

The US Election Effect



20th August 2024

In 1886, the Liberal politician Joseph Chamberlain is recorded as having said: "In politics, there is no use in looking beyond the next fortnight." As America heads to the ballot box in November, that premise has become strikingly relevant.

The 2024 US election cycle has been fraught with uncertainty and surprising turns, with Joe Biden dropping out of the race and an assassination attempt on Donald Trump that has shaken the nation. As voters prepare to head to the polls, they will be making critical decisions not just for the White House, but for the balance of power in Congress as well.

The outcome may have significant implications for the economic and policy direction of the country in the coming years. But amid the political theatre, it's easy to get caught up in the excitement (or anxiety) about what the results could mean. Will the outcome matter for financial markets?

From a policy perspective, a Democrat win would bring a continuation of the current Biden administration. This would likely include economic policies aimed at supporting the middle class through expanded social programs, progressive taxation, and increased government spending in areas like infrastructure and clean energy.

Regulatory oversight, particularly in finance, technology, and healthcare, could remain stringent, with a continued focus on consumer protection and environmental regulations. Given Kamala Harris' late entry into the race, greater detail of her priorities will emerge over time.

On the other hand, a sweeping Republican victory, particularly if it leads to a return to Trump-era policies, would likely bring a significant shift in direction. The US might follow a more isolationist approach to foreign policy, focusing on "America First" principles. This could involve renegotiating trade deals, extending tariffs on imports to protect domestic industries, and reducing US involvement in international organisations.

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Of his known policies, Trump's anti-immigration, pro-tariff stance is expected to have the most significant impact on the US economy. The former president has indicated these flagship proposals will be enacted within weeks of taking office. The broad consensus is that deporting large numbers of workers and taxing imports will push up inflation and drag on growth. Bloomberg modelling suggests Trump's plans would leave inflation 2.5% higher and GDP 0.5% lower after two years. However, the extent of the impact is difficult to gauge in the context of other fiscal measures that might be taken – by the US, or by its trading partners. Government deficits are likely to rise further regardless of who wins the US election; a split government could heighten the risk of a debt ceiling impasse and a further credit rating downgrade. Meanwhile, after promises of tax cuts and spending packages, neither side has answered the question of fiscal sustainability.

It's important to remember that financial markets, by their very nature, tend to be nonpartisan. While the policy platforms of political candidates can certainly impact sectors or industries, markets overall care much more about economic fundamentals, growth forecasts, and corporate earnings than they do about the party affiliation of those in power.

Even then, it's not safe to assume that certain sectors will thrive or struggle based on the political party in power. Despite campaign promises and policy platforms, the actual market outcomes can differ significantly from expectations. The data backs this up, showing there are no clear patterns in sector returns during election years, nor in the years after.

For instance, the clean energy sector might be expected to flourish under a Democratic

administration and falter under a Republican one. However, recent history shows a different trend. During the previous Trump administration, clean energy companies outperformed while fossil fuel companies lagged. Conversely, under the Biden administration, fossil fuel companies have generally outperformed clean energy companies.

This pattern is the opposite of what one might predict based on party lines, illustrating an important reality of markets: perfectly logical hypotheses are frequently upended by unexpected variables later down the line.

History has shown that stock market performance has been strong under both Democratic and Republican administrations over the long run. Rather than make big bets based on election outcomes, staying the course through the inevitable ups and downs of the market is a far more reliable path to long-term wealth creation. The unpredictability of future events, from geopolitical shocks to unforeseen crises, means no one can accurately forecast how markets will react to a given election result, let alone over which timescale.

So, our message is simple. Unlike politics, with investing it's always worth looking beyond the next fortnight. Stay disciplined, diversified, and focused on your long-term financial goals – regardless of which party or candidate prevails on 5th November.

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This document does not constitute advice.

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Source: Oxford Dictionary of Quotations, 2009. Bloomberg, April 2024. Edison Wealth Management, 2024.

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