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Assessing the 2024 Election Outcome

Economic and Market Implications

By Michael Crook, Chief Investment Officer

Former President Donald Trump is the presumptive winner of the 2024 presidential election and Republicans appear likely to hold a 2-4 seat majority in the Senate. While the balance of power in the House of Representatives won't be officially known for a few days, political betting markets are currently forecasting a 95% chance that the Republicans will hold the majority in the House as well.

To reiterate our message from Monday's commentary, we recognize that roughly half of our readers are likely disappointed in the outcome. It is important to be patient and not let the election drive rash investment decisions.

Initial Market Reaction

A laundry list of "Trump trades" performed well overnight and into the trading day. Interest rates, the US dollar, cryptocurrencies, and US equity markets moved higher. Inflation expectations also jumped. These trades had been slowly pricing in a Trump victory since late Early October.

Trump will inherit a relatively strong economy with low unemployment and inflation in the 2.5-3% range.

The Trump Agenda

Regardless of whether Republicans have a House majority, President Trump will have near-total control over the legislative agenda for the next two years. We would characterize the Trump economic agenda as:

1) Lower personal and corporate income taxes,

2) Cutting regulations, particularly in the energy and finance industries,

3) Increased energy production,

4) Tariffs, particularly as they pertain to China,

5) Closing the southern border, and

6) Attempting some amount of illegal immigrant deportations.

Likely Market Impact

On balance, we expect Trump's economic agenda to lead to higher economic growth, higher inflation, higher interest rates, and higher federal deficits versus the pre-election baseline. Our asset allocation targets were already positioned for such an environment and have benefited from the recent market action.

1. Higher short-term interest rates

The Fed funds target rate range is currently 4.75-5%. As of late September, the market participants were expecting the Fed to cut the Fed funds rate to 2.8% by the end of 2025. Those expectations gradually rose as Trump became the odds-on favorite and now the market is pricing in a Fed funds rate of 3.8% at the end of 2025.

2. Higher long-term interest rates

A pro-growth agenda will likely lead to higher long-term interest rates on the margin. The 10-year Treasury yield has risen from a recent low of 3.7% in early October to just under 4.5% today. We expect high-quality, short-duration private credit to continue outperforming and maintain an overweight to such strategies, funded out of fixed income, in our target portfolios.

3. Small cap equities

Small cap equities are likely to be the beneficiary, relative to large cap equities, if Trump pursues additional broad-based tariffs. Small-cap equities are less dependent on trade and also trade at lower valuations than large-cap equities. Our target equity portfolios are overweight small cap equities.

4. US versus international equities

Broad-based tariffs, if implemented, will likely benefit US versus international equities. We are overweight US equities and underweight international developed and emerging market equities in our target portfolios.

5. Corporate transactions and private equity

The Federal Trade Commission (FTC) and Department of Justice (DOJ) have been restrictive to merger and acquisition (M&A) activity. We expect the regulatory environment to be less restrictive under Trump and to see an increase in corporate transactions, including IPOs. Our target asset allocation includes an allocation to private equity, funded from public equity.

Risks to consider

The Trump economic agenda isn't entirely goldilocks. Consider:

1. Rising interest rates will continue to pressure commercial real estate and the supply shortage in the residential housing market. At some point, higher interest rates create a headwind to further equity returns
2. Tariffs, all else equal, reduce economic growth and increase inflation.
3. Reduced labor supply, all else equal, will reduce growth and increase inflation. So-called Supercore CPI, a labor-intensive measure of inflation, remains above 4% year-over-year and has accelerated in recent months.

While it's difficult to put specific parameters around these risks without knowing how various policies will be prioritized in DC, we'll monitor them closely in the months ahead.

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