2024: A Pivotal Year for Global Democracies, Markets, and Economies

2024 will not only be an election year in the U.S., but it will be a historic election year globally where half the world's population will go to the polls. This year, national elections will take place in the United States, United Kingdom, Mexico, the European Union, India, Iran, South Africa, Indonesia, and Taiwan, among a number of other countries (Figure 1). The outcomes of these elections will shape the global geopolitical framework and, by extension, fiscal and trade policies that have the potential to impact the economic landscape for years to come.

Figure 1 – 2024 election dates for select global democracies

Date	Country
January 7, 2024	Bangladesh
January 13, 2024	Taiwan
February 8, 2024	Pakistan
February 14, 2024	Indonesia
March 1, 2024	Iran
March 17, 2024	Russia
March 31, 2024	Ukraine
April-May, 2024	India
TBD	South Africa
TBD	United Kingdom
June 2, 2024	Mexico
June 6, 2024	European Union
November 5, 2024	United States

These elections also come at a critical moment for global democracies navigating an increasingly fragmented, multi-polar world in the throes of long-term transformation. A recent survey conducted across seven democracies reveals general support for democratic principles, but widespread dissatisfaction with a system perceived to be broken. Approximately one in two people are dissatisfied with the way democracy is working in their country, which is highest in the U.S. (56%).[1]

In addition to the U.S. presidential election, all 435 seats in the House of Representatives and 34 out of 100 seats in the Senate will be up for election in 2024. Key dates for American democracy are fast approaching (Figure 2).

[1] Ipsos KnowledgePanel, December 2023

Figure 2 – Key cyclical dates for 2024 U.S. presidential election

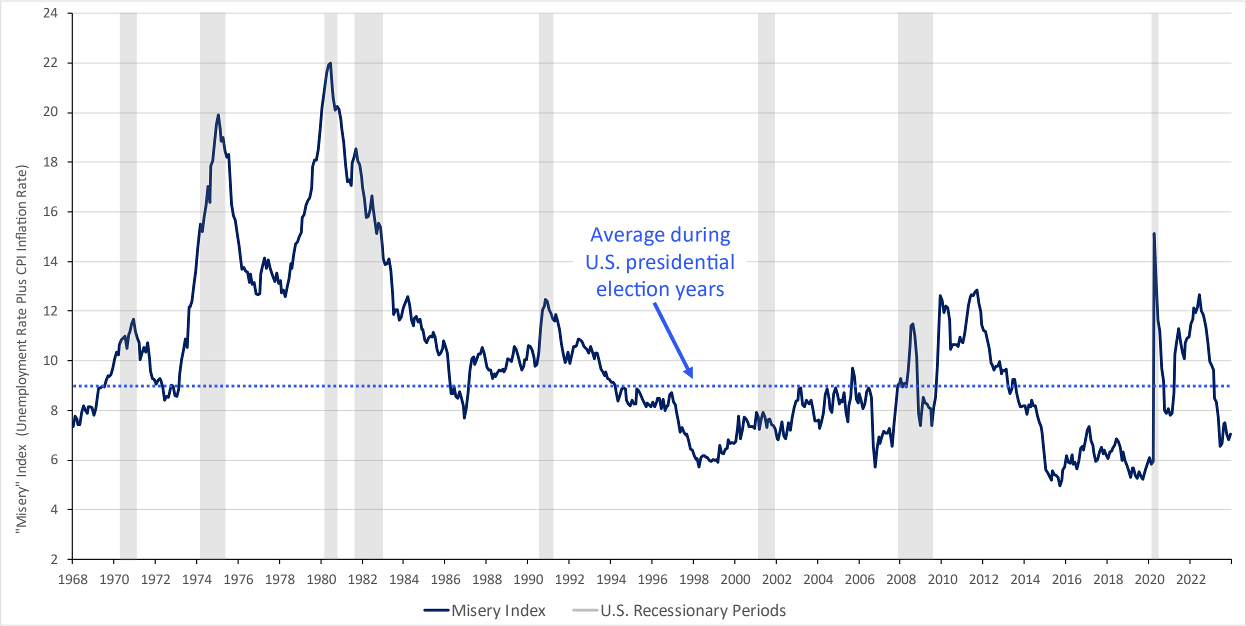
Date	Event
March 5, 2024	Super Tuesday Primaries
July 15-18, 2024	GOP Convention
August 19-22, 2024	Democratic Convention
September 16, 2024	First Presidential Debate
September 25, 2024	Vice Presidential Debate
October 1, 2024	Second Presidential Debate
October 9, 2024	Third Presidential Debate
November 5, 2024	Election Day
December 7, 2024	State Electors Cast Electoral Votes
January 3, 2025	119th Congress convenes
January 6, 2025	Electoral Votes Counted in Congress
January 20, 2025	Inauguration Day

Setting the 2024 U.S. election stage

U.S. politics and inflation are inextricably intertwined. Inflation is the measure of how quickly prices are rising, not the level of prices. While inflation has slowed over the past 18 months from 9% in mid-2022 to 3% by year-end 2023, overall prices are up 20% since early 2020. The increase is more pronounced for high profile items like groceries (+25%) and vehicles (+22%). Historically, inflationary pressures can be a major hurdle for the incumbent Presidential candidate.

The Misery Index (inflation rate plus the unemployment rate) has traditionally been used as a reliable gauge of consumer attitudes toward the economy and the incumbent party. In general, the higher the Misery Index, the worse it is for the incumbent party. The average reading on the Misery Index in January of presidential election years since 1960 is 9. In the years the incumbent party lost the White House (1960, 1968, 1976, 1980, 1992, 2000, 2008, 2016, 2020), the Misery Index has averaged 10, slightly worse than the overall average. At a reading of 7 (unemployment rate of 3.7%, inflation rate of 3.3%), the Misery Index at the beginning of 2024 was below the average reading when the incumbent loses, and well below the pandemic level of 15, which was a four-decade high (Figure 3). As of this writing, the current Index reading would suggest an advantage for the incumbent party in 2024.

Figure 3 – The Misery Index is a gauge of consumer attitudes on the economy



Source: FactSet Financial Data & Analytics

In the current environment, our view remains that the U.S. economy will decelerate and inflation will moderate further, but we believe that the disinflationary process will be bumpy and non-linear. There are both cyclical and structural forces influencing inflation and because these forces push and pull in different directions, interpreting them in real time can be difficult. The Federal Reserve (Fed) has limited influence over the structural forces, which are likely to play out over a longer time frame, with variable impacts in the near term. As investors navigate inflation's last mile to the Fed's 2% target, there remains a potential collision of these cyclical forces and structural shifts, which may lead to a "new normal" for inflation—one higher than the Fed's 2% target over the medium term.

CIO View: *The big question at this juncture is whether the U.S. election might have an outsized impact on inflation, or if inflation will have a larger impact on the election outcome. Inflation continues to slowly glide lower, but there is no doubt it remains a top-of-mind concern for the electorate. Will it be low enough in November to favor the incumbent?*

An uncertain vision from the Fed

At its December 2023 meeting, the Fed indicated it would be prepared to cut interest rates three times in 2024, signaling its satisfaction with the latest inflation data and its willingness to support economic growth moving forward. In the first FOMC meeting of 2024 in late January, the Fed noted that it would not be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%. While the Fed has not yet signaled a timeline for implementing cuts, the increased likelihood of forthcoming cuts has significant implications for politics, the economy, and the markets:

- The possibility remains for a "soft landing" scenario playing out in 2024—lower inflation coupled with a reasonable level of economic growth, which would be a continuation of the current favorable environment for risk assets.
- However, a move towards lower rates raises the possibility of inflation remaining stuck at levels well above the Fed's stated 2% target. Were that to happen, the Fed might eventually be forced to reevaluate its dovish pivot.

CIO View: *Jerome Powell's term as Fed Chair ends in May 2026. The next President will nominate, and the Senate will confirm, the next Fed Chair in 2025 or early 2026. The confirmation of a different Chair opens the possibility for a pivot in the Fed's outlook and policy. A generally hawkish (or dovish) Fed can have implications for bond yields and growth paths well into the next President's term.*

Rising challenges in China

Chinese President Xi emerged from the Party Congress in 2022 with a grip on power unrivaled since Mao Zedong. Facing few checks and balances, Xi can continue to pursue a nationalistic policy agenda. In the U.S., there will be strong bipartisan desire to push harder against China on the economic, diplomatic, and security fronts, especially as election season heats up throughout the year. There are several potential flashpoints that involve China, including the East and South China Seas, the Himalayas, and Taiwan. Taiwanese elections took place in early January and thus far, China's reaction has largely been muted as Xi seems to be seeking some degree of bilateral harmony in the near term. However, given the perception that America is itself under strain, China may feel empowered to make a decisive "move" on Taiwan. Whether or not this move takes the form of a blockade or full-on invasion is unknown, but either option would result in significant geopolitical consequences and economic shocks that would snarl supply chains and force a reevaluation of trade and investment restrictions.

CIO View: *Both U.S. political parties have assumed a more hawkish position as of late on dealing with China, including trade relations or China investing in itself to become more independent. Taiwan remains as a high-profile flashpoint, as does China's lack of cooperation in Ukraine and the Middle East. U.S. Presidents in their second terms tend to prioritize foreign policy over domestic, and we note that both President Biden and former President Trump would be serving their second terms. President Biden has largely maintained the tariffs that former President Trump imposed on China in 2018, while also imposing new restrictions in late 2023 that will limit access to advanced computing and artificial intelligence technology and related equipment from the U.S. On the campaign trail, Trump has referred to the 2018 tariffs as a key accomplishment during his first term and has vowed to ratchet up the approach if elected again.*

Potential changes in tax policy

The timing of the election, along with the expiration of major provisions of the Tax Cuts and Jobs Act of 2017 (TCJA), make the future of taxes and tax policy uncertain. The TCJA separated the tax brackets for long-term capital gains from ordinary income. With the potential for higher capital gains tax rates on the horizon, taxpayers may consider selling highly appreciated securities prior to 2026. If holding the security is favorable, repurchasing it at a stepped-up basis can help offset any future long-term capital gains. It is too early to predict what will happen with TCJA, but it will likely dominate the Congressional agenda in 2025. This could be an important platform component in the coming months, especially as households have been under significant inflationary pressures since mid-2021. Two important points that may come into play in 2024 include:

1. The TCJA lowered ordinary income tax rates and expanded tax brackets. If these rates and brackets were to revert to their prior levels, many individuals could see an increase in their income tax liability come 2026.
2. Most taxpayers have taken the standard deduction since the passage of the TCJA, as it almost doubled the standard deduction. Should this provision expire, more taxpayers will likely elect to itemize deductions.

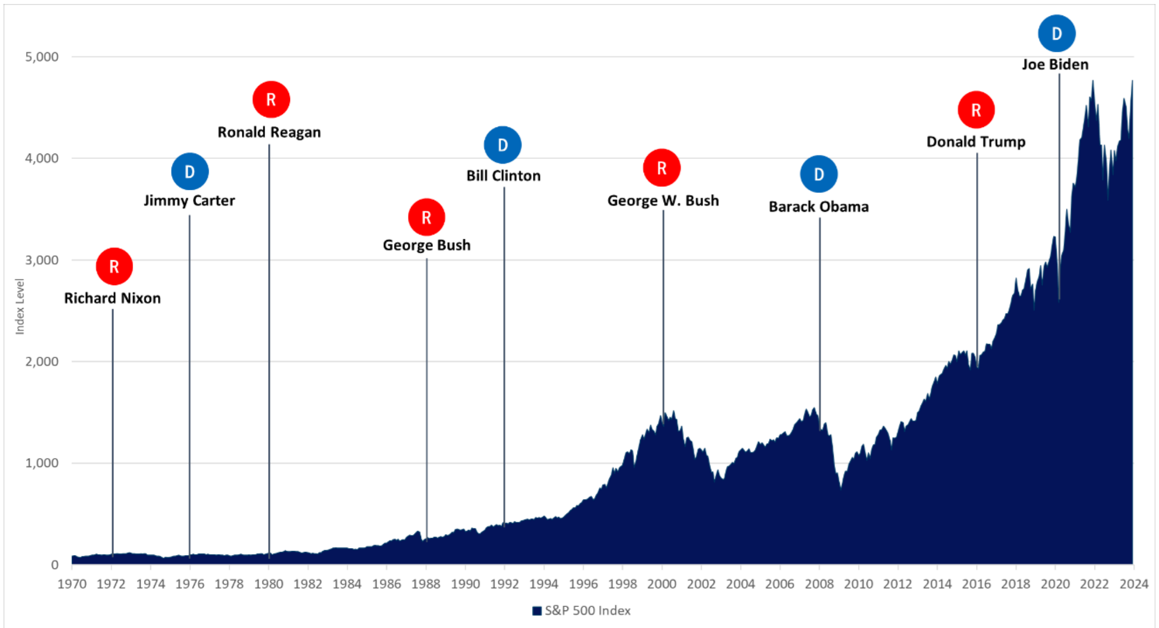
Also, beginning in January 2026, the state and local tax (SALT) deduction may no longer be capped at $10,000, which means taxpayers who plan to itemize may wish to wait to pay any state and local tax until January 1, 2026 or after, if possible.

CIO View: *In the absence of a clear vision for the TCJA, however, investors may want to take advantage of current planning opportunities to be better prepared for potential changes in the future. Appropriate tax strategies may differ depending on each individual's circumstances.*

How might long-term investors approach this election year?

Presidential campaigns create lots of noise, and markets often react to changing expectations and new information. However, the impacts of individual presidential elections on investment performance over time are muted. Financial markets generally climb a "wall of worry" punctuated by peaks and valleys in performance, some of which are significant. But over the past 50 years, the S&P 500 has continued to grow despite periods of high uncertainty driven by unique economic and geopolitical events, and by U.S. presidential elections (Figure 4).

Figure 4 – S&P 500 Index and U.S. Presidents



Source: FactSet Financial Data & Analytics

Each administration has differing views on the economy, fiscal, trade and foreign policy, etc., and markets typically adjust as they become more comfortable with the political environment. The infographic below suggests there may be some performance benefit to a Democrat in the White House, but it doesn't provide a complete picture. Since 1928, Democrats have controlled the Presidency, House and Senate (or an alternative arrangement in which they maintain a majority) for more total years than Republicans (see "Number of Years" column below in Figure 5).

Figure 5 – historical performance of stock and bond markets and 60/40 portfolio under various administrations[2]

	Annual Returns			
	Large Cap Stocks (S&P 500)[A]	Fixed Income (Intermediate-term Bonds)[B]	60/40 Portfolio[C]	Number of Years[D]
Democratic President All Inauguration Years (from 1929)[E]	14.2%	2.9%	9.7%	51
Democratic House	11.6%	5.3%	9.1%	68
Democratic Senate	12%	4%	9%	63
Democratic Control (President, House, & Senate)	14.0%	2.5%	9.4%	36
Democratic President, Democrat Senate & Republican House	15.0%	2.6%	9.9%	5
Democratic President, Republican Senate & Republican House	15.9%	5.7%	11.8%	10

	Annual Returns			
	Large Cap Stocks (S&P 500)[A]	Fixed Income (Intermediate-term Bonds)[B]	60/40 Portfolio[C]	Number of Years[D]
Republican President All Inauguration Years (from 1929)[E]	5.8%	7.3%	6.7%	44
Republican House	11.0%	4.7%	8.3%	27
Republican Senate	9.9%	7.4%	8.9%	32
Republican Control (President, House, & Senate)	5.2%	4.7%	4.8%	12
Republican President, Republican Senate & Democrat House	9.4%	12.2%	11.0%	10
Republican President, Democrat Senate & Democrat House	8.6%	6.8%	7.7%	22

Source: Morningstar Direct

Overall, a long-term 60/40 portfolio simply doesn't move much based on presidential elections (8.7% total return in election years versus 8.5% in non-election years). In fact, since 1928, 60/40 portfolio performance was negative in only four election years, and those occurred amid unique and seismic global events (Great Depression, WWII, tech bubble burst and the Great Financial Crisis). The bottom line is that presidential elections don't often affect stock and bond returns as much as we tend to think (Figure 6).

[2] Source: Morningstar Direct. Monthly returns from 1/1/1926 - 10/31/2023.

[2A] Large Cap Stocks: Ibbotson Associates (IA) SBBI Large Stock TR USD Ext from 1/1929 - 1/1970; S&P 500 TR USD thereafter.

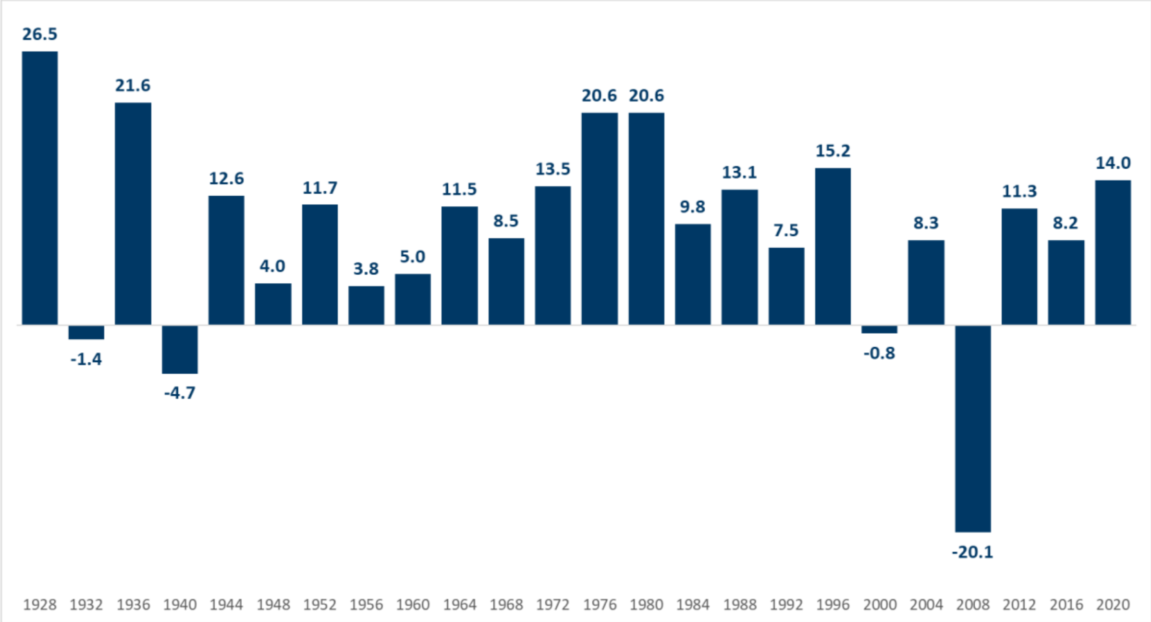
[2B] Fixed Income: IA SBBI IT Govt Bonds TR USD from 1929-1975; Bloomberg US Agg Bond from 1976 thereafter.

[2C] 60/40 Portfolio is rebalanced monthly.

[2D] Number of Years = total number of years this dynamic has existed in Washington since 1928.

[2E] For all inaugurations, each presidential term runs from 1/1 of each election year through 1/31 of the next inauguration year.

Figure 6 – 60/40 Portfolio Total Return During Election Years (%)[3]



Source: FactSet Financial Data & Analytics

CIO View: *When looking at historical investment performance of a 60/40 portfolio in Figure 6, long-term investors tend to do well over time regardless of the political structure in D.C.— particularly during periods of divided government. Investors generally want to see low taxes, less burdensome regulations, low inflation, low unemployment, as well as domestic and international tranquility. While 2024 is sure to take a series of unexpected twists, history demonstrates that long-term investors are best served by staying anchored in their asset allocations and maintaining a balance of different asset classes that can help mitigate swings driven by ongoing uncertainty. Therefore, our recommendation is that long-term investors should not make portfolio changes based on their views on election outcomes.*

To learn more about how a busy election year, ongoing geopolitical friction, and market uncertainty might impact your financial plan, talk to your TIAA Wealth Management advisor today.

[3] Source: Morningstar Direct. 60/40 Portfolios: 60% U.S. Equities; 40% U.S. Fixed Income (annual rebalancing). U.S. Equities: Ibbotson Associates (IA) SBBI Large Stock TR USD Ext from 1/1928 - 1/1970; S&P 500 TR USD thereafter. U.S. Fixed Income: IA SBBI IT Govt Bonds TR USD from 1928-1975; Bloomberg US Agg Bond from 1976 thereafter.

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