November 4, 2024

November 2024 Update

Staying Stead Amid the Election Frenzy

By Michael Crook, Chief Investment Officer

Sometime within the next week, we will (hopefully) know the winners of the US elections. We recognize that regardless of the outcome, roughly half of our readers will be disappointed. Our message this week is to be patient and not let the election drive rash investment decisions. Economic fundamentals are likely to be the primary driver of market performance in the near term.

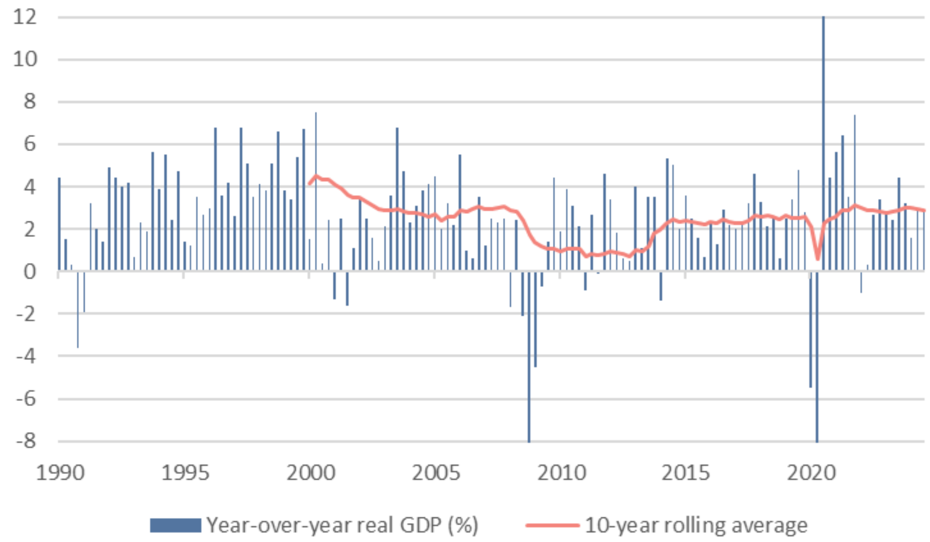
Some commentators will go further and suggest that investors can completely ignore Washington DC. We're not that flippant; there are countless historical examples of presidential actions resulting in positive and negative reactions on Wall Street, including Theodore Roosevelt's anti-trust action against Northern Securities in 1902, Herbert Hoover's fiscal restraint in the early days of the Great Depression, and Richard Nixon's wage and price controls (1971).

Our view is that elected officials, our political institutions, and policy decisions matter for investors. All three will have an impact on our investment decisions. Most of next year will be focused on negotiating modifications and extensions to the 2016 Tax Cuts and Jobs Act, which expires at the end of 2025. We can afford a wait-and-see approach to what is prioritized in DC post-election.

Financial conditions remain positive

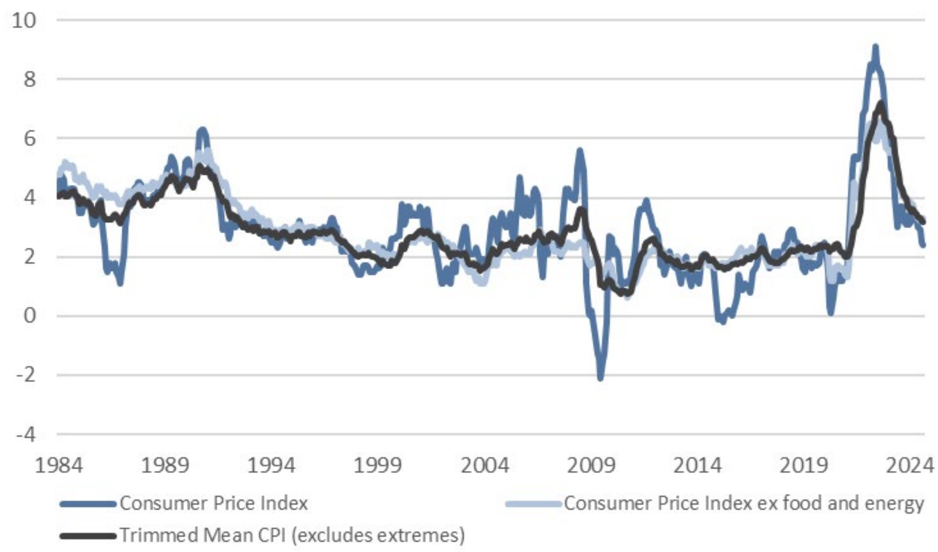
The US economy remains on solid footing. Economic growth remains above average (Fig.1) and inflation has moderated (Fig. 2) to the extent that the Federal Reserve has begun lowering policy rates. An accommodative Federal Reserve provides an attractive backdrop to sustain the rally in risk assets, particularly since corporate profits have begun growing again after stagnating from mid-2022 to mid-2024 (Fig. 3).

Fig. 1: US GDP Growth



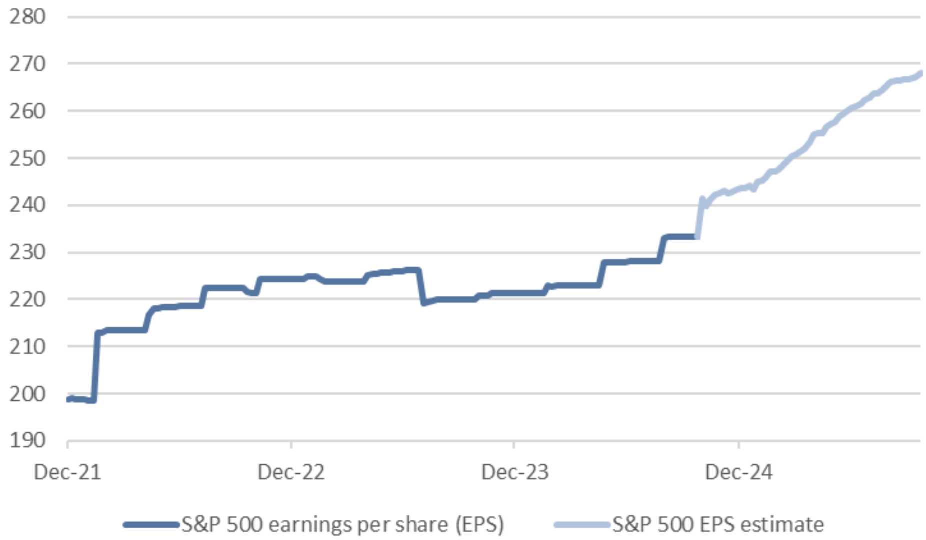
Source: Bloomberg, Mill Creek.

Fig. 2: Inflation



Source: Bloomberg, Mill Creek.

Fig. 3: S&P 500 earnings



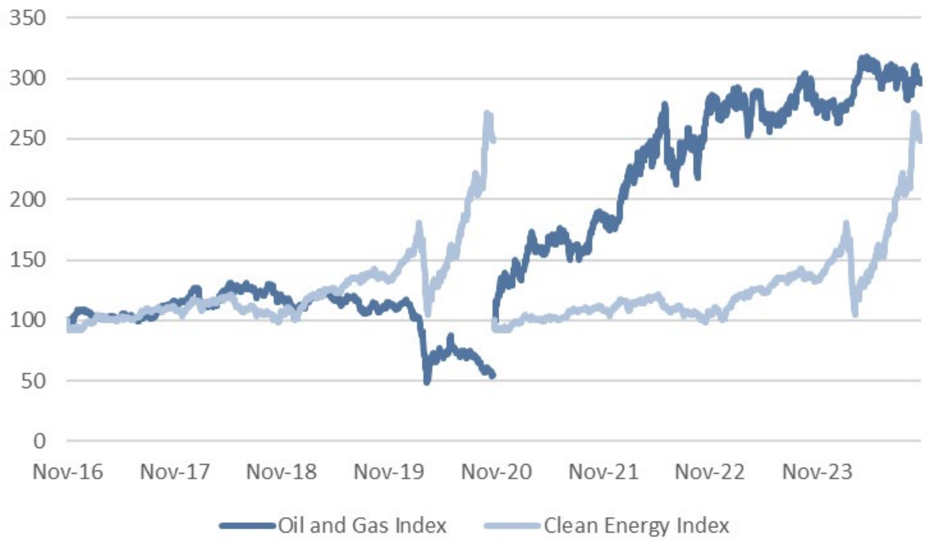
Source: Bloomberg, Mill Creek.

The main short-term risk to the bull market, in our estimation, is not the election but a recalibration of Fed policy by market participants. Absent a recession, aggregate household income growth simply remains too high for the Fed to cut policy rates to 3.5%, as has been priced into the Treasury market, by December of 2025. We expect this recalibration, which has already started, to eventually happen regardless of who wins on November 5th.

Market considerations leading into the election

We have refrained from publishing all-too-typical election commentary that tries to distill vague campaign trail promises into specific investment advice. The performance of green energy and traditional oil and gas during the last two administrations (Fig. 4) provides a good counterbalance to the "Trump or Harris will be good for XYZ sector" commentaries. Green energy significantly outperformed traditional energy under Trump and underperformed traditional energy under Biden. The number of equities strategists on Wall Street who called that trade correctly is approximately zero.

Fig. 4: Energy sector performance



Source: Bloomberg, Mill Creek.

Presidents set the DC agenda and nudge Congress towards legislative priorities, but economic trends and market forces frequently overwhelm political desires.

In case you missed it, please see our Q4 2024 Outlook: Deficits, Debt, and Inflation for a deep dive into the U.S. fiscal outlook.

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