

What to Watch as the 2024 Election Approaches

August 1, 2024 • [Michael Townsend](#)



Presidential elections historically have had little impact on the markets, but which party controls the House and Senate will have a major influence on the 2025 policy agenda.



The last six weeks have provided a clear reminder that in politics things can change in the blink of an eye. From a disastrous debate performance by President Joe Biden on June 27 to an assassination attempt on former President Donald Trump to the July 21 decision by Biden to withdraw from the race and the Democrats' quick embrace of Vice President Kamala Harris as the nominee, it has been an historic few weeks.

So where do things stand in a reshaped presidential race? How are the battles for control of the Senate and the House of Representatives shaping up? And what should investors be paying attention to?

With less than 100 days until Election Day, here's what we're keeping an eye on.

A reset presidential race

The decision by Biden not to seek re-election came just 105 days before Election Day—an unprecedented development. The quick coalescing around Harris as the replacement candidate has sparked a surge of energy and enthusiasm among Democrats, as well as a burst of fundraising. Harris raised more than \$200 million in campaign donations in the first week after she became the presumptive nominee.

The next step is for Harris to become the formal nominee of her party. That is expected to happen via a virtual roll call of the nearly 4,000 delegates in advance of the Democratic National Convention, which begins Aug. 19 in Chicago. Harris and her running mate, who is expected to be announced any day now, need to be officially nominated by August 7, the ballot deadline in Ohio. While both the selection of a vice-presidential candidate and the party conventions typically provide a short-term bounce in the polls, historically neither has major impact on the race.

Polls show a very close race. Trump holds a slight lead nationally, according to RealClear Politics, which aggregates polls. As of July 31, the margin was about two points. But it is important to remember that while national polls can provide a useful sense of overall momentum for a candidate, we do not elect our president by a national vote. We elect our president through the Electoral College. And that means paying close attention to the battleground states.

Most analysts are focused on seven states: Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania and Wisconsin. The *Cook Political Report*, a nonpartisan newsletter that tracks and analyzes elections, rates Michigan, Pennsylvania and Wisconsin as toss-ups. The other four states, along with Minnesota and New Hampshire, are rated as "leaning" to one party or the other.

In what is expected to be an extremely tight race, keep an eye on third-party and independent candidates. Independent Robert F. Kennedy, Jr., is averaging 5-6% support in the polls, while Green Party candidate Jill Stein, and Independent candidate Cornel West,

a progressive intellectual, are hovering around 1%. But in a close race, even relatively small vote totals for these candidates could shift the outcome in the battleground states.

Battle for Congress matters more to the markets

While the presidential race is likely to dominate the headlines, the battles for control of the Senate and the House of Representatives may be more important to investors and the markets. Presidential candidates can and do make all sorts of promises about the policy agenda they will pursue if elected, but it's Congress that ultimately is responsible for turning policy proposals into laws – laws that can have a direct impact on the markets.

In the Senate, Democrats (including the four Independents who caucus with the Democrats) have a 51-49 majority right now. But there are 23 Democrat-held seats up for re-election in November, and just 11 Republican-held seats, giving Republicans a significant advantage as they need to flip just two seats to capture the majority.

One seat is already virtually assured of flipping. In West Virginia, moderate Democrat Senator Joe Manchin, who became an Independent earlier this year, is not running for re-election. The Republican Governor of West Virginia, Jim Justice, is an overwhelming favorite to win the Senate seat in one of the reddest states in the country.

Senator Sherrod Brown (D-Ohio) and Senator Jon Tester (D-Mont.) are the only two Democrats who represent red states – and both are running for re-election this November in highly competitive races. The *Cook Political Report* rates both of those seats as toss-ups. Two other Democrat-held seats, in Michigan and Nevada, are also rated as toss-ups, while seats currently occupied by Democrats or Democrat-leaning Independents in Arizona, Pennsylvania and Wisconsin are rated as "leans Democrat," indicating a small advantage. No Republican-held seats are considered to be in significant danger of flipping.

We consider Republicans to be the favorites to capture control of the Senate. But it could be a different story in the House of Representatives.

Republicans hold a narrow 220-212 advantage in the House, with three vacancies. Democrats have a shot at recapturing control. Renewed energy among Democratic voters due to Harris's entry in the presidential race could help Democratic candidates pick up valuable Republican-held House seats in California, New York and elsewhere. It's far from a slam dunk, however, that Democrats will win enough seats to secure a majority. Expect the battle for the House to be extremely close.

If Republicans win the Senate and Democrats flip the House, it would be an historical first – the House and Senate have never flipped in opposite directions in the same election.

Outcome will influence major 2025 policy issues

The main reason that investors should keep an eye on Congressional races is that which party controls the House and Senate will have a major influence on the 2025 policy agenda. Congress next year will be confronted with two massive issues that are critical to the markets: a debt limit fight and taxes.

In June 2023, Congress struck a deal to suspend the debt limit until January 1, 2025. The debt limit is the Congressionally-mandated cap on the total amount of debt the United States can accumulate. Congress must raise or suspend the limit periodically; failure to do so could put the United States in default for the first time in its history. When the limit returns in January, the country will be immediately at the limit, which recently exceeded \$35 trillion for the first time. The Treasury Department typically employs what it calls "extraordinary measures," a series of steps it can take to temporarily stave off default. But those steps only buy Congress an additional few months. By spring 2025, Congress will need to raise the limit—an exercise that has become one of the trickiest negotiations on Capitol Hill. Uncertainty about when Congress will address the debt ceiling and concern about a possible default has produced market volatility in recent years.

The other issue is taxes. All of the 2017 tax cuts—including lower individual income tax rates, the higher standard deduction, the increased amount of assets that can be inherited without triggering the estate tax and dozens of other provisions—are set to expire at the end of 2025. That means major tax legislation is a top priority next year.

Republicans want to extend the expiring provisions and may want to add other tax cuts to the package. Democrats have said that they would let some of the tax cuts—those affecting the wealthiest filers—expire while extending some that primarily impact lower-income individuals.

If either party were to sweep the White House, House and Senate this November, that party would have the ability to drive the tax debate. But a divided government would produce a complicated and unpredictable debate on taxes next year.

What should investors do?

Historically, presidential elections have had little impact on the markets. The S&P 500 has averaged a total return of 7.5% in presidential election years since 1928. But a closer look at those numbers is useful.

The S&P 500 has only been down in a presidential election year four times: 1932, 1940, 2000 and 2008. What else was happening in those years? In 1932, the country was deep in the Great Depression. In 1940, World War II was underway in Europe; the United States

would be involved by 1941. In 2000, the tech bubble burst. And in 2008, the country was experiencing what became known as the Global Financial Crisis.

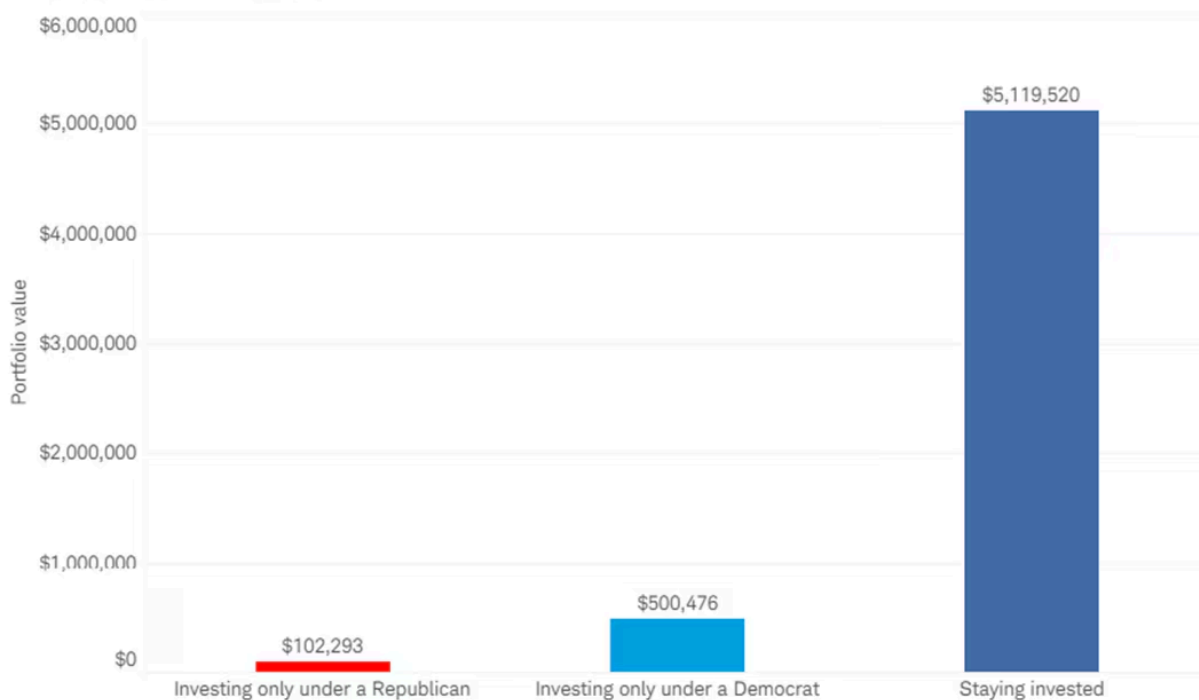
In other words, in the only four presidential election years since 1928 when the market declined, it declined for reasons having nothing to do with the fact that it was an election year. Broader geopolitical and economic factors were the main driver of market performance.

That's a critically important reminder to investors about investing in an election year: The markets really don't care about the election itself. The markets certainly don't care about the daily micro-dramas in the presidential race that may dominate the headlines over the next three months. Markets are likely to be much more influenced by the usual factors in the coming months: corporate earnings, economic data and monetary policy.

There is a perhaps no better illustration of the folly of trying to make investment decisions based on the election than this chart:

Staying invested historically has been the best course of action

Growth of \$10,000 (1961 - 2023)



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc.

The above chart shows what a hypothetical portfolio value would be if an investor invested \$10,000 in a portfolio that tracks the Ibbotson U.S. Large Stock Index on January 1, 1961, through the end of 2023 under three different scenarios. The first two scenarios are what would occur if an investor only invested when one particular party was president. The third scenario is what would occur if an investor had stayed invested through the entire period. The example is hypothetical and provided for illustrative purposes only. It is not intended to represent a specific investment product. Dividends and interest are assumed to have been reinvested, and the example does not reflect the effects of expenses, taxes, or fees, and if it had, performance would have been substantially lower.

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The chart shows that a \$10,000 investment in 1961 would have grown to more than \$102,000 by 2023 if invested only when a Republican was in the White House. That same initial investment would have grown to more than \$500,000 if invested only when a Democrat was in the White House.

But that initial \$10,000 would have been worth more than \$5.1 million by the end of 2023 just by staying invested, regardless of which party was in the White House.

Election years can be emotional—and the 2024 election seems to be a particularly emotional one. But investors should not let those emotions dictate their investing decisions. If you're feeling concerned about the election and the possible outcomes, speak to your financial advisor. Revisit your financial plan. History shows that simply staying the course is the best path for navigating the uncertainty around an election.

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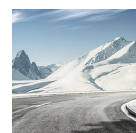
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