Trump vs. Harris:

Navigating the 2024 Presidential Election

Cetera®

Cetera® Investment Management LLC

The 2024 presidential election between former President Donald Trump and current Vice President Kamala Harris is fast approaching. It's the 60th U.S. presidential election and one of the most eventful election cycles, to say the least. Though we are in an environment of heightened political polarization, at Cetera Investment Management, we focus on providing independent market and economic research, regardless of which political party or candidate is in power. It's crucial to look through the fog of partisan politics.

In this commentary, we will discuss key economic policy items for the next administration, review past election cycles for insights into financial market behavior, and examine the current landscape as we approach the election.

Presidential Potpourri

"Unpresidented." If elected, Kamala Harris would make history as the first female president of the United States. She became the first female Vice President 100 years after the 19th Amendment granted women the right to vote. Before her, only three women had been on a major party presidential ticket: Geraldine Ferraro (1984 VP nominee), Sarah Palin (2008 VP nominee), and Hillary Clinton (2016 Presidential nominee).

Three-Time Candidate. Donald Trump is running for president in his third consecutive election. He joins five others who have run as a major party candidate at least three times: Thomas Jefferson, Grover Cleveland, William Jennings Bryan, Franklin D. Roosevelt, and Richard Nixon.[1] FDR is the only four-time candidate and four-term president.

Non-Consecutive. If elected, Donald Trump would become the second president to serve two non-consecutive terms. Grover Cleveland, the 22nd and 24th president, is the only president to have done so.[1]

Presidential Boom. Donald Trump was born in 1946, the first year of the baby boom, and Kamala Harris was born in 1964, making her the youngest member of the baby boom generation. Regardless of the outcome in November, baby boomers will have won eight of the last nine presidential elections, occupying the White House for 32 of 36 years by the time the next four-year term ends in January 2029.

The Golden State. Born in Oakland, California, Kamala Harris would become the second president born in the Golden State if elected. Richard Nixon is currently the only president that was born in our country's most populous state.

It's a Matter of Policy

Campaign rhetoric about policy often differs from actual policy implementation. The winning candidate may face limitations if the opposing party gains control of Congress. In such cases, a split government will either impede legislation or lead to a more balanced approach toward ambitious policies. A clean sweep, where one party wins the presidency and both chambers of Congress, would present the opportunity for more ambitious policy goals. Even then, competing interests within the controlling party could water down or stall policy initiatives.

When it comes to government policy, markets care most about monetary and fiscal policy, with regulatory and trade policy increasingly in focus. We highlight the key matters on this front for the next administration:

Monetary Policy

The Federal Reserve (Fed) operates as an independent body, free from political interference, to set interest rate policy and oversee the banking system, among other duties. The President is responsible for nominating the Federal Reserve Chair, and Congress confirms the Fed Chair and provides oversight. This is also true for the other six members of the Board of Governors of the Federal Reserve. Jerome Powell has served as the Chair of the Federal Reserve since 2018, initially nominated by Donald Trump and renominated by Joe Biden in 2022. Powell's future in this role may depend on upcoming election results. Although Donald Trump has been candid about replacing Powell as Fed Chair when his term concludes in May 2026, it remains uncertain whether Kamala Harris would renominate him for a third term. If elected, it is unclear who Trump would nominate as the next Fed Chair, though he is on the record expressing a desire for greater influence over interest rate decisions.

During his six-and-a-half years as Fed Chair, Powell guided the Federal Reserve through the pandemic with near-zero interest rates, later raising them to the highest levels in over two decades to combat the post-pandemic inflation surge. Regardless of the outcome of the presidential election, there will be continuity at the Fed in the first year of the new administration.

It is widely expected that the Fed will pivot to cutting interest rates as inflationary pressures and labor market conditions moderate. Futures markets are pricing in rate cuts for each of the three meetings left in 2024. This trend is expected to continue in 2025 if recent labor market and inflationary trends persist. Both candidates would likely welcome interest rate cuts in the first year of the next presidential term, as they are more inclined to provide stimulative effects for the economy. However, in 2026 and beyond, there is uncertainty about who will lead the Fed, and ultimately guide the path of interest rates.

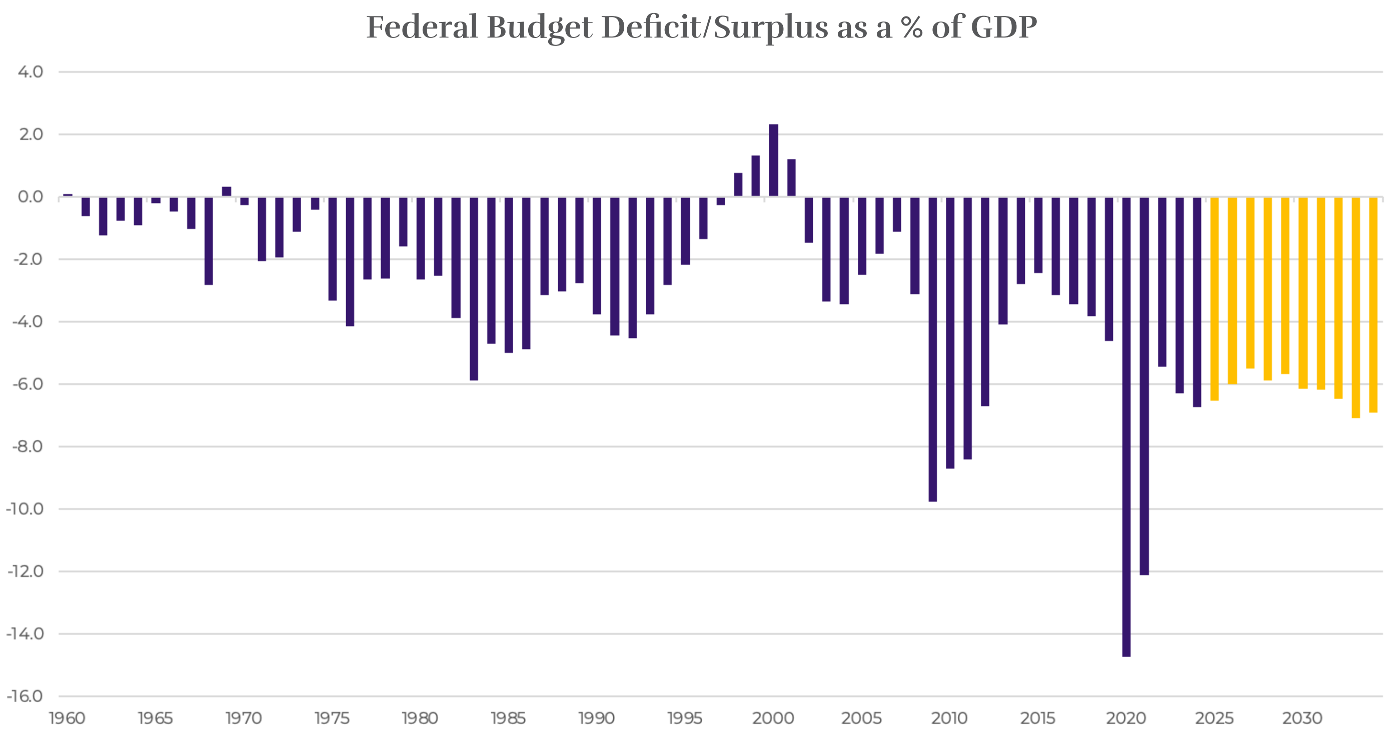
Fiscal Policy

During his term as President, Donald Trump's signature piece of tax legislation was the 2018 Tax Cuts and Jobs Act, otherwise known as the Trump tax cuts. Most of the key provisions are set to expire at the end of 2025 unless Congress takes action. Trump wants to extend the tax cuts for both individuals and corporations. On the other hand, Kamala Harris has pledged not to raise taxes on anyone making under $400,000 a year if elected.[2] Allowing tax rates to revert to higher levels for high-income individuals and corporations is a possibility if Democrats sweep this election. The post-election composition of Congress will heavily influence the details of any tax cut extensions and will be one of the highest priorities in Congress next year.

The signature legislative items for the Biden-Harris Administration were the 2021 Infrastructure Investment and Jobs Act and the CHIPS and Science Act, both passed with bipartisan support, authorizing a combined $830 billion in new funding. While Congress has the power to amend or reverse spending in these legislative items, changes would likely be marginal due to the bipartisan support they receive. The Inflation Reduction Act (IRA) of 2022, on the other hand, was passed by a slim margin without any Republican support. The IRA includes revenue generation from prescription drug pricing reform and more robust IRS tax enforcement, with over $400 billion in new spending mostly tied to climate change investment. While Republicans have been critical of this bill, it will take a clean sweep in the election—with Donald Trump winning the presidency and Republicans controlling both chambers of Congress—to alter or repeal the authorized spending provisions in the IRA.

Broadly speaking, fiscal deficits will likely remain large with either candidate as President. Republicans generally favor tax cuts, while Democrats tend to focus on tax credits and spending initiatives.

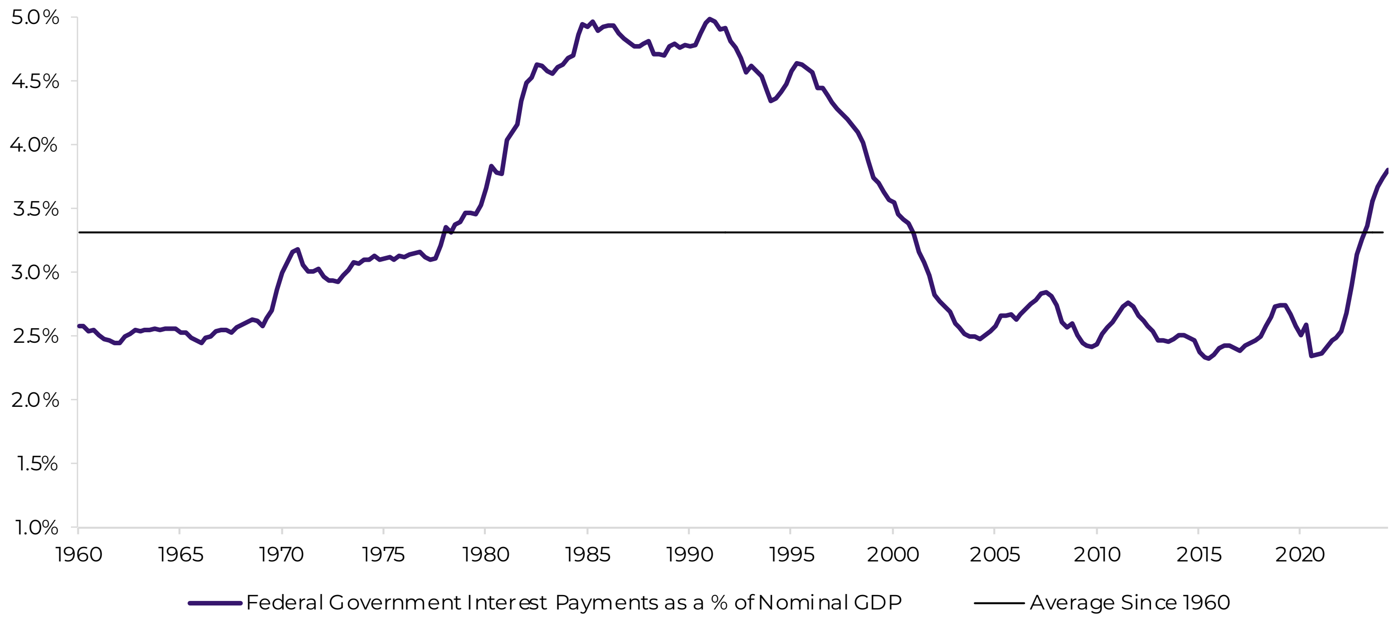
Figure 1: Federal Budget Deficits



Source: Cetera Investment Management, FactSet, U.S. Congressional Budget Office (CBO). Above zero indicates a budget surplus and below zero indicates a deficit. The yellow bars are CBO projections for 2024-2034.

Fiscal restraint might regain popularity at some point, though austerity measures aren't always popular on the campaign trail. For example, both Trump and Harris have shown support for eliminating income tax on tips for service workers. The cost of servicing debt has risen significantly due to higher interest rates. When borrowing costs were low, increasing debt was less of a burden on government finances, but that is no longer the case. Interest costs as a percentage of nominal GDP are now at levels not seen since the 1980s and 1990s. Although overall debt levels were lower back then, interest rates were generally higher. This could restrict both Trump and Harris from implementing more aggressive fiscal policy initiatives.

Figure 2: Interest Payments as a Percentage of GDP



Source: Cetera Investment Management, Federal Reserve Bank of St. Louis, U.S. Bureau of Economic Analysis. Data as of 6/30/2024.

Regulatory and Trade Policy

There will be several critical regulatory issues for the next administration to address. Regulatory oversight of artificial intelligence, a major area of technological investment, will be a hot-button issue for the next President. Healthcare costs will also come into focus as the elderly population grows. U.S. energy policy in our increasingly fragmented world will be another key area of regulatory concern. Donald Trump is generally viewed as favoring deregulation, particularly with energy policy, with a preference for increased natural resource drilling. However, the U.S. is already at record levels of production and leads globally, therefore additional capacity may be constrained. In contrast, Kamala Harris prefers relatively more regulatory oversight.

International trade remains a contentious issue, particularly regarding tariffs. Both candidates support tariffs on goods from China and advocate for more equitable trade. However, Donald Trump favors a more aggressive approach with tariffs and aims to devalue the U.S. dollar to boost exports. Devaluing the dollar through intervention may prove challenging due to the large foreign ownership of U.S. Treasuries and equities, which requires dollars to purchase these assets. Additionally, relatively higher interest rates and a stronger U.S. economy compared to key trade partners complicate efforts to devalue the dollar.

How Markets Cycle Through the Presidential Cycle

As Mark Twain famously said, "History doesn't repeat itself, but it often rhymes." This sentiment seems applicable when looking at historical market returns during the election and presidential cycles. While it's not true in all years, market volatility often rises leading up to the election, followed by a post-election rally through the inauguration. On average, the first year of the presidential cycle is strong, while the second year is typically the weakest. Throughout four-year presidential cycles, returns have generally been positive, with only a few instances of negative returns in the post-WWII era. Let's take a closer look as we cycle through the presidential cycle.

Pre-Election Jitters

Investors are often on edge in the few months leading to the presidential election. September and October are already notoriously challenging months for markets. In the 19 presidential election years since WWII, the S&P 500 has had an average total return of -0.6% in the 60 days leading up to the election. Returns were negative four out of six times in the 60 days leading up to presidential elections this century, including a 7.6% decline in the 2020 election cycle.

In the post-WWII era, average returns in this 60-day window are better when the incumbent party wins, with an average return of 2.9%, compared to an average return of -3.6% when the challenging party wins. Of the nine elections in this period where the incumbent party won, the S&P 500 was up eight times, while returns were positive only three of ten times when the challenging party won. This pattern makes sense because markets dislike uncertainty, political or otherwise. Stronger returns leading into the election when the incumbent party wins could also suggest that markets have good intuition about the election's outcome. We aren't in the political prediction business, however, positive returns in the 60 days leading into the election could be a favorable omen for Kamala Harris, while weak returns might be a better sign for Donald Trump. Then again, Donald Trump was president only four years ago, so there is less uncertainty about his economic agenda compared to the typical challenger.

Figure 3: Pre-Election Returns

S&P 500: 60-Days Before Election

Election Year	Winner	Party	Incumbent Party?	Return (%)
1948	Truman	Democratic	Incumbent	3.3
1952	Eisenhower	Republican	Challenger	-2.6
1956	Eisenhower	Republican	Incumbent	-0.9
1960	Kennedy	Democratic	Challenger	-1.2
1964	Johnson	Democratic	Incumbent	3.5
1968	Nixon	Republican	Challenger	3.1
1972	Nixon	Republican	Incumbent	3.1
1976	Carter	Democratic	Challenger	-0.9
1980	Reagan	Republican	Challenger	2.3
1984	Reagan	Republican	Incumbent	2.6
1988	Bush I	Republican	Incumbent	3.0
1992	Clinton	Democratic	Challenger	1.1
1996	Clinton	Democratic	Incumbent	7.8
2000	Bush II	Republican	Challenger	-4.0
2004	Bush II	Republican	Incumbent	2.2
2008	Obama	Democratic	Challenger	-24.2
2012	Obama	Democratic	Incumbent	1.0
2016	Trump	Republican	Challenger	-2.5
2020	Biden	Democratic	Challenger	-7.6

Winning Party	Average (%)
Incumbent	2.9
Challenger	-3.6
Democratic	-1.9
Republican	0.6
Election Years (1948 - 2020)	-0.6

Source: Cetera Investment Management, FactSet, Standard & Poor's. Returns dates are the 60-days leading up to Election Day.

Post-Election Relief

A post-election relief rally occurred in nine of the last eleven presidential elections since 1980 and in 13 of the 19 post-WWII elections. This is measured from the day after Election Day through Inauguration Day, which usually falls on January 20. Returns are only slightly better on average when the incumbent party wins. In the last two election cycles, the S&P 500 saw an above-average return of 6.2% from the day after the 2016 election through Donald Trump's inauguration. The post-election boost was even stronger after Joe Biden won in 2020, with the S&P 500 rising 14.3% from Election Day through Inauguration Day, the highest in the post-WWII era. In both cases, the challenging party won, yet returns were still strong. In the last two elections where the incumbent won, in 2004 (George W. Bush) and 2012 (Barack Obama), the post-election rally generated a 4% return in each case. The risk of political uncertainty is lower once the election is over.

Figure 4: Post-Election Returns

S&P 500: Election Day to Inauguration Day

Election Year	Winner	Party	Incumbent Party?	Return (%)
1948	Truman	Democratic	Incumbent	-7.2
1952	Eisenhower	Republican	Challenger	6.3
1956	Eisenhower	Republican	Incumbent	-6.7
1960	Kennedy	Democratic	Challenger	8.8
1964	Johnson	Democratic	Incumbent	1.7
1968	Nixon	Republican	Challenger	-1.4
1972	Nixon	Republican	Incumbent	4.2
1976	Carter	Democratic	Challenger	-0.1
1980	Reagan	Republican	Challenger	2.0
1984	Reagan	Republican	Incumbent	2.8
1988	Bush I	Republican	Incumbent	4.2
1992	Clinton	Democratic	Challenger	3.2
1996	Clinton	Democratic	Incumbent	8.8
2000	Bush II	Republican	Challenger	-6.2
2004	Bush II	Republican	Incumbent	4.0
2008	Obama	Democratic	Challenger	-19.9
2012	Obama	Democratic	Incumbent	4.0
2016	Trump	Republican	Challenger	6.2
2020	Biden	Democratic	Challenger	14.3

Winning Party	Average (%)
Incumbent	1.7
Challenger	1.3
Democratic	1.5
Republican	1.5
Election Cycles (1948 - 2020)	1.5

Source: Cetera Investment Management, FactSet, Standard & Poor's. Returns are from the day after Election Day to Inauguration Day.

The Four-Year Cycle

It becomes apparent how indifferent capital markets are about presidential politics when examining returns over 4-year presidential cycles. Historically, returns have been strong, regardless of whether Democrats or Republicans occupied the White House. In the 19 post-WWII 4-year presidential cycles, the S&P 500 posted positive returns 17 times, with an average annualized return of 11.9%. The only exceptions were during George W. Bush's two terms, where returns were negative. His presidency coincided with the tech bubble burst when he entered office and ended with the onset of the Great Financial Crisis, which dragged down market performance.

Since then, the S&P 500 has achieved double-digit annualized returns during each 4-year presidential term. The stock market's strong recovery after the financial crisis was supported by historically low valuations, which helped fuel outsized gains. As President Biden's term comes to an end, the next president will inherit equity valuations near their highest since George W. Bush entered office. However, while valuations may influence market dynamics, other factors could dictate future returns.

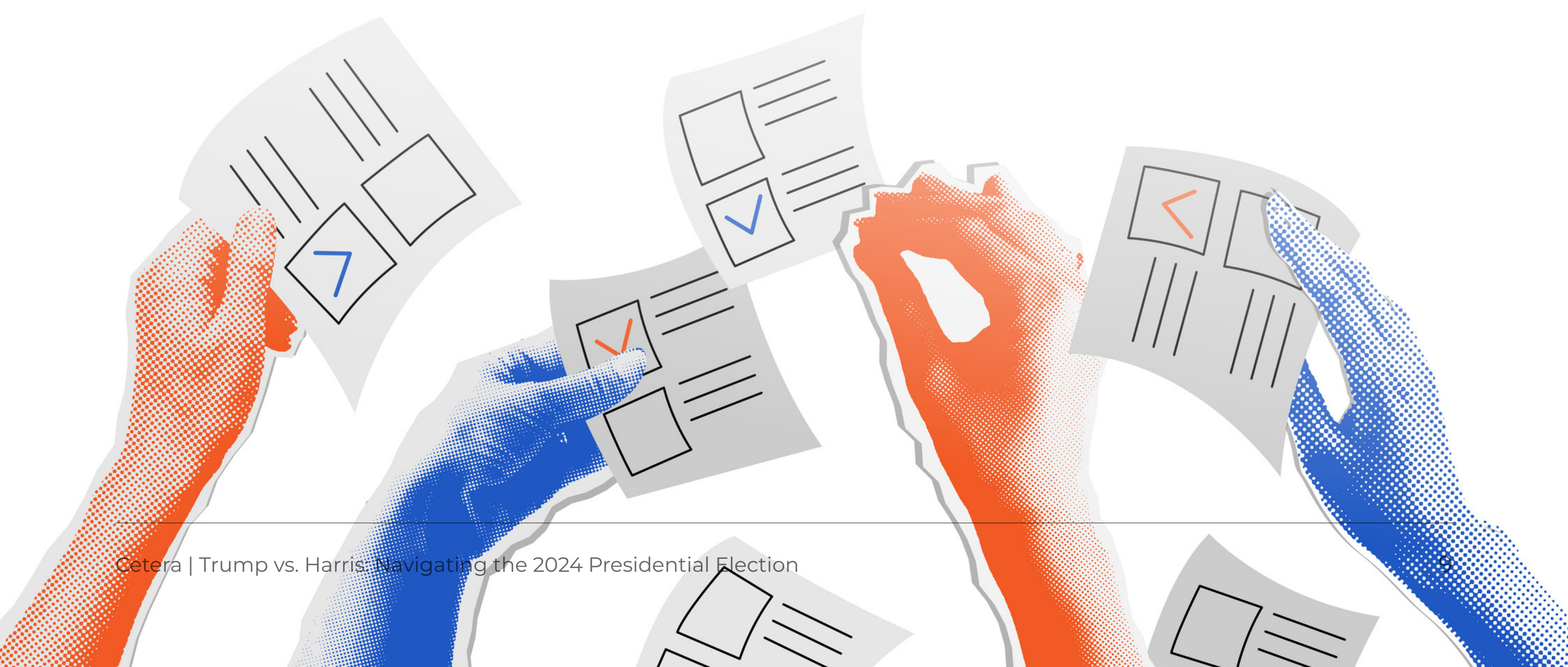
Figure 5: Four-Year Presidential Cycle Returns

S&P 500: 4-Year Presidential Cycle Returns

President	Party	4-Year Term: Start Date	4-Year Term: End Date	Annualized Return (%)
Truman	Democratic	1/20/49	1/19/53	22.9
Eisenhower	Republican	1/20/53	1/20/57	20.5
Eisenhower	Republican	1/21/57	1/19/61	9.5
Kennedy/Johnson	Democratic	1/20/61	1/19/65	13.4
Johnson	Democratic	1/20/65	1/19/69	8.6
Nixon	Republican	1/20/69	1/19/73	6.6
Nixon/Ford	Republican	1/20/73	1/19/77	1.6
Carter	Democratic	1/20/77	1/19/81	11.7
Reagan	Republican	1/20/81	1/20/85	10.8
Reagan	Republican	1/21/85	1/19/89	18.6
Bush I	Republican	1/20/89	1/19/93	14.7
Clinton	Democratic	1/20/93	1/19/97	18.6
Clinton	Democratic	1/20/97	1/19/01	16.3
Bush II	Republican	1/20/01	1/19/05	-1.5
Bush II	Republican	1/20/05	1/19/09	-6.1
Obama	Democratic	1/20/09	1/20/13	17.5
Obama	Democratic	1/21/13	1/19/17	13.5
Trump	Republican	1/20/17	1/19/21	16.0
Biden	Democratic	1/20/21	7/31/24	12.9

Party	Average (%)
Democratic	15.0
Republican	9.1
All 4-Year Cycles (1949-2024)	11.9

Source: Cetera Investment Management, FactSet, Standard & Poor's. Returns shown are total return, which include dividends. President Biden's 4-year term is incomplete. The most recent month-end date (7/31/2024) at the time of writing was used as the end date.



Economic and Political Landscape Ahead of the 2024 Election

There is a downshift in economic momentum ahead of the November election. Labor market growth is decelerating, with the unemployment rate edging higher, while housing activity remains muted due to elevated interest rates. Consumer spending is also moderating, though it remains at healthy levels. Keep in mind that data can be noisy from month to month. The initial reading of second-quarter GDP was a respectable 2.8%. Furthermore, inflationary pressures are easing. More than two years have passed since CPI inflation peaked at a 40-year high of 9% year-over-year. As of this writing, annual CPI inflation has slowed to 2.9%, with the annualized pace over the last five months at just 1.9%, below the Fed's long-term target of 2.0%. Wage growth is again outpacing inflation. The Fed is on the cusp of lowering interest rates, which could provide relief to interest-rate sensitive sectors like housing, commercial real estate, and autos.

Each of the two candidates will face the challenge of a moderating economy when the next four-year term begins in January. While a recession is not imminent, the risk increases if the Fed is too slow in cutting interest rates. Currently, the economy remains stable, and Fed Chair Jerome Powell has demonstrated a willingness to be aggressive with interest rate policy when necessary. With bond yields trending lower, the federal government will also benefit from reduced interest costs for servicing government debt. Both candidates will need to navigate large annual deficits, rising government debt, and heightened geopolitical tensions in several regions around the globe.

The president doesn't have a lever to meaningfully influence the stock market, which is driven by corporate earnings and the broader global economy. Although market returns have been favorable in four-year presidential cycles since the 2008 financial crisis, high equity valuations, particularly in tech-oriented mega-cap growth stocks, could pose a challenge looking forward. Market volatility increased in August, but the S&P 500 reached a new record high 38 times this year (as of July 31), bolstered by strong performance in the first half of the year. The path forward will be influenced by corporate earnings growth and the direction of the economy.

At the time of this writing, betting markets indicate a close election, with Kamala Harris holding a narrow lead in the national polling average. Key battleground states are polling within the margin of error, suggesting a tight race. A close result could lead to another contested election, similar to what we experienced in 2000 and 2020. It's a potential risk for markets, as it draws out the election outcome and increases market volatility. At the congressional level, Democrats have more Senate seats to defend this cycle, giving Republicans a chance to gain a majority in the Senate for the first time in four years. This opportunity stems from the narrow Democratic majority and the higher number of seats to defend, with several competitive states at play. The Republicans currently hold a narrow majority in the House of Representatives. While the party that wins the White House might have an edge in gaining control of the House, this isn't always guaranteed. We expect a close race, but the election outcome probably won't significantly impact your portfolio in the long run, if history is any guide.

We Are All in This Together

The political pendulum swings between the two major parties every four to eight years. Despite this back-and-forth, the United States has been on a remarkable growth trajectory since George Washington took office in 1789. While attention is often on the macro level, real progress happens at the ground level. It's the people who propel the United States forward, with the president along for the ride, just like the rest of us. The same can be said for the stock market. History has shown that markets are largely indifferent to presidential politics, making it wise to keep partisanship out of your investment strategy.

We often hear that this election is the most important of our lifetime. This sentiment has been expressed in previous presidential elections and it will likely be repeated in 2028 and beyond. On November 5,* we can freely express our right to vote. It's a cherished right that should never be taken for granted. In today's hyper-polarized political climate, it's also vital to respect one another, find common ground, and do our part to make a difference. We are all in this together.

*Check your individual state for early and mail-in voting guidelines.

Sources

1: Gans, Jared (March 2024). 5 candidates besides Trump who have been a major party nominee 3 times. The Hill. https://thehill.com/homenews/campaign/4563912-donald-trump-franklin-roosevelt-grover-cleveland-thomas-jefferson/

2: Cancryn, Adam (July 2024). Harris maintains Biden's pledge not to raise taxes on middle class. Politico. https://www.politico.com/news/2024/07/26/harris-biden-pledge-not-raise-taxes-middle-class-00171416

Disclosures

The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries

Cetera®