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Key takeaways



Stocks and elections

We've seen in the past that stocks' immediate reaction to election results can be ephemeral.

Central banks

In the very near term, I anticipate the "Trump trade" will continue. But I think it's important to stress the important role of central banks.

Monetary policy

Once you get past very short-term market reactions, I believe monetary policy matters more to markets than political developments.

Between the US presidential election and multiple central bank meetings across the globe, markets had a lot to absorb last week. Here are my key takeaways about what we've learned and the implications for economies and markets.

Markets react to a second Trump term

First, we saw the election of Donald J. Trump to a second, nonconsecutive term as president of the United States. Markets had a strong initial reaction, with US stocks rallying and European and UK stocks posting losses. The bond market also showed a significant impact, with yields immediately rising dramatically on fears of both higher inflation and higher deficits. However, by Friday, in the wake of the Federal Reserve (Fed) decision to cut interest rates by 25 basis points, some of those moves had been reversed.

That's because at the end of the day, once you get past very short-term market reactions, I believe monetary policy matters more to markets. Yes, US stocks immediately had a jubilant reaction to the election, but those gains can be somewhat ephemeral — for example, we saw some retracing of the short-term stock market gains made right after the election in 2016.¹ Yes, what seems likely to be a "red sweep" of Republican leadership in the White House, Senate, and House of Representatives will likely enable more of the Trump agenda to come to fruition, but the reality is that we don't know the scope and timing of policy coming from the new administration. And that means we don't know different policies' impact on growth – and inflation.

Assets to watch

In the very near term, I anticipate the "Trump trade" will continue. That includes the obvious suspects such as bitcoin.

I'm positive on risk assets in general but especially US small- and mid-cap stocks, which have been more attractively valued and, in my view, are likely to have stronger relative performance in anticipation of an economic re-acceleration next year.

Many are betting on energy stocks given the new administration's interest in increasing production. However, that increased production could be good for the economy in helping ease overall inflation, but it could be negative for energy stocks given that lower prices typically result in lower profit margins. (In fact, we saw energy stocks underperform clean energy stocks during the first Trump administration.²)

A more likely beneficiary could be financials, given the potential for relatively swift deregulation in that sector.

I do think gold will continue to show weakness in the shorter term; it is very expensive after a large multi-year run-up, which makes it more vulnerable to the recent strengthening in the US dollar and a rise in Treasury yields. However, I believe at least some of the price decline in gold is due to some speculative demand for gold shifting to bitcoin in the wake of the US election.

The Federal Reserve reassures markets

The Fed meeting on Thursday reminded us of the power of the Fed, as markets seemed to like what they heard. Fed Chair Jay Powell emphasized the significant progress made on lowering US inflation. He noted that the one exception, housing services prices, didn't reflect current inflationary pressures but rather past inflationary pressures. Powell explained the Fed is continuing to cut rates because it believes monetary policy is still restrictive. In addition, he said the labor market has cooled in the last two years and is still softening, and the Fed doesn't want to see further cooling.

Powell flexed his muscles at the press conference in a variety of ways:

- He said he doesn't believe inflation expectations are becoming unanchored, but if they are, the Fed would of course act quickly to re-anchor them.
- Powell was clear that the Fed would not pre-emptively adjust monetary policy to account for policies from the incoming Trump administration that could amplify both growth and inflation. He pointed out that we don't know the timing and substance of any upcoming policy changes and won't "guess, speculate or assume" what the economic effects could be. Powell acknowledged Trump's policies could have effects on the economy over time, so forecasts of those effects would be included in the Fed's model and taken into account through that channel. But that will not impact Fed policy in the near term.
- Powell was emphatic that he will not resign if asked by the new president, suggesting continuity for the Fed in the next several years. (Powell's term as Fed Chair expires in 2026.)
- While he admitted that the job is not done on inflation, Powell said the Fed needs to continue to recalibrate policy. That sensitivity to the data – the ability to react once policy is enacted and can be modeled – has had a reassuring impact on markets, causing Treasury yields at the long end to ease.

To illustrate the Fed's power, US stock sectors that did not perform well immediately after the election performed better after the Fed decision. These were stock sectors that are more sensitive to higher interest rates, such as real estate, utilities and consumer discretionary; their performance improved after Powell's relatively dovish comments on Thursday.³

The Bank of England adjusts to a new administration

The UK seems to be living in a parallel universe to the US. Last week, as with the Fed, the Bank of England (BOE) enacted the second rate cut of its easing cycle. The BOE is also adjusting to a new government in power, with the Autumn Budget released just the week before. So while the BOE noted there had been further progress on disinflation, it also warned that policies in the new budget had the potential to increase inflation. This caused the BOE to significantly increase its two year-ahead forecast for inflation (it should be noted that it also increased its gross domestic product growth forecast by an even larger amount).

In addition, the UK is likely to get a material economic boost from the uncertainty of its Autumn Budget being over – just as the US is likely to get the same from the uncertainty of its presidential election being over. It's been clear from data and anecdotal information that the uncertainty put a damper on corporate hiring and spending plans as well as some consumer spending in each respective economy.

The Bank of Japan is closely watching US politics

The Bank of Japan (BOJ) also reminded us of the importance of data in the release of its Summary of Opinions from its Oct. 30 meeting. It shows the BOJ is watching US political developments closely, and will proceed cautiously, which makes sense given the potential for substantial tariffs and other policies that could impact the Japanese economy and/or its currency. One BOJ member suggested the bank pause to “assess developments in the US economy” and then consider future rate hikes. It’s clear in a world with significant change and uncertainty, it’s more important than ever to use data as a guide.

The net effect is that the path of both the BOE and Fed’s easing cycles is expected to be more modest and less steep. And the path of the BOJ’s tightening/normalizing cycle may be more muted as well. However, it will be dictated by the data.

The importance of central banks

In summary, I think it’s important to stress the important role that central banks play for economies and markets. While 2024 elections have created policy changes in a number of countries, those changes are likely to play a very secondary role to monetary policy. If new government policies result in higher inflation, central banks can recalibrate to counteract inflationary pressures. And finally, central banks can be a stabilizing force in times of de-stabilization in markets.

Now central banks may not be able to help with what may be the biggest problem facing these governments: rising debt levels. Government debt is increasing, especially in the US, and higher rates have only exacerbated the total cost to service that debt. As we saw recently, even though a central bank cuts rates, it doesn’t mean rates will come down at the longer end of the curve. And there is a greater possibility of higher yields at the longer end of the curve if the US House of Representatives is won by the Republican party and there is in fact a “red sweep.” That’s because of the greater likelihood of a full extension of the Tax Cuts and Jobs Act and therefore higher fiscal deficits. High yields can curtail lofty spending plans, so we will want to follow developments there closely.

One last thought: “trades” based on election results are likely to be short-lived; it’s more important to focus on economies holistically, and the impact of various factors on asset classes. Stay tuned for our 2025 outlook, which attempts to do just that.

Dates to watch

Date	Report	What it tells us
Nov. 12	UK Unemployment	Indicates the health of the job market.
	Germany Consumer Price Index	Tracks the path of inflation.
	Germany ZEW Economic Sentiment	Measures economic sentiment in Germany for the next six months.
	Eurozone ZEW Economic Sentiment	Measures economic sentiment in the eurozone for the next six months.

Dates to watch

Date	Report	What it tells us
Nov. 12	India Industrial Production	Indicates the economic health of the industrial sector.
	US NFIB Small Business Optimism Index	Indicates the health of small businesses in the US.
	NY Fed US Consumer Inflation Expectations	Tracks consumer expectations for US inflation.
	Japan Producer Price Index	Measures the change in prices paid to producers of goods and services
	Australia Wage Price Index	Indicates the health of the job market.
Nov. 13	US Consumer Price Index	Tracks the path of inflation.
	Australia Unemployment Rate	Indicates the health of the job market.
Nov. 14	Eurozone Gross Domestic Product	Measures a region's economic activity
	Eurozone Industrial Production	Indicates the economic health of the industrial sector.
	European Central Bank Account of Monetary Policy Meeting	Gives further insight into the central bank's decision-making process.
	US Producer Price Index	Measures the change in prices paid to producers of goods and services
	Bank of Mexico Monetary Policy Decision	Reveals the path of interest rates.
	Japan Gross Domestic Product	Measures a region's economic activity
	China Industrial Production	Indicates the economic health of the industrial sector.
	China Retail Sales	Indicates the health of the retail sector.
	China Unemployment Rate	Indicates the health of the job market.
Nov. 15	Japan Industrial Production	Indicates the economic health of the industrial sector.
	UK Gross Domestic Product	Measures a region's economic activity
	UK Industrial Production	Indicates the economic health of the industrial sector.
	US Retail Sales	Indicates the health of the retail sector.
	US Industrial Production	Indicates the economic health of the industrial sector.
	Bank of Canada Senior Loan Officer Survey	Collects information on the business-lending practices of Canadian financial institutions.

With contributions from Tomo Kinoshita and Paul Jackson

Notes

¹Source: Bloomberg, L.P. The S&P 500 Index return after the 2016 election (Nov. 8, 2016, to Dec. 13, 2016) was 6.18%. "Retracement" (a loss of 1.45%) occurred from Dec. 13, 2016, to Dec. 31, 2016).

²Source: Haver, Invesco. In the first Trump administration, clean energy returned 136% while traditional energy returned -52%. Clean energy represented by the S&P Global Clean Energy Index, which is designed to measure the performance of companies in global clean energy-related businesses from both developed and emerging markets. Traditional energy represented by the S&P 500 Oil, Gas, and Consumable Fuels Index, which represents the oil, gas, and consumable fuels industries within the S&P 500 Energy sector.

³Source: Bloomberg, L.P. Based on S&P 500 sector performance immediately after the 2024 US election (Nov. 4 – Nov. 6) compared to after the November 2024 Fed meeting (Nov. 6 – Nov. 8). Real estate (-1.3% after the election, 2.8% after the Fed meeting), utilities (0.4 after the election, 2.0 after the Fed meeting), consumer discretionary (-0.9 after the election, 1.8 after the Fed meeting).

Important information

All investing involves risk, including the risk of loss.

Past performance does not guarantee future results.

Investments cannot be made directly in an index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

Stocks of medium-sized companies tend to be more vulnerable to adverse developments, may be more volatile, and may be illiquid or restricted as to resale.

Businesses in the energy sector may be adversely affected by foreign, federal, or state regulations governing energy production, distribution, and sale as well as supply-and-demand for energy resources. Short-term volatility in energy prices may cause share price fluctuations.

Bitcoins are considered a highly speculative investment due to their lack of guaranteed value and limited track record. Because of their digital nature, they pose risks from hackers, malware, fraud, and operational glitches. Bitcoins aren't legal tender and are operated by a decentralized authority, unlike government-issued currencies. Bitcoin exchanges and bitcoin accounts aren't backed or insured by any type of federal or government program or bank.

Bitcoin is a digital currency (also called cryptocurrency) that is not backed by any country's central bank or government. Bitcoins can be traded for goods or services with vendors who accept bitcoins as payment.

Investments in real estate-related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid.

Fluctuations in the price of gold and precious metals may affect the profitability of companies in the gold and precious metals sector. Changes in the political or economic conditions of countries where companies in the gold and precious metals sector are located may have a direct effect on the price of gold and precious metals.

High yield bonds, or junk bonds, involve a greater risk of default or price changes due to changes in the issuer's credit quality. The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

Disinflation, a slowing in the rate of price inflation, describes instances when the inflation rate has reduced marginally over the short term.

Dovish refers to an economic outlook that generally supports low interest rates as a means of encouraging growth within the economy.

Monetary easing refers to the lowering of interest rates and deposit ratios by central banks.

Gross domestic product (GDP) is a broad indicator of a region's economic activity, measuring the monetary value of all the finished goods and services produced in that region over a specified period of time.

Inflation is the rate at which the general price level for goods and services is increasing.

Profit margin measures the profitability of a company by dividing net income by revenues.

A risk asset is generally described as any financial security or instrument that carries risk and is likely to fluctuate in price.

The S&P 500® Index is an unmanaged index considered representative of the US stock market.

Tightening monetary policy includes actions by a central bank to curb inflation.

A basis point is one-hundredth of a percentage point.

The opinions referenced above are those of the author as of **Nov. 11, 2024**. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.