

Market Update Election Edition- 10/28/2024

In this note:

- **What recent data is saying about stock markets over the next 6-12 months**
- **Are the markets indicating who the winner of the election will be?**
- **Possible market effects depending on who wins.**

As long time readers know, I love political philosophy. My “mater familias” was a PhD in political science and passed on her love of the topic to me. It used to be easy and fun to talk about politics with people of all stripes. Now it seems to have become harder, and that’s unfortunate. To quote a friend, “having the ability to communicate about any topic is at the core of a good relationship.” One thing I’ve never done in these updates is discuss which, if any, candidate or politics I would prefer. My intention is to keep everything to a “if they do this, here’s what I think will happen” type of note. That way I can offend everyone equally. So, be ready to get offended when I discuss your candidate’s economic proposals and what I think the underlying effects will be. Of course, I could be wrong because the world works in mysterious ways.

Here’s a statement that is easy to check. Over the past 15.5 years, it seems the stock markets haven’t cared which party was in power at the presidential level. The markets zoomed up under Obama. Did the same w/ Trump. And we’ve all made nice returns under Biden. So, if you are concerned the markets are going to tank if your candidate isn’t elected, my opinion is, if the markets do decline, that won’t be the primary reason. There are too many other variables at work. For Obama and Trump, they had steadily declining interest rates and a supportive Federal Reserve. For Biden (and Trump in the 2nd half of 2020), it’s been a continuation of the largest sustained government spending spree on record that is keeping corporate profits and margins at an all-time high.

The Next 6-12 months:

While it may be difficult to believe, the underlying market data is supportive of more gains to come. Sentiment Trader has published numerous recent articles on various market data that bodes well for future returns. While none of the following are “guarantees” of stock market gains, historically, they have all been predictive of a high percentage of positive outcomes in 6-12 months (the shorter term is a little more uncertain).

- 1) Recently the SP 500 index* experienced 30 sessions with no back to back losses. This is one of the best streaks of all time. Returns after similar past stretches were excellent over the next 6-12 months (although the month immediately following was often choppy and a coin flip on whether it was up or down.^
- 2) Big industrial stocks such as Caterpillar, Union Pacific and others have been showing relative strength vs the overall stock market portending bullish outcomes.*
- 3) The S&P 500 Index closed above its 200 day moving average for over 240 consecutive sessions. This is a relatively rare event and has preceded a high percentage of positive returns over the following year^^
- 4) Several market breath indicators with a flawless track record just triggered a buy signal. When more sectors of the market show companies at all time high prices, it has preceded a period with a high likelihood of more gains.**

^<https://users.sentimentrader.com/users/sentimentedge/btfd-is-back-and-better-than-ever>

*https://users.sentimentrader.com/users/blog/daily_report_10_17_2024?

^^<https://users.sentimentrader.com/users/modeledge/an-impressive-win-streak-for-the-sp-500-suggests-more-upside->

**https://users.sentimentrader.com/users/blog/daily_report_10_15_2024?

Now, I'm going to temper the prospect of new market highs next year a bit. Goldman Sachs (GS) recently provided a long range (10 year) forecast incorporating a variety of factors (valuations, concentration, interest rates, etc.) and came out with this statement:

"We estimate the S&P 500 will deliver an annualized nominal total return of 3% during the next 10 years... and roughly 1% on a real basis (net of inflation)."*

Now that seems bleak – only a 3% year gain for 10 years? 1% after inflation? Of course, they are the lowest predictors on the street - the average projected annual return is about 6% over the next 10 years.* If GS is remotely correct, it reinforces the “structured outcome contract”^ method of investing whereby one invests a year (or 2) at a time, using protective buffers to eliminate or reduce losses in bad times (call/email for more information).

*<https://www.zerohedge.com/the-market-ear/forget-about-roaring-20s>

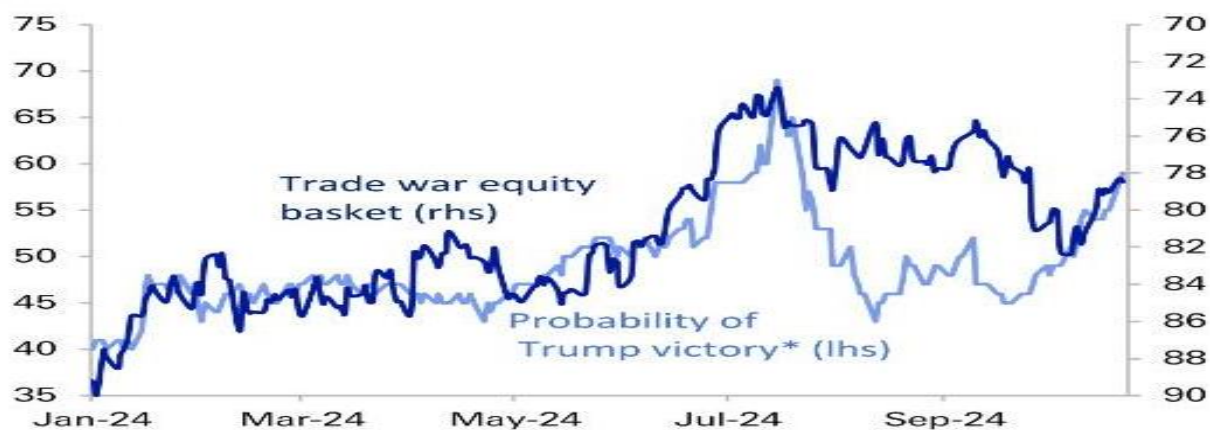
^<https://tacticaladvisoryservices.com/buffered-securities>

Stock Market Election predictions:

With all that stated, let's look at what the current markets appear to be saying about who will win the 2024 presidential election. Remember, this is teasing out ostensibly “republican” stocks and “democrat” stocks and comparing their recent performance. It is not definitive and is not official polling or betting markets (unless you want to call investing in stocks “betting.”)

As most of you know, Trump has proposed large tariffs (taxes) against China and smaller tariffs against the rest of the world.* Without getting into the pros or cons of the potential policy, the chart graphs stocks (dark blue line – right hand side) that are sensitive to high tariffs and the probability of a Trump win (left hand side-light blue line). Notice how the stock values have declined over the past month or so (\$83 to \$78) as it appears Trump's odds of victory are increasing (those same stocks had gone up considerably (\$73 to \$83) after Biden was replaced by Harris and Trump's odds declined from late June - Mid Aug).

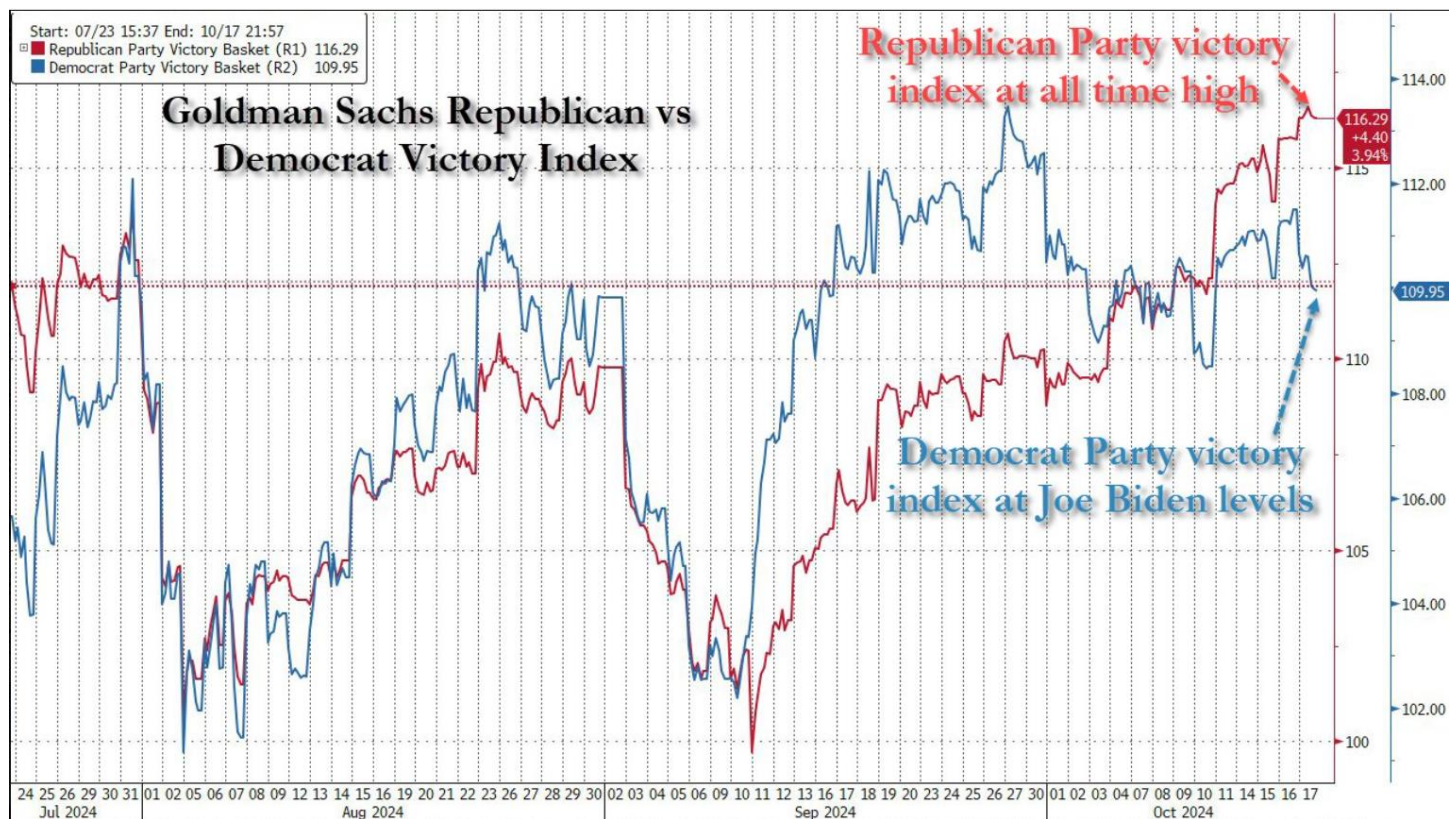
*<https://apnews.com/article/tariffs-trump-taxes-imports-inflation-consumers-prices-c2eef295a078a76ce2bb7fedb0c5e58c>



Source: Deutsche Bank, *PredictIt. Equity basket is ratio of 11 S&P 500 consumer/industrial stocks highly sensitive to tariffs versus their industry grouping

A question on this is whether Trump can actually impose the tariffs by himself. The answer appears to be “yes.” ^ By declaring an “emergency,” the president has the power to invoke tariffs on imported products. There are potential limits if the Congress has a veto proof majority, but that seems unlikely. Please read the link for more info on this.

^<https://www.nationalreview.com/corner/trump-probably-can-unilaterally-impose-sweeping-tariffs/>?



Here's a chart from Goldman Sachs showing stocks that, theoretically, would profit under a democrat administration (blue line) and a republican administration (red line). As you can see, "blue" stocks were much higher until about Sept 26th. Since that date, the "republican" stocks have outperformed the "democrat" stocks by a wide margin. ^

This is not a predictor of future returns or a guarantee of a republican victory. 1000 things can happen before the election and in the markets.

^<https://www.zerohedge.com/markets/wall-street-going-all-trump>

Finally, here's a chart of the 10 year government bond (blue line). As you can see, in the past month or so, rates have gone up considerably (from about 3.70% to 4.22%). When Trump was elected in 2016, rates skyrocketed. Maybe it's a coincidence they are doing the same now. Or maybe they are seeing continued high spending and higher tariffs as inflationary and are re-setting in advance.

Source: Yahoo Finance



These charts were not cherry picked. There were several others I could have added to these. I could not find a single chart showing a basket of “Harris” stocks doing better than “Trump” stocks in the last month. Remember, don’t shoot the messenger

So, apparently, the stock and bond markets believe Trump is going to win. The question is...what to do if that happens or in any scenario?

Possible Market Effects:

With the caveat that much may happen between now and Nov 5th (or whenever the election is called). Here's a table with some general guidelines.^ Remember, these are just opinions and could be wrong.

	Republican Sweep	Trump Only	Democrat Sweep	Harris Only
Interest rates	Probably higher due to inflation from tariffs and higher govt spending	Probably lower as lower govt spending offset by higher tariffs	Probably higher due to more govt spending somewhat offset by more regulation and higher taxes	A “crapshoot.” Depends on whether mass govt spending continues.
Stocks	Probably higher as more spending and less regulation may offset higher tariffs	Probably lower as inflation from tariffs reduces growth and less govt spending	Not certain. The govt money keeps flowing but more regulations and taxes may offset.	Probably higher. Govt spending continues (although probably some slowdown) while taxes and regs stay the same
Gold	Probably considerably higher as mass spending continues	Probably higher	Probably considerably higher as mass spending continues	Probably higher
Specific Sectors	Small Caps Financials/Banks Energy/commodities Non-international	Same as “Sweep”	Renewables IRA beneficiaries Healthcare Infrastructure	Interest rate sensitive Infrastructure Large Caps

^Source: Deutsche Bank – 10/24/2024 and Tom’s Opinion

Here is an excellent article that is worth reading on this subject.

<https://www.zerohedge.com/markets/hedge-fund-cio-trump-victory-and-stocks-will-scream-higher>

This is long enough so I'll wait for the election to talk about how I think specific policies of whoever wins will affect the markets.

Thank you for allowing us to be of service.

Please let us know where you want to go from here.

Enjoy,

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