# Election 2024: The Day After

November 6, 2024

**Larry Adam, CFA,** *Chief Investment Officer*

*With election day now in the rearview mirror, we have a very good idea of the results. And while we recognize that politics can be emotional, it is our job to provide independent analysis as to how the outcome can impact the economy and the financial markets. Below we provide our thoughts and insights as to what we can expect going forward.*

**Introduction: An Unprecedented and Unpredictable Election**

This election season has been through many twists and turns. But the results, for the most part, are known—former President Trump decisively won a second term in the White House, winning at least 291 electoral college votes (AZ, and NV are still counting their votes) and is likely to become the first Republican candidate to win the popular vote since 2004. As for Congress, Republicans flipped the Senate, garnering at least 52 seats, with three races still too close to call. The House is still up for grabs, but the 'betting markets' give the Republicans a slight advantage to narrowly hold control (by as little as one vote). As a result, a surprise Republican sweep may be the outcome.

Right down to the end, this election has truly been unprecedented. Here are a few examples:

- The first sitting President to drop out since 1969
- The first time control of the White House switched three consecutive elections since 1896
- Largest amount of money spent on an election ($16 billion) in history
- Two assassination attempts on a presidential candidate
- The smallest swing in polling in the final two months in at least 20 years
- The second largest turnout of any election dating back to 1900
- The best three-month equity performance leading into the election since 1928
- First president to win a non-consecutive term since 1892 (Grover Cleveland)
- First Republican to win the popular vote in 20 years

While many pundits will opine on how impactful this election will be on the economy and markets, history tells us otherwise. The outcome of the race and the policy ramifications will have a marginal impact on the economy and markets, but it is imperative to take stock of where we are currently from a fundamental perspective.

**The Trump Impact on Our Views in The Near Term**

Now that the outcome is known, the market's focus will shift to what Trump can get done. As he is technically a 'lame duck' president in his second term, he will likely act aggressively to accomplish his priorities. His immediate priorities will be as follows:

**Policies Implemented By Executive Order (No Congress Approval Needed)**:

1. ***Trade/Tariffs* |** Tariffs have been a key part of the Trump agenda and the negotiations should start quickly once Trump gets into office as the president can unilaterally impose tariffs via an executive order. His immediate focus will likely be on China, Mexico (China's backdoor into the US), and Europe. The biggest question will be the timing and magnitude of the implementation of these tariffs. While tariffs will likely have a negative impact on both consumer spending (due to rising prices) and inflation, the headline risk may be overblown. For spending, businesses have highlighted over recent months that they are losing pricing power—so they may not be able to pass along all of the costs to consumers, which should depress the impact on the consumer. For inflation, any negative growth-related impact from tariffs should help to dampen the inflationary impact and limit the rise in prices. In addition, lower energy prices (from more US production) and a stronger dollar (which makes imports less expensive) could offset some of the inflationary impacts of tariffs. Anecdotally, Biden increased tariffs on imports from China this past spring and import prices for Chinese goods prices are still deflating. This is a net negative for companies that have China exposure, particularly consumer-related and industrial companies that import from China.
2. ***Immigration* |** Securing the border is a top priority for Trump. Trump has promised to crack down on illegal immigration, which he has the power to do through executive order. The concern: less immigration could lead to higher labor costs (which are typically 70% of the costs of doing business). There is no doubt that a smaller labor supply has historically led to higher wage growth. However, in an environment of a weakening labor market (the number of job openings has fallen from 12.2M to 7.4M), a slowdown in immigration may not make as much of an impact. This could be a net negative for companies reliant on inexpensive labor, particularly in consumer-related services companies.
3. ***Less Regulation* |** Trump will look to roll back burdensome regulations. That means we should see less regulation on some key sectors, such as Financials, Health Care, and Energy. This should be supportive of economic growth, boost energy production, and boost investment and M&A activity. This is a net positive for the Financials, Health Care, and Energy sectors.

**Policies Implemented by Congressional Approval**

1. ***Taxes* |** The 2017 tax cuts, which included cuts to individual taxes for a limited period, are set to expire at the end of 2025. If Republicans do take control of the House (i.e., a sweep), Republicans will likely look to extend the tax cuts early next year. However, if Democrats flip the House (albeit with a slim majority), there would likely be negotiations that would ultimately end with an extension of most tax cuts which would probably occur later next year. While Trump has called for a further slash in the corporate tax rate to 15%, we find this to be unlikely as there will be reduced appetite for further spending in an environment of burgeoning national debt and record interest payments on that debt. This is a net positive for consumer-related companies as consumer sentiment improves with greater certainty and that helps drive sales.

2. ***Debt Ceiling* |** The debt ceiling limit is scheduled to be reinstated on January 2. Unless a decision to raise it above the current level (~$36 Trillion) is made before inauguration day (highly unlikely), the new Trump administration may not be able to issue any new debt. With the debt and deficits a key focus for the financial markets, the Treasury Department will then immediately start drawing down its existing cash balance to meet its daily obligations. Contrary to popular belief, which is acutely focused on an abundance of new Treasury supply to cover the government's fiscal largesse, this could be a near-term positive for the Treasury market as the Treasury Department will not be able to issue any new debt until the debt ceiling limit is lifted. This could last until July or August. If the Democrats have control of the House or if fiscally conservative Republicans want to send a message, they could use brinkmanship and government shutdown risks and not vote to raise the debt limit, which would lead to a temporary rise in volatility.

**How Will Trump Impact the Economy?**

A Trump victory increases our confidence in a soft landing as the business and consumer uncertainty that existed ahead of the election has hopefully been lifted. In addition, Trump's pro-growth initiatives (i.e., a continuation of the 2017 tax cuts, a focus on increased energy production, and a potential rollback of regulatory burdens and potentially the corporate tax rate) combined with further Fed rate cuts (we still expect the Fed to cut rates tomorrow and continue into next year) and government spending (e.g., Inflation Reduction Act, CHIPS Act, etc.) should continue to support growth. The biggest wildcard: tariffs. However, outside of China, we believe it will be some time before these tariffs are implemented (if they are implemented). Bottom Line: President Trump has one term left and is likely to do what he can to keep economic growth healthy.

**What is the Outlook for the Equity Market, and Which Sectors Stand to Benefit?**

We caution investors not to make investment decisions based on the occupant of the White House or the composition of Congress, as the equity market has consistently moved higher over the long term regardless of which party is in power and if it was a unified or split Congress. The reason: fundamentals, such as the underlying strength of the economy, the direction of earnings, monetary policy, and valuations are far bigger drivers of the equity market, than politics. While we are cautious in the near term due to elevated valuations and investor over-optimism, we remain optimistic longer term, for five key reasons:

1. Rate cuts in a no-recession environment have been supportive of the equity market
2. Corporate fundamentals remain on solid footing—earnings growth of ~8-10% in 2025
3. Inflation remains between 2-3%, which has historically been the sweet spot for valuations
4. Investors hold a record amount of cash in money market accounts
5. Businesses continue to enact shareholder-friendly actions such as dividends and buybacks

Caution: while many pundits will suggest that a Trump presidency will positively or negatively impact certain industries, we would take those thoughts with a grain of salt. Yes, there are marginal impacts to select industries, but it would have to have a meaningful impact on its earnings to cause us to upgrade or downgrade our view on the sector.

- ***Financials* |** The sector will likely be the largest beneficiary of President Trump's victory as his push for deregulation would result in fewer M&A hurdles and looser capital requirements supporting investment banking revenue and loan growth at the banks, respectively. As a result, the Financials sector is on pace to post its best day since November 2022. However, a less aggressive Federal Reserve (Fed) not taking interest rates lower (if inflationary pressures build) or a slowing economy would impair this economically sensitive sector.
- ***Small Cap* |** A focus on domestically sourced goods would be a benefit to small-cap equities as they are more insulated from international trade wars and could be privy to further tax cuts. Deregulation would also benefit these companies. As a result, small-cap equities are on pace to post their best daily performance since 2022. However, if interest rates remain higher for longer, this would pose a headwind for small caps given their debt financing needs. Given the Fed easing cycle and resurgence in small-cap equity earnings, we favor small-cap stocks.
- ***US over International* |** From a global perspective, Trump's protectionist policies are favorable for US equities relative to International with particular risk to Chinese equities given Trump's hawkish views on China. This trend has been in place throughout the last two administrations and is likely why Chinese equities trade at a significant discount. We remain 'neutral' on Chinese equities.
- ***India* |** The country is likely to emerge as a beneficiary of reconfigured supply chains and heightened tensions between the US and China. Again, this trend has been in place and a reason we continue to favor Indian equities.

The bottom line: while politics can drive headlines, fundamentals drive the equity market longer term. And regardless of which party wins the White House, history has shown that the equity market climbs ~9% on average in the 12 months following the election. With the positive fundamental backdrop (i.e., solid economic and earnings growth), the bull market should continue and drive the equity market higher over the next 12-24 months. However, as a third year of a bull market typically sees lower returns on average relative to years one and two, future gains will likely be more muted.

**Why Are Interest Rates Moving Higher?**

The combination of rising debt (the cumulative impact of running budget deficits) and higher interest rates (which pushes up the cost to service the debt) has put the US fiscal outlook on an unsustainable path. While these are known knowns—it does raise the question of when will the deteriorating fiscal outlook become a problem for the market?

Neither candidate (or those that came before them) has shown any credible plan or desire to tackle the deteriorating fiscal outlook. That means that with every passing day, the nation is getting closer to the time when it could become problematic. While we are sympathetic to these concerns, particularly as trillion-dollar deficits are forecasted over the next decade, we do not think the Treasury market is on the cusp of a 'crisis' for the following reasons:

1. **The Debt/Deficit Has Not Impacted Market Performance**—there is no statistically significant correlation between rising debt/deficits and market performance. High and rising debt has not been a drag on stock or bond performance.

2. **Other Developed Nations (e.g., Japan) Have Significantly Higher Debt Than The US**—in fact, Japan's debt/gdp is nearly double (>200% of GDP vs. 98% for the US) the debt/gdp of the US and yet, interest rates remained historically low. This suggests that a 'tipping point' for when it becomes problematic for the markets is likely much higher than where we stand today.
3. **The US Benefits From Its Role As The World's Reserve Currency**—this benefit allows the US government to borrow at favorable rates from the rest of the world and is unlikely to change anytime in the near future.
4. **Buyer Demand For US Treasurys Remains Healthy**—Despite all the concerns, the bid-to-cover ratios at Treasury auctions remain healthy—suggesting the market remains willing to purchase US government debt. Contrary to media concerns, a buyers' strike is unlikely.
5. **The Fed Has More Tools In Its Tool Box**—Since the Great Financial Crisis, the Fed has more tools to maintain market stability in the event of a crisis. While the Fed may be less likely to accommodate the government's fiscal profligacy, it would step in if financial stability was threatened.

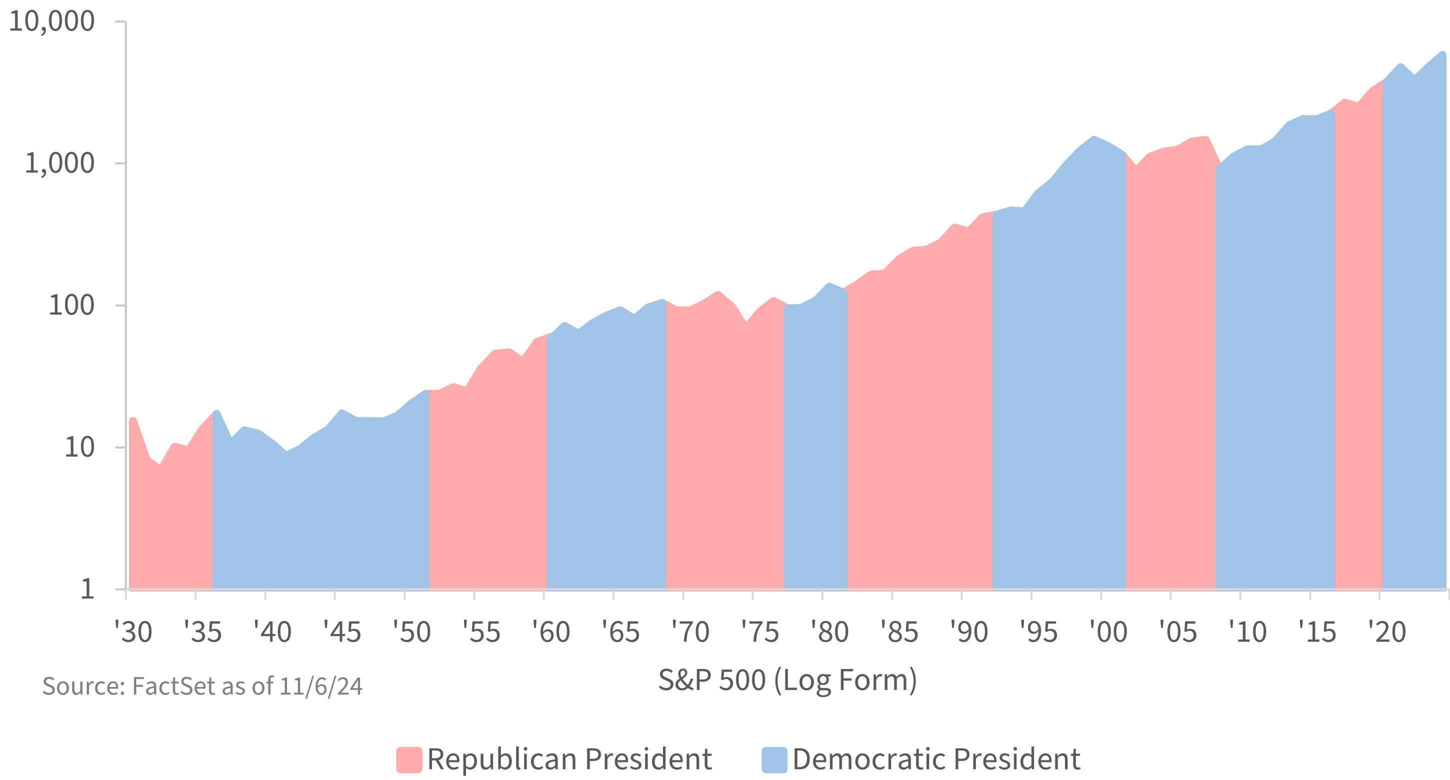
However, we recognize that the US government's debt/deficit trajectory is likely to remain a key worry and the reason bond volatility is likely to remain elevated and prone to interim spikes. These dynamics should exert some upward pressure on longer-maturity yields with a bias for the yield curve to steepen from time to time.

What would make us more concerned? First, further downgrades from the credit rating agencies. Second, capital flight away from US financial assets (stocks and bonds), including the US dollar. And finally, a bid-to-cover ratios that falls below 2—suggesting demand for US Treasurys is waning. But these do not appear to be a major risk near term.

**What will happen to the US dollar?**

Looking back at history, the US dollar has had mixed reactions post-presidential elections. However, during the last two elections, the dollar rallied over 3% in the weeks following Trump's surprise victory in 2016 and weakened by a similar magnitude in 2020. While politics may have played a role, it is important to remember that the macro backdrop was likely the bigger driver. For example, in 2016 the Fed had resumed its tightening cycle as economic growth was picking up. In 2020, the dollar weakened as risk appetite rebounded sharply following the COVID-19 vaccine announcement. And with recent economic data suggesting the US economy is on track for a soft landing while the rest of the world struggles, the balance of risks is tilted toward the US dollar maintaining its strength for a while longer—although the upside should be limited given the dollar's current high valuation.

**Equity Market Has Moved Higher Regardless of Which Party Is in Office**




Source: FactSet as of 11/6/24

All expressions of opinion reflect the judgment of the author(s) and the Investment Strategy Group, but not necessarily those of Raymond James & Associates, and are subject to change. This information should not be construed as a recommendation. The foregoing content is subject to change at any time without notice. Content provided herein is for informational purposes only. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. Economic and market conditions are subject to change. Investing involves risks including the possible loss of capital. Material is provided for informational purposes only and does not constitute a recommendation. Diversification and asset allocation do not ensure a profit or protect against a loss. Past performance my not be indicative of future results.

The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Diversification and asset allocation do not ensure a profit or protect against a loss.

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets including India.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

The Consumer Price Index (CPI) | is a measure of inflation compiled by the US bureau of Labor Studies.

Personal Consumption Expenditure Price Index | The PCE is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services.

DESIGNATIONS
CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

FIXED INCOME DEFINITION
AGGREGATE BOND | Bloomberg US Agg Bond Total Return Index: The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | Bloomberg US Corporate High Yield Total Return Index: The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

S&P 500 | The S&P  Total Return Index: The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

KBW REGIONAL BANKING INDEX | The KBW Regional Banking Index is a benchmark stock index for the regional banking sector representing small to medium U.S. national regional banks.

RUSSELL 2000 INDEX | The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index.

NFIB SMALL BUSINESS OPTIMISIM INDEX | A composite of ten seasonally adjusted components, providing an indication of the health of small businesses in the US.

INTERNATIONAL DISCLOSURES FOR CLIENTS IN THE UNITED KINGDOM | For clients of Raymond James Financial International Limited (RJFI): This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counter parties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (high net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended)or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is, therefore, not intended for private individuals or those who would be classified as Retail Clients.

Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

FOR CLIENTS OF RAYMOND JAMES INVESTMENT SERVICES, LTD.: This document is for the use of professional investment advisers and managers and is not intended for use by clients.

FOR CLIENTS IN FRANCE | This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in “Code Monetaire et Financier” and Reglement General de l’Autorite des marches Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not berelied upon by such persons and is, therefore, not intended for privateindividuals or those who would be classified as Retail Clients.

FOR CLIENTS OF RAYMOND JAMES EURO EQUITIES | Raymond James Euro Equities is authorised and regulated by the Autorite de Controle Prudentiel et de Resolution and the Autorite des Marches Financiers.

FOR INSTITUTIONAL CLIENTS IN THE EUROPEAN ECONOMIC AREA (EE) OUTSIDE OF THE UNITED KINGDOM | This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

FOR CANADIAN CLIENTS | This document is not prepared subject to Canadian disclosure requirements, unless a Canadian has contributed to the content of the document. In the case where there is Canadian contribution, the document meets all applicable IIROC disclosure requirements.

Source: FactSet, as of 11/6/2024

RAYMOND JAMES

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER

880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // TOLL-FREE: 800.248.8863 // RAYMONDJAMES.COM