Market participants around the word are paying close attention to the 2020 U.S. presidential election, and there is no shortage of opinions. Some pundits have predicted a market plunge of up to 25% if the election goes a certain way. It is worth noting, however, that some analysts predicted a market crash after President Donald Trump’s election – and looking back that certainly seemed to be an overreaction.

For most of 2019, markets shrugged off geopolitical risks – except for trade. Take a look at how the markets have so far reacted to the U.S.-China trade war versus the impeachment of President Trump: Markets are tuned in to every twitch of the needle on trade, but while headlines screamed “quid pro quo,” markets didn’t flinch. However, as details of a phase one trade deal emerged, markets rallied strongly. Even though more trade negotiations remain, the most critical takeaway is the removal of threatened tariffs and a general de-escalation in the trade war.

“‘The U.S. consumer has been the core driver of economic resiliency, and the key takeaway is that they will not be hurt by tariffs on consumer electronic and goods,’” says Matt Orton, CFA, Vice President and Director of Portfolio Specialists at Carillon Tower Advisers. “‘Markets are pricing in significant optimism, and there is a chance that trade discussions could turn negative if this becomes a focus in the upcoming election.’

Investors may also wonder about the implications from some of the strong language on the campaign trail among Democratic candidates. A lot will depend on who the Democratic candidate is. If Elizabeth Warren or Bernie Sanders become the Democratic nominee, Orton would expect heightened market volatility leading up to the election. Either of these candidates would be viewed as broadly negative for business and markets, in contrast to Joe Biden who is seen as a status-quo moderate. Financials, healthcare, technology and energy are a few of the sectors that have received scrutiny from Democratic leaders and could be vulnerable to contractions depending on the nominee.

Healthcare is particularly interesting because it has broadly underperformed the market and remains one of the weakest performing sectors year to date. Market participants should bear in mind that there is often a significant gap between campaign rhetoric and how a president governs once in office. Many promises end up empty once a new president is confronted with the challenges of executing an agenda.

“‘Investors should consider how candidates’ policies may affect their portfolios, but I believe it is unwise to position a portfolio based on one outcome or the other,’” Orton says.
“One person’s politics are not going to change economic fundamentals — there will be some moderation in any legislation that is ultimately passed. In the long term, the market is driven by fundamentals — and earnings.”

“Economic growth, inflation, and Federal Reserve policy are the three main movers of bond markets,” says John Lagowski, CFA, Research Analyst for the Fixed Income Team of Eagle Asset Management, an affiliate of Carillon Tower Advisers. “It comes down to fundamentals. Managers may consider factors that could be influenced by politics, but such influence only amplifies or suppresses the general trend in the economic cycle, and should not be a primary consideration.”

As the 2020 election approaches, the Fed remains a focal point for President Trump. Investment managers at Reams Asset Management, an affiliate of Carillon Tower Advisers, observe that the president has used his Twitter account to pressure the Fed and attack Chairman Jerome Powell. This public criticism, Reams managers believe, may be laying the groundwork for shifting blame to the Fed if the economy weakens ahead of the election.

“The 2020 U.S. presidential election remains unpredictable. Healthcare and financial sectors may be disrupted by certain candidates’ policies — but only if those policies are successfully enacted. Elections in general may have some secondary or short-term effect on markets, but predictions of doom over one candidate or the other have often proven wrong. Regardless of which party is in power, market analysts expect the U.S. economy to remain driven by fundamentals.

THE BOTTOM LINE

The 2020 U.S. presidential election remains unpredictable. Healthcare and financial sectors may be disrupted by certain candidates’ policies — but only if those policies are successfully enacted. Elections in general may have some secondary or short-term effect on markets, but predictions of doom over one candidate or the other have often proven wrong. Regardless of which party is in power, market analysts expect the U.S. economy to remain driven by fundamentals.
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