MEDALLION
WEALTH MANAGEMENT

**November 2024 Market Commentary**


***I wanna be elected***
***I'm your yankee doodle dandy in a gold Rolls Royce***
***I wanna be elected***
***Kids want a savior, don't need a fake***
***I wanna be elected***

**"Elected" by Alice Cooper - [https://www.youtube.com/watch?v=ZQAkjdrgo7M](https://www.youtube.com/watch?v=ZQAkjdrgo7M)**

The last several months have been incredibly painful for the citizens of the United States; I'm not talking about the markets or the hurricanes, but the economically illiterate and inane promises that we are constantly bombarded with by politicians trying to buy our votes. Generally, I try to stay out of politics when it comes to investing but every four years, I feel the need to inject just a little bit of economic reality into the discussion.

First, a couple of words about paying your **"fair share"**. Politicians love this phrase. This is how they determine who to collect revenue from and who to collect votes from. It is simple math. Everyone gets one vote, but some people make way more money than others, therefore it is easier to take money away from those with lots of money in order to buy lots of votes.

Here is the result:

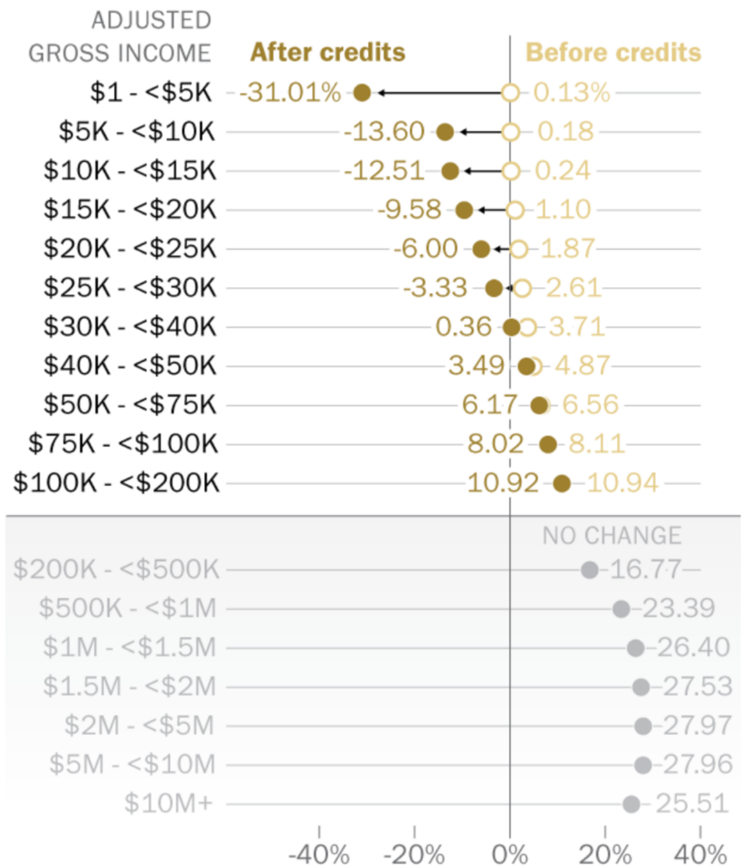
| Table 1. Who Pays Income Taxes: Tax Year 2021 | | | | |
|---|---|---|---|---|
| Percentages Ranked by AGI | AGI Threshold on Percentiles | Adjusted Gross Income Share | Share of Federal Personal Income Tax Paid | Ratio of Percentage of Personal Income Tax Paid to AGI Share |
| Top 1% | $682,577 | 26.3 | 45.78 | 1.74 |
| Top 5% | $252,840 | 41.99 | 65.64 | 1.56 |
| Top 10% | $169,800 | 52.61 | 75.81 | 1.44 |
| Top 25% | $94,440 | 72.09 | 89.23 | 1.24 |
| Top 50% | $46,637 | 89.6 | 97.66 | 1.09 |
| Bottom 50% | <$46,637 | 10.4 | 2.34 | 0.22 |

The **top 5%** earn 42% of the income and pay 65% of the taxes. The **bottom 50%** earn 10% of the income and pay 2% of the taxes. Only in the eyes of a vote mongering politician is this fair.

Another way of looking at this is through tax rates. After tax credits, those making under $30,000 have a negative tax rate (they get more from the government than they pay), while those making over $200,000 have a tax rate that varies from 16.77% to 29.97%.

## Refundable tax credits have greatest impact for lower-income taxpayers

*2020 average effective federal income tax rate, before and after refundable credits, by adjusted gross income group*




Note: Average effective tax rates calculated as total income tax as a share of adjusted gross income (all returns).
Source: Pew Research Center analysis of data from the IRS's Statistics of Income program.

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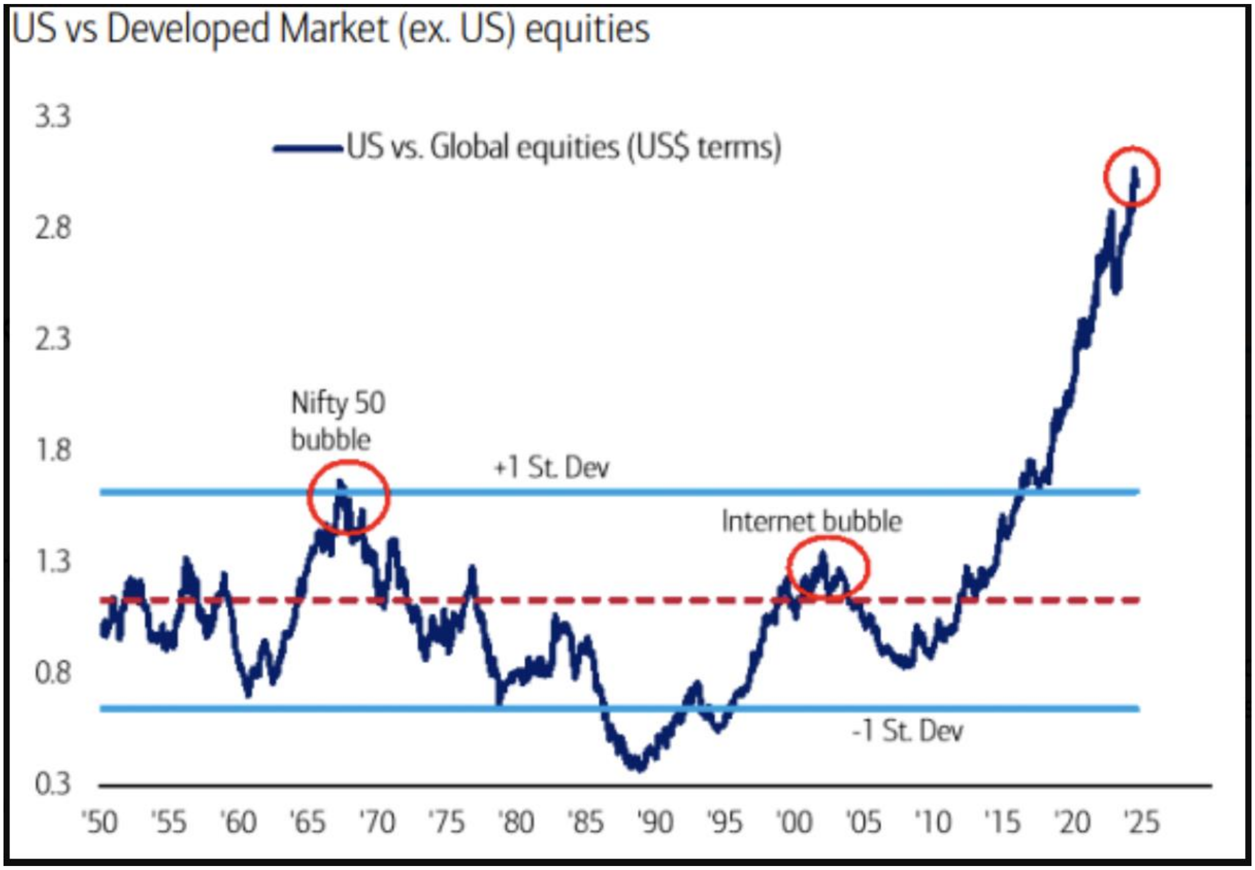
Some may say that a fairer way to tax citizens would be a flat tax, where the first $30,000 is not taxed, while everything over $30,000 is taxed at about 15%, and deductions are eliminated. This simple plan would generate the same revenue and would treat all Americans the same. Of course, this is anathema to politicians because it greatly reduces their power to collect votes via government redistribution.

**The amazing thing though, is that even with our convoluted tax system, America is easily the best major economy and country in the world. And it is our duty as Americans to make sure our elected officials don't screw it up.**

In the last 15 years the S&P 500 is up about 675%, while the rest of the world's equities are up about 145%.




Remember that stock market performance simply follows economic performance, and the U.S. economy is outstanding on a relative basis.

- In 1990, the US accounted for 40% of the GDP of the G7 group of wealthy countries. Today, it makes up roughly half.
- US economic output per person is 40% higher than in Western Europe and Canada, and 60% higher than in Japan.

- Average wages in Mississippi, the poorest state in the US, are higher than the average in Germany, Canada, and Britain.

The reason for this is rather simple, America is exceptional. We have vast resources, but more importantly we have a pretty good legal system that protects property rights, both real property and intellectual property. We have created a system where risk takers can be rewarded for taking risks that pan out.

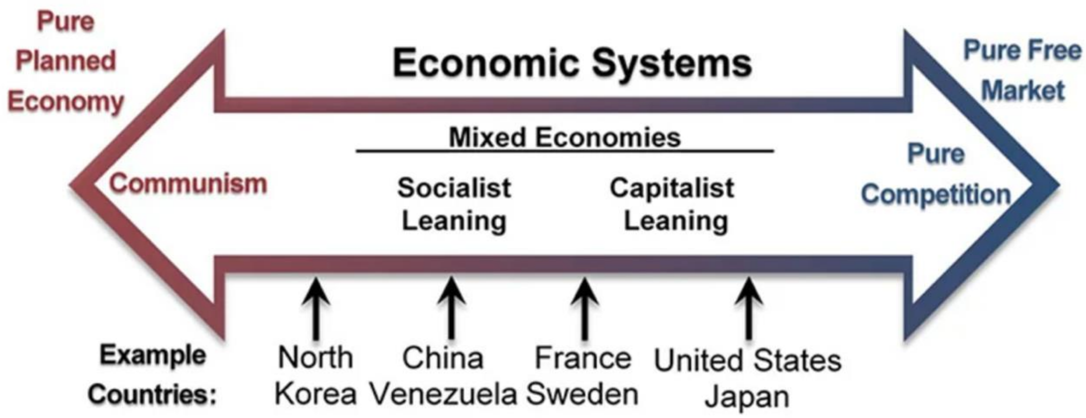
This is huge. This is the reason that brilliant entrepreneurs come to the United States to start companies, they don't start them in Europe or Asia. Europe used to offer a path to a better life for entrepreneurs but regulations and taxation have killed that incentive. Europe is now a nice outdoor museum, but even this is under assault as anti-tourist campaigns gain steam.

How does this happen, how do once prosperous growing nations fall by the wayside? The main reason is that a large enough segment of the population falls under the spell of charismatic politicians that offer an easier way to a comfortable life. Their answer in one form or another is, vote for us and we'll take money from the successful and give it to you. You want to retire after only 20 years of work, no problem. You don't like 40-hour work weeks, no problem. You don't like getting fired, no problem. You want free health care, free education, no problem. Through taxation, deficit spending, and outright government confiscation of producing assets, you can live a life that starts out comfortable but eventually deteriorates into a cesspool.

It all comes down to incentives. If your station in life isn't going to change much no matter how hard you work, versus your neighbor who doesn't work at all, why bother. Unfortunately, there are countries all over the world that have relegated their citizens to a life of "why bother".

As I sit here writing this, our little island neighbor to the south is trying to survive their 5th day in a row of total electrical blackout. Shockingly, a country that significantly subsidizes the cost of electricity, hasn't had the money to invest in new infrastructure for 50 years, and hasn't done routine maintenance in 15 years. Many Cubans have had enough, especially the ones who want a better life. More than 1 million Cubans, 10% of the population, have left the country between 2022 and 2023.

As we enter the final days of this election campaign it is important to ask yourself, do you want Free Markets or Controlled Markets? With controlled markets, you get government involvement in every facet of your life, funds are collected and redistributed until there are no more funds to collect. With free markets, you get unequal outcomes, but you also get hope and growth that raises the standard of living for all.




The simplest rule in investing is to follow the money. Money, or Capital, flows to wherever it will be treated the best. This goes for human capital too, those who have the most to offer will go to where they are treated the best. In a world tilting towards more of a controlled market, America has stood out at one of the last bastions of free markets.

We are certainly not perfectly free. We have an all-powerful Federal Reserve that manipulates the cost of capital that drastically alters where money should flow. They believe that devaluing the dollar by 2% every year is an acceptable goal. We have politicians, on both sides of the isle, who believe that deficits don't matter. They have managed to spend so much more than they collect that the interest alone on our debt is soaring over $1 trillion per year (more that our entire defense spending).

So, we're by no means perfect, but relative to the rest of the world we still have a nation that rewards success. Not as much as we used to, but still better than most. One thing we don't want to happen is the vilification of success. Choose wisely.

**<u>Market Outlook:</u>**

Shifting gears a bit, let's take a closer look at corporate tax rates. Currently U.S. corporations are taxed at 21%, the worldwide average is 23.45%. You could make the argument that corporate taxes should be at zero, since the owners of those corporations pay income tax on any dividends and capital gains taxes on any sales. Also, the employees pay taxes on any income they earn. If the corporations didn't have to pay tax there would be more money going to reinvestment, employees, and shareholders. Risk taking and growth would be stimulated.

Of course, we are not headed towards a world of zero corporate taxes, but here is a look at the two candidates current corporate tax proposals, and their impact on various sectors.

**Exhibit 16: A tax hike to 28% (from 21%) is estimated to be a 5% hit to EPS**

Hit to EPS from the corporate statutory tax rate rising to 28% from 21%

| HARRIS | Increased tax amount | 2025 net income | Hit to EPS |
|---|---|---|---|
| Cons. Disc. | 16,939 | 213,186 | (7.9%) |
| Comm. Svcs. | 16,033 | 268,899 | (6.0%) |
| Financials | 22,153 | 409,558 | (5.4%) |
| Health Care | 15,578 | 311,913 | (5.0%) |
| Industrials | 9,921 | 200,018 | (5.0%) |
| Staples | 6,091 | 154,426 | (3.9%) |
| Tech | 21,051 | 563,418 | (3.7%) |
| Materials | 1,757 | 54,645 | (3.2%) |
| Energy | 2,947 | 146,189 | (2.0%) |
| Real Estate | 172 | 29,910 | (0.6%) |
| Utilities | 60 | 67,413 | (0.1%) |
| S&P 500 | 112,703 | 2,419,576 | (4.7%) |

**Exhibit 17: A tax cut to 15% (from 21%) is estimated to be a 4% benefit to S&P 500 EPS**

EPS benefit from the corporate statutory tax rate falling to 15% from 21%

| TRUMP | Lower tax amount | 2025 net income | EPS benefit |
|---|---|---|---|
| Cons. Disc. | -14,516 | 213,147 | 6.8% |
| Comm. Svcs. | -13,742 | 268,899 | 5.1% |
| Financials | -18,989 | 409,558 | 4.6% |
| Health Care | -13,353 | 311,913 | 4.3% |
| Industrials | -8,504 | 200,018 | 4.3% |
| Staples | -5,221 | 154,426 | 3.4% |
| Tech | -18,044 | 563,418 | 3.2% |
| Materials | -1,506 | 54,645 | 2.8% |
| Energy | -2,526 | 146,189 | 1.7% |
| Real Estate | -147 | 29,910 | 0.5% |
| Utilities | -52 | 67,413 | 0.1% |
| S&P 500 | -96,599 | 2,419,537 | 4.0% |

**Source:** BofA US Equity & Quant Strategy

In case you haven't noticed, the U.S. stock market has been on a tear, up about 40% in the last year, 60% over two years, and 13.6% annualized over the past decade. Bull markets are like this, before you know it stocks have run up so much that they have outstripped fundamentals, and future returns become more muted.

One market strategist, David Kostin of Goldman Sachs, says the S&P 500 will deliver just a 3% annualized return over the next decade. Ouch. He goes on to say that because forecasting the future is difficult, the range for his prognostication is anywhere from -1% to 7% annually.

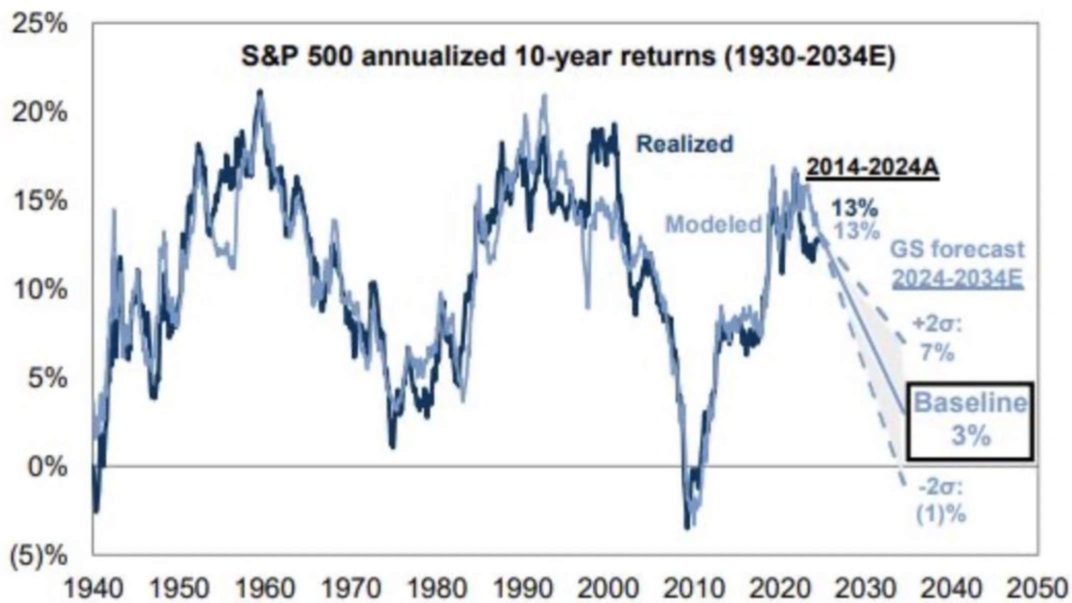
So why the sudden slowdown?

The problem is that the market has done *too* well lately.

Kostin, arrived at that dismal 3% number by examining the market's valuation, concentration, effect of interest rates, corporate profitability, and various macro fundamentals. The key elements here are valuation and concentration: Stock valuations have rocketed higher, particularly since 2020, while the market is "near its highest level of concentration in 100 years," according to the analysts.

The culprits, of course, are mega-cap tech stocks like Nvidia, Apple, and Meta Platforms. The 10 largest stocks on the S&P 500 account for over a third of the index's market cap, making it highly concentrated on a handful of companies whose prices have soared lately. If those stocks can't maintain their growth and profitability—which Goldman Sachs worries they won't do—then future returns will be more modest.

**Exhibit 1: S&P 500 annualized trailing 10-year returns: modeled vs. realized (1930-2024) and forecast (2024-34E)**




Source: Robert Shiller, Goldman Sachs Global Investment Research

Of course, as David Kostin would quickly tell you, no one can really predict the future, the best we can do is take available information, stir in some probability analysis, and make a reasonable guess. The other thing this analysis does is really smooth out future returns. Over the next decade, we may average 3% annually, but we may also have a year at -30% and another at +40%, volatility is probably the most certain outcome.

As investors, we should take this information with a grain of salt, if we are truly long-term investors this information shouldn't really have a big impact on our asset allocation. We should be prepared for more muted returns, no problem. We should also embrace volatility, since it creates opportunities for us to sell when others are greedy and buy when others are fearful.

Finally, don't let this election get you down no matter the outcome. As long as there are enough Americans out there to reign in our politicians proliferate spending, and celebrate the successes of the risk takers, we'll make it through whatever Washington throws our way.

As always, be careful out there.

Chris Wiles, CFA

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