WESTEND
Advisors
A VICTORY CAPITAL® INVESTMENT FRANCHISE

Economic and Market Commentary

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2024 Election Preview: A Battle of Near-Incumbents

While uncertainty can drive volatility, our research shows Presidential election-year returns are more a function of economic drivers than politics. This year, both candidates have administration records that may help reduce broad market uncertainty, and we are focused on potential sector impacts of various election scenarios.

CLOSE AT THE TOP, LESS SO DOWN BALLOT

- Presidential polls are neck-and-neck in key battleground states like Pennsylvania and Georgia, suggesting turnout will be pivotal.
- Congressional election mechanics, including gerrymandering of House districts and the relative number of Senate seats each party must defend this year, suggest a high hurdle for Democrats to gain control of the House and retain the Senate.
- Thus, if Trump wins, a sweep seems fairly likely, while if Harris wins, gridlock seems likely, absent an exceptional Dem turnout.

LIMITED NEAR-TERM IMPACT ON BROAD MARKET

Running on Records: Both Presidential candidates arguably have been light on policy detail in their campaigning, but Trump as a former President and Harris as VP in the current administration are each associated with a record in office that suggests how they may approach policy and governance. That is not to say either would follow the exact blueprint of their prior administration, but it could be a factor that reduces market uncertainty regardless of outcome. In short, investors may be comfortable that they know what they are getting either way. This may help explain why sharp twists in the campaign have not seemed to cause major disruption for markets.

"It's the economy, stupid": Political consultant James Carville's 1992 quip may have relevance not just for who wins an election, but for markets more broadly in an election year. Our research shows that average Presidential election-year returns for the S&P 500 are positive and in line with non-election years. However, returns in election years *when a recession occurs* average less than 1%, while election years *without a recession* average more than 14% return. Further, election year returns seem to be less impacted by who wins than by economic conditions. For all Presidential election years since 1926, the S&P 500 has averaged 14.7% when a Republican wins, versus 7.9% when a Democrat wins. This may seem to bolster one traditional narrative that markets favor Republicans, but Democrats have won more often in election years with a recession. Excluding Presidential election years with recessions, the S&P 500 has averaged 16.3% when a Democrat wins versus 12.9% when a Republican wins. Again, the economy has historically had a bigger apparent impact than politics on election-year returns.

All that said, election swings can, in the short term, contribute to market volatility, and this year, as in 2020, there is potential for the results to be contested. That, in turn, could extend volatility due to uncertainty around discounting potential impacts of an outcome.

LONGER-TERM FUNDAMENTAL IMPACTS

While the election's impact on 2024 stock market returns may be limited, the eventual winner's policy stances and effectiveness in implementing them could impact economic fundamentals within our typical six-to-eighteen-month investment time horizon. Taxes and trade (esp. tariffs) are two such policy areas that could hinge on the election results.

Taxes: Various individual income tax cuts enacted through the 2018 Tax Cuts and Jobs Act (TCJA) are set to expire at the end of 2025. This could have a negative impact on personal consumption by reducing disposable income. A Trump win and Republican sweep would presumably facilitate extension (and possible expansion) of these cuts, in addition to a possible further reduction in corporate tax rates. If Harris wins, she might also seek to preserve some of the individual tax cuts to uphold her pledge to not raise taxes on people making less than $400,000 per year. If, however, Republicans control either house of Congress, tax cut extensions under Harris would require compromise, and Republicans might block those efforts in order to deny a Democratic administration a policy victory, despite nominal Republican support for lower taxes. Meanwhile, we believe Democratic proposals to increase corporate taxes likely would be dead on arrival in a gridlock scenario.

Tariffs: The Republican platform endorses "baseline Tariffs on Foreign-made goods," and Trump has specifically proposed 10-20% tariffs on all imported goods with 60% tariffs on goods from China.

In our view, widespread imposition of tariffs could be a significant shock to economic growth and could reanimate inflationary pressures. It is certainly possible that Trump's position is intended to create bargaining chips for bilateral trade negotiations with various countries, and the threat of broad tariffs may not come to pass, but it is still an economic risk we believe must be considered in the event of a Republican sweep. In contrast, while the Biden administration retained many of the Trump administration's tariffs on Chinese goods, and a Harris administration might do the same, we see no evidence that Harris would pursue materially wider use of tariffs.

FOCUS ON SECTORS

While the near-term impact of the election on broad market returns may be limited, and we believe the fundamental impacts of the outcome will take time to develop, we do expect that individual sectors could see some material valuation and/or fundamental impacts within our typical investment horizon. The exhibit below, based on our research, highlights some of the potential factors tied to the election that we believe could help shape our sector positioning in portfolios as the election results come into clearer focus.

We continue to evaluate how the evolution of this election and its potential results could impact the economy and markets. As always, we stand ready to adjust our portfolio positioning as the macroeconomic backdrop and our outlook evolve.

WestEnd Advisors Investment Team | September 20, 2024

SELECT SECTOR OPPORTUNITIES AND RISKS BY LIKELY ELECTION OUTCOME

	Trump Win with Republican Sweep	Harris Win with Divided Government
Health Care	- Potential weakening of Affordable Care Act, including failure to extend enhanced ACA subsidies set to expire in 2025 + Potential easing of pressure on Medicare Advantage payments to insurers	- Continued or expanded government pressure on drug pricing
Communication Services	- Risk of more regulation of internet and media platforms tied to anti-media animus	± Likely status quo/limited net impact
Information Technology	- Tariffs may impact tech margins/supply chains - Increased likelihood of further export controls on advanced semiconductor chips that negatively impact semiconductor and semi equipment	- Potential for increased regulatory/anti-trust scrutiny of big tech firms
Financials	+ Potential easing of regulatory constraints	± Likely status quo/limited net impact
Consumer Discretionary	+ Increased probability of individual income tax cut extensions or incremental tax cuts - Potential headwinds from tariff and trade policy	- Political impasse could lead to expiration of TCJA individual income tax cuts
Industrials	+ Valuations may receive a near-term boost tied to expectations for tax cuts and initial economic optimism - Tariffs and a more isolationist trade policy could pressure margins and disrupt supply chains	+ Continued support for green spending from the Inflation Reduction Act could help sustain demand support for the sector
Energy	+ Reduction of regulatory constraints on fossil fuel production	± Likely status quo/limited net impact

For illustrative purposes only. Source: WestEnd Advisors

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