RESEARCH CAPITAL CORPORATION

BASRAN PRIVATE WEALTH

NEWSLETTER

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MARKET SUMMARY

(AS OF END OF SEPTEMBER 2024)

S&P/TSX Composite
24,000.37 (up 14.51% ytd)

S&P/TSX Venture
581.12 (up 5.10% ytd)

S&P 500
5,762.48 (up 20.81% ytd)

Dow Jones Industrial Avg
42,330.15 (up 12.31% ytd)

Nasdaq Composite
18,189.17 (up 21.17% ytd)

UPCOMING U.S. ELECTION AND ITS POTENTIAL IMPACTS ON THE ECONOMY

The 2024 presidential election is likely to be one of the most significant market catalysts in the coming months. While it's premature to predict a potential winner, President Joe Biden's exit in July has introduced additional uncertainty into the election landscape. Following the latest debate, Vice President Kamala Harris seems to hold a slight lead over former President Donald Trump in many national polls. However, Trump has a track record of surpassing polling projections, and much can change as we approach November 5.

This election cycle has seen some unprecedented developments. On July 13, Trump survived an assassination attempt in Butler, Pennsylvania, and just weeks later, Biden announced he would not seek re-election, paving the way for Harris to become the nominee. Then, on September 15, another apparent assassination attempt occurred at Trump’s golf course in Florida.

While it may seem extraordinary to have a sitting president step down and two assassination attempts on a major party nominee in the same year, history has seen similar situations. In 1968, sitting Democratic President Lyndon Johnson chose not to run for re-election due to low approval ratings, and just months later, presumptive Democratic nominee Robert F. Kennedy was tragically assassinated.

What can 1968 teach us about 2024? Surprisingly, the S&P 500 managed to navigate the political turmoil of 1968 relatively well. Between Johnson's announcement and the end of the year—culminating in the election of Republican Richard Nixon—the S&P 500 rallied 15%. By the close of 1968, the index had gained 7.7% for the year, delivering a total return of 11%, which was slightly above its historical average.

Additionally, one might argue that the U.S. economy is in a stronger position today than it was in 1968. That year, real GDP grew by 4.9%, but inflation was on the rise. In contrast, inflation is currently slowing, and we are anticipating further rate cuts to help stimulate economic growth in 2024.

During Trump's presidency, the S&P 500 saw an annual gain of approximately 16.3%. In contrast, under Biden and Harris, the index has recorded an annual gain of around 11.8%. One of the key factors contributing to the more subdued market returns under Biden and Harris is inflation. During the first 42 months of Trump's presidency, cumulative inflation based on the consumer price index was 6%. In contrast, under Biden's first 42 months, cumulative CPI inflation reached 19%.

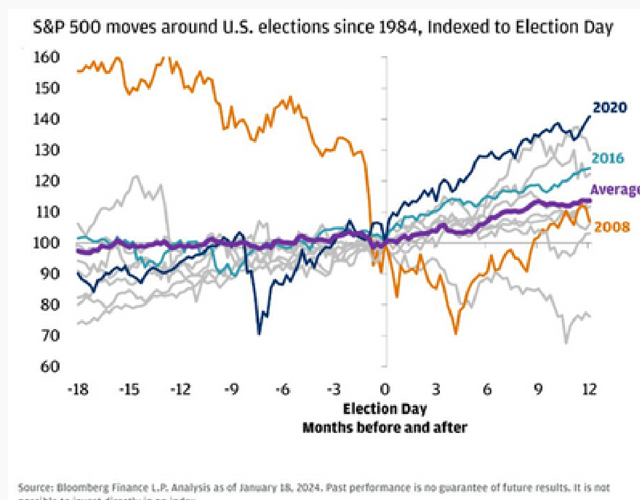
It's tempting to attribute stock market performance to Biden, Harris, or Trump during their respective terms, but the COVID-19 pandemic caused significant disruptions to the economy and market in both 2020 under Trump and 2021 under Biden. These disruptions have complicated the interpretation of economic and market performance data. For instance, the U.S. economy averaged just 1.4% annualized GDP growth during Trump's presidency, compared to 3.5% in the first three years of Biden's administration. However, both figures are influenced by the notable 2.8% GDP drop during the pandemic-related shutdowns in 2020.

When it comes to Harris, the complexities of assigning credit and blame become even more pronounced. While her economic policy platform likely aligns more closely with Biden's than Trump's, as vice president, Harris has not been directly responsible for many of the economic policy decisions made during Biden's administration.

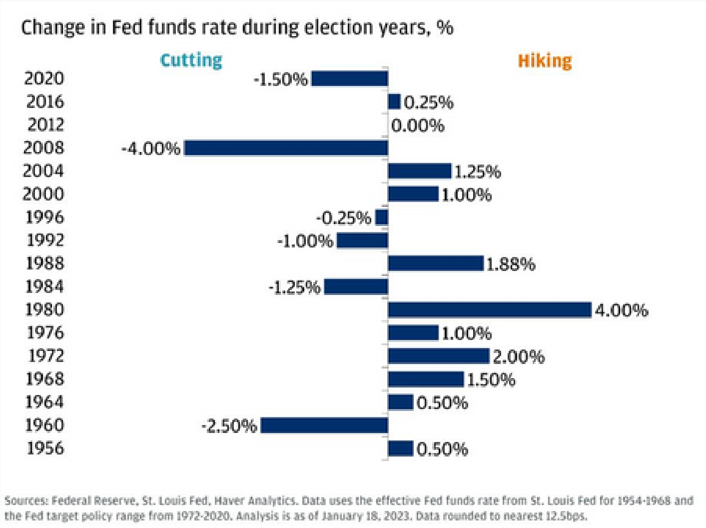
While stocks often rally after elections, the magnitude of those swings can vary significantly from year to year. These variations typically relate more to the underlying macroeconomic conditions than to the election outcomes themselves.

For example, during the last presidential election in 2020, the major influence on broad markets was the cycle of lockdowns and reopenings due to the COVID-19 pandemic, rather than the contrasting ideologies of now-President Biden and former President Trump. Similarly, in 2008, when Democrat Barack Obama faced Republican John McCain, it was the Global Financial Crisis that primarily shaped market movements, rather than the candidates' differing views on the war in Iraq or healthcare policy.

Looking at the last 40 years of elections, stocks have, on average, been higher a year later.



It's important to recognize that historically, earnings and interest rate cycles have a greater impact on equity performance than the political party that wins an election. Since the 1950s, 2012 stands out as the only election year when the Fed did not change interest rates. This indicates that economic factors, rather than political considerations, primarily influence monetary policy decisions.



Once the election results are in, the new administration's policy proposals could alter expectations for growth, inflation, and even earnings, potentially impacting sectors most closely tied to those changes. However, it's still too early to accurately assess these potential effects, and it's crucial to remember that not all proposals make it through the legislative process. High-impact initiatives are more likely to be enacted when one party controls both the White House and Congress, but even then, policymakers often face various challenges and bottlenecks.

We believe the economy will continue to be the primary driver of policy decisions and overall market movements. While risks remain, ranging from persistent issues like inflation to unpredictable factors such as geopolitical tensions, we are optimistic that as growth remains stable, price pressures ease, and the Fed continues to adopt a more accommodative stance, there will be significant opportunities for investors in the year ahead.

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