

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.

The shift to a Republican administration is likely to bring changes in the regulatory environment for the financial, energy and health care sectors. 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](https://www.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.

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