Special Update: President Trump’s Election Victory and Investing

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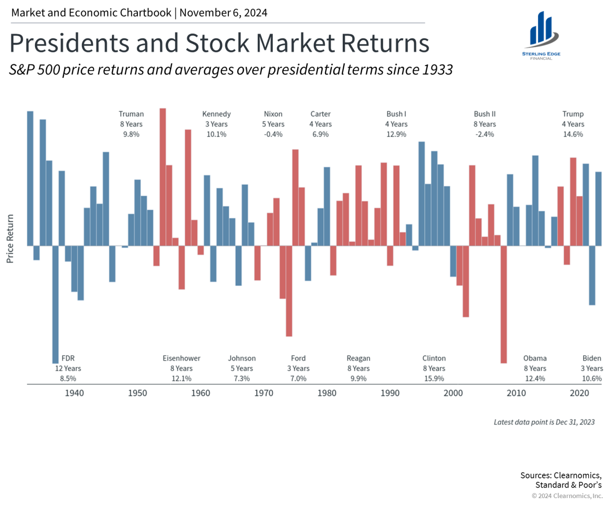
After a historic campaign, Donald Trump has won the 2024 presidential election and Republicans have won control of the Senate. For half the country, this is a cause for celebration, while for the other half, this is a disappointing result that will require time to process. This reflects the divisions in our country on both social and economic matters that we hope will heal in time.

The stock market has performed well across both parties



It’s clear that political outcomes can influence our daily lives and the direction of the country. However, regardless of which side of the aisle you’re on, history shows that the impact of politics on portfolios is often overstated. It’s important in the coming weeks to not overreact in either direction, but to instead keep a level head. Putting politics aside, what might this result mean for the economy and financial markets over the next four years?

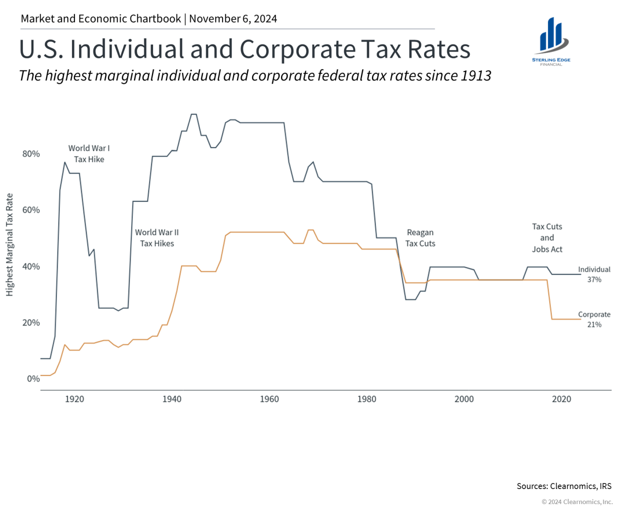
From a broad perspective, history shows that the stock market and economy have performed well under both parties over the past century. In the coming weeks, there will likely be both bullish and bearish predictions. Some may expect a significant rally similar to the 2016 election, while others will expect issues like tariffs to slow the global economy.

When it comes down to it, long-term investors should continue to walk the line by staying invested, diversified, and focused on fundamentals. On the one hand, stock market valuations are already well above average, making it more important to be thoughtful when building portfolios, ideally with the guidance of a trusted advisor.

On the other hand, investors should also be wary of overly pessimistic views on the market. It's likely that predictions for market crashes have been made about every president in modern times. In recent years, it was certainly said about Obama in 2008, Trump in 2016, and Biden in 2020. Thus, it's important to separate personal and political feelings from financial plans and investments.

This is not to say that good policies don't matter, but instead that business cycles are driven by factors beyond politics. What's more, policy changes tend to be incremental, even when a President's party controls Congress. History also shows that it is very difficult to predict how any particular policy might affect the economy and markets since stock prices adjust to new policies and companies adapt quickly as well.

The Tax Cuts and Jobs Act will likely be extended



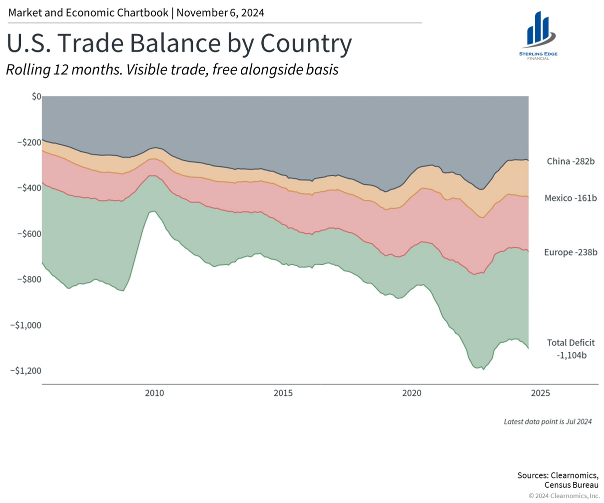
Regarding taxes, a Republican Party victory makes it likely that much of the Tax Cuts and Jobs Act will be extended beyond its 2025 expiration. The TCJA overhauled the tax code for both individuals and businesses, including cutting corporate taxes to 21%, reducing many individual rates across tax brackets, lowering income taxes for many Americans, doubling the estate tax exemption, and more.

In addition, the uncertainty over these provisions during the election season made tax planning more complex. The expiration of the TCJA would create a potential "tax cliff" for many individuals and businesses. As a result, Roth IRA conversions, for instance, reportedly increased leading up to the election as individuals took advantage of current low tax rates.

It's important to maintain perspective around tax policy since these issues can be politically charged. While taxes have a direct impact on households and companies, they do not always have a straightforward effect on the overall economy and stock market. This is because taxes are only one of the factors that influence growth and returns, and there are many deductions, credits, and strategies that can reduce the statutory tax rate.

The market has performed well across many tax regimes across history, including periods when the highest marginal rates were between 70% and 94% after World War II. Taxes today are low by historical standards. As the national debt grows, it's prudent for investors to expect tax rates to eventually rise. Planning for this possibility is only growing in importance.

Tariffs and trade wars are back in focus



Looking at proposed policies, many investors worry that a second trade war could result from tariffs on major trading partners including China, the European Union, Mexico, and Canada. During his first term, President Trump increased duties on many goods including steel, aluminum, solar cells, washing machines, and more. On the campaign trail earlier this year, he proposed raising tariffs further, including up to 60% on China.

Unlike tax policy, which requires congressional approval, the president can impose tariffs through executive order. While many worry that this could harm the economy, analyzing tariffs can be complex. The Trump administration's use of tariffs in 2018 and 2019 was often as a negotiating tactic, leading to a "Phase One" trade deal with China in early 2020. While the merits of the deal can be debated, the worst-case predictions for the economy and market never occurred.

In theory, tariffs can be inflationary since they increase the final costs of goods for consumers. Additionally, they run counter to long-held economic views that open trade creates mutual benefits for trading partners. However, they can also help to protect domestic industries from unfair trade practices, as well as secure intellectual property from theft and forced transfers.

The reality is that many tariffs imposed by the Trump administration were continued under President Biden. The current tariff proposals reflect the trends of de-globalization and protectionism that have emerged over the past decade. Once again, while tariffs and trade wars may impact certain industries and businesses, it's important to not overreact with our portfolios.

Investors should focus on years and decades, not days and weeks

With the election now over, investors will shift their focus back to other economic considerations such as the Federal Reserve's next rate decision, corporate earnings, and consumer spending. The fact that a significant source of uncertainty has been lifted could be enough to improve investor sentiment, as it has in past election seasons.

Ultimately, the business cycle is what has driven long run returns over the past century, and not two or four-year election cycles. These long-term business cycles are the result of broader factors such as industrialization, globalization, the information technology revolution, trends in artificial intelligence, and more. For investors with financial plans spanning years and decades, focusing on these longer-run trends is far more important than reacting to daily headlines.

The bottom line? Regardless of political views, investors should stay invested and diversified as the election season comes to a close. Clarity around taxes, tariffs, and other policies will help, but maintaining perspective around long-term trends is still the best way to achieve financial goals.

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