PALLAS
CAPITAL ADVISORS

THE IMPACT OF THE 2024 PRESIDENTIAL ELECTION ON FINANCIAL MARKETS

November 2024

While presidential elections are considered consequential due to their influence on economic, healthcare, national security, and climate change policy, equity market returns throughout presidential terms tend to be positive. Markets have performed strongly over the past two years, driven by positive earnings progression and a subsiding of inflation toward long-term target levels. These two key drivers of the markets were expected to continue into 2025, regardless of the election outcome, with the expectation that the benefits of a normalizing economy would be more broadly distributed across industries.

Since the outcome of the U.S. election, there has been a significant rally in U.S. equities, a rise in Treasury yields, and a pullback in international equities. This is partly due to the removal of investor fears about a prolonged, contested outcome. Additionally, the sweeping nature of the election results has reduced policy uncertainty for businesses and investors. Clearing this hurdle has improved policy visibility, reduced volatility, and increased capital flows.

Looking ahead to 2025 and beyond, the impact of the election is shaping up with the following expectations:

- Lower taxes for corporations and individuals
- Reduced regulation, benefiting more domestic-oriented companies
- Higher long-term Treasury rates and fewer Fed funds rate cuts
- Weaker growth in global markets
- A stronger USD, driven by better relative U.S. growth and higher yields
- Higher inflation, driven by stronger economic growth and tariffs on imports

The combination of a strong economic foundation, consistent with a soft landing or even a “no landing” outcome from post-COVID stimulus, along with the election outcome expectations for 2025 and beyond, suggests the following for investor positioning post-election:

U.S. Equities

The fundamental backdrop is very positive. Growth across sectors should generally pick up during 2025. The technology industry, driven by AI, will continue to be a focus for growth investors, but growth rates in other industries should improve on a relative basis compared to 2024. This sets the stage for a continuation of the broadening market performance, shifting from concentrated mega-cap growth stocks toward value, mid-cap, and small-cap stocks. The biggest risk is valuation. U.S. equity markets are arguably fully valued, so upside is likely to be driven by earnings-per-share (EPS) growth. The current 22x multiple on the S&P 500 and 17x on the equal-weighted index are in the 90th percentile, leaving little room for expansion.

International Equities

International markets are the reverse of the U.S., as fundamentals are more challenged. There is significant concern about the potential negative impact on both developed and emerging market growth if U.S. tariffs are implemented. U.S. “exceptionalism” in driving earnings growth relative to global markets is likely to continue, but the current valuation premium of over 40% is historically significant, likely already reflecting this growth differential. Any improvement in international earnings expectations would likely be magnified by multiple expansion.

Fixed Income

The bond markets have been particularly volatile, with the magnitude of Fed rate cuts being adjusted downward, concerns about inflation from tariffs rising, and government deficits amid the prospect of lower taxes. The net effect is that long-term rates are now likely to normalize at a higher rate, with 4%+ becoming the new 3%+ from earlier this year. A lot is already priced into fixed income, and duration is making bonds attractive as a hedge if slower economic growth materializes. With an improving economic outlook, credit should remain stable, but narrow spreads are already the norm across the market.

Private Investments

After the strong run in public markets, private assets are looking relatively attractive. Private equity should see valuations and exits expand, driven by growth in fundamentals, better relative valuations compared to public markets, and higher expected M&A activity. Hard assets, such as real estate and infrastructure, should benefit from economic growth coupled with higher inflation. Private credit may also benefit from increased M&A activity (financing deals), reduced credit risk, and higher base rates.

Overall

Opportunities and risks moving forward are balanced, with a better fundamental backdrop for business growth and margins offset by high valuations and the risk that a strong economy and tariffs may push inflation higher. Increased diversification across public equity styles, a shift from public to private investments, and protection or hedging against risks from lower growth or higher inflation are recommended portfolio actions. In any event, the post-election environment is one where staying invested in a sound, well-diversified portfolio remains the best course of action.

Pallas Capital Advisors, LLC and its representatives do not provide legal or tax Preparation Advice. You should consult a legal or tax advisor egarding any legal or tax information as it relates to your personal circumstances. These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of the materials. The information in these materials may change at any time and without notice. CRN24_279