

How Election Outcomes Could Impact the Markets

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Key Takeaways

- Upcoming election outcomes could shape bond market volatility, with Republican policies potentially pushing yields higher, while a Democratic sweep might stabilize rates, offering a more predictable bond environment for investors.
- Trade policies, inflation trends and the Fed's trajectory post-election suggest strategies in private credit, inflation hedges like gold, and international exposure with currency hedging as effective tools for navigating market uncertainty.

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Ahead of the official election results, our strategy team outlined potential market outcomes given the current economic backdrop. We offer perspectives on interest rates, fiscal policy and equity market positioning.

1. Election Outcomes and the Bond Market: Reactions to Potential Policy Shifts

[WisdomTree Senior Economist Jeremy Siegel](#) emphasizes that election results could significantly influence the bond market due to policy shifts tied to fiscal spending and interest rates.

- **Republican Sweep and Bond Market Volatility**

Siegel noted a Republican sweep, with Trump's proposed tax cuts and spending policies, could send bond yields up, by 20 basis points or more. This type of rise in yields would offset other positives for equity markets. In this scenario, bond market participants would likely anticipate higher deficits and inflationary pressure, potentially leading to a more "hawkish" Fed response.

- **Democratic Sweep and Bonds Stabilization**

A Democratic sweep might prove more favorable for bonds, given the expectation of tempered spending and possibly fewer pro-growth fiscal policies. [Kevin Flanagan, WisdomTree's Head of Fixed Income Strategy](#), echoes this sentiment, adding that markets may expect a more predictable bond environment under Democratic leadership, which could temper inflation and keep rates relatively stable.

- **Divided Government as a “Best Case” for Bonds**

A split government could bring stability to the bond market through gridlock. In this scenario, less aggressive fiscal changes could curb deficits, making bonds a more attractive option. For investors, a divided government could bring “damage control” that limits deficit growth and stabilizes rates.

2. Equity Market Winners: Sectors to Watch under Different Election Scenarios

Each election scenario also holds distinct implications for equity markets.

- **Republican Win: Gains for Growth-Oriented Sectors**

- Siegel suggests that under a Republican administration, equity markets may experience an initial boost. Extended tax cuts, lighter regulation and a potential increase in capital gains exemptions would likely stimulate the tech-heavy MAG-7 stocks (Meta, Apple, Google, etc.).
- The digital asset and crypto currency market prefers a Republican administration given the difficulty it experienced in the last administration, although many commentators believe the crypto-currency regulation is improving either way.
- While Trump encourages a “drill, drill, drill” mindset that seems good for energy companies, energy prices fell dramatically during his last administration with increased supply.
- As mentioned above, bond yield increases on deficit concerns could act as a cap on equity gains, as higher rates would pressure valuations.

- **Democratic Sweep: Support for Infrastructure and Clean Energy**

- A Democratic sweep, on the other hand, would be better for bonds but bad for stocks with corporate tax rates and less clear regulatory policies in focus. Small-cap stocks have the most U.S.-based revenue and would face the biggest hit to earnings from a rise in corporate tax rates.
- A Democratic sweep benefits sectors tied to clean energy and infrastructure, both of which are focal points of the Inflation Reduction Act. Solar, clean energy, hydrogen and other renewables would see continued support under a Harris administration, with substantial fiscal backing.
- International markets might get a boost from lower chances of higher tariffs impinging demand.

3. Inflation, Interest Rates and the Fed’s Next Moves

A major theme this week is also the Fed’s likely path for interest rates. Recent data showing softening in labor market growth gives the Fed more room to cut rates if the economy weakens further.

- **Possible Fed Rate Cuts in 2024/2025**

Siegel’s read of the Fed Funds Futures markets show three to four cuts priced in by mid-2025. Siegel notes that a Republican administration with aggressive fiscal policies could alter this scenario, as higher spending and possible inflationary pressures might limit the Fed’s flexibility to ease.

Siegel sees a 25-basis point cut at the November meeting following the jobs report last Friday and Powell possibly indicating a pause in December—pending further data.

- **Private Credit and Alternative Income Strategies**

Flanagan emphasizes alternative income investments, such as private credit and business development companies (BDCs), as ways to capitalize on the current high-yield environment. For investors seeking yield but wary of duration risk, Flanagan highlights [HYIN, the WisdomTree Alternative Income Fund](#), which targets private credit opportunities with a floating rate component, providing a hedge against rising rates. More on this strategy can be found [here](#).

4. International and Commodity Market Implications: Tariffs and Nearshoring Opportunities

Trade policy, particularly in relation to China, is another focal point of the election policies, as Trump wants to enact a 20% tariff across all imports and a 60% tariff on Chinese goods if he wins the presidency.

- **Potential for Higher Inflation through Tariffs**

Siegel warns that broad tariffs are inflationary and risk driving up the U.S. dollar and bringing retaliation from major trading partners. A tariff structure might accelerate a trend toward nearshoring, where manufacturing is shifted closer to home. Mexico and India, both identified as prime locations for nearshoring, stand to benefit from this trend.

- **Currency Hedging**

The prospect for tariffs and a stronger dollar regime highlights a WisdomTree core idea for international investments—which is to be hedged to foreign currency risk. Relative to unhedged international investments, this adds a strong dollar position to portfolios—but in reality, just neutralizes international investments from making a bet against the U.S. dollar. In countries like Japan, one can still earn close to 5% in additional hedging carry due to the relative interest rate differentials between the U.S. and Japan, while on a broad international benchmark, the hedging carry is still above 2%. We believe the dollar provides nice diversification to U.S. profits, which contain a weak dollar bias from multinationals who earn revenue abroad.

- **China's Role and Emerging Markets**

Siegel notes that while China remains an undervalued market, the political and economic risks make it a more speculative investment. He has a preference for emerging markets with strong governance and trade relationships, like India, as attractive alternatives for growth outside of China. Nearshoring initiatives and increased tariffs could enhance India's role as a manufacturing hub, positioning it as a significant beneficiary of shifting trade policies.

5. Inflation Hedges: Gold and Commodities

While Siegel comments extensively about stocks as the ultimate hedge against inflation over the long run, gold and other commodities also get a boost in an inflationary environment. Gold has historically provided very long-term inflation protection.

- **Gold's Role in Portfolios**

Siegel sees gold as a reliable hedge, albeit with low long-term returns, while Schwartz suggests a modernized approach, such as incorporating gold overlays within diversified portfolios to achieve inflation protection without sacrificing growth. Schwartz notes that WisdomTree's capital-efficient solutions, which integrate gold alongside core equity holdings, are an innovative option for inflation-conscious investors. These capital-efficient overlays allow an investor to maintain their core equity position while adding this gold overlay. We discussed why they were among our top performing ETFs [here](#).

Positioning Portfolios for Election Uncertainty

As Siegel points out, while “the market hates uncertainty,” volatility can also present buying opportunities. Investors who stay informed and balanced across sectors may be better positioned to weather any post-election shifts in the market landscape. Stay tuned as WisdomTree's team continues to provide real-time insights and guidance through this pivotal election season.