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Clearing the Fog: Deciphering the Impact of the 2024 Elections

MAP'S MARKET PERSPECTIVES JANUARY 2024

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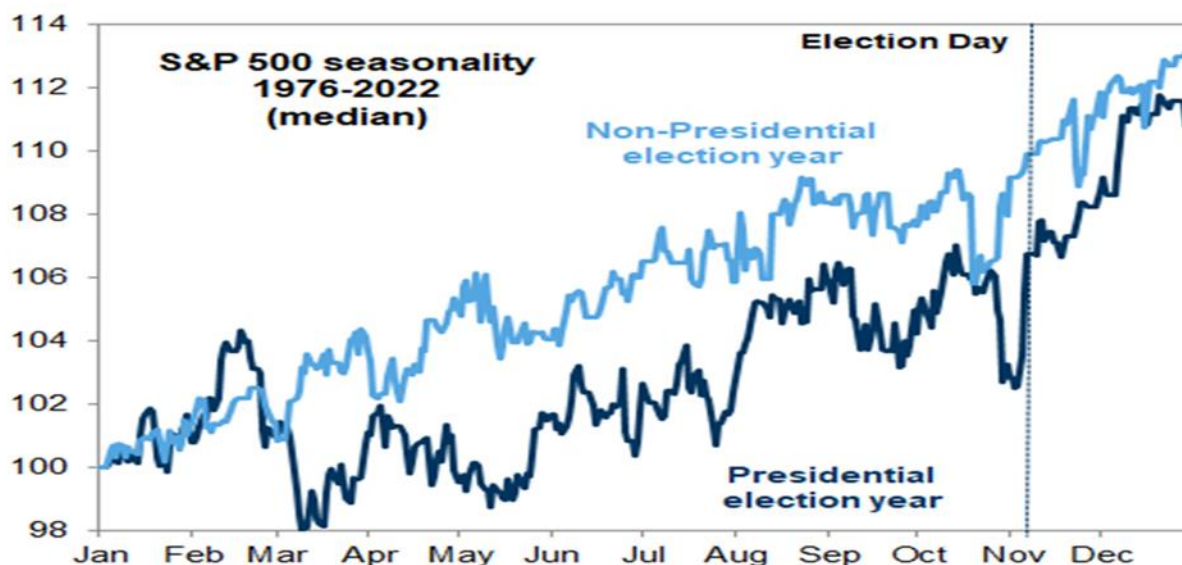


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U.S. Presidential Election

In every corner of America, discussions about the 2024 presidential election echo, yet within this widespread attention lies the paradox that, for all the chatter, the outcome might not wield the expected impact. Controversial, perhaps, but Warren Buffet explained the same following the 2016 presidential election, and before the 2020 election as well: "After every election you'll have people feeling the world is coming to an end and, you know, 'How could this happen?' through it all, America really, really moves ahead."

Navigating a pivotal event like an election often raises skepticism about relying solely on historical data. It is crucial to note that history does not necessarily repeat itself but frequently rhymes. While many label the 2024 U.S. election as an outlier expected to sway markets significantly due to the polarity of the country, investors should bear in mind the underlying drivers that fundamentally shape market dynamics. Monetary policy enacted by the Fed is typically separate from the president's fiscal policy, although, considering Trump's strained relationship with the current Federal Reserve (Fed) chair, Jerome Powell, it is possible that the Fed cuts rates more than expected this year to keep a friendlier Biden in the White House. Separately, gridlock in Congress can result in less productive legislation, and election year returns are usually driven by fundamental factors, such as earnings. These drivers are indications that, no matter how the election plays out, markets are stirred by other factors present in non-election years.



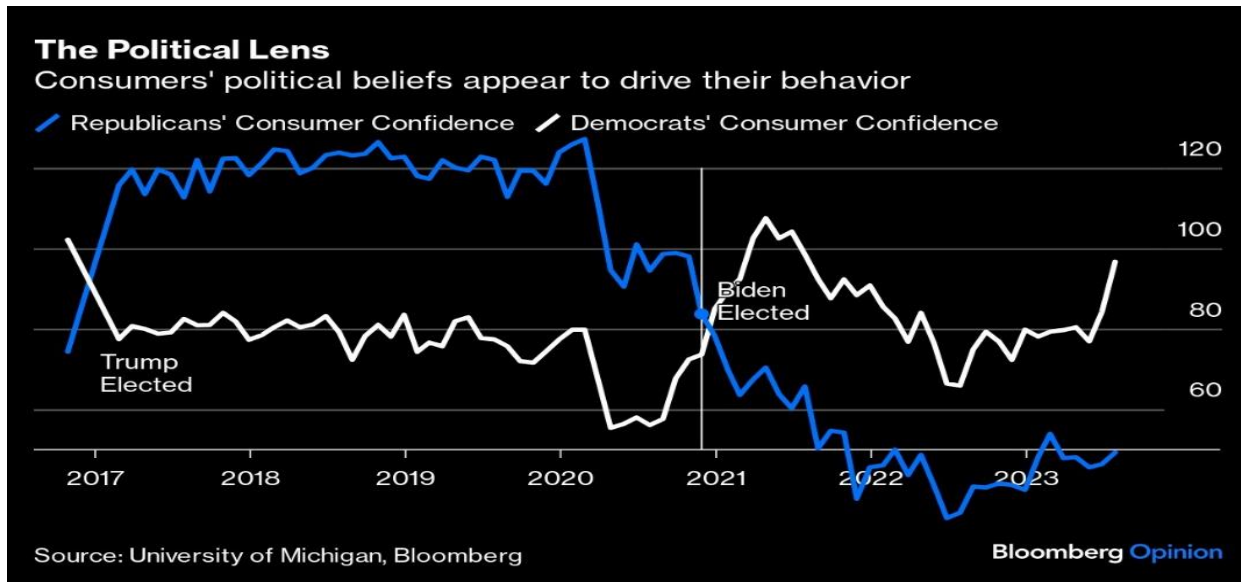
Source: Goldman Sachs Global Investment Research

While Democrats and Republicans may not agree on how to allocate the federal budget, politicians on both sides of the aisle sure love to spend taxpayer dollars. Government expenditures have grown in all but seven of the past 75 years - and have more than doubled since 2009, meaning that regardless of who wins in 2024, the U.S. government will likely continue its spending spree. If Democratic candidates do well, Americans should expect further investment in green energy, support for Ukraine, and perhaps higher corporate taxes (Trump's Tax Cuts and Jobs Act will expire in 2025). On the other hand, if Republican candidates do well, they would likely push for increased defense spending, a tighter border, and higher tariffs. The winners of the upcoming U.S. presidential election will also determine how Americans feel about the economy. As seen in the graphic below, consumer confidence is not exclusively dependent upon inflation rates or GDP, but rather many Americans view the economy through a politically biased lens.

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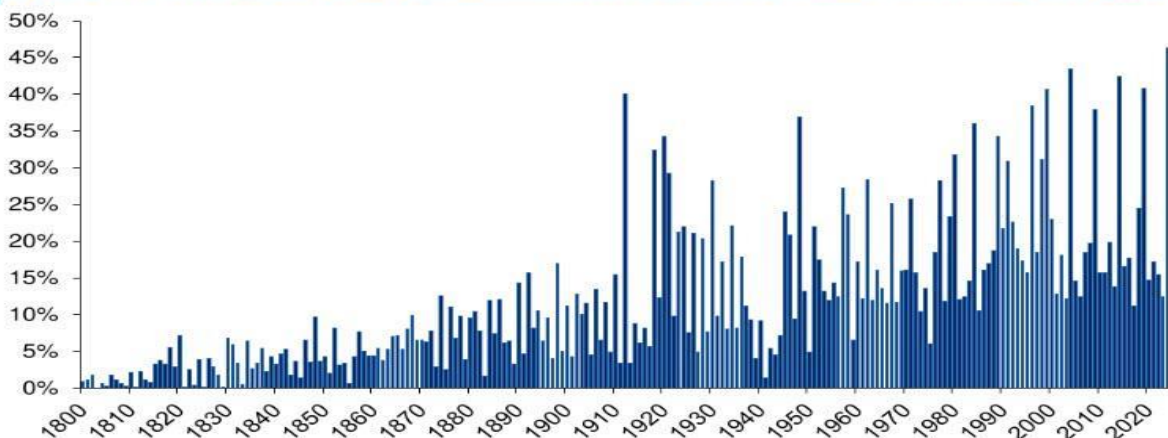
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Global Elections

Increasingly polarizing politics are hardly confined to the U.S. Many of the world's most powerful democracies will be electing new (and potentially more controversial) decision-makers this year. In fact, as seen in the chart below, the number of global legislative and presidential elections being held in 2024 is at an all-time high. Europe is seeing a rise in conservative, populist politics that could seep into the E.U. Parliamentary elections this year (e.g., France, Poland, and Austria). The self-governed island of Taiwan recently concluded elections that affirmed their desire to grow closer to the West, which could further inflame relations with China. The United Kingdom is poised to hold elections which could end the reign of the conservative Tory party. India, the world's largest democracy, will also be holding elections this year, as will autocratic countries like Russia and Iran. While many of these elections could affect tariffs and local policies, foreign markets and global companies should not expect much immediate change.

Figure 1 : Percentage of global population with legislative and presidential elections 1800-2024



Source: Deutsche Bank, Haver Analytics, United Nations World Population Prospects, The V-Dem Project, European Commission

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Conclusion

With the rapid momentum of global election participation, politics are becoming increasingly significant in everyday lives. More than two billion voters in fifty countries will head to the polls, according to The Center for American Progress, a U.S. policy institute. It is crucial that investors understand the true drivers of the global markets. Rather than focusing heavily on who is elected, investors should put emphasis on elements like monetary policy, macroeconomics, and corporate fundamentals. For decades, long-term investors have withstood the turmoil in the markets. From higher highs to the most volatile of drawdowns, investors succeed by not concentrating on what happens to their portfolio next month but what happens in the next five years.

It is important to understand that this election cycle should be no different. While 2024 will be an instrumental year in determining many of the world's most crucial decision-makers, it may be too early to determine the impacts on the broader markets. In terms of portfolio positioning, at this point in the election cycle, it is too early to separate the winners from the losers. As such, we remain steadfast in our current market predications. We encourage you to contact your MAP representative with any questions or concerns.

Managed Asset Portfolios Investment Team

Michael Dzialo, Karen Culver, Peter Swan, Zachary Fellows, and John Dalton

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www.managedassetportfolios.com

950 W. University Drive, Suite 100
Rochester, MI 48307
(248) 601-6677