MARKET INSIGHT

Post-Election Analysis and Outlook

UNITED BANK
Wealth Management

Though all political races are not yet fully tabulated, the Republican party has wrested control of both the White House and the Senate. By retaining the majority in the House, Republicans now control the Executive and Legislative branches of Government. While the Supreme Court theoretically maintains impartiality (and obviously there is no voting mechanism for the highest Judicial branch of government), the conservative majority within the Supreme Court means that all three branches, including the Judiciary, are now in Republican hands and will be for at least the next two years. While there may still be some discussion on the magnitude of this Republican "win", there is little question voters favored the Trump agenda and Republican platform. Post-election polling suggests the primary issue on voters' minds were current and future economic concerns. Voters expressed a higher degree of faith that Republicans would better tame inflation, produce higher wages, reduce housing costs and protect jobs.

As we have suggested for some time, the United States economy is sound and expanding. Third quarter GDP grew 2.8%, just under the second quarter's rate of 3.0%, but more than the first quarter's rate of 1.6%. Though October's employment report was weaker relative to expectations, the reason is easily explained by two major hurricanes in the South and a large union related strike. Both conditions no longer exist. The unemployment rate stands at a healthy 4.1%. The average increase in monthly employment stands at 194,000 for the prior 12 months. Though inflation has been reduced to levels considered appropriate and manageable by the Federal Reserve, many families continue to struggle with high food and housing costs. In large part, these "too high for too long" costs prompted the election results in hopes that changes will be made reduce pricing pressures for many essential, daily expenses.

EQUITY ASSET CLASSES

Though domestic markets took a pause in October, initial investor reaction has been generally favorable to the election outcome. While election week was very positive, the second week has seen a noticeable decline. Overall, the S&P 500 is up 2.5%, the Dow Jones Industrial Average is up almost 4% and the tech heavy Nasdaq is up over 2.4%. Additionally, mid-cap stocks have increased nearly 3% while small-cap stocks are up nearly 5%. By comparison, the international benchmark, MSCI EAFE, has lost over 3%. These returns exemplify the preference for U.S. based companies. The pervasive "United States first" theme as expressed by the Trump platform is clearly being attested to investors in these initial days. We have long held that the U.S. is the preferred equity location and will continue to be the cornerstone of United Bank Wealth & Investment Management portfolios. We should also remind readers that equity prices have been in a pronounced uptrend Since October of 2022. Typically, the first two years of a presidential cycle show some profit-taking or corrective elements. While we feel equities will provide gains, we do not feel future gains will equal the returns we have recently witnessed.

FIXED INCOME

On Thursday, November 7th, the Fed reduced the Fed Funds Rate by 25 basis points at their normally scheduled FOMC meeting. This marks the second rate reduction after rates were cut by 50 basis points in September. Though the Federal Reserve reduced rates, bond investors anticipate much of the recent economic productivity will be a catalyst to higher vs lower rates. Over the past two months, both the 2-year and 10-year Treasury yields have increased roughly 75 to 80 basis points. This increase is partly due to expectations of a better economy under Republican policies, but also due to potentially higher inflationary expectations under those same policies. The degree of concern has been expressed by this yield increase in the open market. While we believe the recent rise is not peculiar given the new dynamic, we are mindful that changes to the typical operation of the federal government, particularly to the Federal Reserve or Department of the Treasury could create investor anxiety. This may lead to higher rates to compensate for less certainty. We see the Federal Reserve's rate reduction cycle continuing as we move into 2025. We remain convinced the economy is still vibrant and future rate declines may not be as frequent. Inflation, though volatile on a month-to-month basis, should not be a major growth inhibitor in 2025. We are aware that new policies could be enacted that alter inflation's otherwise stable path. Our fixed income positioning remains in high-quality, intermediate-term bonds with a modest allocation to high-yield and we continue to actively manage duration within our client portfolios to mitigate interest rate risk.

CONCLUSION

U.S. equity markets should benefit from the prospect of lower corporate tax rates, already record-setting earnings and less industry regulation, particularly within the banking and financial services sectors. Small-cap stocks may benefit from domestic sales and less international/trade exposure. Foreign companies, in both Europe and Asia, are already experiencing some short-term fallout from the U.S. election. We remain confident that our limited international exposure is appropriate and our decision to withdraw direct exposure to China continues to be the correct stance. We do not feel rates will become a negative catalyst in our fixed income exposure, but we are mindful that certain policies may induce inflation more rapidly or may prevent inflation from reaching lows that were previously expected. Economic output could exceed expectations which could be quite pleasing for equity owners but a net detractor for those holding bonds. However, we do not see fixed income returns being jeopardized over the long-term and coupon rates should remain relatively attractive.

Disclosures

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