THE US ELECTION

Impact on markets

October 2024

SOUTHERN ROCK CAPITAL

Red or blue, who cares?

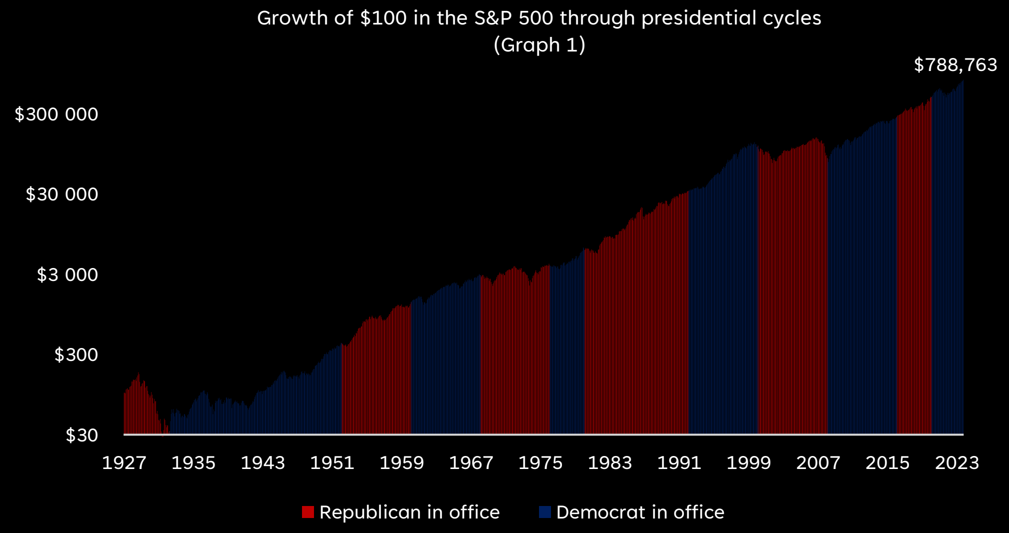
It is one week until the much-anticipated election in the United States and It is difficult to take any poll seriously. Until the ballots start to be counted, everyone is effectively guessing. A recently released CBS News/YouGov poll seems to suggest that there is a major gender divide in the race, with more men preferring Trump and more women preferring Harris. Trump, the poll shows, leads male voters by 54 percent to 45 percent, while Harris leads women voters by 55 percent to 43 percent.

Men are more likely to view Trump as a strong leader (64 percent to 50 percent), while women are more likely to say Harris has the right "mental and cognitive health" to be president, according to the poll. Seven US swing states are likely to determine the outcome of the election.

That said, no president, whether Democrat or Republican, holds the power to single-handedly steer the $57 trillion stock market. Over the long haul, the stock market is more heavily influenced by economic performance and corporate earnings than by who's in the White House. Graph 1 depicts the growth of $100 in the S&P 500, inclusive of dividends, since 1927. Red shading is the growth under Republican president and the blue shading is the growth under a Democratic president. It is seemingly clear that there is no single party that hinders the stock market return profile.

While presidents have limited impact on the market, Congress holds considerable sway. Historically, the market prefers a divided Congress and Oval Office, since less change is expected. The president has the power to pass some laws on their own but mostly he or she must work with Congress to pass legislation. The market always prefer a steady-as-she-goes environment without the possibility of large swings to one side or the other. With a divided congress, neither party would hold the power to make meaningful changes.

This period has been surprisingly calm leading up to the election, largely thanks to better-than-expected earnings and economic data. Historically, the S&P 500 tends to show some volatility leading up to Election Day, often followed by a rally afterward. Will we see a similar post-election boost this year with a potential Santa Claus rally? Only time will tell. Investing is a challenge, requiring you to navigate emotions triggered by unsettling headlines. Keep your focus on the long-term picture and avoid reacting impulsively to political drama. It is imperative to maintain a high threshold before taking action, despite the constant political noise.



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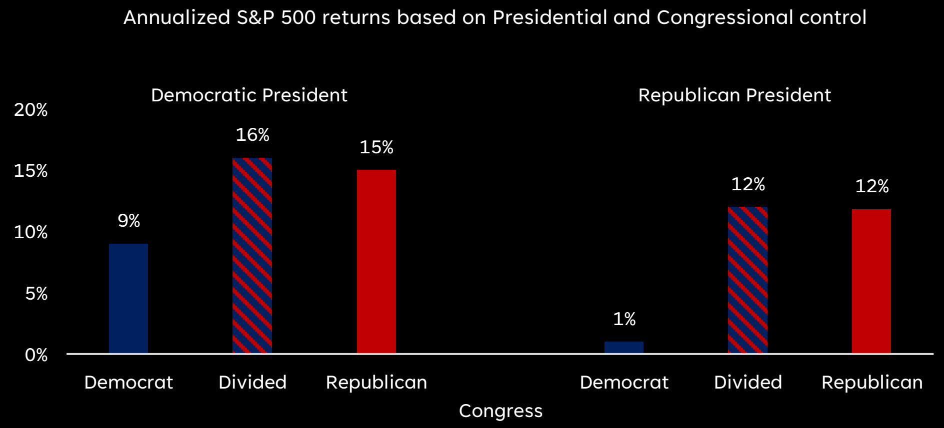
Source: Bloomberg



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