Elections 2024: Focus on policy over politics

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The prospect of a contentious election year might concern investors, but what really matters to markets is policy, not politics. Here are issues investors should follow as the election year unfolds.

Uncertainty can rile markets, especially in an election year. And while history suggests that elections may not dramatically alter the long-term investment landscape, the road to Election Day could involve some uncertainty in the short term, especially as the primaries and the run-up to the general election in November are happening along with the inability of Congress and the White House to reach a final agreement on federal spending, border policy and foreign aid. Here are some areas we are monitoring that could be affected by the election outcome, which could in turn impact investors:

Tax policy changes are in play

Tax policy stands as one of the most immediate areas influenced by election outcomes. The debate surrounding the extension of specific tax-expired provisions from 2023 has pushed this issue to the forefront in 2024. 2025 will bring even more pressure to address tax policy, because most individual tax provisions from the Tax Cuts and Jobs Act expire after 2025. The Congress and president elected in 2024 will need to prioritize and address these tax policies in post elections. Should the Democrats secure both the executive and legislative branches, “Build Back Better” will likely be back. Notably, the absence of Senator Joe Manchin (D-WV) and a challenging cycle for Senator Krysten Sinema (D-AZ) could make these initiatives far more realistic if there are fewer moderates in the Senate. A Republican-led government would introduce a more nuanced landscape. The necessity for bipartisan consensus still may exist, particularly if the margin of control remains very tight. In addition, Republicans are more likely to defend the Tax Cuts and Jobs Act and are unlikely to pursue sweeping reforms. In the case of divided government, expect a compromise-oriented approach.

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Bipartisan deal on tax extenders is the pregame for 2025

Business tax extenders	Outlook
Research and development (R&D): Starting in 2022, the 2017 Tax Cuts and Jobs Act (TCJA) requires companies to amortize the cost of R&D investment over five or fifteen years, rather than deducting those costs immediately. **Bonus depreciation:** For tax year 2023, companies may only be able to deduct 80% of their investments in short-lived assets immediately, with the remaining 20% spread across the asset's life. This deductible percentage falls to 60% in 2024, 40% in 2025 and effectively phase out completely by 2026. **Business interest expenses:** TCJA limits business deductions for net interest expenses to 30% of EBITDA from 2018-2021 and now limits those deductions to 30% of EBIT after 2021.	Provisions included in the Tax Relief for American Families and Workers Act of 2024 would improve the child tax credit, restore the interest deduction for businesses and extend certain business tax provisions including 100% expensing for investment in equipment and R&D through the end of 2025. The House of Representatives voted 357 to 70 on January 31, 2024 to approve the bill. The vote clears a path for Senate consideration, where it has the support of Senate Finance Committee Chairman Senator Ron Wyden (D-OR).

More regulations possible in an incumbent administration
The election outcome often determines the direction and pace of regulatory changes, particularly in an incumbent administration. Drawing parallels from President Obama's 2012 reelection, a win for President Biden could mean a green light for a number of regulatory proposals that failed to make it over the finish line so far. The SEC has already proposed more than 60 rules, with additional proposals from various other federal agencies. Investors should brace for potential shifts in sectors impacted by these regulatory changes, such as finance, health care and technology.

Geopolitical risks remain elevated
With several ongoing conflicts (Ukraine/Russia, Israel/Hamas, China/Taiwan), geopolitics remains a paramount concern. Despite political differences, a bipartisan consensus appears to converge on a firm stance with China. Both the Trump and Biden administrations maintained a stringent policy vis-à-vis China, signaling continuity in the U.S.'s strategic approach. There are ongoing initiatives to boost U.S. efforts to compete with China both from the executive branch and Congress.

Elections can stir emotions — that's why investing during an election year may appear challenging. But investors should prioritize fundamentals over sentiment. Elections matter, but more because of policy and less because of politics. Investors should stay invested, continue to diversify and keep their eye on specific policies.

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