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Investment Institute

Weekly perspective on current market sentiment — November 23, 2022

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Last week's S&P 500 Index: +5.9%

We're past the election. Now what?

Key takeaways

- As frequently occurs in the wake of any election cycle, the outcome may influence market direction in the handful (or fewer) of weeks after voters have made their decision.
- After that, investors quickly get back to focusing on what the economy and earnings are going to do in the coming year.

If you take a look at past election cycles, the immediate post-vote effect on the financial markets tends to play out in a similar fashion. On the national stage for instance, in the months prior to the election, polls might reveal one party holds the likely upper hand. In other words, investors and financial markets usually have a pretty good idea as to the outcome in advance of actual voting. As far as the market is concerned, control of Congress typically implies that a certain legislative agenda is going to be pursued, especially in the case where one party holds both houses of Congress as well as the presidency. In the case of the recent election, expectations called for a split government outcome where there was a high probability Republicans would take the House. And that is exactly what happened, but with a much smaller House majority than many projected.

But where do we go from here? First, consider what will be addressed in the lame-duck session that will occur between the time when Congress comes back from the Thanksgiving break and the new Congress is sworn in on January 3, 2023. The fiscal-year federal 2023 budget will need to be addressed in order to fund spending beyond the December 16 expiration of the continuing resolution. The debt-ceiling issue will also likely be addressed. Negotiating bumps in the road and delays for either might roil markets for a few days. Both issues will require compromise, but, ultimately, we believe the government will be funded and the debt ceiling will be increased.

As frequently occurs in the wake of any election cycle, the outcome may influence market direction in the handful of (or fewer) weeks after voters have made their decision. After that, investors quickly get back to focusing on what the economy and earnings are going to do in the coming year. This time around, inflation and what the Federal Reserve (Fed) is going to do about it are the major factors ultimately impacting economic growth and corporate profitability.

We continue to believe the U.S. economy will slip into recession very late this year or, perhaps, early in the new year. Our positioning has been defensive for most of the year as we believe it will be difficult for the major equity indexes to sustainably rally ahead of a recession where we look for earnings to contract along with economic growth. We continue to see the Fed hiking rates multiple times between now and early next year but see brighter skies and a more accommodative central bank in the second half of 2023.

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