The Presidential Election and Markets

With yesterday's news that President Biden and former President Trump agreed to a CNN-hosted debate on June 27,[1] we thought it might be topical to address a question we are increasingly fielding: How is the stock market performing well in the face of a presidential election that so many voters dread? We will leave it to others for any political commentary and judgement. Our task, instead, is to consider the investment implications of a Biden or Trump victory this November. In short, we think the economic status quo is likely to persist regardless of who wins – thus, the lack of market anxiety over the coming election.

First, markets generally follow the path of earnings and earnings have been strong. As of May 10, first quarter earnings for S&P 500 firms were up 5.4% year-over-year (the highest rate since the second quarter of 2022).[2] Presidents control a lot, but they don't singularly control the trajectory of the economy.

Second, what markets typically fear most is uncertainty. For better or worse, voters and investors have a good sense of what to expect in a second Biden or Trump term. You don't need to support either candidate's policies or personal qualities to recognize that, by now, each is a known entity. While half the country is likely to be disappointed in the election outcome, we think there is relatively limited scope for surprise.

Third, despite the growing power of the executive branch, presidents still need Congress to pass any major legislation. Accordingly, the more impactful elections – insofar as the economy is concerned – may be at the congressional level. Biden cannot raise taxes without approval from the House and Senate, nor can Trump lower them. A Trump presidency would almost certainly see government agencies from the FTC to the EPA take a more accommodative stance toward businesses, but the reality is that businesses – particularly publicly traded ones – have managed to perform well in the current regulatory environment.

Fourth, the U.S. is poised to remain a leader in technology and energy regardless of who wins the election. Two key reasons that U.S. markets have outperformed their European and global counterparts over the last decade is that (1) we are home to the transformational tech firms[3] and (2) we benefit from abundant natural resources that keep costs low for businesses and consumers. Nvidia and Alphabet aren't moving their headquarters or engineering personnel based on the results in November, nor are Permian-based energy firms shifting production overseas.

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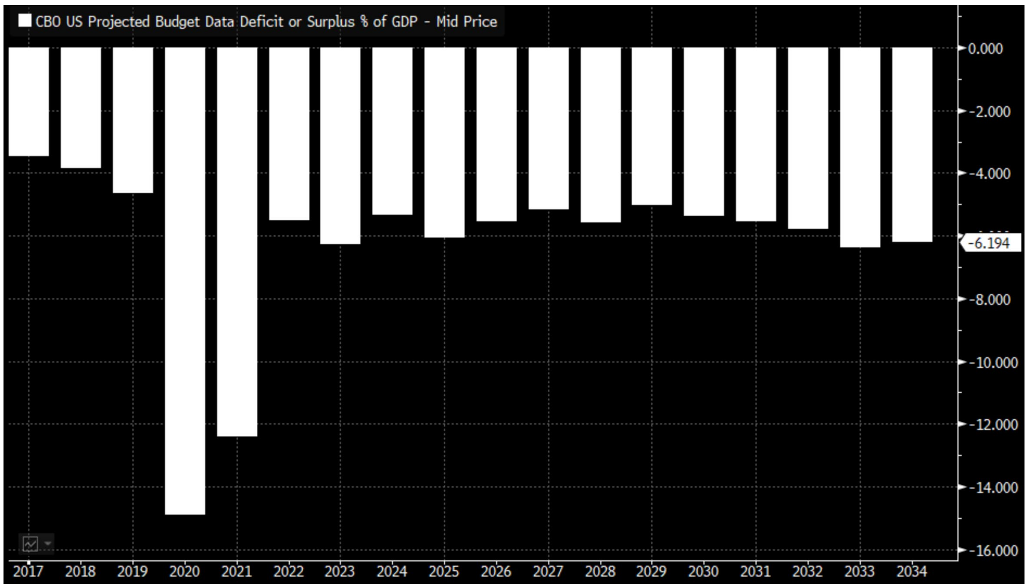
The fear is that each candidate could implement policies that would make the operating environment harder for technology and resource firms. For example, both administrations have taken a restrictive approach toward the H-1B visa program for foreign skilled workers, despite how immigration has benefited the country's technology firms. One can also be concerned that the overall environment in the United States is so toxic that it damages the entrepreneurial drive to come to the United States. The illegal immigration on the southern border is divisive and has economic costs.

Fifth, President Biden and former President Trump are likely to maintain substantial deficit spending levels. We can argue whether this is wise for the country's longer-term economic health, but in the short-to-medium-term deficit spending amounting to over 6% of GDP provides a huge tailwind to economic activity and company earnings (while also contributing to inflationary pressures and higher interest rates). Whether it's spending on infrastructure (Biden) or proposing substantial tax cuts (Trump), public spending is poised to remain elevated.



Finally, each candidate has protectionist sympathies when it comes to trade. By and large, President Biden has not reversed President Trump's tariff policies; in fact, he added to tariffs on Chinese imports that compete with U.S. clean energy producers just this week. Notably, Trump is threatening even harsher trade measures. Both seem intent on encouraging a domestic manufacturing renaissance for labor and national security reasons and are willing to use trade policies and federal spending to achieve that goal. Again, we can debate the wisdom of such policies, but the effects are – at least in the short-term – an increase in economic activity and higher prices.

To be sure, there are substantial differences between the two candidates. We are not seeking to minimize those. However, when it comes to issues that impact markets, the two are closer to each other than perhaps their supporters would care to admit and, in our opinion, unable to knock the structural strengths of the U.S. economy off-course over the next four years.

Sincerely,

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Citations and Disclosures

[1] See: https://thehill.com/homenews/campaign/4665324-first-trump-biden-debate-june-cnn/
[2] FactSet Earnings Insight (May 10, 2024).
[3] Bloomberg (as of May 15, 2024). All financial data herein is sourced from Bloomberg unless otherwise noted.

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