Important Topic: US Elections and the Markets

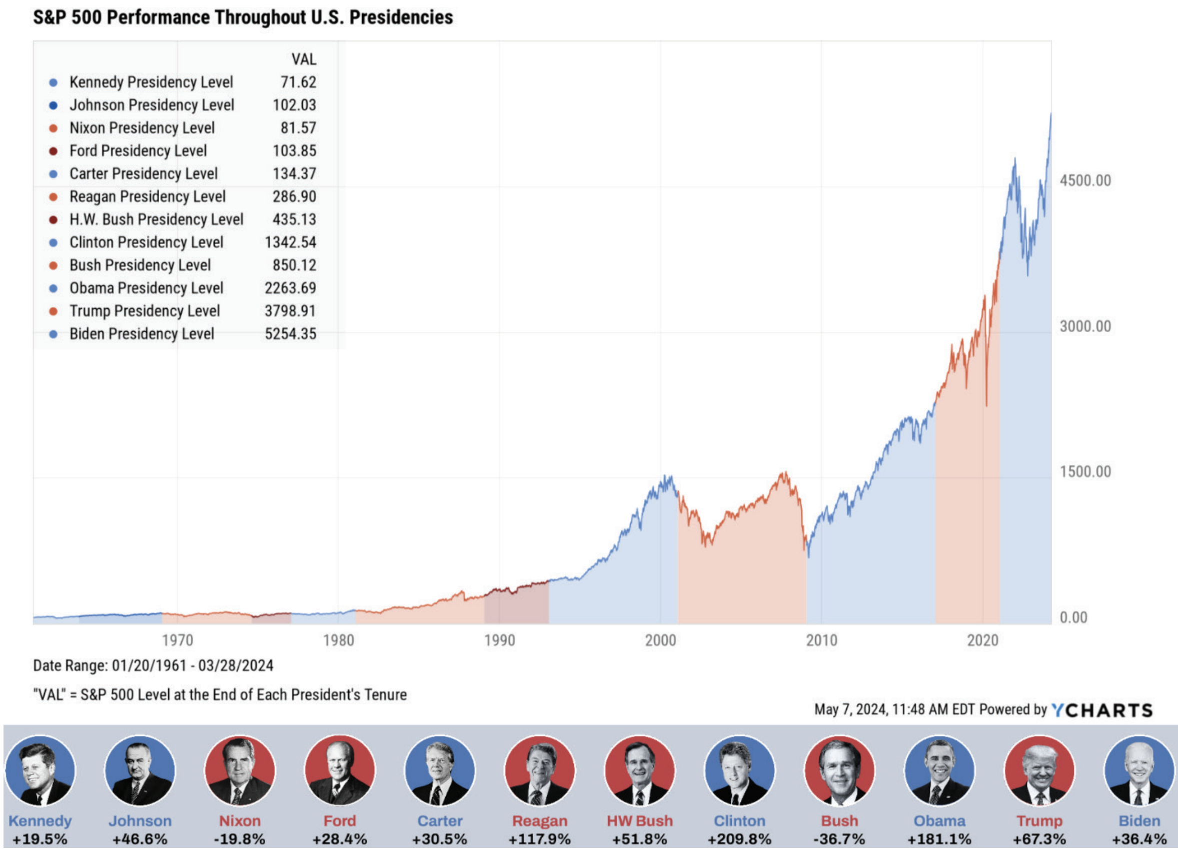
Many wonder how the presidential election could affect their investments. Uncertainty about the next administration and their policies, leads to concern. 2024 is no exception.

Markets like certainty. Consider the day after JFK was assassinated. The markets were up! After he was shot, the markets were closed for the day. There had been a selloff with the Dow falling 2.8% that afternoon. However, when markets reopened Tuesday, there was such a sigh of relief that power had been transferred and the Constitution still functioned, that a massive rally erupted, soaring more than 4.2%.

One should expect volatile markets leading up to an election. But once the decision is made, one could easily see markets moving upwards due to the removal of the uncertainty.

Interestingly, history suggests that a U.S. president's political slant is not as important for stock market performance as you might assume.

Consider the below chart from Y-Charts. There is no obvious pattern by party. The only pattern is the fact that the US Market spends a lot of time trending higher.



One reason for this is that while elections matter, they are not isolated events. One needs to consider valuations, geopolitics, monetary policy, inflation, business cycles and more to understand the forces at play during any administration.

Perhaps most importantly, one needs to consider timing. Whatever economic influence a President may have, it can take a few years before the effects are seen. And, on the other hand, unexpected events, completely beyond the control of a President, can make all the difference. As a result, some presidents inherit economies and markets poised to advance while others inherit the opposite. Some get lucky with unexpected events and some unlucky. But financial writers prefer simplicity, and so studies focus on what happened under a President's watch, not what they were actually responsible for.

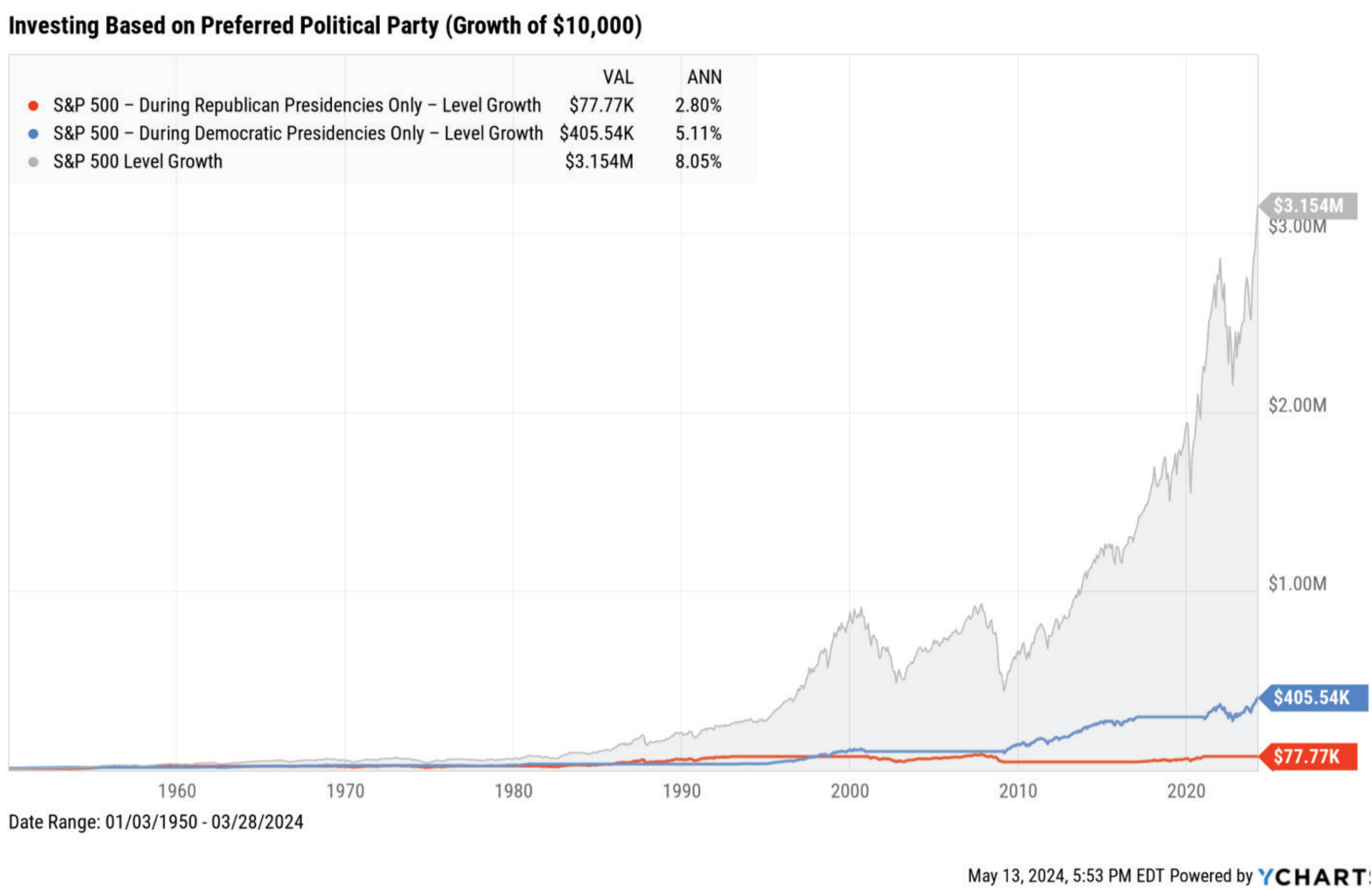
Not surprisingly, regardless of the party in the Oval Office, staying invested is the most prudent long-term strategy. To make this point, let us compare how well one would have done if they invested only during the presidencies of one political party.

Starting with $10,000.

Only investing with a Republican in office grows your $10,000 to $77,770.

Only investing with a Democrat in office grows your $10,000 to $405,540.

Saying invested the entire time, the $10,000 grows to $3,154,000.



In short, the person who occupies the Oval Office has an arguably marginal impact on the already existing forces driving the markets.

But note, this is not true in dictatorships, authoritarian regimes or even in most socialist countries. There governments play larger roles, and historically at least, almost always to the detriment of all but a few.

It is true in the US and Canada mainly because our economy is based on a capitalist system. In this system all those that wish to better themselves and those they love are given the freedoms and incentivizes to innovate, to improve, and endlessly develop and deliver better goods and services. In this process, living standards improve, the economy grows, and earnings grow. As we always say, earnings are the main driver of stock prices. And these truths persist regardless of who sits in the Oval Office.

Market Update: July – An excellent month and another Bank of Canada rate cut

Markets in July were very strong with almost every market moving higher.

Importantly, the Bank of Canada cut rates for a second time. The expectation is that rate cuts will continue as the Canadian economy continues to underperform and Government actions have not helped, if not actually hurt.

Meanwhile, while the US Federal Reserve has not cut rates, it pointed to that eventuality.

The key point here is that a cut in interest rates should stimulate the economy. With less money being spent on mortgages and other debt, consumers and companies can spend their money elsewhere. Company earnings can go up.

But, as always, economic data is a double-edged sword. For if rates are being cut, there

must be a consensus that the economy is not doing well and needs to be stimulated. A poor economy means that company earnings can go down.

And there you have the ongoing battle that is playing out daily.

The ideal, the target, is where rates are cut just right to provide enough stimulation to produce a fair to good economy.

Too much cutting and we could see a strong economy but the return of inflation. Too little cutting and we may see a recession.

Historically, central banks have not balanced this well, usually over shooting one way or the other. Can they get it right this time?

So far, earnings continue to grow, consumers defying expectations continue to spend, wages remain strong, jobs are available, and there are several trends, such as technology and health care, that are stimulating much change.

We remain optimistic about the rest of 2024 and are positive and optimistic about the medium, and long term. Most importantly, we are confident about our ability to meet our client's objectives. At the end of the day this last point is all that truly matters.

Have a great month and let us know if there is anything we can do for you,

Sincerely,

- Meir & Adam

Index	Month	Year to date
Bonds FTSE Canada Universe Bond Index - CAD	2.20%	1.70%
Canadian Equity - S&P/TSX 60 Index - CAD	6.00%	11.10%
US Equity – S&P 500 - USD	1.10%	16.10%
International – MSCI EAFE Index - USD	2.60%	8.50%
Emerging Markets - MSCI Emerging Markets Index - CAD	1.70%	11.80%
Real Estate - Dow Jones® Global Real Estate Index - USD	5.70%	2.00%
S&P/TSX Preferred Share Index - CAD	2.60%	15.90%

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