

Capital market views: 2024 election implications

Key takeaways

- We remain optimistic about diversified portfolios and their prospects.
- We share a framework to help contextualize the current news flow with information still emerging about election outcomes and potential policies.
- Having a financial plan centered on your unique situation remains a core tenet of our process.

With former President Donald Trump reclaiming the White House, the Senate moving to a Republican majority with a margin to be determined by uncalled races and the House showing Republican advances, capital markets will continue to absorb results with a strong push to the political right. As we have shared since our political analysis began, elections contain many important considerations, but economic growth, inflation and central bank policies drive asset prices more than presidential and congressional election outcomes.

We retain our glass half-full perspective for diversified portfolios, viewing the corporate profit cycle as positive and intact thanks to ongoing consumer spending, albeit at a more measured pace as the labor market cools. Additionally, companies continue to feature positive fundamentals, including strong balance sheets and ample liquidity.

We use several variables to gauge both macroeconomic and market conditions, which suggest positive momentum will continue for traditionally risky asset classes. The bond picture remains slightly more complicated based on potential policy dynamics and inflationary pressures. With Senate majorities and House outcomes still to be determined and cabinet members yet to be selected, among other outstanding questions, policy implications will unfold over the next few months and impact asset prices.

We employ a two-phase framework to help clients digest market implications: Phase one represents the immediate market reaction, and phase two represents the more gradual policy absorption that materializes following policy agenda clarity, including what can be accomplished via executive order versus legislative collaboration and other considerations. In assessing phase one, initial capital market reactions include higher domestic equity prices, higher bond yields (which move in the opposite direction of prices), and lower commodity prices, particularly oil, natural gas and other hydrocarbons. A further drill-down shows a stronger U.S. dollar against most major currencies (including a 2% gain for the dollar versus the euro, 1.7% versus the yen and 2.5% versus the Mexican peso), equity strength for small-company stocks and the Energy and Financial sectors, and notable overnight weakness in Hong Kong and Chinese stocks.

The phase one, immediate market reaction is consistent with consensus expectations for either a mixed election outcome with Trump winning the presidency or a Republican sweep. Like most market reactions to breaking news, some of the resultant price moves are a function of how investors were positioned before the news broke, some reflect shorter-term

Decision 2024: Post-election webinar

We invite you to a webinar during which U.S. Bank senior government affairs and investment strategy leaders will consider potential market implications surrounding the outcome of the 2024 election.

Speakers

Eric Freedman
Chief Investment Officer

Kevin Macmillan
Head of Government Relations

Bill Northey
Investment Director

Date: Thursday, November 7

Time: 1:00 p.m. CT

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momentum traders, and some reflect fresh capital taking positions following the news. The 24/7 news cycle cacophony with market heat maps and catchy graphics amplifies the call to action/immediacy of phase one. In this phase, investors can make emotional decisions based on urgency or the oft used phrase “the fear of missing out.” Having a tailored plan in place is the strongest pillar of our client-centric investment process, and plans help mitigate emotional decisions in times like this, so please reengage with your wealth management representative if needed; we are happy to help.

The second phase takes more time to develop, especially in an election’s wake. As of the time of this writing, we do not yet know the size of the Republican Senate majority nor the House of Representatives’ final composition. Those complexions will be key in determining the new administration’s policy agenda and how much can be completed via traditional legislative processes and how much will require executive orders. Two key catalysts will shape policy decisions: First, the debt ceiling, which will be hit on January 1 before the new administration takes office; how Democrats and Republicans interact during the “lame duck” session may be telling. Second, the Tax Cuts and Jobs Act of 2017 includes several corporate and personal tax provisions set to expire on December 31, 2025. A Republican sweep would likely move tax policy changes further up in the agenda, but Democratic House control may push negotiations deeper into the year since tax legislation is initiated in the House. We view tax policy as a key capital market driver and will keep you posted on our views as this issue develops. Again, we would encourage you to engage with your wealth management representative for questions specific to your unique situation.

Foreign policy is another key capital market driver, and trade flows between countries and regions impact corporate profits and inflation. The common narrative associated with a Trump victory and a more right-leaning legislative outcome centers on higher tariffs and potential trade protections. Although executive orders can shape trade policy irrespective of Congressional makeup, campaign trail claims versus administrative realities may diverge. China was a popular target by both former President Trump and Vice President Harris during their time on the stump, but the extent of tariffs by country and magnitude are to be determined and may be influenced by cabinet selections. Further, countries subject to tariffs may have widely different reactions to price changes on their exports, so inflation implications are also to be determined. Other important factors investors we’ll watch include regulation across key sectors including Financials, Technology and Energy, immigration policy and agricultural policy.

As we evaluate the interplay between phase one and phase two and what we will learn about policies and their implications for asset prices, two significant events have our attention beyond the election. The first is central bank policy news following the election. While we anticipate a “wait and see” refrain from most central banks if they discuss the election at all, we will have an update from the Federal Reserve (Fed) on Thursday this week as it concludes its two-day policy meeting. Markets still anticipate two more rate cuts this year from the Fed (0.25% Thursday and another 0.25% on December 18), and most other major central banks have also begun cutting interest rates. We do not anticipate the U.S. election to alter rate-cutting plans in the near term. Should inflationary pressures persist, we may adjust that view in our phase two absorption.

The second significant event is corporate earnings season; companies are currently reporting their third quarter results. We continue to see consumer spending and modest business expansion in select industries driving a positive earnings environment, and we forecast earnings growth of 13% in 2025 following a likely solid 2024 performance. Getting bottom-up perspectives from companies is invaluable, and hearing company outlooks on spending priorities helps shape our views. Buyback and dividend policies can be catalysts for higher stock prices into year-end, although we acknowledge certain segments of the equity market are fully valued at current levels, especially for domestic large-company stocks.

Election outcomes can drive emotions, and the news cycle and length of this election season can exacerbate feelings. Our goal is to provide you with our viewpoints and frameworks to help contextualize the information flow, which surrounds all of us and affects us in unique ways. Having a well-established plan, particular to your situation and dynamic needs, helps offset emotional reactions that can adversely impact your long-term financial health. Please engage with us on how we can help. We appreciate your trust.

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