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MARKET SIGHT LINES

After the Election: Challenges and Opportunities

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Last week, we discussed global risks threatening the potential for a Federal Reserve (Fed) cut-induced soft landing. And, of course, most investors are keenly focused on the upcoming election, with the media's traditional frenzied coverage of the potential shifts in the balance of power, and the prospect of increased volatility. We know, in practice, that affecting change is challenging, especially in divided government – the more likely scenario this year, we believe. In this Sight|Lines, we look past the election and highlight some challenges facing the next administration and investors.

THE TAKEAWAY: THERE WILL BE SERIOUS MEDIUM- TO LONG-TERM CHALLENGES AFTER THE ELECTION

Fed policy, a possible soft landing, and the 2024 U.S. elections are important. But the election winners will face serious medium- to long-term challenges that will be meaningful for investors. In summary:

- Military Conflict: The next administration must address recent increased military engagement, working with a wide range of leaders to lessen the risk of a broader war, or even pursue peace.
- Fiscal Transition: The U.S. has run growing deficits since the Great Recession, and we're on a fiscal trajectory that must bring into focus greater discipline and a *Fiscal Transition*.
- U.S.-China Competition: The U.S. and China are locked in a great power struggle, with both nations aspiring for global dominance.
- Shifting Demographics: Workers power the economy, and the labor force participation rate is projected to decline in the United States over the next decade, highlighting the importance of increased productivity.
- Securing Strategic Resources: Power demand is rising quickly, as are the needs for strategic materials for the continued digitization of our world.

IN-DEPTH: THE ELECTION WINNERS AND INVESTORS WILL BE FACING SERIOUS MEDIUM- AND LONG-TERM CHALLENGES AFTER THE ELECTION

While it has made sense to focus recently on Fed policy, a possible soft landing, and the twists and turns of the 2024 U.S. elections, the winners will face serious challenges with meaningful implications for investors over the medium to long term. Going deeper:

- Military Conflict: The next administration must address increased military engagement:
    - Despite U.S. calls for restraint, countries like Russia (invading Ukraine), Israel (attacking Hezbollah), and Iran (firing on Israel) remain emboldened to strike.
    - The next administration will have an opportunity to engage with global leaders to de-escalate tensions and conflicts and lessen the risk of broader wars.
- Fiscal Transition: We're on a fiscal trajectory that must bring into focus greater discipline:
    - The U.S. has run deficits since the Great Recession, with the 2034 deficit projected to be $2.9 trillion.
    - At that point, net interest payments are projected to be one-sixth of all federal spending, 1.5 times larger than discretionary spending, and 23% of all federal income.
    - Political discourse will eventually focus on a transition to better fiscal discipline.
- U.S.-China Competition: The U.S. and China are locked in a great power struggle:
    - Forecasts indicate that China will surpass the U.S. as the world's largest economy in the 2030s.
    - We see increased protectionism between these superpowers, with a keen focus on competition in the areas of technology and innovation, such as Artificial Intelligence.
- Shifting Demographics: The U.S. labor force participation rate is projected to decline over the next decade:
    - The participation rate sits at 62.7% today and is forecast to fall to 61.2% in 2033.
    - Studies indicate that Artificial Intelligence can increase productivity by 14%, on average, over the next decade.
- Securing Strategic Resources: The demand for key resources is in focus in our increasingly digitized world:
    - The demand for electricity is expected to increase 2.4% annually through 2030.
    - Our needs for lithium, graphite, cobalt, and nickel for batteries will continue to grow, for example.

CONCLUSION

In general, investors are keenly focused on the upcoming election and near-term issues like Fed policy and the potential for a soft landing, with our attention reinforced by the traditional media coverage of these events. That said, it remains important to look past the election and keep in focus some medium- to long-term challenges facing the next administration and investors alike.

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