

# Monthly Market Commentary January 2024

## Elections Insight Piece



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## **Disciplined thought must guide investors in an extraordinary year of democratic change.**

Over the past five years it has felt like so much about the future has been dictated by events outside of the hands of ordinary people. Pandemics and war have dominated the headlines instigated either by unseen viruses or by lone despots. Yet 2024 is a year where power in many ways returns to the people. More than half the world's population will choose a new government, some 4.2 billion people across 62 countries. This includes of course the United States and the United Kingdom. In fact, for the first time in living memory these two elections are likely to occur within eight to ten weeks of one another.

When elections occur, as investors, we are constantly asked what impact it will have on portfolios. We generally explain that these things do not typically drive returns. Investors put outcomes in the price and most elections in the rich world are fought between parties that have only modest differences on the economy in the short to medium-term. We typically point investors towards the larger economic trends, waves of inflation and interest rates, which fundamentally change the cost of money for everyone and dictate which investments thrive and which don't over the long-term.

It is not uncommon to hear fund managers say that it matters more what the Chairman of the Federal Reserve has had for breakfast that morning than who is elected to Downing Street.

This is probably true of the UK election. The Labour Party is going through great efforts to reassure businesses that it is not going to do anything to affect competitiveness or increase regulation. It is determined to demonstrate the sort of financial restraint that dominated the first few years of the Blair administration. So, we do not see the UK election as a major factor affecting the UK stock market.

However, we should never be tricked into believing that these big democratic events cannot at critical junctures radically affect stock market returns. Witness, for example, the huge rally that surprised everyone after the election of President Trump. His promise of huge government spending and infrastructure, coupled with looser regulation, provided a bonanza for Wall Street.

As it stands, President Trump looks near certain to win the nomination of the Republican Party and in a national poll of polls leads by a small amount in all of the six most contentious swing states that will determine the general election. The ceiling on Trump's support nationally is low, perhaps never any higher than 40-45%, but as we learned, you do not need a majority to win the US Presidential election under its electoral college system.

To understand the possibility of his re-election it is perhaps wise to focus only on numbers. After all, on the bare facts someone charged with more than 90 criminal offences, facing multiple trials, and standing accused of instigating the first armed insurrection since the US civil war could be said to have no chance. Add to this the fact that the incumbent has a fairly strong record of popular policy reform, unemployment is low, the US economy is growing, and interest rates are falling. These factors typically support the incumbent President. Yet despite this, Trump demonstrably does have a chance.

The factor that can of course not be ignored is President Biden's age. Yes, Trump is himself elderly but we all well know that ageing is not a linear process, and we may well look back on the Democrats' choice of an 82-year-old man to do literally the hardest job in the world as an act of sheer madness.

There are many reasons though not to bet on Trump just yet. Polls are notoriously unreliable at this stage, the Democrats are fighting this election as an existential battle for US democracy and they will

throw everything at it, including billions of dollars. People have counted Joe Biden out before and he has delivered.

A Trump election could have significant implications for investors, and as the election approaches this will have to be carefully analysed by market participants.

We can perhaps understand the impact through three key channels:

Firstly, institutional disorder. The team around Trump are ready to lead this time in a way they were not before, and the administration would likely be made up of true believers from the hard isolationist right of the Republican Party. The centrists of the first administration would be gone. This clearly leads to more radical policy action in every area of government, forcing significant change that can become a source of uncertainty within individual stock market sectors and around regulation, green investment and a whole host of other areas.

Secondly, sound money. The Trump movement has effectively abandoned a traditional Republican belief in restrained spending and the importance of paying down debt. A Trump administration could lead to fears about the safety of US debt markets and a consequential rise in borrowing costs.

Thirdly, security stability. It is possible to imagine a range of policy decisions from a Trump administration that could upend global security. He could for example 'do a deal' with Putin in the 'one day' he has promised to, in order to 'fix', as he sees it, the war in the Ukraine.

Such a deal would assuredly lead to the loss of significant territory for Ukraine, a period rebuilding of Russian military resources and then... well and then what? His unquestioning support for Israel would see an end to the US policy of urging restraint on the Israeli government in its dealing with Hezbollah and Hamas. This arguably increases the possibility of enflaming Arab states to the point where a disruption to energy markets occurs. And, whisper it, there is an outside chance the United States could threaten or even actually withdraw from NATO.

Now it could be that these fears are misplaced. In fact, our sense is that the legal challenges Trump faces are so profound that there is a very real chance he won't make the actual Presidential election. Americans will see him shuttle between court cases and campaign events and perhaps remember the chaos of his first administration. We simply cannot say, after all that is the point of democracy.

The important thing for our investors to know is that we can prepare and adapt to this changing environment. We do not pretend to know the outcome of elections, but we do understand the power of using the widest possible range of assets to ensure that portfolios have the potential to perform in every market environment. We would also urge investors to remember one key point. Stock markets have generally risen for the 120 years in which we have data. Much has come along in electoral cycles to disrupt that, but still long-term diversified investors have thrived. This is because the actions of ephemeral politicians can affect the short-term, but in the long-term it is the ability of companies and societies to increase human productivity that creates economic growth and drives stock market returns. Focusing on this long-term picture rather than becoming too obsessed with the political machinations in Washington or London is a vital behavioural skill for investment success this and every year.

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