Vestor Capital
INVESTMENT & WEALTH MANAGEMENT

Post Election Market Thoughts

December 3, 2024

Summary

A lot has been written about what the new administration will mean for inflation, interest rates, the economy and equity markets. Candidly, we find most of what has been written and said to be very presumptuous and much too granular given how much remains unknown at this point. We believe it is prudent, given the amount of uncertainty, to wait until actions are taken by the new administration to assess their likely impact. It pays to remember that a successful investor does not need to have clairvoyance of the future, but rather thoughtful assessment of information as it becomes available. With that said, we will take a stab at our "best guess" pertaining to variables affecting the economy and your investments with the caveat that we won't really know until 2025 begins to unfold.

Trade and Inflation

We know that tariffs implemented during the first Trump administration were not noticeably inflationary. It is overly simplistic to assume that exporters to the U.S. can simply pass on tariffs to the U.S. consumer. Typically, the exporter first takes a hit to their margins to offset some or all of the tariff costs. We saw a number of world equity markets outside the U.S. fell sharply after the election, pricing in lower margins to compensate for tariffs. Secondly, many products that are imported have multiple supply sources from various countries to counteract tariffs. Finally, there are substitution effects which also can tamper tariff impacts. Given what the U.S. has experienced since tariffs were increased in the first Trump administration, and the aforementioned counterweights, we do not believe that tariffs will have a noticeable impact on inflation.

Interest Rates

Interest rates rose shortly after the election under the assumption that Trump's second term would deliver stronger growth and more inflation. They have since pulled back some. We would certainly welcome stronger economic growth and interest rates falling at a more modest pace. We expect the Federal Open Market Committee (FOMC) to continue cutting interest rates, although maybe not as aggressively as once expected. Interest rates were artificially low for more than a decade after the Financial Crisis, harming savers and causing a misallocation of capital. We welcome a more normal interest rate environment.

Economy

The U.S. economy is the envy of the world. Capitalism and free markets create wealth for all stakeholders including our companies and citizens. We are excited about the newly formed Department of Government Efficiency or "DOGE" that will be lead by Elon Musk and Vivek Ramaswamy. Our federal budget has grown approximately 50% over the past 5 years to $6.8 trillion, consuming 24% of GDP, which is far too much. It should be closer to historical levels of approximately 17% of GDP. This is the largest budget growth outside of wartime in our country's history. The DOGE team has stated that they will be able to cut $2 trillion in spending which we believe is possible, despite the naysayers. We are encouraged that there is growing bipartisan support for reducing government spending. Lower government spending will remove a lead weight from the economy which will stimulate growth and slow the compounding of our budget deficit. In addition, reduced spending will provide a counterweight to proposed lower taxes.

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Equity Markets

Even before the November elections, U.S. large-cap equities performed very well in 2024. U.S. equity markets advanced further after the U.S. election, particularly small and mid-cap stocks which had been out of favor for quite some time. Conversely, international equity markets largely sold off due in part, we believe, to the expected pro-America policies of the new administration. Equity markets are always forward looking and appear to be pricing in some of the expected pro-growth policies that have been announced. Everything else being equal; lower government spending, lower taxes and reduced regulation are positive for equities. We acknowledge that stock valuations have increased, but elevated valuations have historically been a poor market timing tool. Again, we have to wait to see what actually transpires when the new administration takes office, but clearly U.S. equity markets like what they have heard thus far.

Conclusion

Much of what is communicated in traditional media outlets is intended to shock or scare the recipients. We do not view the incoming administration as a threat to U.S. prosperity, and markets thus far have seconded that opinion. We are first to admit that it is early, and a lot is unknown. We always look to stay abreast of developments as they occur and adjust accordingly. We aim to be objective and avoid “group think” which traps a lot of investors and market observers. Our goal is to look at the world as it is and make the best investment decisions for our clients. We are dispassionate as to politics and remain clear-eyed regardless of the administration. We appreciate the trust you place in us and take our fiduciary responsibilities seriously. We look forward to our communications in 2025 and wish you all a healthy, happy and prosperous New Year!