

Clarity 11.08.2024

Markets have roared to new highs in the days following the election. Donald Trump won the Presidency, while the Republicans have flipped the Senate and appear to be on track to retain control of the House of Representatives. The early reaction from the stock market has been overwhelmingly positive, with the S&P 500 up 3.7% and the Dow up 4% from Tuesday's close. Additionally, the Federal Reserve provided additional support by cutting interest rates by 0.25%. The foundation for stocks remains solid.

Above all, markets dislike uncertainty; with the election behind us, that uncertainty has been resolved. We now have a clearer picture of what the government will look like in 2025. Companies waiting for the results to make decisions can now get back to business as usual. Investor angst about what may or may not happen is gone, bringing more money into the market.

The market's trend before the election is also important for future performance. The S&P 500 was in a firm uptrend heading into the election. Historically, when the market is up before an election, the average return over the next six months is 7%. If the market is down before an election, the average return is -0.1%. This suggests good news for stocks in the coming months.

Tax increases are also unlikely to materialize if Republicans maintain control. Over \$4 trillion in tax cuts are set to expire in 2024. With Republican control, it is more likely that most of these tax cuts will be extended. Not only that, but taxes may ultimately decrease. This would benefit corporate earnings, which is favorable for the market.

At the Fed, a November rate cut proceeded as expected. In the committee's judgment, interest rates are still too high for the current level of inflation. However, the economy's relative strength and a potential change in consumer sentiment after the election should be considered. Future rate cuts are now less likely. The Fed should be careful not to reignite inflation by cutting rates too much too soon.

At the sector and stock level, the winners and losers of the election are becoming clear. In 2016, stocks that rose immediately after the election generally performed well over the next six months. We do not make major changes to our strategies based solely on politics. Our portfolios include companies with a demonstrated history of performing well under all types of administrations. However, we will look to take advantage of the policies we believe are most likely to be implemented. It is certainly a stock picker's market.

Thanks,
Preston May, CBE®
Research Analyst

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S&P 500: Standard & Poor's (S&P) 500 Index. The S&P 500 Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries.