

# State of the Markets

From the desk of Darrell L. Cronk



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## The perspective of time — A Thanksgiving reflection

In his short story “Two Thanksgiving Day Gentlemen,” the writer O. Henry wrote, “Thanksgiving Day is the one day that is purely American.”

The story is about Stuffey Pete, who every Thanksgiving Day for nine years sat on the same bench on the east side of Union Square Park in New York City, where a character called the Old Gentleman each year walks him to a restaurant and buys him a Thanksgiving dinner. It is a story, O. Henry writes, “to prove to you that we have old traditions in this new country.”

The idea of dedicating a secular holiday in the middle of the work week to gather with loved ones and express gratefulness for the abundance of this land is indeed rare. In fact, only three other countries celebrate Thanksgiving as a national holiday — Canada, Liberia, and Saint Lucia.

Since we are emerging from a long, exhausting, and emotional political season and regular readers know I’m a history buff, I thought it would be interesting to reflect on how Thanksgiving came to pass.

- In 1789, the first U.S. Congress recommended to President George Washington that “a day of public thanksgiving” be observed to acknowledge “with grateful hearts ... an opportunity peaceably to establish a form of government for their safety and happiness.” From his desk here in New York, within a stone’s throw of Wall Street, he proclaimed a national day of thanks.
- In 1801, incoming President Thomas Jefferson, on the other hand, declined to celebrate Thanksgiving because he believed it violated, in his words, the “wall of separation between Church and State” delineated in the First Amendment. Ironically, in 1815, his successor James Madison, who actually penned the First Amendment, revived the tradition.
- In 1863, Abraham Lincoln formalized what we now know as the national holiday, proclaiming “the last Thursday of November next as a day of Thanksgiving.” After Franklin D. Roosevelt moved the federal holiday to the third Thursday from 1939 to 1941 to extend the holiday shopping season for business, a public outcry ensued, and Congress moved in 1941 to declare Thanksgiving as a legal holiday observed on the fourth Thursday of November.

Ever since, through the roar of bull markets and the trials of bear markets, our country has shut down most of the engines of capitalism for a day of Thanksgiving.

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This November, I've been thinking about how much investors have to be grateful for. America's economy is fueled by high productivity, global leading research and innovation, and extensive natural resources, which allow it to be the world's largest importer and second-largest exporter of goods and services. Simply put, our market-based economy has made us the largest, most powerful, and most resilient economy in the world.

### A reason for gratitude

I am grateful that while elections come and go, the economy primarily reflects the hard work and ingenuity of the American people more than it does elected officials walking through the hallowed halls of Washington. It's the American people who start new companies, hire and pay workers, and power the engine of the consumer economy that accounts for 70% of U.S. gross domestic product (GDP). According to the U.S. Census Bureau, there are 4.7 million new businesses that start up every year in the U.S., including a record high 5.48 million in 2023. These new businesses grow, thrive, and generate income and wealth that allow American workers to enjoy some of the highest real wages of any developed or developing country on the planet. Great ideas and great new businesses have flourished through the years no matter which party has held the reins of power on the Potomac.

This Thanksgiving, I am grateful that rather than fearing diminishing influence on the global economy, we see the U.S. economy powering the globe. The U.S. dollar came out of a contentious election and strengthened against every major currency in Asia. The European economy has struggled in 2024 — its largest economy, Germany, is teetering on the brink of recession, and its third-largest, France, may not be far behind. After years of charting the threat of China overtaking the U.S. as the world's leading economy, today we see China falling short of its economic growth targets and struggling to restimulate its economy.

In 2023, the U.S. economy generated over 26% of the globe's total nominal GDP growth, and the S&P 500 companies accounted for 51% of global stock market value. Those numbers only continue to grow, as the U.S. maintains the vast majority of industry-leading companies across many sectors, most notably Information Technology, Health Care, Industrials, and Financials. Over the past 50 years, through July 2024, the S&P 500 Index has averaged a total return of 11.86% per year.

Gratitude comes in many forms. I am grateful for the reshoring of core technology and manufacturing jobs, stimulating domestic investment of capital spending that has the potential to power the U.S. economy for decades to come. I am grateful for the return of robust earnings growth that allows companies to hire, pay, and invest in American workers, keeping our national unemployment rate below 5% for 37 months running. I am grateful that the level of headline inflation has fallen from 9.1% in June 2022 to its most recent reading of 2.6% over the past 12 months.

I am grateful that the U.S. remains the world's innovation machine, attracting talent from around the globe to an environment that enables capital to flow to new ideas. I am grateful that, after a decade and a half of historically low interest rates, retirees can enjoy income and cash flow once again from their bond portfolios.

As you can tell, I am grateful for many blessings this country, our economy, and perhaps most importantly, the resilient American people have brought to bear on all of our collective lives. One of the great truisms of investing uttered by the late, great financial historian Peter Bernstein is that time transforms risk, and the nature of the risk is shaped by the time horizon. There is no doubt that risks abound, and you can find them in many places with a little bit of searching. In time, some will materialize, but many will simply dissolve into the background — risks feared but never realized.

I have come to believe this from many years in this business: Bull markets peak when every piece of good news is an excuse to buy. Bear markets end when the opposite is true. That's the nature of momentum in markets. Its gravitational pull forces markets higher and lower than anyone thinks possible, and the longer they trend that way, the easier it is for investors to believe that tomorrow will look like today.

## Conclusion

My balcony in New York City overlooks a small local establishment known as Pete's Tavern. It is a wonderfully, authentic New York bar and restaurant that has had its doors consistently open since Abraham Lincoln graced the Oval Office of our great country in 1864, shortly after he declared Thanksgiving a national holiday. Even after 160 years, Pete's 40-foot rosewood bar, tin ceiling, and tile floor are all original fixtures. It was in 1905, in the second booth as you enter the door that William Sydney Porter, pen name O. Henry and a Pete's Tavern regular, wrote one of his most renowned and beloved works "The Gift of the Magi" — just one of the 381 short stories he famously authored while living down the street. I have to believe that if O. Henry were alive today, he would still recognize the enduring tradition that this 248-year-old nation honors on the fourth Thursday of November and the unique and diverse stories of how we express gratitude for the blessings we enjoy.

The beauty of Thanksgiving in America is that we enjoy the freedom to celebrate as we see fit. Some will recite prayers of gratitude, while others will celebrate with Turkey Trots and touchdowns. Some will celebrate with family, some will host friends, and others may find themselves far from family and friends. Wherever Thanksgiving takes you, whatever traditions you cherish and honor, here's wishing you a restful, relaxing, and gratitude-filled day. Please accept my appreciation for the trust you place in our Wells Fargo Investment Institute team.

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