PACIFIC GLOBAL
Investment Management Company

MARKET*Insights*

Periodic commentary assessing the impact of news events on the equity and fixed income markets. A conversation with our portfolio managers:

- **George Henning** – Chairman, President & Equity Portfolio Manager
- **Conrad Lyon, CFA** – Equity Portfolio Manager & Analyst
- **Jingjing Yan, CFA** – Fixed Income Portfolio Manager & Equity Analyst

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THE ELECTION & THE MARKETS

November 8, 2024

Equity Perspective

What impact will the election results have on the equity market?

George: The market's immediate reaction reflects its expectations for the new administration's policy agenda based on its campaign messaging, as well as President Trump's first administration.

Conrad: I agree; and we also know that uncertainty can be a significant factor in elevating market volatility. Just definitively knowing which administration will be in power brings a certain amount of clarity that has contributed to the market's favorable response.

George: The immediate rally suggests the market generally anticipates pro-business policies and an emphasis on deregulation. The market foresees some relief from the current administration's increase in regulation which restrained corporate growth.

Conrad: In addition to deregulation, the new administration has signaled an intent to prioritize tax cuts and spending initiatives which would benefit companies and consumers. The market rally reflects how the potential economic benefits of such policies could ultimately elevate stock valuations.

George: Although the election and its consequent impacts are top of mind, markets are always subject to events beyond any administration's control. For example, both the Boeing strike and the recent hurricanes impacted the broader market as their economic effects reverberated beyond a particular sector or region of the country.

How might the election results change the outlook for specific sectors?

Conrad: Expectations for pro-business policies would encourage companies to increase capital investments to grow their businesses. A more favorable environment for mergers and acquisitions could also fuel business growth. In turn, we would expect new opportunities to emerge in the equity market.

George: Policies for individual industries or sectors may be heavily influenced by the President's appointments to his cabinet and certain regulatory agencies.

Conrad: In general, we expect more opportunities to emerge outside of technology as many of these companies are overvalued and may remain under increasing regulatory scrutiny. In particular, we might expect to see more growth, and more investment, opportunities for companies in the healthcare and consumer staples sectors. Additionally, policies which might promote real estate development, particularly in residential housing, could create opportunities for select companies.

George: Deregulation could be a significant factor in creating new investment opportunities:
- Healthcare/pharmaceutical companies have been constrained by regulations. Notably, pressure to limit drug prices has curtailed research and development which limits future growth.
- Energy companies could benefit if the administration pursues a policy of issuing permits for development of natural resources.

- Automotive companies would benefit if climate-related mandates for EVs are revised to reflect weak consumer demand, production & maintenance costs, and energy supply.

Why might the federal deficit be a significant influence on the market?

Conrad: The potential economic impact of unsustainable growth in the federal deficit remains a significant concern for the market. Among other things, growing debt can lead to higher interests and erode the value of the dollar. The deficit may impact not only economic stability but also present headwinds for individual companies and stock prices.

George: The federal debt has been one of the biggest factors contributing to the recent rise in long-term interest rates. Higher rates can also challenge the equity markets if fixed income investments become more attractive alternatives to stocks. Perhaps one of the bigger uncertainties is how the new administration might look to reduce the debt, or the extent to which the deficit will shape its policy agenda.

Will the election results have a significant impact on Fed policy?

George: Every administration looks to influence Fed policy to support its agenda. We expect the new administration will comment on Fed policy with the same intent. Nevertheless, under Chairman Powell, the Fed has demonstrated a consistent policy approach; we wouldn't expect the change in administration to significantly alter the Fed's course in the near-term.

Conrad: We expect inflationary factors will continue to drive the Fed's actions even as the President may look to shape Fed policy. The administration's greatest influence will likely be indirect; that is, its policy objectives – tax cuts, spending, and tariffs may well increase inflation.

How does your assessment factor into your equity investment strategy?

Conrad: Our equity strategies emphasize long-term investments in individual stocks. Neither the election results nor their immediate impact on the market alter our fundamental investment approach or lead us to make significant changes to client portfolios.

George: We know the companies we invest in and their growth profiles; we understand them at a fundamental level. Our analysis anticipates that, over time, unknown factors – political, economic or otherwise – will impact a company. We continuously monitor the companies we own to identify any change in our outlook for a particular stock; but the market's response to any given event doesn't alter our value-oriented, focused investment strategy.

Conrad: In looking for the best long-term investment opportunities, we consider the quality of the underlying company as well as secular trends which may impact its growth potential. Going forward, we expect sectors outside of technology, such as housing, health care and energy, will be focal points to see how they may benefit from the new administration's policies. At the same time, we believe stock selection will be critical in managing risk by identifying the strongest companies with the best long-term growth potential.

Fixed Income Perspective

What factors are having the greatest influence on the fixed income market?

Jing: Prior to the election, interest rates rose due to concerns about persistent inflation and the growing federal deficit. Despite the Federal Reserve's September rate cut, the rate on 10-year Treasury Note rose.

The new administration's impact on the fixed income market will be the extent to which its policies drive or reduce inflation and the deficit. Given expectations for policies that would increase spending and reduce taxes, the market continues to foresee elevated inflation and higher debt. Therefore, we anticipate continued interest rate volatility with a trend toward higher rates.

Where do you see opportunities developing in the corporate bond market?

Jing: We invest in high-quality bonds of solid companies. Our selection process assesses the quality of the bond as well as the underlying company. We don't target specific sectors in our selection process but rather look for the most attractive opportunities at the time of investment.

The regulatory priorities of any administration impact the outlook for certain industries or types of companies. Many companies could benefit from expected deregulation under the new administration. In particular, we could see more opportunities with companies in industries such healthcare and energy.

How does your assessment factor into your fixed income investment strategy?

Jing: Our fixed income investment strategy is based on our understanding of, and expectations for, the interest rate environment. In and of itself, the election results don't directly alter our strategy.

We select individual securities managed for total return. To mitigate risk and volatility, we actively manage maturities based on the interest rate outlook. When rates are rising, we look to protect principal with shorter-term bonds.

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