Ridgetop Wealth Management

Market Update – November 2024

The Election

1. We cannot wait until it is over!
2. No President has ever been able to repeal the economic cycle. History has proven that market performance after presidential elections is driven much more by broad economic conditions than by which party is in power. Ultimately, whichever candidate wins will not be a reliable determinant of gains or losses in your portfolio in the months and years ahead.

The Market Today

The S&P 500 is up over +60% since its low in the fourth quarter of 2022. With this in mind, along with all our various other concerns (interest rates, inflation, weakness in manufacturing, geopolitics, corporate earnings – to name a few) it's prudent to take the market's temperature at this time. Today, the majority of our technical indicators are pointing to a continued broad-based rally for the markets:

- Market breadth data analyses the action of all stocks. Strong market breadth readings mean that the number of advancing stocks far outnumbers the amount of declining stocks, and therefore most stocks are in a meaningful uptrend. This is currently the case as this rising tide pushed our data to new highs on October 16th. Global breadth is currently confirming the Bull Markets and, historically, breadth weakens significantly before we reach market peaks.
- It's not just that more stocks are going up than going down. A lot are also making new highs. The percentage of stocks on the NYSE that are at 52-week highs hit 27.3% on September 20th, the most this market cycle. Historically new highs peak a median of 39 weeks before bull market ends.
- Volume Demand is above Volume Supply which implies more money is pouring into stocks that are going up rather than investors selling decliners out of panic. Volume Demand is outpacing Volume Supply by the most in three years.
- Almost 70% of stocks are above their 200-day moving averages, implying that most stocks remain in a long-term uptrend.

The Market Tomorrow?

All of the indicators mentioned above are providing bullish confirmation, but this 15 year secular Bull Market is becoming increasingly mature so signs of divergence should not be dismissed. The stock market today is expensive no matter how you look at it and price levels of the S&P 500 are far above their long term trendline. Also, speculation has creeped back into the investor psyche and confidence around the certainty of a “soft landing” leaves the market vulnerable to disappointment. Sentiment shifts from complacency to mounting fears is what has driven previous bears and will likely do so again this time.

The bottom line is that the macro-economic environment and market internals support the prospect for a market uptrend to persist. But this is not the time to lose focus on the potential of a top forming.

Reversing Earnings Sentiment – The First Shoe to Drop?

Within just the last few days it’s become increasingly apparent that optimism around corporate earnings has reached an extreme and has started to reverse. To be clear, it’s not that earnings reports are coming out negative - most companies are still making plenty of money. But earnings expectations have gone to the moon and even the tech darlings cannot keep up.

It was a series of high and rising beat rates (corporate earnings reports beating/exceeding analysist expectations) that helped drive the cyclical Bull Market of 2020 and 2021, but earnings disappointments early in 2022 weighed down equities and led to a cyclical Bear market that year. While we are less than halfway through third quarter earnings season, the beat rate is at a seven-quarter low and a peak in beat rate momentum looks now to be evident. If earnings sentiment trends continue, they will warn not to ignore deterioration in the technical indicators mentioned a few paragraphs above.

In Conclusion

Rather than forecast a top, our approach is to stay aligned with this Bull Market as long as it lasts. Considering strong market breadth, central bank easing, and year-end tendency for the market to rise…there simply is not enough evidence yet to suggest that we have reached a top. But as we head into 2025 the stock market’s Bullish status will be the most important consideration when determining whether it’s prudent to continue position for gains, or whether reallocation will be needed for additional capital preservation.