



2024 election and the markets

Insights

Contributed by:

Eric Freedman
Chief Investment
Officer

Kevin MacMillan
Head of Government
Relations

Rob Haworth
Senior Investment
Strategy Director

Tom Hainlin
National Investment
Strategist

Key takeaways

- Overall, we foresee minimal medium- to long-term impact on financial market performance based on potential upcoming election outcomes.
- Economic and inflation trends have demonstrated a stronger and more consistent relationship with market returns than election results.
- Significant policy changes require one party to control two parts of the government, though the capital market impact will most likely take place at the sector level, not necessarily at the broad market level.

2024 election – an unprecedented setup

On Tuesday, November 5, 2024, Americans will vote in a national election that will determine control of Congress and the White House. The election will shape the course of domestic and foreign policy until 2026's Congressional midterm elections. With the 2024 election nearly a year away, the political dynamics will remain fluid with the two major parties still to elect their respective presidential and Congressional nominees and flesh out their major policy agenda proposals.

President Joe Biden currently leads three other candidates with more than 70% of the expected vote for the Democratic nomination, according to RealClear Politics.¹ Meanwhile, former President Donald Trump leads his nearest Republican challenger, Florida governor Ron DeSantis, by 61.3% to 13.8%.² Adding to the charged political environment, former President Trump is facing four separate indictments, two for allegedly violating state laws in New York and Georgia, and two for alleged federal infractions in Florida and

Washington, D.C. Donald Trump is the first former president in U.S. history to be charged with either federal or state crimes, and New York, Florida, and Washington, D.C., have set trial dates in 2024 prior to the election, while Georgia prosecutors have proposed an August 2024 trial date. Further complicating the election scenarios, Robert F. Kennedy, Jr., President Biden's former challenger, dropped his bid for the Democratic nomination and announced his candidacy as an Independent on October 9, 2023.

In a hypothetical head-to-head election rematch, former President Trump holds a slight advantage over President Biden, 47.1% to 45.2%, according to Real Clear Politics.³ Prediction⁴ markets provide a slightly differentiated read on the election than polls, because participants in prediction markets may account for polling limitations when making their bets. One such market, PredictIt, indicates a slight edge to former President Trump, 40% to 36%.⁵ With 12 months' lead time prior to next year's election and four unprecedented indictments to navigate, national polling results

Investment products and services are:

NOT A DEPOSIT • NOT FDIC INSURED • MAY LOSE VALUE • NOT BANK GUARANTEED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

and prediction market prediction odds will undoubtedly be dynamic as the major parties work through their nomination processes (and courts work through their legal processes).

To win the White House a candidate does not need to win the national vote; rather, they must receive at least 270 electoral votes from the U.S. Electoral College. Voters in roughly eight swing states or battleground states will have an outsized influence in deciding the election, and voting history in these states has moved back and forth between the two national parties since 2012. Swing states include Arizona, Florida, Georgia, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin. In the 2016 election, former President Donald Trump won all eight swing states in defeating Democratic candidate former Senator Hillary Clinton, while in 2020 President Biden won five of the eight (Arizona, Georgia, Michigan, Pennsylvania and Wisconsin).

Overall, we foresee minimal medium- to long-term broad financial market performance impact based on the election outcomes. We base that judgement on observing historical market performance following presidential elections. Our proprietary work shows economic growth and inflation trends have a stronger, statistically significant relationship with forward market returns than election results, suggesting the forward path for the economy and the outcome of the Federal Reserve's (Fed) effort to tame inflation through its rate hiking campaign is more consequential to investors than the eventual constellation of White House, Senate, and House of Representatives political control.

Historical election outcome scenarios and market performance

We begin our historical statistical analysis in 1948, at the beginning of the post-World War II economy. We identify six major election outcomes (Republican control, Democratic control, and various divided outcomes) and observed average equity market performance as measured by the S&P 500 Index, a widely recognized measure representing large, publicly traded U.S. stocks across 11 economic sectors. To reduce statistical noise from monthly market volatility, we used average three-month returns following each election outcome and compared those returns with the average three-month return during the full analysis history. We then calculated the statistical significance of the relationship between political control and market performance using a calculation called t-statistic, or a t-test. A t-test determines whether one group of variables (in this case the political composition of the White House and Congress) has a measurable effect on another variable (in this case, average three-month S&P 500 returns during the control period). Finally, our analysis covers control periods (computing returns when the parties take control of the levers of government) rather than starting from election dates, though a statistical analysis using election dates results in a similar output and conclusion. See chart below.

While investors often view a Republican or Democratic "sweep" (one party outcome) as an election outcome with the highest likelihood of causing a significant market impact, our analysis suggests no statistically significant relationship exists historically between sweep outcomes and market

HISTORICAL ELECTION OUTCOMES ANALYSIS

Scenario	White House control	Congress control	Outcome	Average 3-month S&P 500 return during period	Average 3-month return relative to all periods	Statistically significant (>95%)?
1	Democrat	Democrat	One Party (D)	2.20%	+0.02%	No
2	Democrat	Republican	Divided	3.85%	+1.67%	Yes
3	Democrat	Split	Divided	3.93%	+1.75%	Yes
4	Republican	Democrat	Divided	1.19%	-0.99%	Yes
5	Republican	Republican	One Party (R)	2.67%	+0.49%	No
6	Republican	Split	Divided	1.62%	-0.67%	No
			All One Party (D or R)	2.33%	+0.15%	No
			All Divided	2.08%	-0.10%	No

Source: U.S. Bank Asset Management Group, November 2023.

performance during single party control of both the White House and Congress. Rather, our analysis finds only three divided government outcomes demonstrate a statistically significant relationship with market performance, with Democrat control of the White House and either full Republican control of Congress or split control of the Senate and House corresponding to positive absolute returns in excess of long-term average returns, while Republican control of the White House and full Democrat control of Congress correspond to positive absolute returns modestly below long-term average.

Historical economic regimes and market performance

Our proprietary analysis suggests that economic and inflation trends have a stronger and more consistent relationship with market returns than election outcomes. In general, rising growth and falling inflation are associated with returns above long-term averages, while falling growth and rising inflation correspond to positive but below average market returns. See chart below.

The consistency in strong statistical significance evidenced across growth and inflation regimes especially the combinations of rising growth/falling inflation (a disinflationary growth scenario) and falling growth/rising inflation (a stagflationary scenario), suggest investors should focus on underlying economic conditions rather than 2024 election results regarding potential forward capital market outcomes.

Key policy issues

While we do not expect the election to produce a meaningful medium- to long-term market impact, we must respect a potentially significant impact on individual sectors and industries. Further, should a mechanical issue emerge that leads to a hung or uncertain election outcome, we would expect riskier asset classes to decline until clarity emerges.

Finally, a sweep election is one scenario where we would anticipate a larger-than-normal short-term market impact if market participants anticipate major policy changes. Control of the U.S. Senate is key to bringing about significant changes in policy regarding taxes, spending, and regulation though the impact will most likely take place at the sector level, not necessarily at the index level as we demonstrated in our earlier analysis. The following are some of the policy issues with high importance to market segments we will follow throughout the nomination process:

- Individual and corporate tax policies, including state and local income tax (SALT) deductions
- Spending priorities, such as energy, infrastructure and defense
- Healthcare
- Regulation
- Immigration policy
- China (trade and Taiwan)
- Geopolitical conflicts (Russia/Ukraine, Israel/Hamas)

ECONOMIC AND INFLATION TRENDS

Economic regime	Average 3-month S&P 500 return during period	Average 3-month return relative to all periods	Statistically significant (>95%)?
Rising growth	2.99%	+0.81%	Yes
Falling growth	1.54%	-0.64%	Yes
Rising inflation	1.36%	-0.82%	Yes
Falling inflation	2.70%	+0.52%	Yes
Rising growth/falling inflation	3.52%	+1.34%	Yes
Falling growth/rising inflation	0.49%	-1.70%	Yes

Source: U.S. Bank Asset Management Group, November 2023.

Current investment considerations

With the 2024 national elections still 12 months away, economic growth, interest rates and inflationary pressures remain the dominant factors shaping the current capital market landscape. Consumer spending remains resilient, thanks to a healthy domestic labor market, stimulus savings, ongoing business capital expenditures and pockets of global economic strength. However, inflation is still above central bank target levels, and the Federal Reserve and other major central banks have increased interest rates to thwart inflationary pressures. We use a visual of central banks acting as the personal trainer to their respective economies, continuously elevating the treadmill ramp height in the form of successive interest rate increases. As those ramps remain elevated or potentially move higher, the runner — the economy — will likely fatigue, and the extent of the runner's slowdown may lead to more challenging conditions for diversified portfolios than what we have seen in 2023.

Relating current growth and inflation trends to the analysis we presented earlier, we currently emphasize a more balanced forward outlook for diversified portfolios, not wanting to get overly bearish due to still-strong consumer fundamentals but also respecting higher interest rates' impact on the economic runner's pace. A slowing economic growth pace has historically corresponded to more challenging forward riskier asset price returns, while higher bond yields, which move in the opposite direction of bond prices, offer investors the chance to collect income as they await the consumer's forward path.

Conclusion

Over the coming months, the national election Presidential and Congressional scenarios will evolve and come into clearer focus. The unprecedented indictments of the Republicans' leading Presidential candidate, former President Trump, adds significant uncertainty to the nomination process and events leading up to the November 5, 2024, national elections will follow an equally unprecedented path. We continue to monitor events as this uncertain path unfolds with a keen eye toward policy platforms and sector considerations once party nominees emerge. Meanwhile, we remind investors that when it comes to the forward path for capital markets and diversified portfolios, economic growth and inflation regimes have provided a clearer and stronger signal than election outcomes and we will keep you apprised of any changes to our balanced forward outlook.



usbank.com

¹ [RealClearPolitics - Election 2024 - 2024 Democratic Presidential Nomination](#) as of November 29, 2023.

² [RealClearPolitics - Election 2024 - 2024 Republican Presidential Nomination](#) as of November 29, 2023.

³ [RealClearPolitics - Election 2024 - General Election: Trump vs. Biden](#) as of November 29, 2023.

⁴ In a prediction market, participants bet on future events (such as elections) by purchasing contracts that pay out based on eventual outcomes. Contract prices for various potential outcomes represent a collective prediction by individual participating in the market.

⁵ [2024 Presidential Election Predictions & Odds | Who will be the next president? \(predictit.org\)](#) as of November 29, 2023.

This information represents the opinion of U.S. Bank. The views are subject to change at any time based on market or other conditions and are current as of the date indicated on the materials. This is not intended to be a forecast of future events or guarantee of future results. It is not intended to provide specific advice or to be construed as an offering of securities or recommendation to invest. Not for use as a primary basis of investment decisions. Not to be construed to meet the needs of any particular investor. Not a representation or solicitation or an offer to sell/buy any security. Investors should consult with their investment professional for advice concerning their particular situation. The factual information provided has been obtained from sources believed to be reliable, but is not guaranteed as to accuracy or completeness. U.S. Bank is not affiliated or associated with any organizations mentioned.

Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio. Diversification and asset allocation do not guarantee returns or protect against losses.

Past performance is no guarantee of future results. All performance data, while obtained from sources deemed to be reliable, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for direct investment. The S&P 500 Index consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market in general.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. International investing involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in emerging markets may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in fixed income securities are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Investment in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in high yield bonds offer the potential for high current income and attractive total return, but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The municipal bond market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issues of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes, but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in real assets such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults).

U.S. Bank and its representatives do not provide tax or legal advice. Your tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation.