

Election 2024: Market Impacts

After this week's momentous U.S. election results, Allspring's investment experts share their perspectives on what to expect for fixed income and equity markets going forward.

Authors	Date	Topic
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Key takeaways

- While many investors in U.S. companies may be feeling the need to realign their equity portfolios right now, we believe the best course of action is to hold tight for a bit and let the market settle.
- In this environment, bond investors should expect higher yields and steeper yield curves. To manage risk, we believe bond investors should maximize income across a range of term structures, use duration to hedge economic weakness, and welcome volatility as a driver of security selection across portfolios.

After this week's momentous U.S. election results, Allspring's **Ann Miletti**, Head of Equity & Chief Diversity Officer, and **George Bory**, Chief Investment Strategist for Fixed Income, share their perspectives on what to expect for equity and fixed income markets going forward.

Equity impact: Stay the course—and stay diversified

While many people in the U.S. may be feeling post-election liberation now that the constant political ads have disappeared, many investors in U.S. companies may be feeling anxious about their equity portfolios—and perhaps a sense of urgency to realign them right now. We understand those emotions.

Similar to our comments in October, however, when U.S. equities temporarily tumbled, we believe the best course of action is to hold tight for a bit and let the market settle. Our approach is to closely monitor data trends and pay attention to companies' fundamentals to help us discern what likely lies ahead *and then* adjust as needed. Given the outcome of this election, it is clear that tariffs will be a focal point for our investment teams going forward—but it is important to remember that there is rarely one single driver that affects long-term performance.

Historical data indicates that while sector moves between Election Day and Inauguration Day can appear significant, the most dramatic moves have often stemmed from sector-specific challenges at the time of the election—not from the election itself.

For example, the information technology sector was dealing with the Y2K aftermath in 2000; the financial sector was in the throes of the Global Financial Crisis in 2008; and the energy sector was pressured during the COVID-19 pandemic in 2020. Historically, as an election has faded and actual policy is enacted by a new House of Representatives, Senate, and president, the U.S. equity market has recovered, smoothed out, and reverted to its long-term trends. **Companies have adjusted.**

Although the 2024 election cycle has been marked by heightened political polarization, U.S. equity market dynamics are driven by *a range* of factors, beyond just political outcomes. One of

the most important factors is the condition of the U.S. economy—and currently, it's in pretty good shape.

After an extended period of tightening, the Federal Reserve's (Fed's) recent 50-bp rate cut has provided a welcome tailwind for investors. With inflation stabilizing at more moderate levels, this cut supports economic growth and strengthens the outlook for stocks. While valuations are elevated in specific areas and volatility could remain higher than usual in the near term, overall earnings and fundamentals for stocks remain strong. Despite the series of interest rate increases in 2022 and 2023, employment is still growing, and consumers are in a relatively strong position.

In any market environment, though, we believe equity **diversification is crucial**—and so is careful stock selection. The main goal of an equity portfolio that's diversified across sectors, market capitalizations, styles, and regions—and designed to adapt to policy shifts—is reducing portfolio risk. Diversifying can also uncover potential opportunities.

In uncertain times, patience and perspective are essential. A disciplined, diversified approach helps position a portfolio to potentially benefit from market resilience, allowing your investments to grow as you pursue your financial goals.

Fixed income impact: Bond markets fear unified government

In a [recent article](#), we highlighted how unified government has historically weighed on bond markets. This time is no different. With Republicans set to take control of the White House, the U.S. Senate, and, very likely, the U.S. House of Representatives, bond yields are on the rise (falling prices) and curves are steepening. Bond investors are bracing for increased tariffs, lower taxes, and tighter immigration, pushing inflation and federal debt levels higher. This should help growth prospects in the U.S., but continued pressure on an already “sticky” inflationary environment will likely complicate the Fed's ability to cut rates in the coming months.

In this environment, bond investors should expect higher yields and steeper curves. To manage risk, we believe bond investors should maximize income across a range of term structures (favoring the front end of yield curves), use duration to hedge economic weakness, and welcome volatility as a driver of security selection across portfolios.

Volatility. With the election finally over, interest rate volatility should decline—but it will likely remain elevated amid inflation concerns, tension as the Fed balances data dependency and forward guidance, and ongoing technical issues in the Treasury market. For investors, securitized products offer attractive structure, valuation, quality, and liquidity to weather ongoing bouts of volatility. Greater price, yield, and spread dispersion among structured securities suggests a rich set of relative value opportunities.

Rates. The federal funds rate is still likely to decline, with one cut expected tomorrow and another next month. It's difficult to forecast beyond these two, as much will depend on the policies implemented by the incoming president and the new Congress. To maximize total return and preserve income at the front end of the curve, we believe investors should dynamically allocate portfolio liquidity among traditional money market securities, ultrashort duration, and short-duration strategies. A little bit of duration goes a long way.

Yields. Yields further out the curve rose, and the yield curve steepened leading up to the election. As election results came in, it steepened further, with the benchmark U.S. Treasury 2-year and 10-year bond yields higher by 70 basis points (bps; 100 bps equal 1.00%) and 85 bps to 4.25% and 4.45%, respectively. Allspring estimates the fair value yield for the U.S. Treasury 10-year at around 4.5%, +/-25 bps. A steeper yield curve is likely over the coming months; longer-maturity bond yields are vulnerable to upward pressure, depending on inflation and/or fiscal impulses. The U.S. Treasury 2-year versus 10-year yield curve differential currently stands at approximately 20 bps—we estimate a “normal” level is 75-100 bps.

Credit. Credit spreads are still stubbornly tight and showing few signs of weakness. Credit fundamentals for many large-cap bond issuers around the world are in good health, while pressure at the bottom end of the credit spectrum continues to mount. U.S. bankruptcies are back to pre-pandemic levels and rising. An “up in quality” bias across most credit subsectors is warranted given tight valuations and these dynamics.

Mortgage-backed securities (MBS). MBS spreads widened as interest rate volatility spiked higher and bond yields rose. However, volatility should be good for MBS. Spread widening has been uneven across the coupon stack, providing a wide range of relative value opportunities among securities.

Municipals. The tax benefit of municipal debt remains valuable as various tax rates are likely to increase. Demand should remain robust as the tax advantage improves. Credit fundamentals across this landscape appear strong while issuance should remain manageable. We expect all points along the curve, laddered portfolios, and commingled funds to benefit.

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