BREAKING NEWS
06 November 2024

After the voting: economic, investment and portfolio construction implications

Although some U.S. election results are still being counted, Donald Trump has successfully recaptured the presidency. Republicans have also retaken control of the Senate and are fighting to retain their narrow majority in the House of Representatives. To help our clients think through potential policy implications, we offer post-election insights from Nuveen's Global Investment Committee, together with insights from across our investment teams, our Government Relations group and other investor education teams.

From Nuveen's Global Investment Committee

MARKET VOLATILITY – NOW AND LONG TERM

During the closing weeks of election season, markets began pricing in a greater-than-even probability of a Donald Trump victory over Kamala Harris. The so-called "Trump trade" prompted an uptick in bond yields due to expectations that more protectionist-leaning tax and trade policies could accelerate some domestic-oriented segments of the economy while increasing inflationary pressures. At the same time, areas of the equity markets received a boost with expectations of less regulatory scrutiny and a continuation of the 2017 tax cuts.

Markets hate unknowns, and since the results are coming into focus, we could see some degree of easing in the relatively high market volatility. Nevertheless, we expect political trends to continue affecting markets. Multiple military conflicts around the world could continue rattling investors' nerves. And the potential for tax policy changes, ongoing debates over fiscal policy and the debt ceiling as well as other lingering issues could mean ongoing uncertainty.

WE SEE OPPORTUNITIES TO BEAT CASH ON A REAL RETURN BASIS

Nuveen's Global Investment Committee has been arguing for some time that investors holding high levels of cash investments amid heightened uncertainty should consider reallocating, especially into fixed income. Many investors have been sitting on cash awaiting a catalyst, whether that was the start of Fed rate cuts or more visibility around the direction of economic growth or fiscal policy. For those who are still there, perhaps the election could serve as a catalyst.

Fixed income in general still offers relatively high yields and may generate solid income. We remain particularly favorable toward high yield bonds, senior loans and securitized assets. Additionally, private credit is worthy of focus, as investor interest remains high, demand is strong and deal volume continues to rise. Municipal bonds also look attractive, thanks to strong fundamentals, the health of state and local governments, strong supply/demand dynamics and still-compelling valuations.

TAX POLICY WILL COME INTO SHARP FOCUS

Regardless of how the congressional control dynamics play out, we are likely to see a significant tax package next year given the impending expiration of numerous individual tax provisions from the 2017 Tax Cuts and Jobs Act (TCJA). Should there be a "red sweep," we expect President Trump will push to extend several key provisions of the TCJA, including the current marginal tax rate levels for high-income earners. We also expect some efforts to reduce clean energy tax credits and scale back IRS enforcement. Republicans may also push to reduce corporate tax rates from the current 21% and could move to tax private university endowments.

The wildcard for tax policy is tariffs, for which candidate Trump expressed a great deal of approval. President Trump will have significant ability to enact tariffs unilaterally via executive action, and it would not be surprising if his administration makes this an early priority. Specifics remain unclear, but we anticipate tariffs on Chinese goods and a broader move toward a more protectionist tariff policy. Should they come to pass, domestic production would increase and we would likely see some benefits for small cap U.S. stocks, but resulting higher inflation levels would put upward pressure on bond yields and may slow the pace of U.S. Federal Reserve rate cuts.

Regardless of potential shifts in tax rates, investment-related tax planning remains an important consideration, meaning we expect an ongoing focus on tax-loss harvesting strategies and in investment areas such as municipal bonds and real estate.

MARKETS MAY MISS THE BENEFITS OF DIVIDED GOVERNMENT

It is somewhat of a cliché, but investors tend to prefer politics to have as little impact as possible on their portfolios. In other words, gridlock can be the markets' best friend. This is particularly true when it comes to fixed income.

Under unified government (regardless of party), deficits tend to widen more substantially than with divided government, as it becomes easier to pass sweeping tax reduction or new spending. 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). All else being equal, single-party control of Washington tends to spark inflation risks and upward pressure on bond yields.

The budget and inflationary impacts of tax cuts, tariffs, and other policy priorities will make dealing with the nation's fiscal challenges even more difficult, with expected growing deficits and the return of the debt ceiling in 2025 presenting major challenges the Republicans will have to figure out how to address.

Even with prospects for single-party rule (and Democrats unlikely to be motivated to help Republicans) we think there is a chance that some sort of bipartisan fiscal commission will be created to address debt, taxes, spending and entitlements (similar to the Simpson-Bowles commission created under President Obama in 2010).

Whether such a commission can recommend policies that could be enacted into law, however, remains a more complicated forecast. Unlike Simpson-Bowles, an effective commission would likely need its recommendations to be fast-tracked for a binding up-down vote by Congress.

CERTAIN MARKET SECTORS MAY BENEFIT

While market valuations and company-specific fundamentals are more important than politics, we think the change to a Republican administration is likely to result in shift in the regulatory environment for the financial, energy and health care sectors. And it is not a surprise to see bank stocks leading the way in the rally that started after the results were known. We may also see increased investment in traditional oil and gas exploration, which would serve as a relative benefit to those areas of the market.

THE IRA ISN'T GOING AWAY AND NEITHER IS THE ENERGY TRANSITION

Donald Trump and Republicans have criticized the Inflation Reduction Act (IRA). But even with Trump's victory, we do not expect a wholesale end to IRA provisions as 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, while individual members of Congress are quick to tout the specific investments that benefit their own constituents. It is possible, however, that we could see some changes around the margins, such as adjusting or reducing electric vehicle credits.

Additionally, a slowdown or removal of certain climate-related policy supports by a Trump administration would be a headwind for green energy sectors. But we would likely see new tailwinds for 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, regardless of the U.S. political environment. 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, pointing to continued support for investments related to natural gas and nuclear power.

WHERE DO WE GO FROM HERE?

As attention shifts from campaigning to actual governance, some political noise will fade while policy importance will grow. Nuveen's Global Investment Committee will continue focusing on how these issues affect our investment approaches and our clients' portfolios.

Please contact your Nuveen relationship manager or visit us at Nuveen.com for additional election- and policy-related insights. Also, stay tuned for our 2025 year-ahead outlook coming in December.

For more information, please visit us at nuveen.com.

Endnotes

Sources

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

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Performance data shown represents past performance and does not predict or guarantee future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

Important information 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.

Nuveen, LLC provides investment solutions through its investment specialists.

This information does not constitute investment research as defined under MiFID.

4002267-0526