Some Initial Thoughts on the Implications of the Elections for 2025 and Beyond

Now that the final seat has been decided in the U.S. House of Representatives, we wanted to share some initial thoughts on the implications of this year's election on our outlook for the economy, financial markets, and financial planning in 2025.

First, it is important to recognize that election seasons tend to bring with them a level of uncertainty, market volatility, and, depending on which candidates are elected, added confidence or concern. These reactions are important and valid, but they are ultimately poor shepherds of financial plans. The best shepherds are more mundane – cash flows, the economy, potential market returns, the ability (and willingness) to tolerate risk, remaining disciplined, and staying invested.

In other words, don't let emotions – no matter how strong they may be – let you lose sight of your long-term goals.

Turning to this election, the Republican Party will control the legislative agenda and the Oval Office beginning January 20th. But that control is extremely narrow in the House – a two-seat majority with three of those Republicans already being put up for Cabinet-level and other top White House positions. These facts reduce the likelihood that some policy proposals announced during the campaign trail come to fruition.

Legislatively, two topics will likely be the focus of Congress in 2025: extending/making permanent the 2017 tax cuts and the debt ceiling (which we will initially hit in January). The latter will likely take priority over the former due to its timing, but the former will need to be accomplished before year-end. Unsustainable deficit spending is another important long-term topic, but markets focus more on the short-term which probably means addressing it falls once again on the back burner.

The executive orders most likely to be implemented initially revolve around deregulation, immigration, and tariffs/trade policy[1]:

- **Deregulation:** For energy firms, easier approval of new fossil fuel projects and reversing greenhouse gas emission restrictions are likely coming. For financial firms, deregulation may mean reduced regulatory burdens on consumer financial companies and potentially easing liquidity and capital requirements. More broadly, there will also likely be reduced antitrust enforcement – which may boost merger and acquisition activity.

- **Immigration:** Net legal immigration could be reduced below one million workers/year (versus roughly one million workers/year during the previous Trump Administration). Deportations are an additional risk, given their potential impact on our labor force and supply chain, but when, how, and to what extent they will be implemented remains unclear.

- **Tariffs/Trade Policy:** New tariffs on China are coming, likely starting with goods that were tariffed during the previous Trump administration. Auto import tariffs on Europe and Mexico (for Chinese-made electric vehicles) are also likely. Broad-based tariffs on all imports and/or revoking trade relations with China would have a more meaningful inflationary impact but also are probably not the initial starting point.

[1] Source: Goldman Sachs, O'Brien Wealth Partners, as of 11/14/24.

The actual economic implications of this agenda depend on how much these policies impact the historic drivers of our economy into and out of recessions – corporate profit cycles, the ease of credit access, the pace of hiring, and monetary policy trends (to name a few).

Lower tax rates and deregulation are positives for corporate profits and labor market demand. Tighter immigration and tariffs are drags on growth and inflationary (fewer workers increases demand for remaining workers, for example). Given the potential for some of these policy changes to be inflationary, the Federal Reserve (Fed) has also become more cautious in its rate cut outlook post-election.

Put it all together, and our best guess for 2025 is that the U.S. expansion continues – but at a slower pace than 2024 – inflation may reaccelerate slightly, and the Fed may end its rate cut cycle at a higher level than previously anticipated. Increased spending from the corporate sector is an upside risk to that outlook, while significant deportations, broad-based tariffs, and a harsher trade stance represent downside risks.

From a market perspective, stocks are coming off two years of stellar returns and are expensive. The economic backdrop outlined above is conducive to further gains, but likely at a more modest pace. Expensive markets tend to be more volatile, which could be a positive for returns if the economy and corporate profits exceed expectations or a negative if they disappoint.

Bond markets, by comparison, are cheap and income is still readily available without taking on significant default risk. But at the same time inflation risks can matter more than the growth outlook for bonds. It is still too early to say definitively which dynamic will drive performance next year.

While the fiscal picture for 2025 is starting to gain clarity post-elections, there are still many questions that remain to be answered. In such uncertain times, the best approach to investing is to remain in the markets and utilize diversification to reduce the potential impacts unknown risks can have on an overall portfolio.

We hope you are all taking care and enjoying the holiday season. If there are any changes in your personal or financial situation that might impact your investment objectives, or if you have any questions and would like to talk, please contact your Advisor.

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