Argent Capital Management LLC

Market Overview – December 2024

The S&P 500's 5.7% gain in November was its best monthly return of 2024. Elevated fear gauges reflected anxiety heading into the election, but the lack of fireworks and a decisive outcome were surprises that triggered investor appetite for risk. Animal spirits, the potential for an easing regulatory environment, and hopes for additional corporate tax cuts were all tailwinds for equities, but that wasn't all.

Since July, economic data has been surprising to the upside, putting the mid-summer slowdown fears in the rearview mirror. It showed in a solid third-quarter earnings season. Earnings for the S&P 500 grew nearly 9% and are expected to grow an additional 8% in the fourth quarter. That carries added weight at a time when valuation is stretched. At 22x forward earnings, the price-to-earnings (PE) ratio of the S&P 500 is well above the 10-year median of 17.5x. Durable earnings growth is the most effective counterbalance to elevated valuations.

November's rally was led by economically sensitive stocks, especially financials and smaller-cap companies. The Russell 2000 small-cap index soared nearly 11%. Investors grew more confident that economic growth and the prospect of lower interest rates would be a rising tide that lifted more boats.

It is not unusual for the largest, most prosperous companies to support higher-than-average valuations, but the median stock is not expensive. If stock market leadership continues to broaden, supported by economic resilience and expansion, that is a feather in the bull's cap.

There are reasonable questions about how easily prices can absorb additional rate cuts, high government spending, solid GDP growth, and more nationalist trade policies. Inflation remains above the Federal Reserve's 2% target, and recent data shows it is still a thorn.

Still, besides fundamental strength, seasonality is favorable, and the credit market is notably accommodative, with no signs of distress. Companies continue to easily access capital, channeling funds into value-enhancing activities like record-setting share buybacks.

As December begins, the S&P 500 is on track to achieve its second consecutive year of 20% gains, a rare feat accomplished only seven other times since 1950. While such extraordinary returns are unsustainable, the essential drivers of a positive market environment, including economic and labor market strength, earnings growth, and supportive financial conditions, remain firmly intact.

As a reminder, we are 100% employee-owned, and we thank you for your business and your interest. If you like our market letters and my videos, we hope you will share them with friends. For information on our five successful equity strategies – Large Cap, Dividend Select, Mid Cap, SMID Cap, and Small Cap, please contact clientservices@argentcapital.com.

Sincerely,

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