2024 elections: policy shifts and portfolio construction views

NUVEEN'S GLOBAL INVESTMENT COMMITTEE

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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Executive summary

Investors around the world have been highly attuned to the unprecedented 2024 election season due to the scope of the global backdrop, mounting geopolitical turmoil and a late season shift in U.S. presidential candidates. To help our clients make sense of the election drama and potential policy implications, Nuveen's Global Investment Committee — together with insights drawn from our investment teams, our Government Relations group and other investor education teams — discusses key areas to watch, presents policy scenarios for different outcomes, and shares our views about attractive opportunities across asset classes heading into (and out of) election season.

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Key takeaways

- The election season could provide an additional catalyst for cash investments to underperform. We think investors should consider moving out of cash and allocating into select areas of fixed income.
- U.S. tax, spending and regulatory policies could look very different depending on election outcomes, likely driving some differences between relative asset prices.
- We think investors should plan now for potential U.S. tax increases. This could mean focusing more on tax-loss harvesting and emphasizing areas such as municipal bonds and real estate.
- Many investors are concerned that the U.S. Inflation Reduction Act (IRA) could be significantly scaled back, but its broad popularity across both red and blue states makes that unlikely.

Elections and market trends

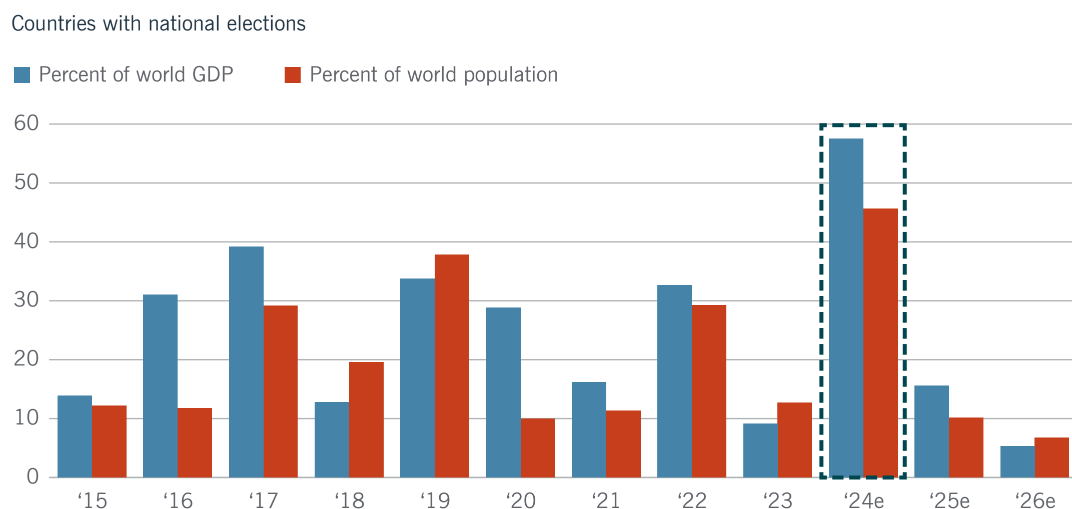
Lessons learned from the global backdrop

It's been a busy election year around the world. More than four billion people, representing close to half the world's population and 57% of global GDP, will participate in national elections during 2024. The implications for investors around the world are critical, as the outcomes will influence roughly 70% of global equity market capitalization in terms of economic, trade, regulatory, governance and sociopolitical changes over the next several years (Figure 1).

The elections that have already occurred around the world show a few emerging trends. For one, we have seen a continued rise in populism and increased distrust of globalization. And unexpected outcomes in countries like Mexico and India have amplified a rise in uncertainty and volatility.

KEY POINT TO KNOW: We think investors should brace for additional market volatility given broad global political uncertainty.

Figure 1: 2024 presents an unusually busy global elections backdrop



Data source: Strategas Securities, 18 Jun 2024. GDP 2023–2026 uses IMF GDP and population estimates. Includes European Parliament elections. In most instances, for those countries with parliamentary republics or semi-presidential systems, the general elections are counted rather than the presidential elections.

Volatility may remain elevated, but that doesn't necessarily mean markets are heading south

There is a widespread sense that U.S. presidential election years tend to be more volatile. In fact, since 1932, the Chicago Board Options Exchange Volatility Index (the VIX, a measure of expected S&P 500 Index volatility) has risen nearly 10%, on average, in presidential election years versus non-election years. Some of this can be explained by recent notable outliers: 2008 marked the height of the Global Financial Crisis and 2020 occurred amid the Covid-induced recession. But political uncertainty can certainly add to investor unease.

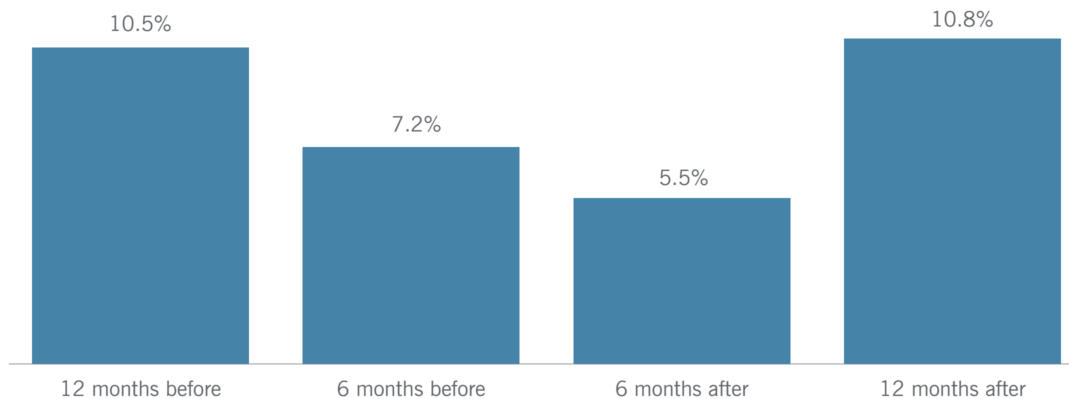
During this current cycle, we expect volatility to be exacerbated by the growth of misinformation (accelerated by the AI boom), as well as multiple military conflicts around the world. And even after the election, ongoing geopolitical conflicts, the potential for tax policy changes, continuing debates over fiscal policy and the debt ceiling and other lingering issues could mean ongoing uncertainty.

But even amid heightened volatility, U.S. equities have historically performed well in election years. More importantly, equity market returns during the 12-month periods immediately preceding and following a presidential election cycle have been positive more often than not (Figure 2).

KEY POINT TO KNOW: At least some of the market volatility we have seen in 2024 could ease once November election uncertainty is resolved.

Figure 2: U.S. election year stock returns have historically been strong

S&P 500 Index, average 6- and 12-month returns (%)



Data source: Bloomberg, L.P., U.S. presidential election year returns from 1928 to 2020. **Performance data shown represents past performance and does not predict or guarantee future results.** Data reflect the S&P 500 Total Return Index.

Election cycles suggest a move out of cash

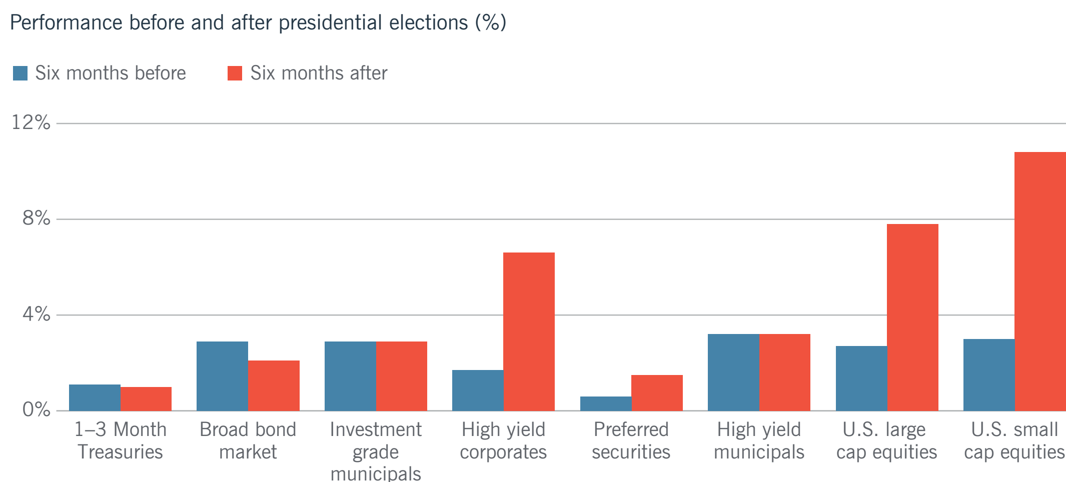
Over the past several quarters, we have argued that investors holding onto high levels of cash investments amid heightened uncertainty should consider reallocating, especially into fixed income. Fixed income in general offers relatively high yields and may generate solid income. And with the likelihood of declining interest rates over the near term, fixed income presents opportunities for additional total return.

The election season presents a further argument for moving out of cash and into more risk-on market segments. During the past seven U.S. election cycles, cash (1-3 month Treasuries) significantly underperformed a variety of fixed income credit sectors as well as equities (Figure 3).

KEY POINT TO KNOW: Investors holding high levels of cash could use the election season as a catalyst for reallocating to more compelling areas of the market.

Figure 3: Regardless of outcome, risk assets have tended to perform well following elections

Performance before and after presidential elections (%)



Data source: Bloomberg, L.P., 1996 to 2020. Data represents the average return six-months before and after the past seven U.S. presidential elections. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: 1–3 month Treasuries:** Bloomberg U.S. Treasury Bills: 1-3 Months; **broad bond market:** Bloomberg U.S. Aggregate TR Index; **investment grade municipals:** Bloomberg Municipal Bond TR Index; **high yield corporates:** Bloomberg U.S. Corporate High Yield Bond TR Index; **preferred securities:** ICE BofA Fixed Rate Preferred Securities TR Index; **high yield municipals:** Bloomberg High Yield Municipal TR Index; **U.S. large cap equities:** S&P 500 Index; **U.S. small cap equities:** Russell 2000 Index. For term definitions and index descriptions, please access the glossary on nuveen.com.

Scenario planning: what happens if...

Changes in U.S. tax policies could significantly affect investors

Many of the provisions of the 2017 Tax Cuts and Jobs Act (TCJA) are set to expire, creating a potential tax cliff at the end of 2025. Regardless of who wins the presidency and/or control of Congress, the new government must tackle this issue quickly, but the parties have highly different motivations. At the top-line level, Republicans would like to make the tax cuts permanent, while Democrats would like to increase taxes on those with incomes above $400,000.

In addition to the headline tax rates, the TCJA brought about several important changes that are also scheduled to expire, including:

- The top marginal tax rate would revert to 39.6%. Should that happen, some investors may have flexibility to accelerate income to pay taxes at the current lower rate or hold off on taking deductions until after the tax rate changes, when the deductions become more valuable.
- The alternative minimum tax (AMT) threshold would decrease and the standard deduction would be reduced, affecting investment and tax planning.
- The $10,000 state and local tax (SALT) deduction cap would be lifted, particularly important to those living in high-tax states.

Outside of the expiring TCJA provisions, other changes to tax policy are possible. Tax incentives associated with retirement savings are part of the overall discussions around U.S. deficit levels. In 2020, federal data shows that tax breaks associated with retirement reduced federal revenues by $168 billion.

Rightly or wrongly, these tax benefits are perceived to be skewed to the wealthy, and this tax treatment could be part of a broader legislative focus. Some on the right are calling for more privatization of retirement, while some on the left are pushing for a return to a system driven more by pensions and defined benefit programs.

Additionally, if Democrats gain more control, we could see a push to increase the net investment income tax rate and expand it to include passive income, as well as a desire to tax long-term capital gains and qualified dividends as ordinary income. In contrast, Republicans may push to reduce corporate tax rates from the current 21% and could move to tax private university endowments in addition to increasing tariffs.

KEY POINTS TO KNOW:

- **Now could be an opportune time to create a multiyear tax strategy that would allow investors to benefit as much as possible from the TCJA, while preparing for some provisions to expire.**
- **Regardless of the election outcome, tax rates will likely increase. That could mean more focus on tax-loss harvesting strategies, as well as considerations for municipal bonds and real estate investments.**

Fiscal policy: bond markets in focus

The subject of taxes leads to a broader discussion around fiscal policy. Most countries run fiscal deficits, but this is particularly important in the U.S. given its reserve currency status. These deficits are likely to continue regardless of the election outcome.

But certain policy differences could affect the trajectory of fiscal deficits. Under a Trump administration and/or a more Republican Congress, we would expect lower taxes on income to be offset by higher growth potential. All else being equal, this could result in higher long-term interest rates and steeper yield curves than with a Harris presidency and/or a more Democratic Congress.

In contrast, a Trump presidency could also mean increased tariffs that would act as a near-term drag on economic growth. This could accelerate the pace of U.S. Federal Reserve rate cuts.

The bottom line for bond markets is that lower income taxes could mean higher yields, while increased tariffs could mean lower yields. The direction and magnitude of these potential changes would help determine how yields might be affected by the election results.

In our view, the “best” outcome for fixed income markets would be some form of divided government. Under unified government (regardless of party), deficits tend to widen more substantially. We saw this with both the Tax Cuts and Jobs Act (under a Republican unified government) and the Inflation Reduction Act (under a Democratic unified government). If either party sweeps, we would expect bear steepening of the Treasury yield curve (meaning yields would increase, led by the long end, making the curve steeper).

Our outlook is for the Fed to gradually ease monetary policy, regardless of the election outcome. This suggests that floating-rate investments are becoming somewhat less attractive than fixed-rate sectors. Two of our favorite areas in the current environment are high yield (specifically the higher quality areas that offer strong fundamentals) and securitized assets, which feature attractive valuations and lower levels of credit risk.

In addition to these broader bond market implications, some areas of the municipal bond landscape could be affected by election results. For example, less regulatory scrutiny of the health care sector is more likely in a more Republican regime, which could support hospital-backed bonds. In contrast, heavier Democratic leadership could lead to student loan forgiveness and community college funding, which would benefit higher education-related bonds.

We would also expect less focus on environmental regulations if Washington moves more to the right, while increased spending on clean energy transition would be likely should the government move more to the left. Those shifts could affect segments of public power utilities depending on their power generation.

KEY POINTS TO KNOW:

- **Bond markets could benefit from a divided government that would keep deficits (relatively) contained.**
- **Regardless of the election outcome, we see opportunities in select fixed income sectors, including high yield, securitized assets and municipal bonds.**

Figure 4: How might tax policy change?

MORE DEMOCRATIC CONTROL	DIVIDED GOVERNMENT	MORE REPUBLICAN CONTROL
• Rollback/allow portions of TCJA to expire • Expand the Child Tax Credit • Expand clean energy credits • Increase corporate taxes • Expansion of the LIHTC • Mark-to-market tax on wealthy individuals and entrepreneurs	• Extend TCJA middle class tax cut • Reduce tax incentives for foreign-derived income • Promote domestic research and manufacturing • Higher taxes on unsympathetic groups	• Make permanent/extend TCJA provisions • Scale back clean energy credits • Scale back IRS enforcement • Eliminate CAMT • Expand business deductions while maintaining rates

Stock market implications are varied

From an equity perspective, different results would have implications for different sectors. For example, a Trump victory would almost certainly be associated with an easier regulatory environment that would primarily benefit the financial, energy and health care sectors. A Trump victory could be associated with higher defense spending and increased investment in traditional oil and gas exploration, which would serve as a relative benefit to those areas of the market.

A Harris victory, on the other hand, would signal more growth in green energy and energy transition themes, which could boost clean infrastructure.

KEY POINT TO KNOW: Watch for potential shifts in regulations, spending and investment priorities that could affect equity markets.

Infrastructure and energy transition are in focus

As the U.S. election approaches, concerns are increasing over the potential rollback of the Inflation Reduction Act. A Harris victory would almost certainly mean the IRA remains intact or is expanded.

Donald Trump and Republicans have criticized the IRA. But even a Republican sweep would not trigger a wholesale end to IRA provisions. It would be difficult to pass a repeal in both houses, current benefits are accruing to both red and blue states, and general corporate and consumer support exists for decarbonization. Perhaps more importantly, Americans are generally happy with the IRA, as infrastructure money is being broadly distributed. A President Trump and/or a more Republican Congress could potentially enact changes around the margins, such as reducing electric vehicle credits or rescinding some grant dollars.

Outside of the IRA, different election outcomes could impact energy policy. The Biden administration has focused on climate-related initiatives, including billions of dollars in provisional tax credits for the private sector through the IRA and EPA regulations on pollution from passenger vehicles and coal power plants. A President Harris would almost certainly push to continue these policies, which would benefit investments such as battery and solar manufacturing, in addition to clean infrastructure.

Figure 5: Potential energy and climate investment implications

	OUTCOME	IMPLICATION
WHITE HOUSE LEADERSHIP	President Harris	• Safeguard of the IRA and continued regulatory action on climate-related initiatives. • Ambition for leadership in the climate arena.
	President Trump	• Withdrawal from Paris Agreement and restrictions on the deployment of IRA incentives. • Possible rollback of climate and ESG rules by the DOL and SEC.
CONGRESSIONAL POLICY	Republican control of House and Senate	• Increased efforts to repeal the IRA. • Clean energy tax incentives may be off the table, as middle class and certain business tax cuts become the focal point of TCJA negotiations.
	Democratic control of House and Senate	• Safeguard the IRA as is. • Potential compromise on transmission, pipeline and other energy projects if enough centrist Democrats break with their left flank.
STATE PARTY DOMINANCE	Blue states	• More states adopt the California approach on climate disclosure. • Accelerate defined benefit alignment with global asset owners on key ESG risks and themes.
	Red states	• Continue anti-ESG efforts, including retirement plan investment prohibitions. • State attorneys general investigate disfavored climate organizations.

A slowdown or removal of certain climate-related policy supports by a Trump administration would be a headwind for these areas, but would instead benefit investments focused on more traditional energy and industries such as fracking.

From a broader perspective, we believe the global momentum behind the shift to cleaner energy is unlikely to change. Direct investment in specific clean energy industries like solar and wind appears on track for continued growth. Additionally, farmland investing is well-positioned to benefit from these shifts, notably in areas like oilseed production. Since shifting to renewable energy requires significant upfront costs, more traditional energy sources won't be disappearing any time soon, which likely means continued support for investments related to natural gas and nuclear power.

KEY POINT TO KNOW: We expect the main provisions of the IRA and the global shift to more clean energy to remain intact regardless of election outcomes. This favors investments in solar and wind generation, as well as clean infrastructure.

Looking ahead

The political environment can and most likely will affect global financial markets, but economic fundamentals and valuations remain more important. Regardless of the political backdrop, we expect many established trends to continue: moving out of cash into more attractive opportunities; the value of environmental, social and regulatory factors in driving investment performance; and the need for rigorous portfolio construction focused on solid research, high conviction and flexibility.

Nuveen's Global Investment Committee will continue focusing on how these issues affect our investment approaches and our clients' portfolios. Stay tuned for our fourth quarter outlook coming in October and our 2025 year-ahead forecasts in December.

About Nuveen's Global Investment Committee

Nuveen's Global Investment Committee (GIC) brings together the most senior investors from across our platform of core and specialist capabilities, including all public and private markets. Quarterly meetings of the GIC lead to published outlooks that offer:

- macro and asset class views that gain consensus among our investors
- insights from thematic "deep dive" discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

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Endnotes

All market and economic data from Bloomberg, FactSet and Morningstar.

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A word on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk, including the possible loss of principal. The value of the portfolio will fluctuate based on the value of the underlying securities. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated municipal bonds, commonly referred to as "high yield" or "junk" bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. Credit ratings are subject to change. AAA, AA, A, and BBB are investment grade ratings; BB, B, CCC/CC/C and D are below-investment grade ratings. As an asset class, real assets are less developed, more illiquid, and less transparent compared to traditional asset classes. Investments will be subject to risks generally associated with the ownership of real estate-related assets and foreign investing, including changes in economic conditions, currency values, environmental risks, the cost of and ability to obtain insurance, and risks related to leasing of properties. Investors should be aware that alternative investments including private equity and private debt are speculative, subject to substantial risks including the risks associated with limited liquidity, the use of leverage, short sales and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, they may not be required to provide periodic pricing or valuation information to investors, there may be delays in distributing tax information to investors, they are not subject to the same regulatory requirements as other types of pooled investment vehicles, and they may be subject to high fees and expenses, which will reduce profits. Alternative investments are not appropriate for all investors and should not constitute an entire investment program. Investors may lose all or substantially all of the capital invested. The historical returns achieved by alternative asset vehicles is not a prediction of future performance or a guarantee of future results, and there can be no assurance that comparable returns will be achieved by any strategy. Responsible investing incorporates Environmental Social Governance (ESG) factors that may affect exposure to issuers, sectors, industries, limiting the type and number of investment opportunities available, which could result in excluding investments that perform well.

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