

## President Biden Steps Aside

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On Sunday, July 21, President Joe Biden announced that he would not seek reelection for a second term as President and endorsed Vice President Kamala Harris to lead the Democratic ticket in November. While she is the most logical choice and has the support of many in her party, some processes may need to play out before she becomes the official nominee. For example, some Democrats have called for a “mini-primary” to help strengthen her status as the nominee. If they take this route, it will need to happen very quickly given that the Democratic National Convention, where the party will formally choose its nominee, is slated to begin on August 19. It is important to note, however, that at this time no one has challenged Harris and, in fact, several potential candidates have announced they will not run.

As we wrote in the July/August Wealth Chief Investment Office Perspectives, [“A New Phase for Rates, Earnings, Politics, and Innovation,”](#) headlines around the elections will drive markets for the rest of 2024, and the outcomes will help shape our outlook for next year. Market volatility typically rises in the months leading up to the elections, and this time frame also coincides with historically weak seasonal returns for equities. Biden’s withdrawal from the race was not completely unexpected by markets, but volatility may increase as a result of the change in the Democratic ticket.

In recent weeks, political pundits have increased the probability of former President Donald Trump winning the White House. As a result, interest rates at the long end of the maturity spectrum rose, small cap stocks outperformed large cap stocks, and U.S. stocks outpaced non-U.S. stocks. This reflects the market’s belief that higher trade tariffs, curbs on immigration, and an extension of the Tax Cuts and Jobs Act (TCJA) provisions could be the most likely policy outcomes in a Trump 2.0 scenario. If markets pivot and begin to think Harris (or another nominee) has a better chance to beat Trump, those could unwind in the coming days and weeks.

Financial markets constantly react to political uncertainty and generally climb a “wall of worry” punctuated by peaks and valleys in performance—some of which are significant. However, over the past 50 years, the S&P 500 has continued to grow despite periods of high uncertainty driven by unique economic and geopolitical events, and U.S. presidential elections. The bottom line is that presidential elections don’t often affect stock and bond returns—and more importantly, the economy—as much as we tend to think.

It’s also important to note that only five of the 24 election years since 1928 have seen negative returns in either stocks or bonds. Moreover, for long-term investors, historical performance suggests there is no real need to worry about how a portfolio will react in a presidential election year. There may be a temporary dip or surge, or some small benefit to having a certain candidate in the White House over an entire term, but there is simply no definitive, causal relationship during election years that would warrant a shift in a long-term investment strategy. In addition, since 1984 (with only two exceptions), a long-term 60/40 portfolio has consistently performed better in the years immediately after election years. This is likely due to financial markets having a higher degree of certainty around political, fiscal, and monetary expectations.

We are transitioning to a new phase for the markets in the second half of 2024, where investors will be weighing the benefits that come with lower interest rates with the risks of a slowing economy. There could be less clarity on the outlook for the consumer and the labor market given mixed economic data, the Fed’s data dependence, and the November elections.

Investors will need to be more risk aware, disciplined, and diversified in this environment, and our view is that it is best for investors to stay invested in their appropriate long-term asset allocations.

## Further Reading

- [2024 U.S. Elections: Four Key Issues for Markets and the Economy](#)
- [Wealth CIO Q3 2024 Chartbook](#)

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