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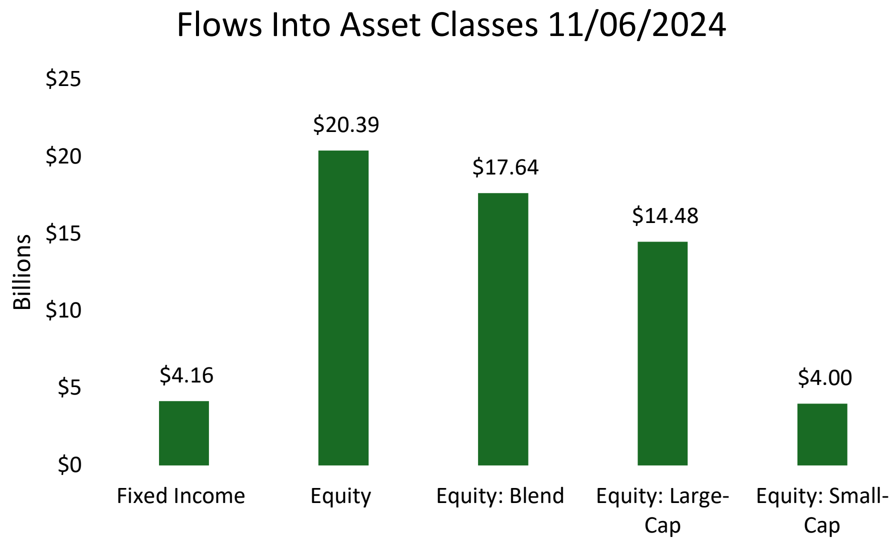
The 2024 Election: What's Next?
November 2024

Election results and initial market reaction

The election results are in, with the outcome of a Republican sweep of the presidency, Senate, and House of Representatives. This shift in power signals changes in fiscal, regulatory, and monetary policies that could shape the U.S. economic landscape for years to come. With the prospect of a more conservative administration, market reactions have been notably mixed across the spectrum of asset classes, highlighting the complex relationship between politics, policy, and financial markets.

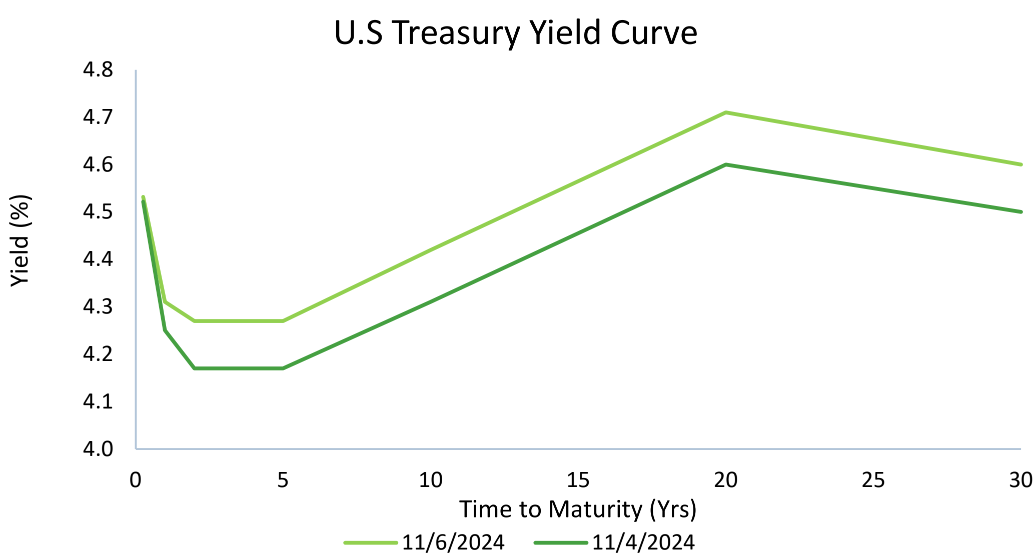
US equity markets rose sharply following the election, with a gain for the S&P 500 of 3.7% from November 5th-8th—though some volatility has re-appeared after the initial gains. Additionally, U.S. equity funds have seen a significant influx of capital, totaling $20 billion—following significant outflows from equity funds in the period leading up to the election. Leading up to the election, participants in the financial markets had included a contested or otherwise chaotic outcome in their potential scenarios. When this was avoided, markets rose, initially at least, in relief.

And now, subsequent market gains can be attributed to the possibility of higher growth and reduced regulation and taxes. Certain areas of the market, including small cap stocks that may benefit from potential import tariffs that hit the costs of larger-company competitors, and the financial sector that may benefit from relaxed regulation, experienced greater gains post-election. Clean-energy stocks, on the other hand, fell—though we believe there remains reason for optimism in the sector, as businesses in many states continue to benefit from the transition and associated policies and spending.



Source: Bloomberg, Syntrinsic LLC

The US bond market did not fare as well as its equity counterpart, with the 10-year Treasury yield rising by 0.11% the day after the election, to 4.42%. The 10-year Treasury yield had been rising since the Fed's 0.50% cut in short-term interest rates, and presumably was driven up post-election on market expectations of economic growth, higher federal deficits, and potentially higher inflation.



Source: Bloomberg, Syntrinsic LLC

Within the alternative assets space, an immediate response to the election results may not be evident; however, the overall sentiment has been largely positive. Private equity deals are expected to benefit from anticipated regulatory easing under the Trump administration. Private credit may also see gains as a secondary effect of this regulatory shift. While the Republican administration's stance may dial back clean energy alternatives, infrastructure as an asset class should continue to benefit from continued investment in the sector.

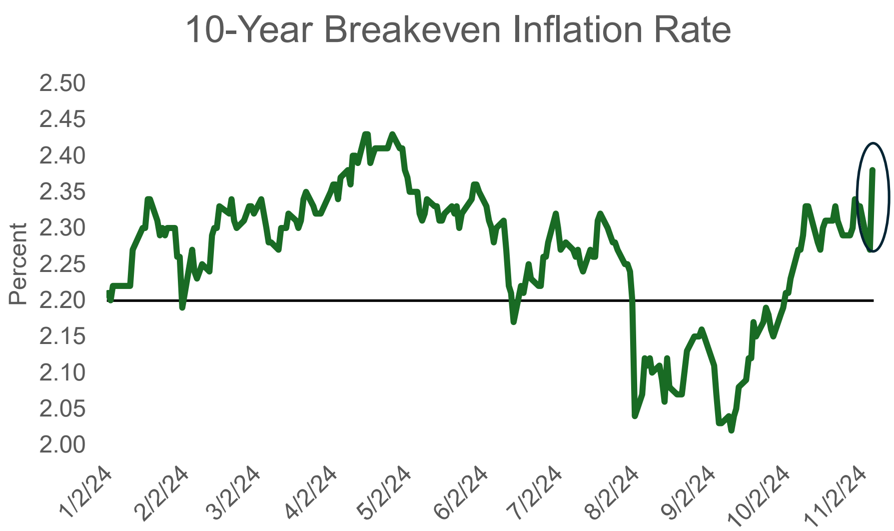
Policy risk and impact

The recent presidential and Congressional election outcomes offer clarity to several policy uncertainties highlighted in our June election perspective article. With Republican control of the Senate and the House, the policies promoted by the incoming administration have a stronger probability of implementation. However, policies on trade, tax, and regulatory proposals bring known and unknown economic uncertainties and risks, emphasizing the need for prudent risk management and having a long-term mindset. Reviewing the President-elect's policies and their relationship with fundamental factors such as growth, inflation, interest rates, and corporate earnings may help provide a glimpse into the set of risks associated with the incoming Republican administration.

Also, keep in mind that actual implementation of policies, such as tariffs, can differ from campaign promises—as they face potential operational challenges, and/or the threats of tariffs are used as bargaining tools with other countries.

Trump's proposed economic policies call for tariffs on goods produced in China and other foreign countries, potentially reaching 60% and 10%, respectively. As a brief overview, tariffs are government-imposed taxes on imports at the point of entry into the country. While the rationale for tariffs stem from a protectionist stance, encouraging consumers to purchase from local industries, it could also lead to higher prices for consumers (as companies pass along higher costs) and potential retaliation from global trading partners, much like what has occurred during the US-China trade conflict that began in 2018. Tariffs increase the possibility of renewed trade conflicts, which could fuel uncertainties and risk for the economy.

While inflation is moderating, it could rise if higher tariffs result in increased consumer costs as businesses pass on these expenses, and even supply chain disruptions—influencing interest rates, economic growth, and corporate earnings. If inflation were to reverse course, it could reinforce a "higher for longer" interest rate environment. In addition to rising Treasury yields post-election day, the 10-year breakeven inflation rate (the difference in yield between inflation-indexed and regular Treasury bonds) increased by 0.11% to 2.38%, the largest daily increase so far in 2024.



Source: FRED, Syntrinsic LLC

On the tax policy front, an extension of the 2017 Tax Cuts and Jobs Act is expected, along with deeper tax cuts for individuals and businesses in higher tax brackets, and a potential reduction of the corporate tax rate from 21% to 15%. During a recent Federal Reserve meeting, Chairman Jerome Powell cautioned that "the Federal government's fiscal path, fiscal policy, is on an unsustainable path…" and that it "…ultimately poses a threat to the economy."

As of September 30, 2024, the debt-to-GDP ratio stands at 123%. The proposed tax cuts could worsen the already concerning trajectory for debt levels. According to estimates from the Committee for a Responsible Federal Budget (CRFB), the proposed plan adds $7.8 trillion (net) to the deficit through fiscal year 2035. While both parties' plans would add materially to the deficit, the projected deficit increase under President-elect Trump, if enacted as described, would be larger.

The Trump Plan (billions, 2026-2035)			
Policy Proposals	**Low**	**Central**	**High**
Extend and Modify the Tax Cuts & Jobs Act (TCJA)	($4,600)	($5,350)	($5,950)
Exempt Overtime Income from Taxes	($500)	($2,000)	($3,000)
End Taxation of Social Security Benefits	($1,200)	($1,300)	($1,450)
Exempt Tip Income from Taxes	($100)	($300)	($550)
Lower Corporate Tax Rate to 15% for Domestic Manufacturers	($150)	($200)	($600)
Enact or Expand Other Individual and Small Business Tax Breaks	($150)	($200)	($350)
Strengthen and Modernize the Military	($100)	($400)	($2,450)
Secure the Border and Deport Unauthorized Immigrants	$0	($350)	($1,000)
Enact Housing Reforms, Including Credits for First-Time Homebuyers	($100)	($150)	($350)
Boost Support for Health Care, Long-Term Care, and Caregiving	($50)	($150)	($300)
Subtotal, Tax Cuts and Spending Increases	**($6,950)**	**($10,400)**	**($16,000)**
Establish a Universal Baseline Tariff and Additional Tariffs	$4,300	$2,700	$2,000
Reverse Current Energy/Environment Policies and Expand Production	$750	$700	$550
Reduce Waste, Fraud, and Abuse	$250	$100	$0
End the Department of Education and Support School Choice	$200	$200	$0
Subtotal, Revenue Increases and Spending Reductions	**$5,500**	**$3,700**	**$2,550**
Net Interest	**($200)**	**($1,050)**	**($2,100)**
Total, Net Deficit Impact	**($1,650)**	**($7,750)**	**($15,550)**

Source: CRFB.org

While tax cuts bode well for corporate earnings and can spur economic growth, it is important to acknowledge the potential risks to economic stability given the current pace of debt accumulation. Supportive fiscal policies may also introduce added uncertainty around inflation, complicating the Federal Reserve's timing on reducing interest rates. High debt levels could dampen the government's responsiveness to future economic crises, making the economy more vulnerable to shocks, thereby potentially prolonging economic downturns and slowing recovery efforts.

Planned regulatory policies could help reduce barriers within the current regulatory environment, fostering economic growth and strengthening business confidence. These initiatives may serve as a catalyst for increased merger and acquisition activity, enabling companies to achieve greater efficiencies and reduce expenses associated with regulatory complexities, ultimately benefiting corporate earnings. However, reversing regulations aimed at addressing climate change and increasing reliance on fossil fuels may carry unintended consequences and pose risks to long-term economic growth. That being said, we expect the transition to cleaner energy to continue regardless of the direction of policy.

Conclusion

Overall, the incoming Republican administration and accompanying agenda presents both intersectional opportunities and risks for fundamental factors such as growth, interest rates, inflation, and corporate earnings. Proposed tax cuts and deregulation could boost corporate profitability and support economic expansion. Yet, the risk of future tariff conflicts and a ballooning deficit pose significant challenges, including heightened volatility. It is also worth recognizing again that campaign promises and proposals do not always translate into actual outcomes.

We counsel continuing to manage risk through maintaining a longer-term mindset, avoiding short term bets, staying on course to the strategic asset allocation, and remaining well diversified among asset classes.

Sources:

i. The Fiscal Impact of the Harris and Trump Campaign Plans-Mon, 10/28/2024 - 12:00 | Committee for a Responsible Federal Budget
ii. Understanding the National Debt | U.S. Treasury Fiscal Data
iii. The stock market average return in an election year | Jackson
iv. 10-Year Breakeven Inflation Rate (T10YIE) | FRED | St. Louis Fed