Brockenbrough

Elections…Again Q3 2024

The Quarter

Markets ripped higher this quarter as decent economic and earnings news bolstered the soft-landing thesis, while inflation readings clearly pointed to a Fed rate cut in September. At last! While the S&P 500 rose nearly 6% in the third quarter, small caps jumped more than 9%. The S&P 500 tech sector was actually flat for the quarter, while utilities raced 19% higher. Other notables included industrials tacking on 11.5% and financials up 10.5%. The broadening out beyond mega-tech is a welcome sign of a healthy market and of confidence in the economy. As expected, the Fed did lower rates (50 basis points) in late September. There had been much dickering in the financial press as to the size of the cut, 25 basis points or 50 basis points. That always seemed silly to us. The important point was the Fed had begun it's long hoped for rate retreat. Bonds anticipated the cut too with 10-Year Treasury yields falling from 4.5% at the beginning of the quarter to about 3.6% in mid-September before rebounding slightly.

The Election

We recognize the need to say something about this election, although we reserve the right to tread lightly. We can confidently say this: passions are high and many will vote. Beyond that, we judge it imprudent to make too many specific predictions. Wall Street, however, loves to pontificate, and we've seen some exhausting pieces examining every angle of the election. One tome was near half-an-inch thick—an encyclopedia of conjecturing and guesstimating. We're going to stick to our normal two pages, around a hundredth of an inch. If we have to eat our words, it's manageable.

I wrote the above paragraph in October of 2016. So strange how we've been here before, and just like 2016, we're either going to elect our first female president, Kamala Harris, or Donald Trump.

I went on to write: *In all seriousness, two overarching global economic themes will likely remain dominant whomever we elect: the lethargic global economy and concomitant low-interest-rate environment.* By the middle of 2018 I was quietly choking down my words as real year-over-year

GDP growth reached 3% as did U.S. Treasury Bond rates. Then the pandemic struck, and everyone was eating their words. So, what's my point? Pandemics aside, never could I have imagined the political, geopolitical, and economic events and actions that would define and consume the last two presidencies. Predictions right now seem foolhardy, and almost insulting.

But there is one forecast I have high confidence in. At the time of Trump's first election the national debt was $25 trillion. Whomever wins will inherit a nearly $36 trillion dollar debt and yearly deficits approaching $2 trillion. Tax cuts, entitlements and emergencies have been papered over with a borrowing binge that defies description. Curse words come to mind. That's $110,000 for every man, woman and child in this country. I tried bringing this up with my three kids; they didn't think it was funny. How is it possible that neither candidate nor party is talking about this? Of course, you can't get elected saying no. It's a system perfectly designed to drive off a cliff. I predict the next administration stays the course. Will it take some kind of full-blown crisis to address this? Seems so.

The Markets

The S&P 500 is up 150% since Trump took office in 2017. Plainly, equity markets don't care much about debt and deficits…yet. They don't show much political affinity either. Returns under Trump were a little better, but gains under Biden have been nearly as strong and had to overcome a Fed desperately raising rates. To my mind, it's a wash. In the long-term, equity markets care a lot about earnings, some about interest rates, and not much about anything else. The social and fiscal fights in Washington, while maddening, have almost no influence on the next iPhone or generative software you'll be buying. Think of the S&P 500 as a massively diversified conglomerate of the best businesses in the world. It's highly profitable, it grows faster and is less cyclical than the general economy, it's expertly managed, and it adapts and innovates. It's not Main Street. It will be volatile, but it's also an excellent store of long-term wealth, arguably the best.

At the risk of eating more words, I'll end with a few thoughts on the here and now. Markets anticipate. This year's excellent returns (22% on the S&P 500), in my opinion, anticipated the Fed rate cut and the benign economy. With valuations full, it seems logical to me that markets (stock and bond) take a breather to consolidate the gains and await what's next. Don't expect the markets to flat-line; they never do. I like the word meander.

Richard H. Skeppstrom II serves Brockenbrough as Managing Director and Chief Equity Strategist. He manages two of our investment products and writes most of our investment commentary. Richard joined the firm in 2016 and has 30 years of experience in the investment management industry.