



North America Strategy

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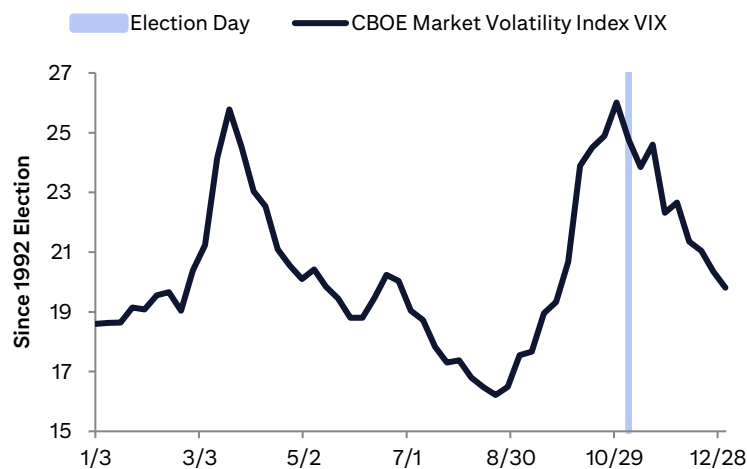
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Road to the White House: Part 6

- It's been a wild ride on the US political front ever since the June 27 Presidential debate. More recently, between July 13 and July 21, an attempt was made on former President Trump's life, the GOP nominee tapped Ohio Senator, JD Vance, as his running mate, and President Biden dropped out of the race, tossing his weight behind Vice President Kamala Harris.
- Stock market volatility in election years has tended to decline into the summer months and then pick up as the election draws near (**FIGURE 1**). Leadership has often been defensive in the six months before elections and cyclical in the six months after them (**FIGURE 2**).
- Historically, the odds have been good for sitting Presidents seeking re-election in the absence of a recession. By contrast, when the incumbent party ran someone other than the sitting President, they lost in 1952, 1960, 1968, 2000, 2008 and 2016. Bush won in 1988. Will there be a push to have Biden's successor at the top of the Democratic party's ticket run as a sitting President? PredictIt pegs the current chances of Biden resigning the Presidency at 21%.
- PredictIt also assigns a 59% chance of a GOP victory in November. The Democratic National Convention is slated for August 19-22 and the stakes are high for a smooth nomination. Incumbent parties lost in 1952, 1968, 1976 and 1980 after contested nominations.
- Bonus: We may need to add 2024 to the list of the most significant elections.

FIGURE 1: Average CBOE VIX Index During Election Years, Since 1992



Source: Haver Analytics of July 19, 2024. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**

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A Wild Ride

It's been a wild ride on the US political front of late. It amped up with a poor showing by President Biden in his June 27 debate performance against former President Trump, leading to a growing chorus within the Democratic Party calling for him to step down from the ticket. The calls briefly subsided when an assassination attempt was made on Trump's life on July 13 at a campaign rally in Butler PA only to pick up again amid the unity of the Republican party during their July 15-19 convention where Ohio Senator, JD Vance, was selected as Trump's running mate. It is possible that other VP finalists such as Florida Senator, Marco Rubio, and North Dakota Governor, Doug Burgum, will be considered for Trump's cabinet if he wins, in positions such as Secretary of State or Secretary of the Interior.

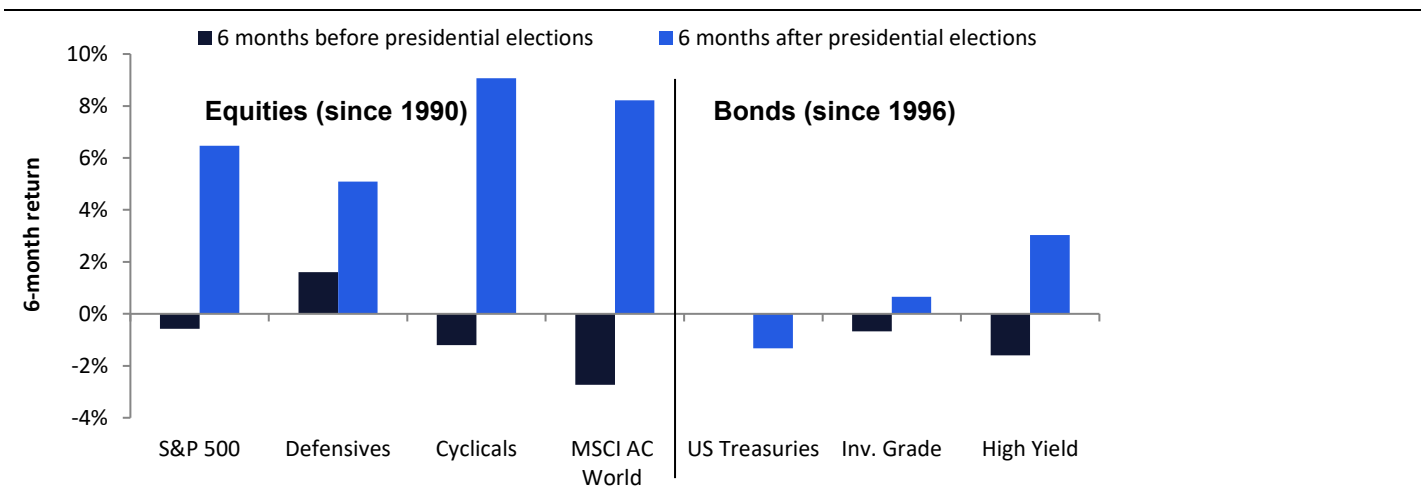
As Biden resisted calls to step down, the pressure intensified with a growing list of party leaders urging him to pass the torch. On July 21, President Biden dropped out the race, tossing his weight behind Vice President Kamala Harris. Speculation as to who she might select as a running-mate, if nominated, has already begun with Pennsylvania Governor, Josh Shapiro, North Carolina Governor, Roy Cooper, Arizona Senator, Mark Kelly, and Kentucky Governor, Andy Beshear, included among those garnering attention.

Trump had a 3.0% national lead in the average of the Real Clear Politics polls against Biden and had been ahead in the important battleground states. It's too soon to rely on the polls considering recent developments but many voters have already decided if they plan to vote for Trump or not in November. Turning to the prediction markets, PredictIt now assigns a 59% chance of the GOP taking the keys to the White House in November. As a matter of perspective, the GOP's chances recently peaked at 68% on July 16 but had been as low as 45% not too long ago on April 26.

Election Year Volatility and Market Leadership

Stock market volatility in election years has tended to decline into the summer months and then pick up as the election draws near (FIGURE 1). Stock and bond market leadership has often been defensive in the six months before elections and cyclical in the six months after them (FIGURE 2). In terms of upcoming events, the Democratic National Convention is slated for August 19-22 and a second Presidential debate is currently on the docket for September 10. It remains to be seen if recent developments upend the terms of that debate.

FIGURE 2: Cyclical versus Defensive Positioning in Stocks and Bonds Around Elections



Source: Haver Analytics, FactSet, and Bloomberg as of July 19, 2024. Note within the S&P 500, Defensive sectors include Consumer Staples, Health Care, Communication Services and Utilities; Cyclical sectors include Consumer Discretionary, Energy, Financials, Real Estate, Industrials, Information Technology and Materials. US Treasuries are measured by Bloomberg US Aggregate Government – Treasury Index, Investment Grade by Bloomberg US Corporate Investment Grade Index, and High Yield by Bloomberg US High Yield – Corporate Index. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**

Smooth Nominations & Sitting Presidents

It will be important for the ultimate Democratic party Presidential candidate to score a relatively uncontested first ballot victory in August. In the end, all elections are really a referendum on the incumbent party. Heading into elections, incumbent parties often have a keen sense of the electorate's mood and it's a poor sign if they cannot gather around the head of their ticket. Since World War II, a smooth convention nomination process has happened most of the time. However, in those cases – in 1952, 1968, 1976 and 1980 – where the ultimate nominee didn't achieve a unanimous or near-unanimous first round ballot victory at their convention, they went on to lose in the Fall.

Historically, the odds have been good for sitting Presidents seeking re-election in the absence of a recession. In the nine cases since World War II, seven went on to be re-elected while Ford (1976) lost following Watergate and Bush (1992) lost in a case where the recession of 1990-1991 had ended but it wasn't declared over by the National Bureau of Economic Research (NBER) until after the election. Carter (1980) and Trump (2020) lost in recession years.

By contrast, when the incumbent party ran someone other than the sitting President, they lost in 1952, 1960, 1968, 2000, 2008 and 2016. Bush alone won in 1988 after serving as Ronald Reagan's Vice President for two terms.

Given the clear difference in outcomes for sitting Presidents versus other alternatives, one has to wonder if there will be a push to encourage President Biden to resign altogether so his successor at the top of the ticket could run as a sitting President? PredictIt pegs the current chances of Biden resigning the Presidency at 21%.

Bonus: Significant Presidential Elections

Ten of the most significant President elections occurred in 1796, 1800, 1828, 1860, 1876, 1896, 1912, 1932 and 2000. Given Joe Biden's resignation, the chance for a Trump comeback, and the potential for a first female President in Harris, we may need to add the 2024 election to the list. In chronological order, learn why these 10 past elections¹ changed the course of history and greatly shaped policy.

Election of 1796: The election of 1796 proved a young democracy could survive George Washington's retirement and that power could be peacefully transferred. The rules of the day awarded the Presidency and Vice Presidency to the candidates with the most and second-most votes, respectively. As a result, John Adams's rival, Thomas Jefferson, became his Vice President.

Election of 1800: A candidate for the most significant election ever, it revealed another flaw in awarding the Presidency and Vice Presidency to the candidates with the most and second-most votes. Thomas Jefferson and Aaron Burr ran together but the election ended in a tie and wasn't resolved in the House until after the 26th ballot. What followed was the adoption of political tickets with a clearly defined Presidential and Vice-Presidential candidate. Jefferson's defeat of John Adams ended the period of Federalist domination and ushered in two-party contests as the norm.

Election of 1824: Andrew Jackson won the popular vote but did not have a majority, tossing the election to the House. The speaker of the House, Henry Clay, had finished fourth and swung his support to John Quincy Adams in exchange for a Secretary of State position which was the most common pathway to the Presidency up until that point in time. Jackson labelled the arrangement a "corrupt bargain." A backlash sent Jackson to the White House in 1828 and severed the Democratic-Republican Party started by Jefferson in two.

Election of 1828: After the election of 1824, the nominating of candidates became more democratic as conventions replaced caucuses and back room deals. Andrew Jackson was the first President not born of privilege. The election marked the first time that individuals began to battle against corruption in politics and formed a coalition of small farmers and the working class.

Election of 1860: A strong nominee for the most significant election ever, the newly formed Republican party adopted an anti-slavery platform that led to a narrow victory for Abraham Lincoln. Eleven states seceded from the Union, ushering in the Civil War, and putting the nation on a path to abolish slavery.

¹Kelly, M., "Significant Presidential Elections in American History." October 23, 2019. <https://www.thoughtco.com/top-presidential-elections-american-history-104626>

Election of 1876: There have been multiple close and disputed elections but only one occurred during the high stakes period of Reconstruction following the Civil War. Governor Tilden of NY led in the popular vote and electoral college count but was one vote shy of a win. A commission was formed by Congress and voted along party lines to award the Presidency to Rutherford B. Hayes in the “Compromise of 1877.” This led to the end of Reconstruction.

Election of 1896: This election pitted urban against rural interests. William Jennings Bryan formed a coalition of progressives and indebted farmers who opposed the gold standard. William McKinley’s victory highlighted America’s shift from an agrarian nation to an urban one with a growing manufacturing sector.

Election of 1912: The 1912 election exposed the impact that a third party can have on an election’s outcome. William Howard Taft, Teddy Roosevelt’s hand-picked successor, succeeded him in 1908. In 1912, Roosevelt wanted to return to the White House, but the Republican Party sided with then President Taft. Roosevelt broke from the GOP to start the independent Bull Moose Party, splitting the vote and tossing the victory to Woodrow Wilson. Wilson would lead the country through World War I, establish the Federal Reserve, and fight for a “League of Nations” that failed to garner sufficient support in Congress.

Election of 1932: Another contender for the most significant election, the election of 1932 resulted in a dramatic change in parties and policy. A coalition of urban workers, northern Black people, southern White people and Jewish voters supported Franklyn Delano Roosevelt’s (FDR) New Deal series of public work projects, financial reforms, and regulations in the wake of the Great Depression. FDR would break from tradition and win elections to a third term and then a fourth, leading the nation through most of World War II. The coalition he formed boosted his party for decades.

Election of 2000: The election of 2000 marked the first time the Supreme Court got involved in the electoral decision. The race between George W. Bush and Al Gore came down to Florida. TV networks called the state for Gore then Bush. Gore conceded the election but then rescinded. Bush’s lead in Florida was so close it triggered an automatic machine recount by state law. A month-long series of legal battles and recounting transpired. Ultimately, the Supreme Court ruled that Bush’s slim 537 vote lead should stand.

There have been other notably historic and important elections². The 1920 election saw a doubling in eligible voters after the 19th Amendment gave women the right to vote. The 1948 contest between Truman and Dewey produced an upset victory for Truman. In 1960, John F. Kennedy became the first Roman Catholic President. The 1964 contest brought in the Great Society and advancements in Civil Rights. 1980 delivered the Reagan revolution. 2008 generated excitement in the realms of race and gender with the candidacies of Barack Obama and Hillary Rodham Clinton with the election of an African American to the White House as a truly historic event.

We’ll see if the 2024 election leads to lasting changes in voter coalitions, long-term policy changes or a period of peace and prosperity with domestic tranquility.

Parting Thoughts

The S&P 500 has risen in 13 of the past 15 election years. It has also posted positive returns during both the Trump and Biden presidencies. But elections are just part of our analysis. In our [2024 Mid-Year Outlook](#), we expect inflation to fall, the Fed to cut rates, and stock market leadership to broaden out on rising profits. Following last week’s [Global Investment Committee \(GIC\) meeting](#), for a moderate risk balanced portfolio, we are recommending a Global Equities overweight of 3%, a Fixed Income underweight of 2% and a Cash underweight of 1%. For now, our tactical weightings remain generally higher for US assets versus the rest of the world.

²Mayhew, D., “Which was the most important U.S. election ever?” *The Washington Post*. February 17, 2012. https://www.washingtonpost.com/opinions/which-was-the-most-important-us-election-ever/2012/02/13/gIQAAtBIGKR_story.html

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Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
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Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

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- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
- complex tax structures and delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- manager risk.

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