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UOB Investment Insights

Thinking Ahead

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Key takeaways

- Financial markets tend to be volatile ahead of the United States (US) election due to policy uncertainties. Review your investment portfolio and avoid concentration risks.
- Post-election, the impact on financial markets should be limited as economic growth and interest rates matter more.
- Stay invested and look beyond potential short-term volatility. Focus on the positive economic fundamentals.

Preview of November US election

The outcome of the closely contested US election which takes place on 5 November 2024, will have an impact on future US policies. While speculation of policy changes may cause short-term market volatility, this usually subsides post-election. Ultimately, fundamentals like economic growth and interest rates will dictate financial market movements.

What you need to know

- Investors are paying close attention to the upcoming US election. While control of the White House will determine trade tariff policy, domestic policy is shaped by the president and the two chambers of Congress.
- Thus far, the focus has been on the presidential race between Democrat nominee Kamala Harris and Republican nominee Donald Trump. What many forget is, in addition to the presidency, all 435 seats in the House of Representatives and 34 of the 100 seats in the Senate will also be contested.
- Control of the White House and Congress has different implications as shown in the table below. Divided control is typically seen as the outcome that will lessen the likelihood of widescale or extreme policy changes.

Election Outcomes		Stocks	Bonds	Inflation
President: Harris (Democrat)	Congress: Democrats	Less supportive, tax hike on corporates and wealthy households will weigh on corporate earnings and consumption.	Supportive, higher taxes on corporates and wealthy households will bolster government income and narrow the budget deficit.	Limited impact as additional trade tariffs is unlikely.
President: Trump (Republican)	Congress: Republicans	Supportive, corporate tax cuts and extension of individual tax cuts will boost corporate earnings and consumption.	Less supportive, corporate tax cuts could lead to higher budget deficit, new trade tariffs imposed may limit Fed* rate cuts.	New trade tariffs will lead to higher inflation.

Election Outcomes		Stocks	Bonds	Inflation
President: Harris (Democrat)	**Congress:** Divided	Supportive, stable corporate earnings as extreme policy shifts are unlikely.	Neutral, budget deficit may not widen beyond current estimates due to limited tax policy changes.	Limited impact as additional trade tariffs is unlikely.
President: Trump (Republican)	**Congress:** Divided	Neutral to supportive, stable corporate earnings but new trade tariffs may limit Fed* rate cuts	Neutral to less supportive, new trade tariffs imposed may limit Fed* rate cuts.	Higher inflation due to new trade tariffs.
President: Harris (Democrat)	**Congress:** Republicans	Supportive, stable corporate earnings, extension of individual tax cuts will support consumption.	Neutral, budget deficit may not widen beyond current estimates.	Limited impact as additional trade tariffs is unlikely.
President: Trump (Republican)	**Congress:** Democrats	Neutral to supportive, extension of individual tax cuts will support consumption. Trump may veto tax hikes for corporates and wealthy individuals.	Neutral to less supportive, new tariffs imposed may limit Fed* rate cuts.	Higher inflation due to new trade tariffs.

* Fed refers to US Federal Reserve.

The table above merely outlines hypothetical financial market impact from the proposed policies, the actual impact will depend on policy implementation and economic fundamentals.

- While government policies matter, we want to emphasise that financial markets react primarily to economic growth and interest rates.

What you can do

- As market volatility is likely to increase leading up to the US presidential elections, review your investment portfolio and avoid concentration risks.
- You should stay invested and look beyond potential short-term volatility by focusing on the positive economic fundamentals, as stock markets are expected to be supported by interest rate cuts and robust corporate earnings in the medium term.
- Build a diversified portfolio with multi-asset strategies to reduce portfolio volatility while capturing shifts in market opportunities in different asset classes, sectors and regions.
- If you are willing and able to take risk, investment grade bonds, high dividend-paying stocks and small cap stocks are set to benefit from the rate-cutting cycle.
    - Investment grade bonds offer consistent income and potential capital gains when central banks cut interest rates and can serve as portfolio stabilisers amid political uncertainties.
    - Valuation and dividend yield in Asia ex-Japan and ASEAN stocks are attractive, while trade policy uncertainties arising from US election could encourage further supply chain relocation into ASEAN.
- Speak to a UOB Advisor to build a portfolio that meets your investment goals.

Right By You

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