

Things We Don't Know

Two months ago, we circulated an update postulating that markets were calm in the face of the upcoming presidential election because each candidate and his positions were relatively known entities and, that despite all the heated rhetoric, the implications of their economic policies (such as trade, deficits and reshoring) were not too dissimilar. Well, as we have all witnessed, a lot can change in the span of a few weeks.

There's a healthy dose of humility one must have to navigate markets and, as a reminder to ourselves, we plan to order an extra plate of humble pie. So, in this correspondence, rather than trying to predict any electoral outcomes and how the market may react, we thought it might be useful to discuss several key things we don't know and why they could matter for investors.

- Will Vice President Kamala Harris campaign on the continuation of President Biden's economic policies? Or does the political calculus for her favor moderating the economic proposals? Or perhaps catering to the progressive base whose enthusiasm had been languishing, if polls are to be believed. While we would guess the path of moderation makes most sense strategically, even if Ms. Harris chose that route there is little certainty as to how she would govern if elected.
- Does President Biden's withdrawal have any bearing on the ideological direction of the Democratic Party? Historically, President Biden had centrist tendencies, but on economic matters the progressive wing of the party gained influence during his term (as evidenced by support for state-driven industrial policy, calls for higher taxes, stricter antitrust regulation, and increased skepticism of business interests). Similar to our questions above, does Biden's exit signal that the progressive wing is now in ascendance, or will the moderate faction of the party gain in influence?
- Has the Republican Party abandoned its pro-business, free markets embrace that has defined the GOP since the Reagan presidency? Aside from President Trump's trade approach (which relied on tariffs), his first term was aligned with traditional GOP orthodoxy of the last 45 years: pro-business, anti-regulations, lower taxes etc. We think Mr. Trump still holds these views, especially in light of his extensive remarks on economic matters in his recent interview with [Bloomberg Businessweek](#).¹ But on economics, his running mate Senator JD Vance, is in many respects more aligned with the progressive wing of the Democratic Party than he is with President Trump!

Senator Vance is skeptical of big business (especially big tech and banks), supportive of FTC Chair Lina Kahn's aggressive approach to antitrust (albeit in the name of more competition), favors union and worker interests over corporate interests, and has alluded in the past to support for state-driven industrial policy and higher taxes.² Perhaps these are good policies – it's not our place to opine. All we can say is that if Mr. Vance represents the future of the Republican Party, the GOP will look much different in the future as compared to its past. We just want to flag that a potential leftward shift amongst Republicans on business and economic matters is a big deal – as it could change the contours of future debate and legislation. To be sure, there are still major economic policy differences between Senator Vance and progressives like Senator Elizabeth Warren – but we would characterize such differences as a gap rather than a chasm, and a narrowing one at that.

It is still our belief that in the near-to-intermediate term, this election is unlikely to be an earth-shattering event for markets. The fundamentals of businesses matter far more than politics when it comes to investing. Still, businesses don't operate in a bubble and if the operating environment becomes less accommodative toward business and investor interests over time, that is notable.

Despite our last remarks, there is still little that Democrats and Republicans agree on these days, so we think it's worth highlighting one emerging area of consensus: housing. Each of the party's 2024 platforms lists housing availability and affordability as a key policy priority.³ A bipartisan acknowledgement that the country needs to increase its housing stock and help buyers afford homes, combined with investor expectations that the Federal Reserve will soon lower short-term interest rates, could create a constructive environment for companies in the home building, construction supply and home furnishing industries. We also are beginning to research real estate marketplace and branding firms, such as Zillow Group. To the extent we gain conviction in both this theme and the prospects for companies exposed to it, we will plan a follow-up correspondence on the subject.

While there is always background volatility that investors must navigate – though admittedly more in the last several weeks than usual – we're reminded of a Warren Buffett quote when it comes to elections:

In the seventy-five years I've been investing if I'd reacted to events I'd be out of the market. I never really want to be out of the market. It's not a question of being out of the market, it's a question of owning businesses.

If I wanted to own farms, I wouldn't keep buying and selling them based on some election result. I'd find the best place to own them and get the best tenants I could and that sort of thing. I look at businesses the same way.

We think there is much wisdom in Mr. Buffett's words and plan to heed his advice.

Sincerely,



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Citations and Disclosures

¹ Bloomberg Businessweek Interview with Donald Trump (June 25, 2024), available at: <https://www.bloomberg.com/features/2024-trump-interview-transcript/?embedded-checkout=true>.

² Politico, *Bash the banks, maybe raise taxes: Inside Vance's policy agenda*, available at: <https://www.politico.com/news/2024/07/15/jd-vance-agenda-policies-00168467>.

³ 2024 Republican Party Platform, available at: <https://www.presidency.ucsb.edu/documents/2024-republican-party-platform>; and 2024 Democratic Party Platform DRAFT, available at: <https://www.politico.com/f/?id=00000190-acc7-da7b-a393-adc723860000>.

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