



Market Commentary: Political Angst: A Guide to the Markets Going into Elections May 2024

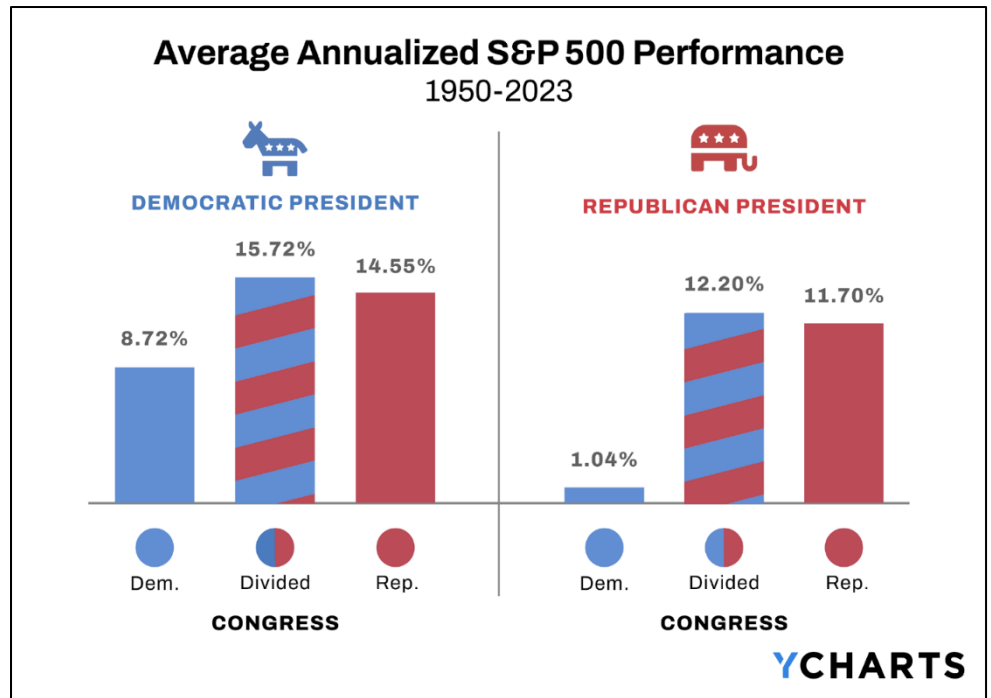
On November 6, 2024, roughly 40% of the nation will wake up horrified because their preferred candidate lost the election. Interestingly, this time around the nation has actually experienced four years with each candidate.¹ Wall Street would prefer a split ticket, as this is believed to create a quagmire where not much gets done, meaning no surprises or big changes. In fact, statistically, the best annualized performance has been a divided Congress with the worst being a Republican president paired with a Democratic Congress. Assuming the expected clear winner and split ticket occurs, how will our elected leader affect markets going forward? Over the short term (0 – 4 years), how much influence do our chosen leaders really have?

For instance, will Apple sell more iPhones if President Biden wins? How about Donald Trump? It feels like a silly question, but sales dictate Apple’s top line (revenue). And most would agree the eventual president will most likely not have a material effect on Apple sales nationally or internationally. Two other broad categories of note would be (1) business costs, such as labor, material, debt costs, and taxes that may be impacted by regulation, inflation, and international policy among other factors; and (2) investor sentiment, which boils down to the macro environment and general optimism about the future.

Let’s examine costs:

Material & Globalization

There is bipartisan agreement with respect to China as a foe! China represents the first true potential significant enemy nation to the US since the cold war with Russia ended with the collapse of the USSR in late 1991. Between this reality and adjustments to global supply chain management as a result of lessons learned during COVID, there are a number of shifts away from China manufacturing occurring:



¹ Given no true competition from third parties and the relatively more likely (but still slim) scenario of one or both candidates not quite making it to election night.



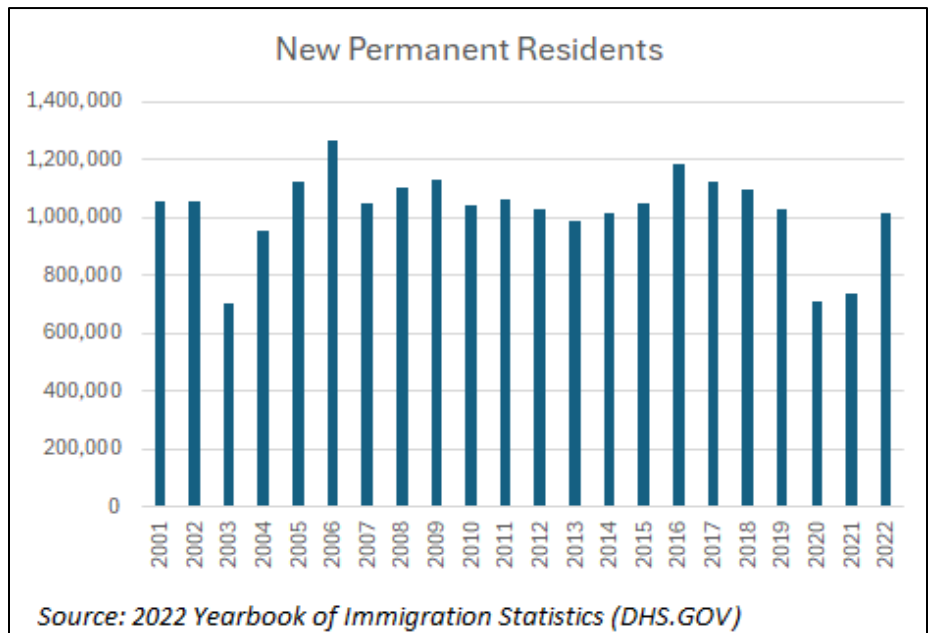
- Onshoring and nearshoring due to a combination of global supply chain risk mitigation and the realities of total cost of ownership (see our Market Commentary: [The Effects on Onshoring to the US and Its Consumers – March 2024](#) and Podcast: [How Strong Is The Trend Towards Reshoring of Manufacturing?](#));
- Strategic onshoring, with the CHIPS Act being a primary example of the US desire to have manufacturing capability and general control and access to important technologies; and
- General shifts away from China due to current and potential tariffs, increased political risk, and increased competition from other countries (e.g., [Apple significantly ramping up production in India to the detriment to China](#)).

Check out and subscribe to our [Investment Wars Podcast](#) which is shortly coming out with episode #20: The Upcoming Election: Will the Winner Materially Affect Market Performance in the Near Term?

It is hard to see our approach to China or much of the rest of our significant trade partners materially reversing regardless of who is elected our next president.

Labor

There is bipartisan agreement about legal immigration! We have discussed the benefit of having the best and the brightest around the globe interested in moving to the US in our last [commentary focused on demographics](#). Labor shortages are inflationary in nature and given the onshoring trend, there can be more pressure in this regard. Neither future president is expected to modify the current legal immigration process. With respect to our example with Apple, that means there is no expectation of Apple doing better or worse with respect to labor costs regardless of which political party is in power. Although we imagine there will be a lot of discussions going into our elections surrounding the southern border, we will not be diving into that topic here!



Innovation

Innovation is another area where we do not expect much difference in regards ultimate objective, even though the policies of our political parties are quite different. An easier regulatory environment is conceptually better for entrepreneurial ventures which should allow innovation to blossom (a Republican talking point), while government spend, like the CHIPS Act (which was bipartisan) and the





tons of loans and subsidies provided by the government for a variety of programs, such as the [\\$465 million loan provided by the Department of Energy in January 2010 to Tesla](#), is also conceptually good for innovation (a Democratic talking point).² The point is that both parties are aligned yet again in maintaining America's global edge and allowing for entrepreneurship and innovation through the investment, one way or another, by government. Our world class college system is yet another example of this, and it is materially funded by our government.

Deep Thought: New York Tech Week: Aviation

The first week of June is [tech week in NYC](#), with close to 200 events a day. We had the opportunity to go to a networking event. The most interesting conversation we had was what I would consider a bit of a long shot, but in the founder's estimation is about a year away: **The ability to send a care package anywhere in the world within ONE HOUR.**

A warehouse is placed approximately 300 miles above Earth which holds certain necessities. This is a government-based product so visualize weapons and medical equipment. The warehouse is automated with space capsules and balloons at the ready. Once a request is made, such as a commando unit in some trouble in a hard to supply location, the supplies are sent with an expected landing range of 100 meters.

Eleven years ago, Bezos went on CBS's 60 Minutes to announce that his company intended to deliver parcels by drone within 30 minutes. He thought this would occur in five years. He was off with the timing and still a ways away from national, but Amazon is beta testing delivery in and around College Station, Texas.³

Roughly 25 years ago, Kozmo.com promised one-hour local delivery of videos, games, DVDs and so on.⁴ Their high-tech solution in getting product to client in under an hour was to have college kids biking and running to location (a far cry from Bezos drone idea...)

In all seriousness, attempting to put a warehouse in space and provide delivery anywhere in the world is an incredible project that will provide huge value regardless of whether it is successful because of the engineering feats or other benefits that result from trying. It is something governments and investors get involved with to bring further innovations to the world.

Returning to our Apple example, Apple benefits from both US innovation and our robust post-secondary educational system through the employees it hires, the competition that pushes them to be stronger, and the start-ups they gobble up. We expect this to continue regardless of our future president.

² There are counterpoints to both approaches. The centrist view would be to have some combination of the approaches with natural checks and balances provided by having these philosophies duke it out via elections! Democracy!

³ [Amazon Approval From FAA Gives a Boost to Drone Delivery Program - Bloomberg](#)

⁴ [Kozmo.com - Wikipedia](#)





Debt (x2) and Taxes

Debt gobbles up growth. Dollars that can be allocated elsewhere are used for debt servicing costs. It affects tax levels and subsidies. One way or another, we have to pay for material non-negotiable costs on behalf of our citizens (e.g., the military, healthcare).

If we must increase taxes, it either lowers consumption if aimed at the consumer, or the bottom line if aimed at companies like Apple.

Our current interest rates are high relative to the last twenty years and on the high side historically. While Apple is not really affected by this phenomenon,⁵ most American companies⁶ are, resulting in an additional and material cost.

The Federal Reserve (“Fed”) is supposed to be an independent entity with the goal of maintaining both inflation in a reasonable range and full employment. Do politicians attempt to influence the Fed? Sure! But this is hard to do as illustrated by actions in late 2018.

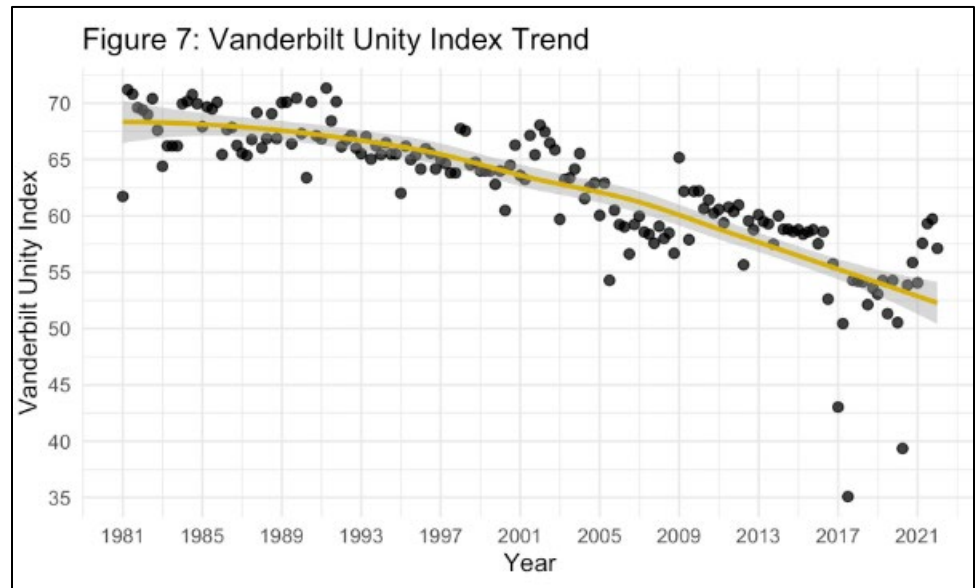
The point is, the political party in power has limited, if any, control on prevailing interest rates, though they can conceptually attempt to defray costs of companies in other ways – an action we do not expect from either candidate or party.

Sentiment

A favored valuation metric is the price per share of a security over the earnings per share of a security (“PE” ratio). For example, Apple is trading at a ~30 PE⁷ (\$6.50 of earnings and a \$195 share price). That is a relatively high PE ratio, especially for a mature company like Apple. What this basically means is that the market expects Apple to continue to grow earnings rather robustly.

The PE ratio for the US market is ~24 while the PE ratio for the Chinese market is ~14.⁸

The US trades at a premium despite the fact that China is expected to grow their economy at a faster pace. This is due to the robust and



Vanderbilt Unity Index Trend⁹

⁵ If anything, it is a positive given their huge cash holdings with no need to enter debt markets.

⁶ Most companies are actually quite small and small businesses are a bedrock of our economy.

⁷ This is trailing 12 months, reflecting the last year of earnings over the current price.

⁸ We used trailing PE (trailing 12 months – note above footnote) for VTI which is an ETF that reflects US market performance and MCHI which is an ETF that reflects a slice of the Chinese markets. We believe this is directionally accurate in regards the premium built in to US markets relative to Chinese markets.

⁹ [Vanderbilt Unity Index | The Vanderbilt Project on Unity and American Democracy | Vanderbilt University](#)





mature capital market structure and financial structure in the US, the belief in capitalism generally, and a number of other factors that benefit US based companies.

Of course, there are kinks in our armor. As we had covered in a [prior deep thought](#), our younger cohorts rank rather low in the happiness index. Despite some of the areas discussed earlier where we agree, the above chart measuring our level of political consensus¹⁰ (lower index level means less unity) highlights that we do have deep political divisions. We are aging as a country and our debt is mounting. And we are sympathetic to those concerned about the direction of the country, political parties and potential leaders – but America has been built to withstand single leaders from the outset.

And we remain a world power with robust political checks and balances and a strong economy and market, including companies like Apple, that should continue to perform regardless of the political party “running” the country.

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¹⁰ [Vanderbilt Unity Index | The Vanderbilt Project on Unity and American Democracy | Vanderbilt University](#): The index incorporates five inputs, including publicly available survey data on strong presidential disapproval, political and ideological extremism, social trust, political and social unrest, and measurements of Congressional polarization to provide a quarterly and replicable measurement of Americans’ level of political consensus.

