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North America Investment Strategy

Charlie Reinhard
Head, North America
Investment Strategy

Steven Wieting
Chief Investment
Strategist and
Chief Economist

Joe Fiorica
Head, Global Equity
Investment Strategy

Lorraine Schmitt
North America
Investment Strategist

Sam Waldman
Investment Analyst

Road to the White House: Part 1

- On November 5, 2024, the US will hold its 60th Presidential election. Historically, the stock market has performed better early on in an election year when the incumbent party candidate later won (**Figure 1**). Recessions are more common in years one and four of a Presidential term (**Figure 2**). The 2024 election will be the first with rising bond yields since 1980.
- If former President Trump is the Republican nominee and wins re-election, that could mean higher tariffs, tighter borders, and an “America first” foreign policy.
- The current top contenders would each be a second-term President. First year returns are typically higher during second terms, but equities often post lackluster performance near the end of a second term as succession uncertainty rises (**Figure 3**).
- The Senate map is favorable for Republicans in 2024 who have fewer seats up for election (**Figure 4**). Historically, the stock market prefers divided government and gridlock (**Figure 5**).
- In 2024, neither party appears anxious to reform Social Security or allow provisions of the 2017 tax cuts to sunset in 2025. As a result, deficits should continue until pressure mounts (**Figure 6**).
- Russia’s invasion of Ukraine and US-China tensions have led to geopolitical uncertainty being elevated relative to US economic policy uncertainty (**Figure 7**).
- Many US voters would rather not have a rematch between President’s Biden and Trump. But rematches have occurred throughout history. In Allan Lichtman’s book, *The Keys to the White House*, the Democratic Party’s chances of holding onto the White House could go down if they selected someone other than President Biden as their standard bearer. According to [PredictIt](#), the Democrats currently have a 55 percent chance in maintaining the White House (**Figure 8**).

Figure 1: Presidential Year Stock Market Returns using S&P 500



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Election Year Referendum

On November 5, 2024, the US will hold its 60th Presidential election.

Between now and early 2024, the market will engage in a referendum on both the economy and the administration. Historically, the stock market has performed better early on in election years when the incumbent party's candidate went on to victory (**Figure 1**). The early part of the year includes the President's State of the Union Address which has occurred between January 12 and March 1 since 2000. After then catching up, the market has tended to stumble again prior to the election when the incumbent lost.

Recessions have been far more common in years one and four (2024) of a Presidential term than in years two and three (**Figure 2**). We believe we are in a rolling recession where construction and manufacturing have already contracted but may be on the mend by the time other sectors succumb to the headwinds of monetary policy tightening which works with long and variable lags. By contrast, the recessions of 2020 and 2007-2009 saw many industries contract simultaneously which made those episodes easier to identify.

The 2024 election is on course to be the first since 1980 to take place with a higher 10-year Treasury yields than four years prior.

Figure 2: Recessions and Presidential Cycle

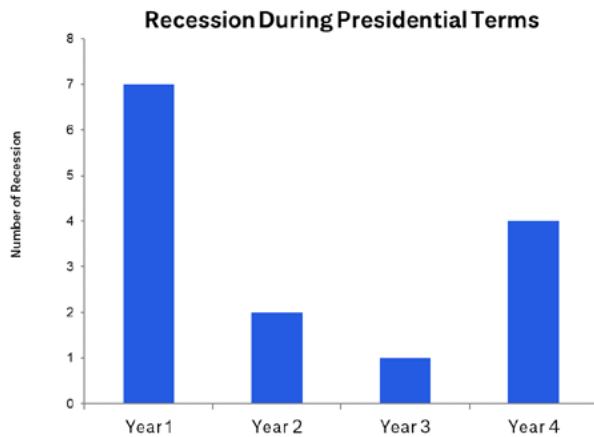
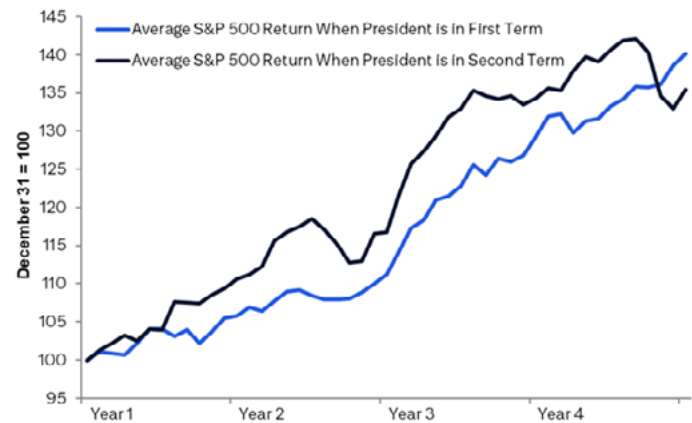


Figure 3: Stock Market Returns by Presidential Term



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Second Term Presidents

The 2024 election will determine if US domestic and foreign policy stays on course or changes direction. If former President Trump is the Republican nominee and wins re-election, that could mean higher tariffs, tighter borders, and an "America first" foreign policy.

The current top contenders, Presidents Biden and Trump, would each be a second-term President. First-term Presidents must be mindful of the economy to be re-elected, but second-termers may be incentivized to focus more on international interests or sealing their legacy for the history books.

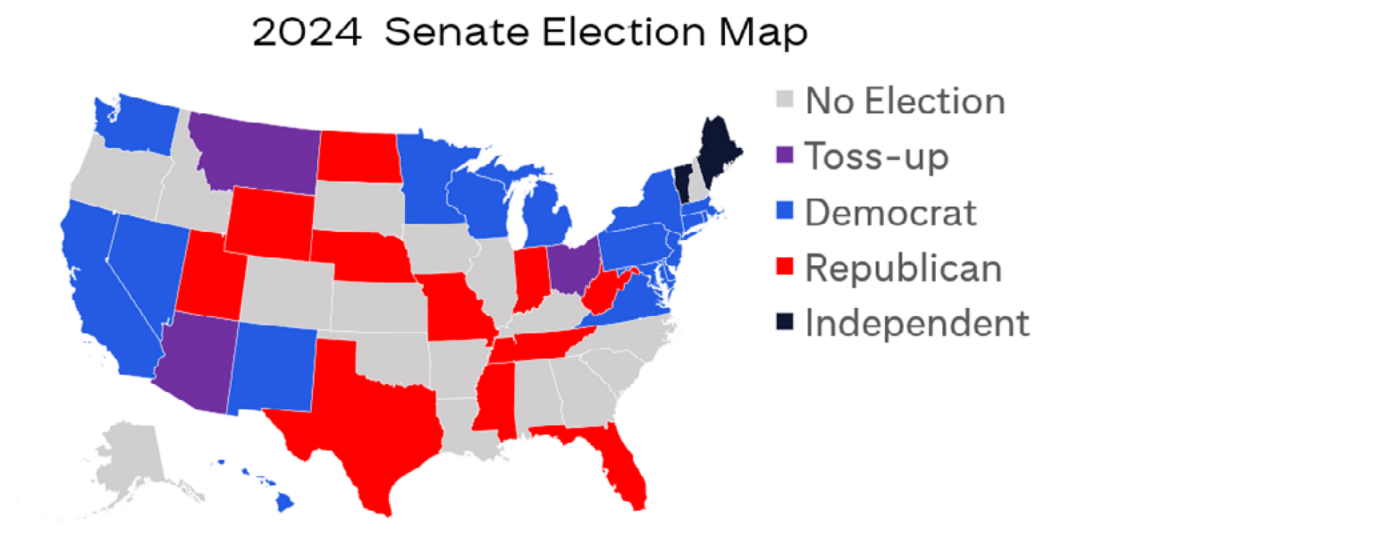
Equities typically perform better in the first year of a second term than a first term. But they often post lackluster performance near the end of a President's second term when succession uncertainty rises (**Figure 3**).

2024 Electoral College and Senate Map

The 2024 election will be the first to incorporate the results of the 2020 Census on each state's Electoral College vote total. Texas gained two votes while Colorado, Florida, Montana, North Carolina, and Oregon each gained one. California, Illinois, Michigan, New York, Ohio, Pennsylvania, and West Virginia each lost one vote. As a result of these changes, if voting in 2024 were to be identical to 2020, the 2024 election would yield a 303—235 Democratic victory versus the 306-232 actual electoral outcome of 2020.

Presidents have significant free reign when it comes to foreign policy, but they must work closely with Congress on domestic matters, especially when it comes to spending initiatives. Currently, Republicans control the House of Representatives with a [slim 222-212 majority](#) with one vacant seat. These seats are up for re-election every two years but right now it appears that only 6% of these seats will likely involve a competitive November 5th election. By contrast, one-third of the 100 Senate seats are up for election every two years. Of the 34 Senate seats up in 2024, 20 are held by Democrats, 3 by Independents who caucus with the Democratic party and 11 by Republicans, including one special election (**Figure 4**). Currently, most of these seats appear safe. Two toss-up seats are currently held by Democrats, and one is held by an Independent who caucuses with the Democrats. Republicans can take control of the Senate by gaining two seats or one seat plus the Presidency with the Vice President holding the tie-breaker vote when needed. Historically, the stock market has generally preferred divided government and gridlock over a unified government that can more easily pass sweeping legislation (**Figure 5**).

Figure 4: 2024 Senate Map



Source: 270toWin.com as of September 15, 2023. For illustrative purposes only. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

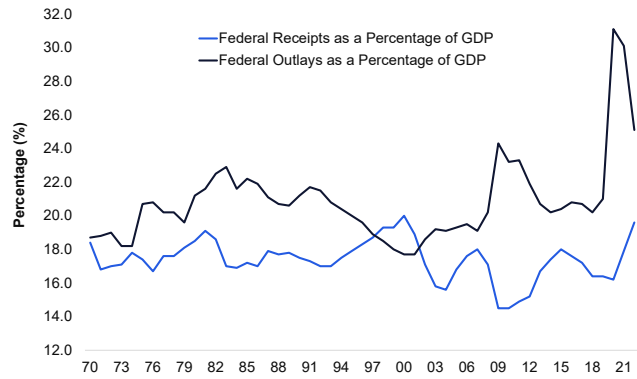
Domestic vs Foreign

In 2024, neither party appears anxious to reform Social Security or allow provisions of the 2017 tax cuts to sunset in 2025. As a result, the wide gap between fiscal spending and revenues, known as the budget deficit, that has existed since 9/11 and the Financial Crises of 2008, is apt to persist until pressure mounts to do something about it (**Figure 6**). Meanwhile, the change in Russia's relationship with the West and US-China tensions have resulted in geopolitical uncertainty being higher than US economic policy uncertainty (**Figure 7**).

Figure 5: S&P 500 Returns by Type of Government (Split or United) Since 1928



Figure 6: Federal Spending and Revenues as Share of GDP (Fiscal Year, %)



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Figure 7: US Economic Policy and Geopolitical Uncertainty

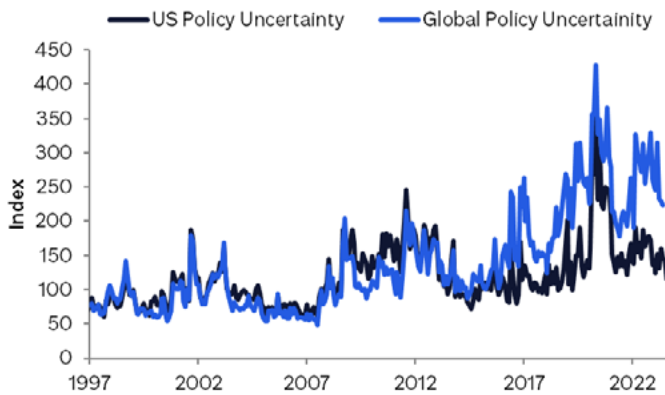
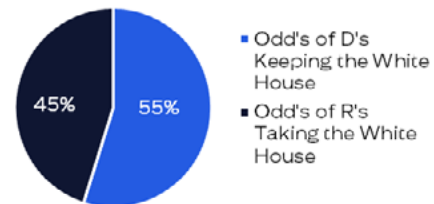


Figure 8: 2024 President Election Odds

Current Predictit Odds of 2024 Presidential Election



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Rematches and Election Odds

[Many US voters would rather not have a rematch between Presidents Biden and Trump.](#) Although not obvious now, both parties do have other viable candidates should a current top contender drop out for health or other reasons. But rematches have happened throughout US election history and could happen in 2024. In reverse order, Dwight Eisenhower defeated Adlai Stevenson in 1952 and again in 1956. In 1896 and 1900, William McKinley defeated William Jennings Bryan. In 1892, Grover Cleveland became the first President to be elected, defeated, then elected again with his challenger being Benjamin Harrison in 1888 and 1892. Martin Van Buren defeated William Henry Harrison in 1836 but lost to him in 1840. John Quincy Adams defeated Andrew Jackson in 1824 but Jackson avenged what he claimed was a “corrupt bargain” in 1828. John Adams beat Thomas Jefferson in 1796. Under the rules of the day, that resulted in Jefferson being his Vice President. The rules changed to incorporate two-person tickets, effectively running mates, and Jefferson came out on top in 1800.

American University Professor, Allan Lichtman, developed a methodology for forecasting Presidential elections involving 13 key variables explained in his book, *The Keys to the White House*.¹ His methodology has accurately called nine of the ten most recent elections with the exception being the nail-biter of 2000. It is too early to telescope the outcome. But according to Professor Lichtman's methodology, the chances of maintaining the White House would go down for the Democratic Party if they chose a candidate other than President Biden as their standard bearer. The odds would drop further if an intra-party challenge for the Democratic nomination transpired. If widespread dissatisfaction led to an impactful third-party candidate entering the race, like Ross Perot in 1992, it would also chip away at the incumbent party's chances. By contrast, only one of the 13 keys involves the challenger and none of the Republican party candidates have widespread Eisenhower or Reagan-like charisma. The premise of Professor Lichtman's methodology is that all elections are a referendum on the incumbent party and re-election is either earned or it isn't. If it isn't, whomever the challenger happens to be will get an opportunity to do a better job.

According to PredictIt, Democrats currently have a 55 percent chance in maintaining the keys to the White House (**Figure 8**). Of course, it's a long way between now and November 5, 2024. Stay tuned!

¹ A. Lichtman, *The Keys to the White House*, New York, Rowman & Littlefield Publishers, Inc, 2008

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Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
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Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

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