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The 2024 US Elections and the Markets

In light of the upcoming U.S. elections, we have gathered insights from ABN AMRO Investment Solutions and our U.S.-based Delegates to provide a comprehensive analysis of potential outcomes, possible scenarios and the subsequent implications of the presidential elections.

Pr. Dr. Christophe Boucher
Chief Investment Officer

ABN AMRO Investment Solutions

At present, the outcome of the U.S. presidential election remains highly uncertain, with both candidates neck and neck in the polls. Economically, the primary risks lie in widening fiscal deficit and potential inflationary pressures in the medium term, as both candidates are promoting expensive economic agendas. These risks would be especially heightened in the event of a Trump victory, given that his proposed program is significantly more costly than that of Harris. A 'red wave', more likely than a full Democratic majority given that most of the Senate seats up for re-election are held by Democrat, would also give Trump broader leeway to fully implement his agenda. This could temporarily stimulate consumer spending and economic growth, particularly through tax cuts and deregulation, but would also lead to increased inflationary pressures. Moreover, Trump's proposed tariffs on China (up to 60%) and globally (10% to 20%) could drive inflation, disproportionately affecting lower-income households who rely more on imported goods and significantly impact growth, even before considering possible retaliatory actions.

That said, the election outcome does not represent a major threat to the markets overall. First, regardless of who is elected, it is unlikely that the president will secure a majority in both the Senate and the House of Representatives, which would significantly limit their ability to enact sweeping reforms. As a result, neither Trump's proposed tax cuts nor Harris's proposed corporate tax increases are likely to come to fruition. Historically, while elections may trigger short-term volatility, stock market performance has generally aligned similarly within a few weeks, regardless of which party wins. Ultimately, equity markets are driven by monetary policy and macro- and microeconomic fundamentals and as such, the U.S. election result is unlikely to disrupt the strong drivers—like high productivity and robust consumer spending—currently supporting markets. However, although we do not foresee any systematic risks stemming from the election, we are maintaining a cautious approach, avoiding concentrated positions in specific sectors or styles. The rotation risk remains significant: a Trump victory could benefit value stocks, particularly via energy and defense stocks, whereas a Harris victory might favor growth stocks, especially those tied to renewable energy and large multinational companies with exposure to China.

ARISTOTLE
CAPITAL MANAGEMENT

Catalina Llinas, CFA
Co-Chief Investment Officer

As we approach the U.S. presidential election, clients often inquire about its potential impact on the markets and economy. The U.S. electoral process has built in checks and balances making it very difficult for one person (even the president) from effecting radical change on the system. Change does happen, but very slowly and over long periods of time. As such, while elections naturally generate uncertainty, our investment approach is grounded in the belief that predicting short-term outcomes—whether political, economic, or market-related—is speculative at best. Even if one were to predict the election winner, understanding the extent of future policy changes, and their effects, remains highly uncertain.

At Aristotle, we focus instead on identifying and owning high-quality businesses that exhibit strong fundamentals and long-term value. These companies tend to possess robust management teams capable of navigating a wide range of economic and political environments. We believe that in times of uncertainty—whether driven by elections or other macroeconomic events—such businesses can be well-positioned to outperform their competitors due to their resilience and adaptability. Our role is to ensure we invest in management teams with a proven ability to adapt to shifting regulatory and economic landscapes and lead their business through full cycles (including times of adversity). This long-term, quality-driven focus remains the cornerstone of our approach, irrespective of the headlines of the day.

Boston Common
Asset Management

Geeta Aiyer, CFA
President & Lead Portfolio Manager

We are entering a consequential period on the US political calendar with elections for Congress, the President, and select Senate seats. At this time, the US economy is on a path of moderating yet maintaining growth, with inflation continuing to decline. The Federal Reserve has begun recalibrating monetary policy with the first interest rate cut in September. Equity markets have broadened beyond the narrow group of largest names, and we view this time of innovation and dynamism as opportune to add value through stock selection as an active manager. Against this backdrop, we see the upcoming elections as potentially increasing volatility and risk premia in the near term. Still, the longer-term opportunity for US-centric valuation-focused portfolios remains.

The presidential election is closely contested, and investors have assessed several potential scenarios. It is possible that no clear winner will be declared in November because the vote count is too close or the outcome is contested. This would create a period of flux in the markets as legal processes play out. Another potential outcome is a divided vote, i.e., the same party does not win the Presidency and control of the Senate and the House. A divided government would limit the policy actions that can go forward. In contrast, a "sweep" where the same party wins all three - Presidency, Senate, and House - would enable the most impactful policy outcomes.

This election has the potential for significant policy change on fiscal, labor, and trade matters. Both parties have proposed potentially inflationary plans for tariffs, and fiscal primacy appears likely to continue, along with larger deficits. The most extreme versions of policy proposals on trade, labor, and immigration could challenge economic growth and social cohesion, creating winners and losers among sectors and companies.

Our approach remains grounded in bottom-up stock selection, building diversified portfolios of undervalued, quality companies with multiple catalysts for re-rating. We are investing dynamically in areas of resilient demand with strong management teams. We favor less well-known innovative companies that help customers achieve profitable growth, even as costs could rise. Our experienced team has successfully managed through many market environments, and we are ready to navigate this election cycle, addressing short-term concerns while seeking longer-term opportunity.

Boston Trust Walden
Principled Investing.

Stephen J. Amyouny, CFA
Chief Investment Officer

The US Presidential election is rapidly approaching, and consistent with past experiences, market volatility has increased due to the uncertain outcome of the race for the White House. Undoubtedly, who emerges victorious is important on many fronts, but the markets' focus, and ours here, is on the financial and economic implications. Tax policy is a primary issue at play for investors. The 2017 Tax Cuts and Jobs Act has several personal income tax provisions that are set to expire at the end of 2025, including lowered income tax rates, higher standard deductions and Federal estate tax exclusions, and the cap on state and local tax (SALT) deductions, among others. This issue will have implications for consumer confidence and disposable income, both of which could ultimately impact consumer spending which represents nearly 70% of US GDP. It will require an act of Congress for any or all of these to continue past 2025; thus, control of the legislature, from the perspective of tax policy, is just as important as the White House. Importantly, one tax provision that won't be expiring is the corporate rate, which was lowered to 21% in the same law. Such relative permanence provides a measure of stability within the outlook for corporate profits. In addition to tax policy, both Presidential candidates have laid out plans that involve higher government spending. While these expansionary plans are popular with American voters and could provide an economic boost in the short term, they raise the potential for higher inflation in the future. Any significant changes to tax policy and federal budgeting broadly will hinge on whether either party is able to sweep the House, Senate, and White House; currently, most polls indicate that this scenario is unlikely.

In terms of portfolio repositioning, we have not made any changes in anticipation of the outcome of these elections. While the ultimate outcome could impact certain industries, e.g., energy and healthcare, and could have global trade implications (e.g. higher tariffs), we believe that it is premature to speculate on the winners and losers from this election. Our long-term investment discipline of investing in higher quality companies with sustainable business models and attractive valuations has allowed us to navigate through uncertain environments well, and thus, we remain confident in our ability to produce attractive risk-adjusted returns, regardless of the outcome of the Presidential election.

PARNASSUS INVESTMENTS®

Todd C. Ahlsten
Chief Investment Officer &
Lead Portfolio Manager

The best outcome for markets will be to have a clear and decisive winner. Markets (and private citizens) like clarity and markets experience volatility when there is uncertainty. Beyond that, and despite campaign trail differences, the important point is that the policies being proposed by both presidential candidates are likely to pursue expansionary fiscal policies. With a potentially split Congress, sweeping changes may be limited, but both candidates are expressing a willingness to maintain high government spending and deficits. While this could provide a short-term economic boost, it raises long-term inflation concerns. Both candidates are offering policies that sound appealing to voters, like housing assistance or lowering taxes, but we remain watchful that they could have unintended inflationary consequences if not carefully implemented.

While there may be some short-term reactions to certain stocks, the opportunities to invest in great, innovative American companies will persist regardless of who wins the U.S. Presidential elections. As an investment firm, we focus on a high-quality, durable companies with long-term competitive advantages. Some of our companies have been held through multiple Presidential and congressional regime changes - for example, Linde, a supplier and distributor of industrial gases that holds long-term contracts with its customers that far surpass election cycles. We continue to be bullish on US stocks and the overall resiliency of the US economy.