MH & ASSOCIATES • SECURITIES MANAGEMENT CORPORATION

INVESTMENT VIEWS

NOVEMBER 30, 2024

Please note, our office will be sending out preliminary gain and loss schedules for 2024. These are to be used for tax planning purposes only, with final schedules to be provided by the broker. You can expect the broker reports by the end of February.

THE RETURN OF "TRUMPONOMICS"

The 2024 Presidential Election is over – finally – and investors can begin to make sense of what the coming four years will look like. The term "Trumponomics" has been used as a catch-all of the economic policies and goals of President-elect Trump, with the main issue being that he has proposed many ideas during his campaign. While we can assume that some of the original playbook will return, the new ideas proposed make it unclear as to the timing of when certain policies will be pursued. An aggressive day one agenda has been laid out, but the likelihood of that being accomplished immediately is slim. Thus, we expect the first year to be bumpy with some disappointments and possible economic disruptions.

The overall direction, however, does seem clear: Trump will be cutting regulations, reforming government agencies and enacting policies in an effort to bring jobs back to the American worker. The aim is to grow the US economy and reduce the impact of inflation. Some of the specific ideas he has floated include encouraging oil and gas production so prices can be lowered for Americans, while also allowing greater exports and reducing reliance on foreign suppliers for "critical" materials and industries. The administration will definitely once again employ tariffs to bargain for better trade terms with our major trade partners such as China, Mexico and Canada. The effect off which could certainly be inflationary, but with the hopes that wage increases and tax cuts offset those changes.

Finally, despite what seems to be a bullish backdrop for the equity markets, the economy continues to be in a somewhat fragile position, with several concerning data points coming in centered around rising unemployment and slowing growth in certain economic sectors. The first interest rate cut by the Fed was certainly a sign that they felt the level of rates could stall the economy. These developments will factor into what Trumponomics will actually look like, as no president wants to begin their term with economic weakness.

BIOTECH TRIAL FAILURE

In June of this year our firm took a position in the SPDR Biotech ETF (XBI) when it appeared that after a few years of declines, biotech was about to make a comeback. Initially, the XBI performed well as a spurt of buyouts lifted valuations off their lows. However, a couple of headwinds for the industry appeared and caused buyout activity to drop and investors to lose interest in the biotech sector. First, longer term interest rates began to move up, which reduces activity in the biotech sector as capital becomes more expensive. Next, the Presidential race raised awareness of certain industry practices, scaring off investors afraid of media scrutiny and criticism. As a result, our risk limit was reached, and we exited the XBI with a small loss. The biotech sector holds much promise for humanity and investors and we anticipate reentering when conditions are more favorable.

TECHNICALLY *Speaking*

With the market indices hitting all time highs, it is not difficult to continue to be bullish. However, several indicators are pointing to perhaps an exhaustion of buyers and a level of over-enthusiasm. While this won't be a comprehensive list we wanted to point out several that have caught our eye. One such reading is the ratio of insider selling to buying is at a 20-year high. This kind of reading has pointed to market tops in the past, although it can persist for some time before the peak actually occurs. The put/call ratio is also reaching levels that can indicate over exuberance and complacency, which can indicate a market that is ripe for selling.

The chart below shows a very short term view of the S&P 500, just the last couple of months and each bar is only one hour of trading data (as opposed to one bar behind a whole day). I have also included the Accumulation/Distribution line which, to keep things brief, shows you how the market is closing a period versus how it opened in that period. In this charts case, the period is one hour. This line hit a new high along with the market on the last trading day of November, which is nice confirmation. Unfortunately, as the market continued to make an even higher high on the next trading day, the accumulation line has fallen and failed to confirm this price action. While concerning, this again is of extremely short term nature and such signals are not appearing on longer term charts just yet. The index has already shown good support at the level where it gapped up post election and would expect that to be strong support yet again should weakness continue.

S&P 6K FULFULLIED

Back in our March 2024 newsletter we discussed a phenomenon in which the S&P 500 closes the month of February with a four month winning streak. As discussed then, this has happened only 14 times since 1950 and the market was always higher 10 months later (that will be December 31) with average returns of 14.6%. We stated at the time that the odds of the S&P reaching the 6000 level was definitely achievable and maintained our bullish stance towards equities. As it stands through 9 months, the market has gained over 17% since February and has hit the 6000 mark. The return is ahead of average, but not the highest we have seen since 1950, so the market could have some pop should Santa Claus come to town.

CENTRUS ENERGY MELTDOWN

We wrote last month about the nuclear fuel provider Centrus Energy (LEU) and the role it might play in a nuclear renaissance. It had risen dramatically after winning nearly $1 billion of a Department of Energy grant to begin producing high enriched, low assay uranium (HALEU) at its Ohio facility. This month it experienced some dramatic volatility to the downside after Russia announced that it will stop allowing the export of enriched uranium to western nations. LEU currently is one of the largest customers for this material. While the ban does not take effect until the end of 2025, allowing for plenty of time for negotiations, investors are concerned as despite the DOE grant, it will be at least 3 to 4 years before LEU can produce any substantial amount of uranium fuel. We do believe that cooler heads will prevail and the US nuclear fuel supply will not be interrupted. In the meantime, we had already taken a small amount of profit in LEU before this latest development.

Recommendation List: A list of all previous specific investment discussions published over the past 12 months will be provided upon request. Please email lara@mhandassociates.com or call our office for this list.

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