

MARKET SIGHT LINES



Republicans Win Big in 2024: Economic and Market Implications

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This week American voters went to the polls, reelecting Donald J. Trump and flipping the Senate to Republican control. At this writing, the majority of the House of Representatives is too close to call, and those results will determine whether we'll have divided or unified government over the next two years. In this Sight|Lines, we recap the election results and discuss the economic and market implications of this shift in power in Washington, D.C.

THE TAKEAWAY: REPUBLICANS WIN BIG, MARKETS RALLY, BUT ...

Defying the polls and most pundits, Republicans won big, ushering in a dramatic Washington, D.C. power shift. In summary:

- Exit polls showed voters were most focused on the economy, immigration, and a desire for change as they voted.
- Trump won the presidency decisively, a political comeback many didn't expect.
- Riding the wave of Trump support, the Senate shifted back to Republican control.
- At this writing, the majority of the House of Representatives is too close to call, but it appears the most likely outcome will be a razor-thin Republican majority.
- Markets rallied the day after Election Day, with financials and industrials surging.
- Interestingly, the benchmark 10-year Treasury yield hit 4.44%, reflecting the potential for stronger economic growth, but also the risk of higher inflation and concerns about the nation's fiscal trajectory.
- As we've said recently, we hope the new administration will focus on the budget, debt, and spending, with an eye toward reducing the debt over time.
- Looking forward, we see an improved business environment based on deregulation in areas like financials, technology, and energy.
- We'll also assess how this political power shift affects Federal Reserve (Fed) policy in the near term.

IN-DEPTH: TRUMP WINS DECISIVELY, REPUBLICANS TAKE CONTROL OF THE SENATE, AND MARKETS RALLY EVEN AS SOME DATA SIGNALS WORRY ABOUT THE FUTURE

Republicans won big this week, a more dramatic outcome than signaled by the polls. This ushers in a power shift in Washington, D.C. that will influence the economy and markets going forward. Going deeper:

- Exit polls offer insight into what voters were focused on as they voted:
 - 32% were focused on economy, and 11% considered immigration an important topic.
 - 46% said they were worse off than four years ago.
- Trump won the presidency decisively:
 - The Electoral College count is 295/226 right now but is forecast to end at 312/226.
 - Trump is the first Republican since 2004 to win the popular vote, with 51% against Harris's 48%.
- Republicans won control of the Senate:
 - The party controls 52 seats so far, with a couple more to be decided.
- Control of the House of Representatives is currently too close to call:
 - So far, the seat count is 206 Republican, 192 Democratic, with 37 still to be decided, and a strong possibility for Republican control.
 - The outcome will determine if we have a unified or divided government for the next two years.
- Markets rallied the day after Election Day:
 - The financials and industrials sectors were up 6.1% and 3.9%, respectively.
 - The S&P 500 rose 2.5%, the Dow Jones Industrial Average was up 3.6%, and the Nasdaq was up 3%, as the small cap Bloomberg U.S. 2000 returned 5.7% for the day.
- Interest rates rose in the wake of the election:
 - The benchmark 10-year Treasury yield rose to 4.44% the day after the election.
 - This higher rate reflects the potential for stronger economic growth, the risk of higher inflation, and potential investor worry about the U.S. fiscal trajectory.
- We have many topics in focus as we look forward:
 - How might deregulation affect areas like financials, technology, and oil & gas?
 - Will the new administration focus on cutting spending and reducing the debt over time?
 - How will this political power shift affect Fed policy in the near term? The long term?

CONCLUSION

Republicans won big this week, with control of the House still to be determined. Investors responded positively to these results, with equity markets rallying but interest rates rising on the news. As we look forward, investors appear optimistic that deregulation will be positive for the stock market, but the risks of higher inflation [and the negative implications of our higher debt] remain in focus.

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