A wave of overwhelmingly positive economic data and governmental policy concerns have rekindled inflation fears, causing investors to recalibrate their upcoming rate cut expectations (just a reminder, bond prices and interest rates have an inverse relationship).

Commodities & Currencies: The weak Chinese economy (2nd largest in the world) and strong US dollar continue to weigh on commodities. Oil, the largest component in the commodities space, along with industrial metals (a key global growth gauge), have been under pressure while precious metals are trading near all-time highs. The US Federal Reserve is currently being viewed as the most "Hawkish" (high rates) central bank in the world. This stance is keeping a bid under the US Dollar as it trades near cycle highs.

Breadth & Technicals: One of the major themes since the markets sold off in August has been expanding breadth. More and more stocks have joined the parade to higher prices, and that's a good thing. Recent economic data supports this breadth expansion to the more cyclical areas of the market while the overall trend towards economic expansion and lower interest rates is supporting the cyclical trade. Advancing stocks have been outpacing decliners for the past several months while the pace of net new 52-week highs continues to expand. This positive momentum is also shadowed by a healthy reading of stocks with a Point & Figure "buy" rating (an objective measure of bullish price patterns and demand).

Tying it all together:

Stock market momentum remains strong, and for good reason. Inflation is gradually cooling, and interest rate cuts are providing a boost, while economic growth is robust, and the job market is showing steady resilience. On top of that, corporate earnings projections are climbing.

It looks like the Fed's strategy to guide the economy toward a "soft landing," a scenario where an economy slows down just enough to curb inflation without falling into a recession, seems to be bearing fruit, and the market is reacting positively.

The primary driver behind the stock market rally is the seemingly prevailing belief that the economy will avoid a severe downturn, achieving a soft landing instead, which, combined with potential Fed rate cuts, could create an ideal "Goldilocks" scenario for stocks. However, it's crucial to remain cautious, as challenges persist, and current valuations appear somewhat "frothy."

Encouragingly, investor sentiment is optimistic, but not yet euphoric, and stock price gains are now extending beyond just the technology sector. Broad sector participation is a positive sign for sustained market growth, and we are seeing this at a time when historically significant seasonal patterns are coming into play. The old adage, "Sell in May and go away" [until October], is ringing in the ears of Wall Street participants as we enter the traditionally "strong" season of November-through-April.

Volatility has been pronounced in the bond market this year, with long-term interest rates showing some of the most significant fluctuations in decades. The 10-year Treasury yield hit a peak of around 5% last October, started the year in the upper 3% range, rallied back to approximately 4.75% around May, and has since returned close to where it began this year. Meanwhile, short-term rates have remained more stable, aligning more closely with Federal Reserve policy and showing signs of easing as the first rate cuts have taken effect. Recently, a shift has occurred in the yield curve: for the first time since mid-2022, long-term Treasury yields (10-year) exceeded short-term rates (2-year), breaking a historic inversion that lasted 783 days.

With the first rate cuts now implemented, it seems that the economic disruptions triggered by the COVID outbreak and governmental stimulus efforts—such as inflation, workforce challenges, and supply chain issues—are receding into the past. The primary focus has shifted back to future growth, earnings, employment, and innovation, signaling a potential return to "normal" in the markets, if such a state is indeed achievable.

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