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MARKET SIGHT LINES

The U.S. Elections Take Shape: Investment Implications

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Last week, we reviewed the platform and policy implications of the 2024 U.S. elections, and this week we hosted a client webinar on the topic. Of course, policy changes resulting from a Trump or Harris victory will influence market behavior. In this Sight|Lines, we review the investment implications of the various outcomes for the U.S. elections.

THE TAKEAWAY: CHANGE MAY BE SLOW, BUT CERTAIN SECTORS ARE IN FOCUS

There are many possible outcomes for the upcoming U.S. elections, with a one-party sweep that includes significant congressional majorities representing the scenarios that would drive the most change. At this point though, these scenarios, especially as they relate to congressional majorities, are not likely. So, we should expect changes in the wake of the 2024 election to be slow moving and the corresponding investment implications somewhat limited. In summary:

- Each year is different when it comes to stock market performance, but on average, volatility increases during the months leading up to a presidential election.
- Investors should be ready for increased volatility and maintain a diversified approach.
- Over longer periods, markets are driven by fundamentals like earnings growth, which can be influenced by policy changes.
- Whether it is being "tough on China" or taking an "America First" approach, a company's source of revenue, domestic or international, may influence its performance.
- In the energy sector, the outcome of the election will influence the roles of fossil fuels and alternative energy, at least in the near term.
- The Biden administration increased financial services regulations, an approach that could be amplified under a Harris administration or softened under a Trump one.
- Defense spending will continue regardless of the election results, but perhaps more so under Trump, as compared to Harris.
- Technology will remain in key focus for both administrations, but with regulatory differences.
- Federal deficits will continue, in good part because so much of our government spending is on "autopilot," servicing entitlement programs and the increasing cost of debt.

IN-DEPTH: CHANGE MAY BE SLOW MOVING, BUT CERTAIN SECTORS MAY RESPOND DIFFERENTLY TO POLICY SHIFTS FROM DIFFERENT ELECTION OUTCOMES

With many possible outcomes for the upcoming U.S. elections, a one-party sweep with significant congressional majorities is not likely. So, changes in the wake of the 2024 election may be slow moving but still worth considering when it comes to market and investment implications. Going deeper:

- The stock market performance in each calendar year is different, but elections can matter:
    - In 2024, optimism around artificial intelligence has driven markets higher.
    - But, on average, market volatility, as measured by the VIX Index, has been 14% higher in the fourth quarter of a presidential election year.
    - Investors should be ready for increased volatility, staying diversified.
- Longer term, markets are driven by fundamentals (e.g., earnings growth) and policy matters.
- Another Trump administration would be “tough on China” and take an “America First” approach:
    - Companies with significant offshore revenues, especially from China, may be impacted.
    - It’s estimated that 7.5% of the revenue of S&P 500 companies is from China.
- We see an energy sector shift, one way or the other:
    - Under Trump, traditional energy companies may benefit, while alternative energy companies may come under pressure.
    - In contrast, Harris may “double down” on renewable energy and clean technology while increasing hurdles for fossil fuel companies.
- We also see a shift in the financials sector:
    - The Biden administration increased financial services regulations in agencies like the FTC, IRS, and SEC, and Harris could continue this approach, for example, higher bank capital requirements.
    - Trump, on the other hand, would likely seek to reverse financial services regulations.
- Defense spending will continue going forward:
    - Under Harris, we expect limited increases and an effort to cultivate NATO relationships.
    - Under Trump, we may see increased spending to further strengthen our military, while at the same time calling again on other NATO members to contribute more.
- Technology will remain in key focus for either administration:
    - Under Trump, we would expect fewer regulations and fewer limits on mergers and acquisition (M&A) activities.
    - Under Harris, we would expect continued M&A scrutiny and increased regulations, perhaps including an initial attempt to regulate artificial intelligence.
- Federal deficits will continue, with much federal government spending on “autopilot”:
    - Entitlement programs and the cost of debt make up about 71% of our spending.

CONCLUSION

The 2024 U.S. elections are approaching, and last week we reviewed the platform and policy implications of possible outcomes. Of course, such policy changes in the wake of these elections will influence market behavior, and as investors we’ll continue to evaluate and monitor election scenarios, evolving candidate platforms, and the investment implications. We also invite you to watch the replay of our recent client webinar on the topic.

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