Sentinel Trust
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2024 Election Note

Executive Summary

- In each of the past five presidential election cycles, we've been asked by clients whether they should significantly reposition their portfolio. Our answer has consistently been a firm no.
- As we have noted consistently and most recently at the end of our Q3 letter, it is difficult to near impossible to jointly predict investor sentiment, geopolitical events and subsequent market outcomes. It is vital to maintain well defined strategic targets, a diverse portfolio and a long-term perspective in the face of constant uncertainty.
- We close with some thoughts on our thoughts and hopes for the next four years.

Past Election Cycles and Market Outcomes

In 2008 amidst the panic of the Great Financial Crisis, Barack Obama trounced John McCain 365-173 in the electoral vote and by 9.5 million popular votes. Many investors feared we were heading for a second Great Depression and that the relatively unknown, inexperienced junior senator was not up for the task. The S&P 500 fell -31.5% from election day to early March 2009. Then, markets found a bottom. By the time Obama was re-elected in 2012 and despite those initial losses, the S&P 500 gained 10.6% per year.

In 2012, Obama defeated Mitt Romney 332-206 in the electoral college and by just under 5 million popular votes. A client at the time was ready to sell all his US stocks, flip into gold and international stocks, and move to Canada. Gold was trading near all-time highs, US stocks despite the last four years of gains were trading at near single digit price to earnings ratios, and Warren Buffett had written a letter urging investors to eschew gold and buy America just as he had in 2008. Over the next four years, the S&P gained 12.4% per year against 3.7% per year for ex-US stocks. Gold declined -7.1% per year.

In 2016, Donald Trump surprised the polls and betting markets beating Hillary Clinton 304-227 in the electoral college despite losing by nearly 3 million popular votes. Overnight, US equity futures fell 7% and the next morning numerous clients were ready to sell everything. Others wanted to position for the Trump trade buying real estate and energy and selling clean energy stocks. Over the next four years and despite the pandemic, the S&P 500 gained 14.7% per year. Listed real estate stocks gained just 1.2% per year underperforming cash. The S&P 500 Energy Index fell -16% per annum in the new "drill, baby, drill" era, whereas the WilderHill Clean Energy Index compounded at 42% per annum.

One side note to highlight the difficulty in making joint bets on sentiment, politics and markets. A young Sam Bankman-Fried purportedly predicted the 2016 election going to Trump and bet against the market. This worked in that overnight session for a few minutes, until sentiment turned positive costing his firm some $300 million. Betting on these binary joint probabilities is like betting on the parlay at the racetrack or sports book. Is it any wonder why casinos, online sports books and now brokers peddle these wagers?

In 2020, Joe Biden flipped the presidency back to the Democrats winning the electoral college 306-232 and the popular vote by over 8 million votes. Investors worried whether potential tax hikes and fossil fuel bans might tank their portfolios. Others positioned for a Biden bump with the WilderHill Clean Energy Index jumping an additional 65% in the three months post-election. Over the next four years ahead of 2024's election, the S&P 500 gained 14.5% per year with the energy sector leading the way with 38% per annum returns. Despite that initial pop, the WilderHill Clean Energy Index is now off -26% per year.

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Initial 2024 Election Reactions

Now in 2024, we face some of the same questions, hopes and fears. While votes are still being counted, Trump appears on track to win the electoral college 312-226 and leads by just under 5 million popular votes. On Wednesday the Trump trade was already off to the races. The S&P 500 gained 2.5%, reaching all-time highs. The small cap Russell 2000 jumped nearly 6% on hopes of tax cuts and deregulation. Long-term US Treasurys lost nearly 3% as inflation expectations jumped on fears of higher fiscal deficits. International equity markets fell -1.2% as investors priced in potential tariffs. The energy sector jumped nearly 4%, while the WilderHill Clean Energy Index fell -4.5%. Listed real estate struggled again, falling -2% on the session while bank stocks surged with JP Morgan jumping 11.5%.

As always, we do not think it is wise to follow these trades and attempt to jointly predict future sentiment, geopolitics and market outcomes. To wit, today as of this writing on November 7th, many of these trades are already reversing. JP Morgan is giving back -4%, listed real estate stocks are up 1%, long-term US Treasurys are rallying 1%, and international stocks are up nearly 2%. DJT, Trump Media & Technology Group, is off -23%. As Warren Buffett famously noted in his 1997 meeting, "the market is here to serve you, not to instruct you." Past performance is not indicative of future performance.

As seen above, both the short-term post-election movements and the geopolitical positioning were largely meaningless over the full term of each president. While the US president is arguably the most powerful person in the world, they are also arguably meaningless in driving long-term stock returns. Obama deserves little credit for the post-GFC boom. Cheap valuations, low inflation, growing earnings, rekindled animal spirits, an easy Federal Reserve did much of the heavy lifting.

Similarly, neither Trump's nor Biden's policies appear to have pushed energy and clean energy shares in the direction many predicted. Billions of consumers, millions of shareholders and thousands of businesses interacted with hard science to reach market clearing prices for the energy sector. As Buffet has also noted quoting his teacher Benjamin Graham, "in the short-run the stock market is a voting machine, in the long-run it is a weighing machine." Rather than tearing each other's policies apart, we'd like to see both parties create a long-term playbook to guide our related energy, power, AI, defense and semiconductor industries so that we can compete with rising autocracies.

At first blush and as the market perceived on Wednesday, Trump's pro-business, lower taxes and deregulation campaign may boost after-tax corporate earnings. On the flip side, his tax cuts and comments about having a "say" on the Federal Reserve's interest rate policy has the bond market jittery. Higher interest rates used to discount those very future earnings may weigh on stock prices. The Federal Reserve today tersely commented on the importance of its continued independence. It has papers on how Richard Nixon's pressure on Federal Reserve Chairman Arthur Burns led to higher inflation. Similarly, Bill Clinton and Congress did not set out to balance the budget, they were largely forced to by the "bond vigilantes" that pushed interest rates higher. We hope the Fed maintains its independence and that both parties work toward a more balanced budget. Trump's VP JD Vance and fiscally hawkish Republican members of Congress have already noted that Trump's policies will be impacted by other external factors including free market forces. Liz Truss learned this the hard way.

These free market forces are just one part of what has made America a great destination for capital across every presidential cycle. In 2024, the people chose their leaders in a free and fair election. This process remains a beacon for democracy in a world of growing autocracy. Our deep and open capital markets continue to be unparalleled. The Constitution along with its 27 amendments and just over 7,500 words continues to provide arguably the best example of rule of law across the world. While we see room for Trump and team to simplify our tax code that has grown to over 10 million words in length, we are confident that the long-term sustainable competitive advantages that have made America great will remain intact as they have since our independence.

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Conclusion

In conclusion, in each of the past five elections, we've seen the typical reactions of fear and greed. In any election save for the landslides, roughly half of America will be optimistic and the other half pessimistic. We don't think it is wise to invest with your politics, chase the market's initial moves, or attempt to jointly predict geopolitics, investor sentiment and market outcomes. While the resultant volatility may create long-term opportunities that we will be on the watch for, we think as always it is best to stick to your long-term risk appropriate strategic plan. America has been and will remain a great destination for capital.