view from the Thames by Deon Gouws

Being paid for your pain

Celebrating victory: US president-elect Donald Trump with Melania and Barron Trump
Reuters/Carlos Barria

A client contacted me in mid-September, having just read an article in The Economist titled: "What Will Happen If America's Election Result is Contested?" Kamala Harris had been leading Donald Trump in the polls since she was anointed as the Democratic candidate when Joe Biden stepped down six weeks earlier. Could Harris actually win? And, if she did, were we likely to see a repeat of the January 2021 insurrection by Trump supporters?

The article painted a pretty bleak picture, referring to the outcome as a "foregone confusion". What now, the client asked, given that our firm is responsible for managing a large proportion of his family balance sheet, and the portfolio is heavily weighted towards US equities. Was it perhaps time to take some risk off the table?

Also relevant was the fact that the S&P 500 had already added nearly 20% in the first eight months of 2024.

Put differently: at the time of the client call, the market had already exceeded the year-end target of even the most optimistic strategist on Wall Street ... surely this could not continue?

I did not purport to have an answer; I never pretend to have a crystal ball when it comes to investments (let alone election results). To be bullish about the long term is one thing (history teaches us that markets tend to go up over time), but the short term is always uncertain. Anyone telling you otherwise is an opportunist, if not a liar.

Thankfully, I had just come across a piece of research by Bespoke Investment Group in the US. Looking back over the past seven decades, they illustrated how $1,000 invested in the US stock market and keeping it there only while a Republican was in the White House would be worth just more than $27,000 today. If, however, you had invested $1,000 and retained exposure over periods where the president was a Democrat, you would have ended up with about $62,000 today (the Democrats have been in charge for the majority of the past 70 years, which is the main reason for this higher amount).

But here's the kicker: if you had simply invested the same $1,000 when Dwight D Eisenhower was inaugurated in 1953 and left it untouched for the full period, your investment would be worth nearly $1.7m today. The message is clear: don't get political, and don't mess with the power of compounding. Or, to resort to that old cliché: it's not timing the market that counts, but time in the market.

Having shared these conclusions with the client, we agreed not to tinker with the portfolio – and just as well. The S&P 500 has added another 7% since our conversation; more than half of this increase took place in just the first few days after the election.

Markets are discounting mechanisms, and with asset prices ripping higher, consensus seems to be that four more years of Trump should be positive for business and markets (certainly in the US, if not elsewhere). I will refrain from pontificating about tariffs and inflation and interest rates ... no doubt there will be obstacles in the road as well.

Treading a fine line

One more thing: last month, I opened my column on these pages by saying there was one presidential candidate that I didn't want to win (Harris – largely for economic reasons), and another that I really hoped would lose (Trump – based on his many character flaws). My headline summed it up as a choice between the devil and the deep blue sea; I certainly had no intention to personally "endorse" either candidate.

When a topic is interesting, it's often also polarising. Being mindful of this, I generally try to tread a fine line when writing anything, understanding that many readers will have an opposing view. I do, however, draw the line when it comes to Manchester United and Tottenham Hotspur, as also pointed out in last month's piece ;-)

My opinion about the election ultimately has no relevance, and one can hardly argue with 73.4-million American voters who put Trump back in the White House.

While I'm not ecstatic about the outcome, I will celebrate the fact that my clients and I are being paid for the pain, given how positively markets have reacted to date. Long may that last. x

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