On The Mark

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Election Day 2024 – Divided We Stand

Key Takeaways

- The presidential election will likely come down to the wire. However, dramatic changes to policy are unlikely because we'll probably have a split congress.
- Gridlock in Washington has historically prevented policy swings from getting too extreme, aiding market performance.
- Markets are driven more by economic growth, inflation, and interest rates, and less by politics. We encourage investors to stay invested through the election process.

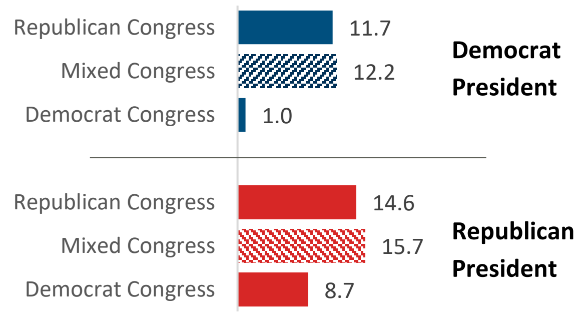
Policy Certainty?

Election day is almost upon us in what could be one of the closest elections in U.S. history. Most polls show Trump and Harris in a dead heat or a slight difference, well within the margin of error. However, because it is unlikely we'll get a red or blue sweep (i.e., one party in the White House, Senate, and House), changes to policies will likely be modest. This adds a bit of policy certainty in a very uncertain election.

When examining the candidates' policies from an economic perspective – considering tax, trade, immigration, and fiscal spending – we find that both candidates have policy positions that may offset their impacts on economic growth. While we don't know the ultimate form of each policy after going through a potentially mixed congress, we do have an idea of the directional impact on growth. Trump's pro-growth tax policies may be offset by anti-growth immigration and tariff policies. Harris' pro-growth middle-class tax cuts may be offset by higher corporate taxes. Disappointingly, neither candidate has said much about reducing our national debt.

Some might consider the lack of strong policy changes as a weakness, but history shows that gridlock is actually good for markets. In the chart below, we show the historical performance of the S&P 500 in several scenarios. The top half of the chart shows equity market performance during periods with a Democratic President. You can see that equity markets perform strongest when a Democratic president is paired with a mixed congress.

S&P 500 Performance During Political Regimes



Source: Bloomberg and Congress.gov

The bottom half of the chart shows equity market performance during periods with a Republican president. Again, you can see that equity markets perform strongest when a Republican president is paired with a mixed congress. Markets don't like uncertainty, and for better or worse, gridlock in Washington means less uncertainly.

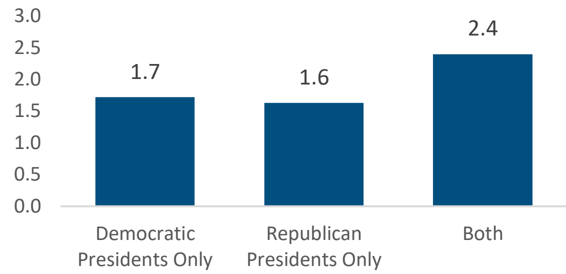
What Investors Should Do

Understandably, some investors may be tempted to change their portfolios due to the election outcome. However, we encourage investors to remain invested, regardless of who wins the White House.

The chart to the right shows the growth of a hypothetical one-million-dollar portfolio over the last ten years in three scenarios. The first scenario (Democratic Presidents Only) invests in a balanced portfolio (60% S&P 500 and 40% Bloomberg Aggregate Bond Index) only during periods with a Democratic president and invests in cash during periods with a Republican president.

The second scenario (Republican Presidents Only) invests in the 60/40 portfolio only during periods with a Republican president and invests in cash during periods with a Democratic president. The third scenario invests in the 60/40 portfolio during the entire decade, irrespective of which party is in the White House.

Growth of Hypothetical $1M Portfolio



Source: Bloomberg

This chart provides two key takeaways. First, the hypothetical value of the “Democrat Presidents Only” and “Republican Presidents Only” portfolios is very similar. Second (and more importantly), the hypothetical portfolio, which stays invested throughout the entire decade irrespective of who is in the White House, dramatically outperforms the other two portfolios.

Over the long term, markets are driven more by economic growth, inflation, and interest rates and less by politics. We encourage investors to resist the temptation to change their investment portfolios due to election results and instead stay invested throughout the election process.

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