2024 US Elections report, a study on financial markets

A project from BlackSwanQuants
in collaboration with Starting Finance Luiss Club

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Abstract: This comprehensive report analyzes the multifaceted impacts of the 2024 U.S. Presidential election on the American economy, financial markets, and social dynamics, while exploring global repercussions. It begins with a **Pre-Election Economic Overview**, examining modest GDP growth, inflationary trends, and labor market dynamics under the Biden administration. The report then delves into **Donald Trump's Fiscal Policies**, comparing his 2017 tax reforms with his 2024 proposals, highlighting their potential economic stimulus and fiscal risks.
The study investigates the **Cryptocurrency Market Dynamics** in reaction to the election, detailing the significant price surges in Bitcoin and Dogecoin amidst relaxed regulatory expectations. **Social Demographics and Electoral Trends** are thoroughly analyzed, illustrating shifting partisan alignments influenced by race, education, and ideology. The electoral outcomes underscore the polarization of the U.S. electorate, with implications for governance and policy.
Market Analysis focuses on the SP 500 and other major indices, assessing volatility and investor sentiment during and after the election. The role of the **Federal Reserve** is critically examined, contrasting its pre-election monetary tightening with a more cautious post-election stance as it navigates inflation control and economic stability. The report extends its scope to assess the election's **Global Impact on Europe and China**, exploring trade relations, currency dynamics, and geopolitical risks.
Finally, the report forecasts the **Future Prospect of the U.S. Economy** for 2025, emphasizing the interplay of fiscal policies, monetary easing, and market seasonality across stocks, bonds, currencies, and commodities. This detailed exploration offers valuable insights into the intricate connections between political outcomes, economic policies, and global market dynamics.

Key-words: US Presidential Election, Economic Policies, Market Reactions, Fiscal Policies, Social Demographics, Future Projections

1. Introduction

The 2024 U.S. presidential election is a critical juncture for both the country and the global economy, with far-reaching implications for economic policies, market performance, and political dynamics. As the nation prepares for election day, a combination of fiscal strategies, monetary policies, and shifting labor market conditions has shaped the economic environment. This report offers a comprehensive analysis of the U.S. economy before, during, and after the election, highlighting the interaction between key economic policies, market reactions, and future projections. In addition to economic factors, the report also examines the role of social demographics and electoral trends, providing insights into voter behavior, key social groups, and how these dynamics may influence the outcome. Through this holistic lens, the report explores the broader implications for U.S. economic stability, global markets, and the direction of future policy, ultimately offering a deep understanding of the potential trajectory following the election results.

2. Pre-Election Economic Overview of the United States

The economic situation in the pre-election U.S. (2020–2024) remained relatively moderate and steady, particularly in terms of GDP growth. During President Biden's term, GDP increased by 2.5% (approximately $1 trillion). This represents a small but steady growth. However, although the economy was stable, the major drivers of the 2024 U.S. elections were economic issues, inflation, and democracy? While this paper does not delve into democracy as a factor, we will explore the first two themes. In fact, the major issue for the re-election campaign of the former president Biden was the "Consumer Sentiment Index". This measures how the americans are better off with the economic situation (prices, inflation, households...). There has been a big gap between this index and the actual unemployment rate along with the GDP growth, this lead to a higher degree of uncertainty regarding the future of the economy [6].

Dealing with inflation, as the other big driver for this electoral elections, metrics such as PCE or unemployment rate can be adopted to analyze the situation. From 2021, the index was above the targeted line and despite now is steadily narrowing the distance from the target value, the backlash on the "sentiment indexes" has been significant. On the other had, the unemployment rate, in july 2022, has peaked by 4.3 %. Subsequently, a decrease of 0.2 % in september brought it further down (above all, the rate remained in the relative "safe" range of 4-6 %). To provide more concrete statements, a superficial analysis on the gas prices per gallon has been conducted. As a result, the gas price per gallon one year ago ($3.50 circa), went down till reaching $3.22 one month ago and today circa $3.13.

3. Trump's Fiscal Policy

Donald Trump's fiscal policies have been a cornerstone of his economic agenda, focusing on tax cuts, deregulation, and pro-growth measures. Building on the framework established during his first term, these policies aim to further stimulate the economy by reducing tax burdens on individuals and businesses. However, as the U.S. faces rising deficits and a challenging global economic environment, questions arise about the sustainability and broader implications of such measures. This section delves into Trump's past fiscal policies, their outcomes, and how his proposed policies for 2024 seek to build on or diverge from this legacy.

3.1. Measures Implemented in the Past

In 2017, Donald Trump introduced the Tax Cuts and Jobs Act (TCJA), a landmark reform designed to boost economic growth by cutting taxes for both individuals and businesses. For corporations, the tax rate was slashed from 35% to 21%, making U.S. companies more competitive globally. The law also encouraged businesses to bring profits back to the U.S. by shifting to a territorial tax system and allowing immediate deductions for certain investments. On the individual side, tax rates were lowered across the board, the standard deduction was nearly doubled, and the child tax credit was expanded. However, the law capped state and local tax (SALT) deductions at $10,000 and eliminated personal exemptions, which sparked mixed reactions. While the reforms led to a boost in economic activity and a stock market surge, they also added an estimated $1.5 trillion to the federal deficit over a decade. With many individual tax cuts set to expire in 2025, the long-term impact on taxpayers remains uncertain.

3.2. Current Proposals

Donald Trump's 2024 campaign builds on his previous economic agenda, introducing a range of fiscal policy proposals designed to stimulate growth, strengthen domestic industries, and reshape the U.S. tax landscape. These policies aim to provide long-term benefits for businesses and individuals, with a focus on maintaining the competitive edge of the U.S. economy. Together, they highlight a commitment to promoting economic resilience and reducing dependency on foreign markets, while also raising questions about their fiscal sustainability and broader economic implications [1].

The proposed policies include:

- Permanently extending the individual tax cuts introduced under the 2017 Tax Cuts and Jobs Act (TCJA).
- Reducing the corporate tax rate, potentially to 15%, specifically for domestic manufacturers.
- Lowering payroll taxes to increase take-home pay and reduce employer costs.
- Increasing import tariffs to protect domestic industries and reduce trade imbalances.
- Offering tax credits and financial incentives for investments in strategic industries, such as semiconductors, clean energy, and defense.
- Rolling back regulatory requirements to simplify compliance and encourage business growth.

Altogether, Trump's proposals have been estimated to increase the deficit by $7.5 trillion over a decade relative to the CBO baseline, raising debt to 142% of GDP. However, narrow margins in the Senate and House, and the risk of stoking a bond market reaction, could limit a full implementation of campaign proposals.

4. Cryptocurrency Market Dynamics in the Aftermath of the Election

The US elections had a profound impact on the cryptocurrency market, showcasing how political outcomes can ripple across decentralized financial systems. Following the victory of the *tycoon*, major cryptocurrencies experienced a significant surge, with Bitcoin leading the rally by appreciating 20%, reaching an unprecedented $75,000.

This remarkable rise can be attributed to multiple factors, most notably the president-elect's commitment to less restrictive policies for the cryptocurrency sector. His administration's approach promised to reduce regulatory burdens, fostering an environment where blockchain innovation and decentralized finance could thrive.

One of the more surprising developments was the meteoric rise of Dogecoin (DOGE), a meme cryptocurrency. Its value surged to $0.20 after Elon Musk was appointed head of the newly renamed *Department of Governmental Efficiency* (DOGE). Musk's reputation for embracing disruptive technologies, coupled with his long-standing public support for Dogecoin, fueled investor enthusiasm and speculation. This will certainly lead to a prosperous future for the DFIN environment, which will benefit from the effects of the *pro-crypto-candidate*'s new policies.

4.1. Market Behavior and Investor Sentiment

The election's aftermath not only boosted prices but also reshaped investor sentiment. The promise of relaxed regulations generated optimism among institutional and retail investors alike, leading to increased trading volumes and liquidity. Analysts noted a shift in the narrative surrounding cryptocurrencies—from speculative assets to legitimate investment vehicles poised to integrate further into mainstream finance [2].

This enthusiasm was not without risks. Critics cautioned that the rapid price increases could signal speculative bubbles, reminiscent of previous market cycles. The administration's policies, while favorable to the industry, also raised concerns about potential risks to monetary stability and the facilitation of financial crimes [13].

4.2. Regulatory Implications

The regulatory consequences of the policies introduced by the new administration are extensive and complex. On one hand, reducing regulatory barriers has the potential to accelerate innovation within the cryptocurrency space. Blockchain startups could benefit from streamlined approval processes, leading to the development of more efficient payment systems, decentralized applications, and tokenized assets.

However, this deregulated environment introduces new challenges. A lack of stringent oversight could make it easier for bad actors to exploit the system, enabling money laundering, tax evasion, and fraud. Moreover, the decentralized nature of cryptocurrencies complicates enforcement efforts, as transactions occur across international borders, often beyond the reach of any single jurisdiction.

Another critical concern is the impact on monetary policy. As cryptocurrencies gain traction, they could undermine the control that central banks have over the money supply. This could lead to increased economic instability, especially in times of financial crises, where the ability to enact effective monetary policy is crucial.

The appointment of tech-savvy leaders like Musk may signal a shift toward a more technology-forward regulatory framework. However, balancing innovation with consumer protection and systemic stability remains a formidable challenge. Future policies must address these issues while fostering an environment conducive to growth.

4.3. Market Behavior: Price Trends and Liquidity

4.3.1 Bitcoin (BTC) Price Trends

Bitcoin, the largest cryptocurrency by market capitalization, saw a significant price increase, with the value rising by 20% during the election period. The price of BTC peaked at $75,000 during this period, reflecting increased investor confidence. A key factor contributing to this price increase was the market's belief that the new administration would implement less stringent regulatory policies, making the market more favorable for digital assets.

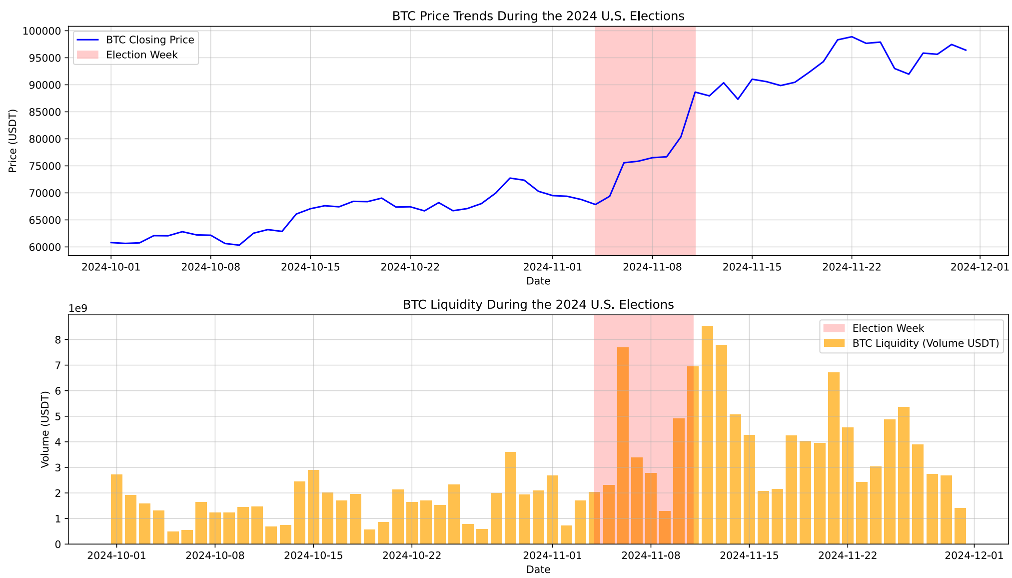


Figure 1: Bitcoin (BTC) price trends during the 2024 U.S. elections, with election week highlighted.

As shown in Figure 1, the election period marked a clear upward trend in Bitcoin's price, with notable volatility and surges that corresponded to key moments in the election cycle. The market was particularly responsive to news surrounding the new president's crypto policies, which likely contributed to the overall bullish market sentiment.

4.3.2 Dogecoin (DOGE) Price Trends

Another interesting development was the rise of Dogecoin (DOGE), a meme coin that has gained significant attention due to social media influence and celebrity endorsements. Following the election, particularly after the announcement of Elon Musk's involvement in government initiatives, DOGE saw a sharp increase in value, reaching $0.20 per coin.

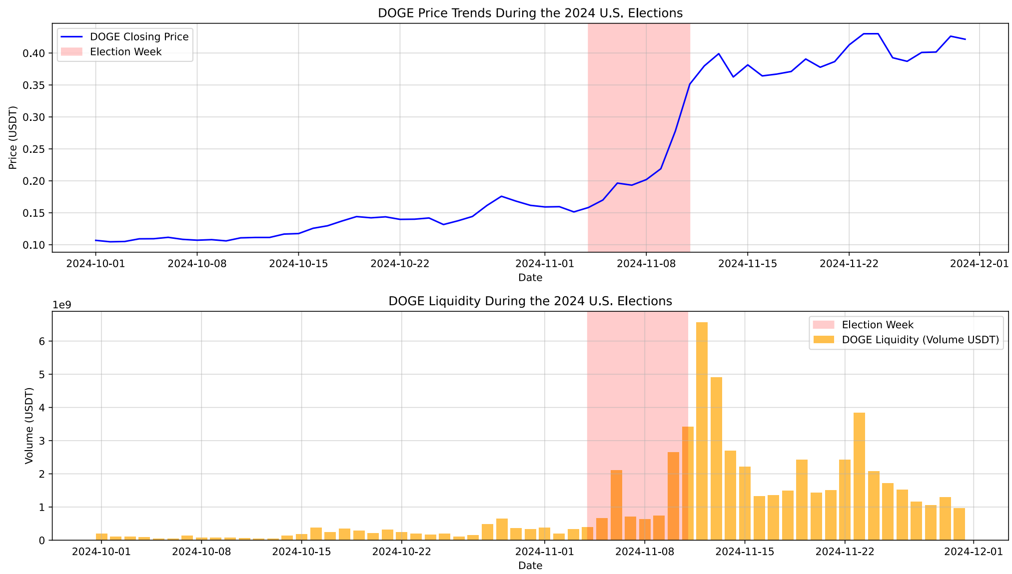


Figure 2: DOGE coin price trends during the 2024 U.S. elections, showing significant increases driven by market sentiment.

Figure 2 illustrates the price trends of DOGE during the election period. The data indicates a strong correlation between the market's sentiment surrounding the election and the price fluctuations of this cryptocurrency. As new policies were introduced, and with Musk's influence as the head of a government efficiency department renamed after DOGE, the coin's value surged.

5. Social Demographics and Electoral Trends in the 2024 US Election

This section examines the demographic factors influencing voting patterns in the 2024 U.S. Election, providing an in-depth analysis of voter social profiles.

The Democratic voter base has transformed significantly over the past decades [3]:

- **Racial Diversity**: 44% of Democratic voters identify as Hispanic, Black, Asian, or multiracial, double the proportion in 1996.
- **Education**: 45% hold a four-year college degree, compared to 22% in 1996.
- **Religion**: The share of religiously unaffiliated Democratic voters has doubled since 2008, reaching 38%.

Harris commands stronger support than President Joe Biden did, with 58% of Democratic voters strongly supporting her, compared to Biden's 35% in July.

Republican voters remain predominantly White (79%) and older (65% are aged 50+). Key demographic insights include [10]:

- **Education**: 64% lack a four-year college degree, with White adults without degrees forming the largest bloc.
- **Religious Affiliation**: 81% of Republican voters identify as Christian, including 30% who are White evangelical Protestants.

Policy priorities differ starkly from Democrats. For instance, 78% of Republicans view illegal immigration as a major issue, compared to 51% of all voters. Inflation remains a critical concern, with 80% of Republicans identifying it as a very big problem.

5.0.1 Partisanship by Race and Ethnicity

Partisan affiliation varies significantly across racial and ethnic groups, influencing electoral trends and market implications. White voters predominantly associate with the Republican Party, while Hispanic and Asian voters lean Democratic. Black voters maintain a strong Democratic alignment. Recent years have seen modest shifts, with Republican gains in some demographic segments [9].

Key Observations:

- **White voters:** 56% lean Republican, sustaining a GOP lead since 2008.
- **Hispanic voters:** 61% align with Democrats, though the gap has narrowed recently.
- **Black voters:** 83% favor Democrats, a slight decline from previous years.
- **Asian voters:** 63% lean Democratic, with stable trends over the past two decades.

5.0.2 Education and Partisanship

Educational attainment increasingly shapes partisan preferences. The GOP has a slight advantage among voters without a bachelor's degree (51% vs. 45%), whereas Democrats maintain a stronghold among those with higher education (55% vs. 42%).

Key Educational Trends:

- Non-college voters have shifted Republican over the past two decades.
- College-educated voters, particularly those with postgraduate degrees, show a growing Democratic preference.
- White voters exhibit the largest educational polarization.

5.0.3 Race, Education, and Gender Dynamics

White voters display pronounced differences in partisanship by education and gender:

- **Non-college Whites:** 63% favor the GOP.
- **College-educated Whites:** Men lean Republican (53%), while women favor Democrats (57%).

By contrast, Black and Hispanic voters exhibit more consistent Democratic support, with minor variation by education or gender.

5.1. Broader Implications

The 2024 U.S. elections underscore deepening demographic and ideological divides within the electorate, which have significant ramifications not only for electoral outcomes but also for policy formation and market expectations. The shift in partisan affiliations, particularly among key demographic groups, highlights the changing political landscape and the growing polarization in American politics [4].

1. Demographic Realignments: The Republican victory underscores the party's continued reliance on a predominantly White, less-educated voter base, with strong support among older voters and evangelical Christians. These groups have become increasingly cohesive around issues such as immigration control, inflation, and national security, driving high voter turnout in key battleground states. Meanwhile, the Democratic coalition, marked by racial diversity, urban concentration, and higher education levels, faced challenges mobilizing younger, progressive voters despite Harris's stronger intra-party appeal compared to President Biden. The continued Republican dominance among White voters, especially those without a college degree, contributed to former President Trump's victory, reinforcing the GOP's stronghold in rural and working-class communities. At the same time, the narrowing Democratic advantage among Hispanic voters and the slight decline in Democratic support from Black voters signal potential vulnerabilities for the party, particularly in crucial swing states.

2. Ideological Polarization: The ideological chasm between Republican and Democratic voters has deepened, with policy priorities sharply diverging. Republicans have consolidated around economic concerns, particularly inflation and energy independence, while Democrats have emphasized climate change, social justice, and healthcare reform. This polarization limits bipartisan collaboration and contributes to policy volatility, which may weigh on market stability and investor confidence.

3. Policy and Market Implications: Trump's return to office signals a shift toward policies favoring deregulation, tax cuts, and stricter immigration enforcement, aligning with the priorities of the Republican base. Financial markets may anticipate benefits for sectors like energy, defense, and manufacturing while potentially bracing for trade uncertainties or geopolitical risks tied to a more assertive foreign policy stance. From a market perspective, these demographic trends suggest potential shifts in policy priorities, especially concerning issues like immigration, healthcare, and labor market reforms.

4. Electoral Lessons: The outcome emphasizes the critical importance of turnout among core constituencies. Republicans effectively capitalized on the enthusiasm of non-college-educated White voters and older demographics, while Democrats struggled to achieve the same level of engagement among younger and minority voters. These dynamics underscore the necessity for strategic voter outreach and messaging in future elections.

The 2024 results not only reflect entrenched divisions but also raise questions about the durability of current voter alignments and their implications for long-term political and economic trends. For financial markets, the intersection of partisan priorities and economic policymaking will remain a key area of scrutiny.

6. Post-Election Volatility and Performance of the S&P 500

For the analysis, we selected the following ETFs, each tracking a corresponding index: **SPY** (tracking the SP 500), **QQQ** (tracking Nasdaq), **DIA** (tracking Dow Jones), **IWM** (tracking Russell 2000), and **FEZ** (tracking EUROSTOXX50).This choice was driven by the fact that ETFs closely follow the price movements of their respective indices. Furthermore, ETFs are highly liquid and widely used in trading, particularly for intraday movements, making them ideal instruments for this analysis.

6.1. Biden Mandate

During Joe Biden's first term (2021-2024), the U.S. economy experienced a recovery from the COVID-19 pandemic, driven by fiscal stimulus, low interest rates, and a rebound in consumer demand. However, this was accompanied by rising inflation and supply chain disruptions. The Federal Reserve responded by tightening monetary policy through interest rate hikes starting in 2022, leading to increased market volatility. Despite these challenges, the SP 500 exhibited strong growth in the early years of the mandate, with significant corrections as the Fed's tightening measures took effect. Markets generally responded with caution, factoring in both economic recovery and the risks associated with inflation and rising rates.

As shown in Figures 3 and 4, the SP 500 market behavior during Biden's mandate demonstrates the daily and weekly fluctuations respectively.

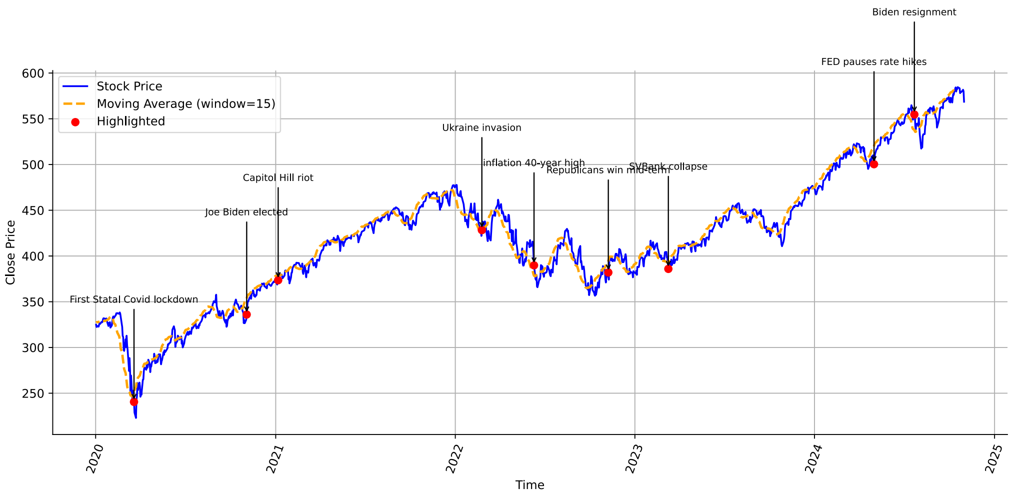


Figure 3: SP500 market behaviour during Biden mandate (daily).

Figure 4: SP500 market behaviour during Biden mandate (weekly).

The volatility of prices has been of 70.9, whereas the volatility of market returns has been of 0.01354. The average volume has been of 82’790’357.

The value of skewness of the dataset is 1.077: this indicates that the distribution of returns is slightly asymmetrical, with more frequent small losses and fewer, but larger, gains. In other words, while daily returns on average tend to be slightly positive, there is a tendency for occasional sharp upward movements in the market.

This could reflect periods of strong market rallies or positive economic news that were less frequent but more impactful, contributing to the rightward tail of the distribution. This positive skew is often seen in markets where growth or recovery phases lead to occasional large positive shocks.

6.2. Market Reactions during 2024

The year 2024 marks a pivotal moment in both U.S. politics and financial markets, with the presidential election playing a central role in shaping investor sentiment and market dynamics. As the election unfolds, uncertainty surrounding potential policy shifts and economic forecasts has contributed to heightened market volatility and volume. Investors are closely monitoring key issues such as fiscal policy, inflation control, and interest rate decisions, all of which have a direct impact on market performance.

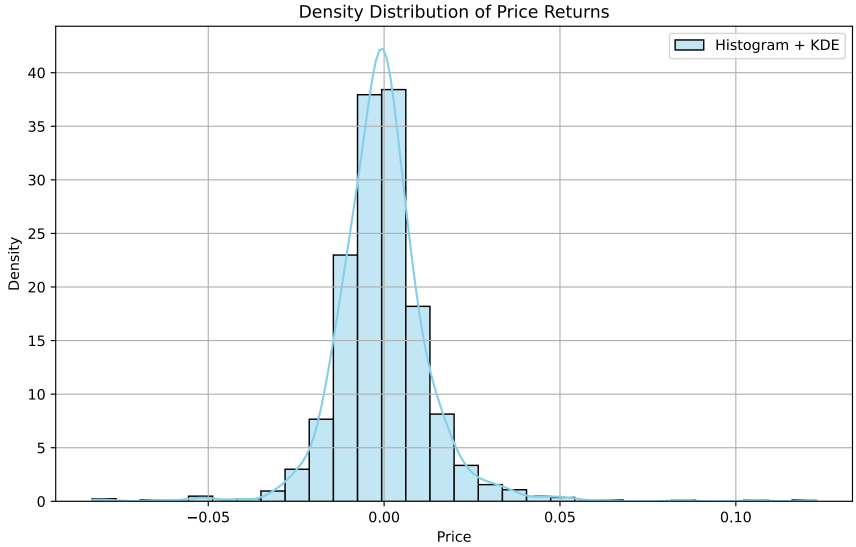


Figure 5: Density distribution of SP500 returns.

As shown in Figure 6, the market behavior of the SP 500 during 2024 (daily) reflects these dynamics.

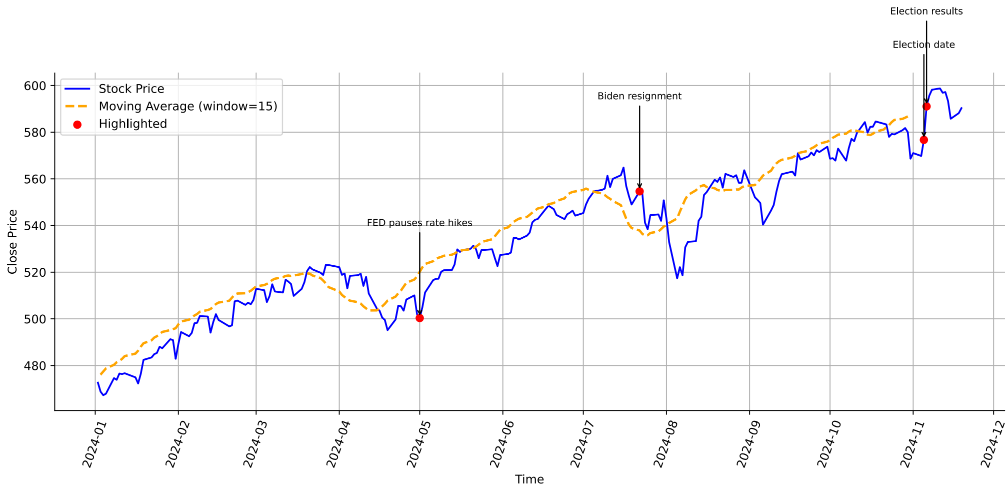


Figure 6: SP500 market behaviour during 2024 (daily).

The volatility of prices has been of 71.2, whereas the volatility of returns has been of 0.029. The average volume has been of 399’462’983.

As shown in Figure 7, the density distribution of SP500 returns during 2024 provides further insights into market dynamics.

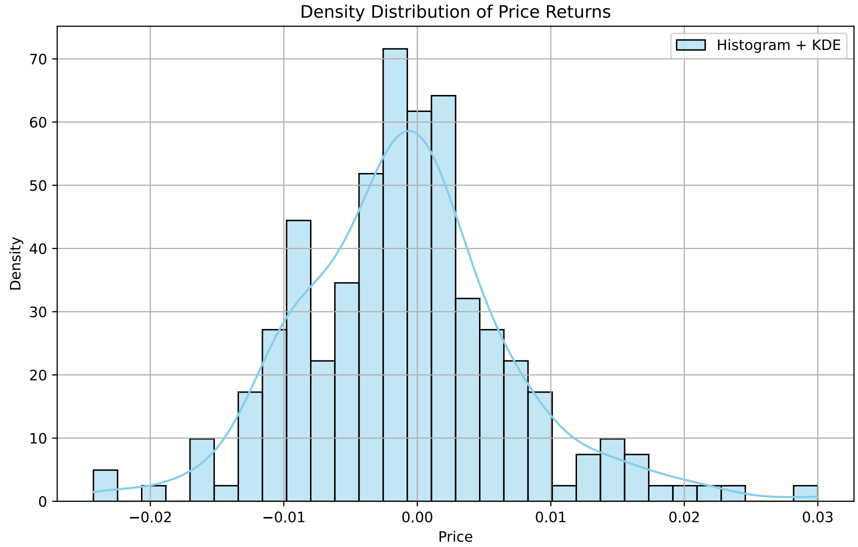


Figure 7: Density distribution of SP500 returns

The skewness value of 1.20 for the daily returns in 2024 is slightly higher than the 1.077 observed for the entire Biden mandate. Both values suggest a moderate positive skew, indicating that the returns distribution tends to be right-tailed, with occasional larger positive movements. However, the slightly higher skewness in 2024 compared to the overall Biden mandate could reflect the specific market dynamics of this election year.

In the broader context of Biden's mandate, the market experienced periods of strong recovery and growth, which likely contributed to the positive skew. But in 2024, the elevated skewness might be a result of heightened volatility and investor sentiment tied to the election, where positive surprises or policy expectations may have led to more significant market rallies compared to other years. The skewness value in 2024, thus, could reflect a year of larger-than-usual upward shocks, possibly due to favorable economic developments or election-related optimism.

6.3. During the elections

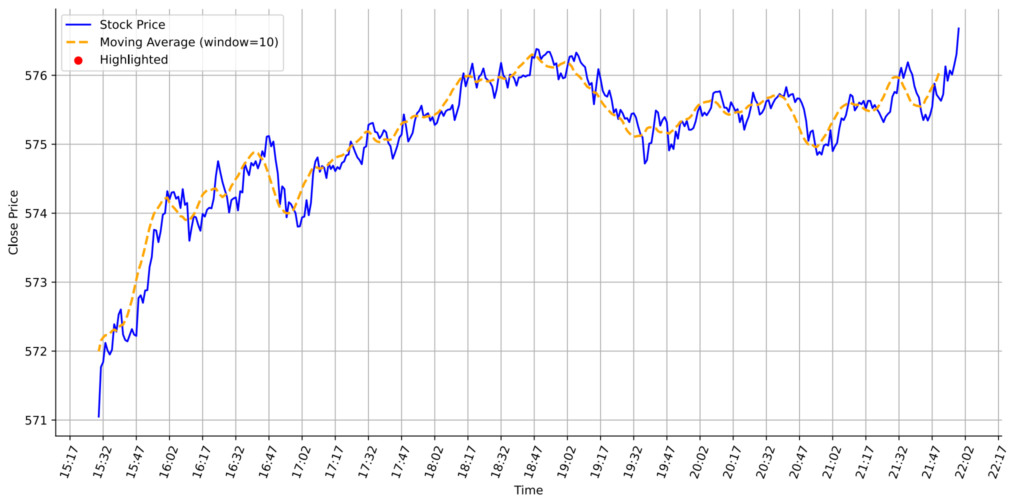


Figure 8: SP500 behaviour on the first day of elections

6.3.1 VWAP bands

VWAP Bands (Volume-Weighted Average Price Bands) are technical indicators used in trading to represent a price range around the Volume-Weighted Average Price. VWAP is the average price of a security throughout the day, weighted by volume, providing a measure of the average trading price, taking into account both price and volume.

If the price is above the upper VWAP band, it suggests the asset is trading at a higher price than its average, indicating strength or bullish sentiment. A breakout above the upper band may suggest an overbought condition or strong upward momentum.

Otherwise, if the price is below the lower VWAP band, it indicates the asset is trading below its average price, suggesting weakness or bearish sentiment. A drop below the lower band may suggest an oversold condition or a potential buying opportunity if the market is seen as overreacting.

As shown in Figures 9 and 10, the behavior of the SP 500 on the first day of the election reflects the impact of the VWAP bands and the market's initial reaction.

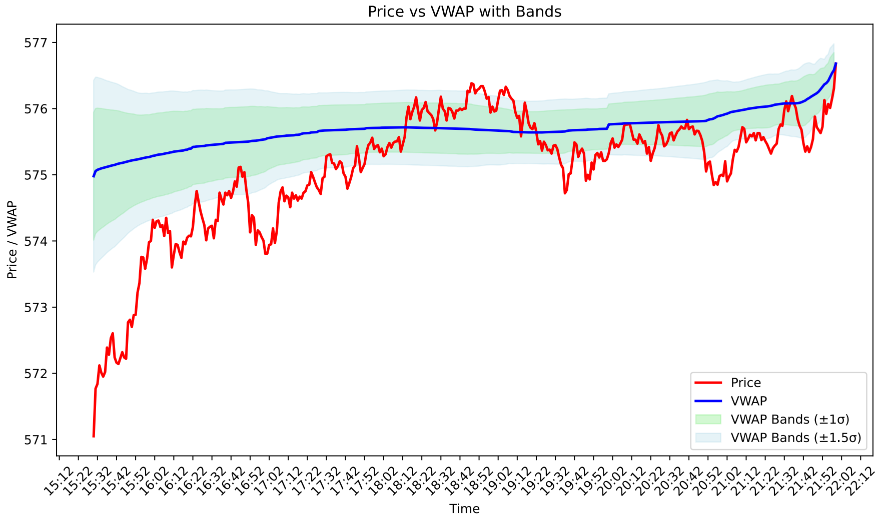


Figure 9: SP500 behaviour on the first day of elections (with vwap bands).

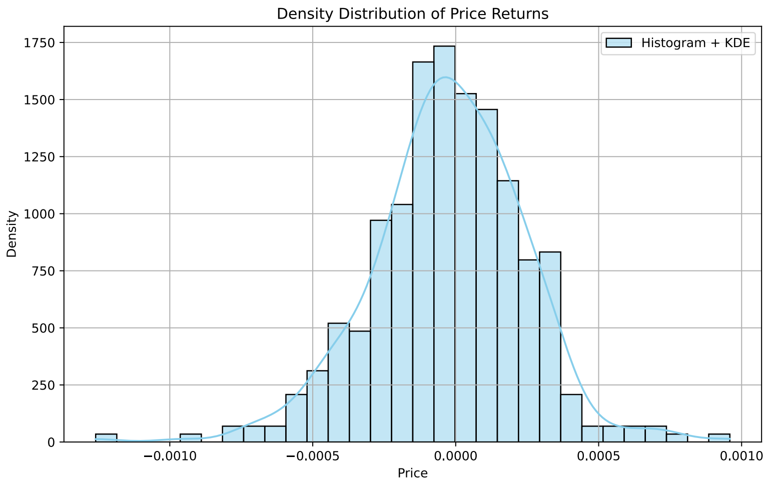


Figure 10: Density distribution of SP500 returns.

As shown in Figures 11 and 12, the behavior of the SP 500 on the second day of the election reflects how the market adjusted following the result.

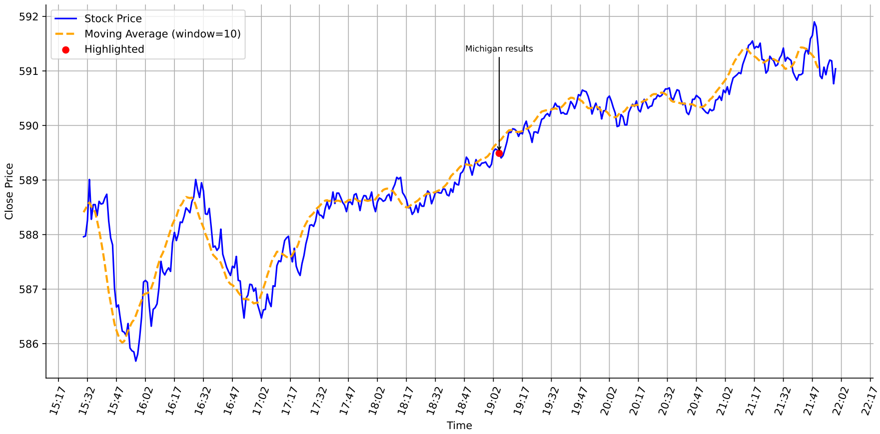


Figure 11: SP500 behaviour on the second day of elections.

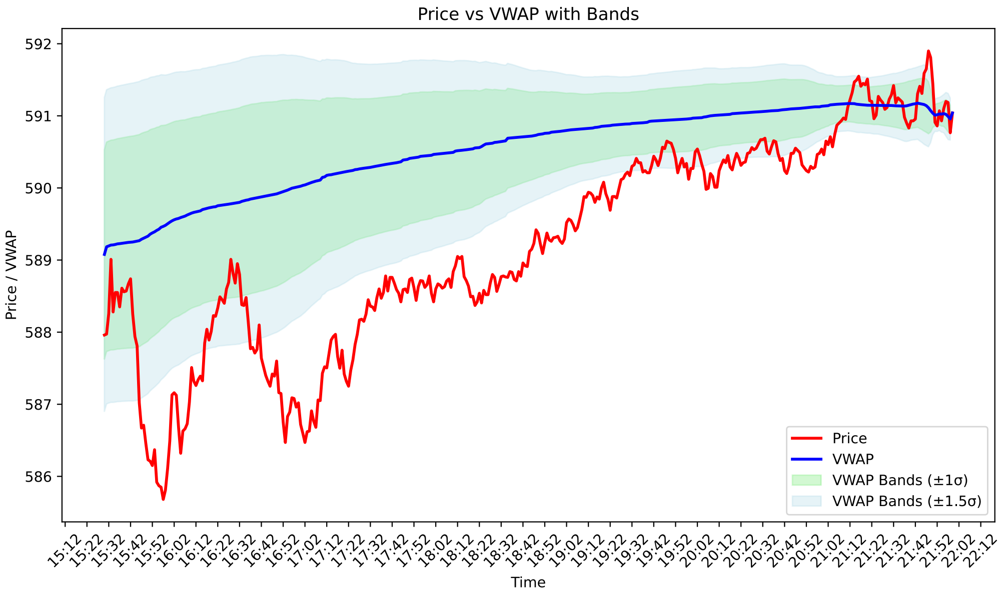


Figure 12: SP500 behaviour on the second day of elections (with vwap bands).

As shown in Figure 13, the density distribution of SP500 returns on the second day also reflects the market's shift in sentiment.

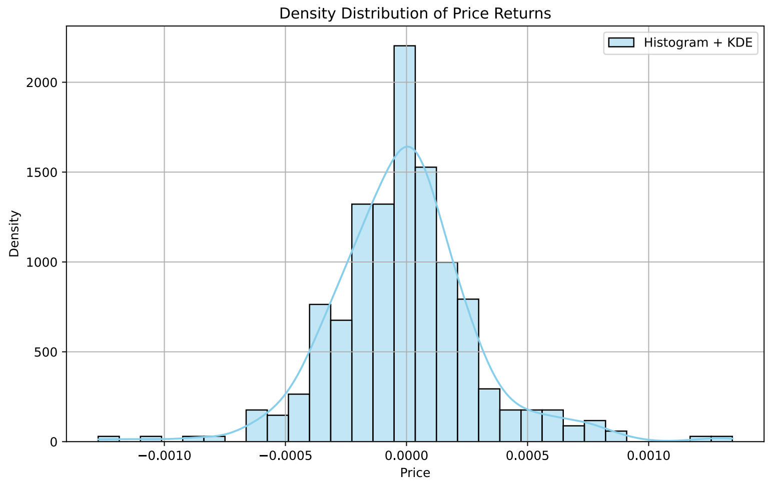


Figure 13: Density distribution of SP500 returns.

Volatility of prices on the two days have been, respectively, of 0.97 and of 1.46. Volumes have averaged at 91'160 and 151'743. Skewness values have been of -0.29 and 0.37.

The increase in volatility from 0.97 to 1.46 between the two days strongly suggests that the market was caught by surprise or had not fully priced in the possibility of a Trump victory before the first day. On Day 1, before the result, volatility was relatively contained, indicating uncertainty but no immediate market-moving reactions. After Trump's election was confirmed overnight, the market reacted swiftly, leading to a spike in volatility. This heightened volatility on Day 2 can be interpreted as the market adjusting to the new political landscape and the potential economic implications of a Trump presidency, with investors likely reassessing their positions in response to the uncertainty and policy expectations that come with the election outcome.

The increase in volume from 91,160 to 151,743 is another sign of a market responding to new information. On Day 1, before the Trump election result, volume was relatively subdued, possibly reflecting hesitation or indecision among investors. However, once the results were confirmed overnight, the market became significantly more active on Day 2. Higher trading volumes are typical when investors are processing new information and adjusting their portfolios. This surge in volume suggests that investors were quickly repositioning themselves based on the Trump victory, whether to capitalize on perceived opportunities or hedge against new risks.

The shift in skewness from negative (-0.29) to positive (0.37) can be directly attributed to the Trump election result. On Day 1, with uncertainty about the outcome, the market leaned slightly toward negative returns, reflecting cautious sentiment. After Trump's victory became apparent, the market responded more optimistically on Day 2, as the skewness shifted to positive. This suggests that investors may have interpreted the Trump victory as favorable for certain sectors or market conditions, potentially due to expectations around tax policies, regulatory changes, or trade negotiations. The shift to positive skewness indicates that the market expected more upside potential following the initial shock.

6.4. What's next?

In this section, we will examine the behavior of the S&P 500 following the 2024 U.S. election results, comparing it with the performance of other major stock indices throughout Joe Biden's mandate and after the election. By analyzing the post-election period, we aim to uncover how market sentiment and investor behavior have evolved in response to the Trump victory, and how this compares to the broader trends observed during Biden's presidency.

We will assess key metrics such as cumulative returns, volatility, and trading volume to highlight any notable shifts. Additionally, we will contrast the performance of the SP 500 with that of other major indices to provide a comprehensive view of the broader market's reaction to the election. This analysis will offer valuable insights into how political outcomes can influence market dynamics and investor expectations, potentially shedding light

Figure 17: Caption

on future trends and helping to extrapolate potential future market movements based on current data.

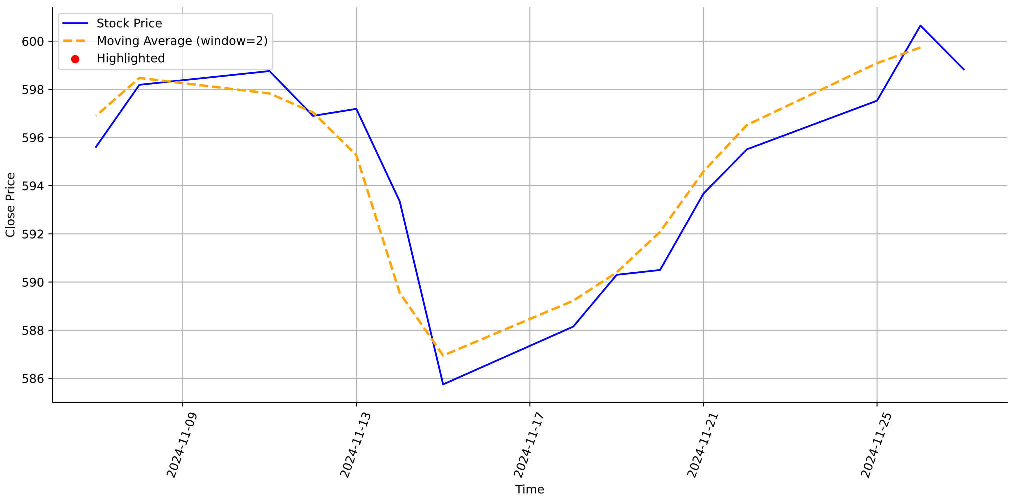


Figure 14: SP500 behaviour after election results.

When comparing the behavior of the ETFs during Biden's mandate and after the 2024 election results, we can observe some notable differences, particularly in how different sectors reacted to political developments.

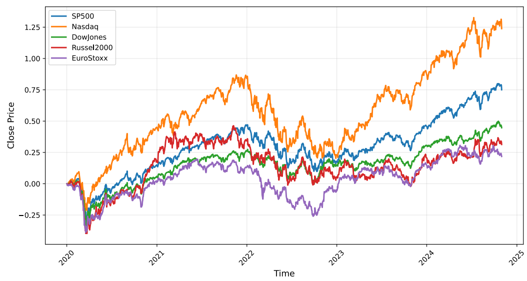


Figure 15: The five indexes performances during Biden mandate.

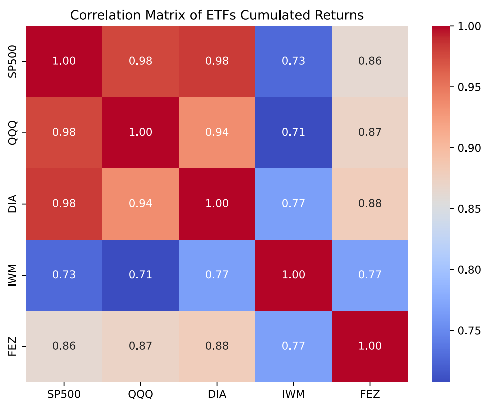
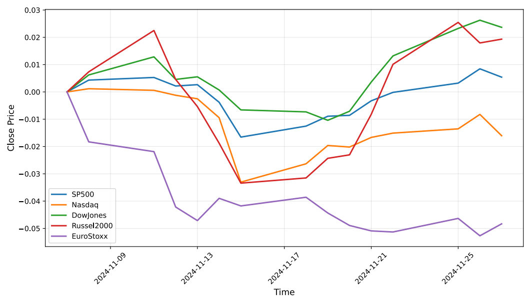
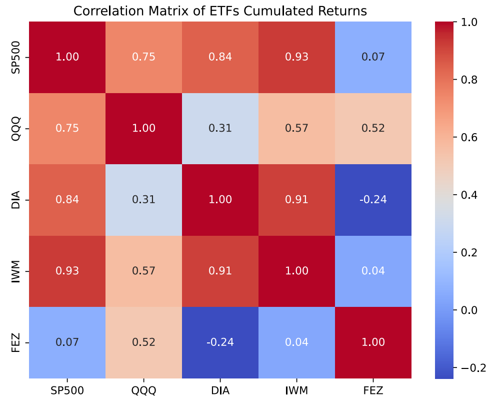


Figure 16: The linear correlation matrix for the five indexes during Biden mandate.





When comparing the behavior of the ETFs during Biden's mandate and after the 2024 election results, we can observe some notable differences, particularly in how different sectors reacted to political developments.

The **Eurostoxx 50 (FEZ)** index performed significantly worse compared to the others, especially after the election results. One possible explanation for this is the anticipated policies of Donald Trump, which often included trade tensions with the European Union. These expectations likely caused increased volatility and negative sentiment toward European stocks, leading to underperformance relative to U.S.-based indices.

On the other hand, the **Dow Jones (DIA)** performed better than any other ETF post-election, possibly due to the broader composition of the Dow. Unlike the tech-heavy Nasdaq, the Dow includes many traditional industrial and financial companies that may benefit from expected policy shifts under a Trump presidency, such as deregulation and tax cuts. This could explain its relative outperformance in the short term.

Overall, these differences highlight how global political sentiment can impact various sectors differently. While U.S. stocks, particularly those tied to industrial and financial sectors, showed resilience, European stocks faced headwinds, likely due to fears of trade policies under the Trump administration. The **Nasdaq (QQQ)** and **Russell 2000 (IWM)** indexes, which are more focused on technology and small-cap stocks, followed similar patterns but did not experience the same level of divergence as Eurostoxx. These observations underscore the importance of considering regional economic policies and their potential impact on specific sectors and indexes.

7. Role of the FED Before and After Elections

The 2024 U.S. election unfolded against a backdrop of economic challenges and adjustments shaped by both domestic and global factors. Key indicators, including Federal Reserve policy, GDP growth, unemployment rates, and future economic projections, painted a complex picture of the U.S. economy in the lead-up to the election [8].

7.1. Federal Reserve Policy and Interest Rates Before Elections

In the lead-up to the 2024 elections, the Federal Reserve maintained a hawkish stance, marked by its firm commitment to reining in inflation. Persistently elevated inflation throughout 2023 and early 2024 prompted the Fed to keep interest rates at historically high levels, with the Federal Funds Rate peaking at 5.50%. These levels were last seen in the early 2000s and were part of an aggressive monetary tightening strategy designed to restore price stability and bring inflation closer to the 2% target.

The prolonged period of high rates had significant ripple effects on the economy. Consumer spending and business investments slowed, particularly in rate-sensitive sectors such as housing, automotive, and manufacturing. Mortgage rates soared, dampening home-buying activity, while higher borrowing costs curtailed corporate expansion and capital expenditures. Despite these challenges, the Fed argued that these measures were necessary to curb inflation and prevent it from becoming entrenched.

By mid-2024, the impact of monetary tightening began to manifest in softer inflation data and early signs of economic cooling. In September 2024, the Federal Reserve initiated its first rate cut in over a year, signaling a cautious shift in its approach. This move was widely interpreted as a response to improving inflation metrics, coupled with a need to support a slowing economy and address concerns about financial stability. However, the reduction in rates was measured, reflecting the Fed's desire to maintain credibility in its inflation-fighting mandate.

In the lead-up to the elections, the Federal Funds Rate was between 5. 00% and 4. 75%, representing a delicate balance act. The Fed sought to signal confidence in the economy while maintaining enough flexibility to adapt to post-election fiscal policies and economic data. Markets and analysts speculated about further easing in 2025, contingent on the trajectory of inflation, labor market conditions, and the policy direction of the new administration.

Overall, the Fed's pre-election monetary policy highlighted its dual mandate of price stability and maximum employment. The combination of sustained high rates followed by a cautious cut reflected the central bank's efforts to navigate a complex economic landscape while preparing for the potential shifts accompanying the election outcome.

7.1.1 GDP Growth

GDP growth prior to the election was modest but uneven. After several quarters of subdued growth in 2023 due to tighter monetary conditions, the U.S. economy showed signs of resilience in the second half of 2024, driven by robust consumer spending and a rebound in industrial production. The third quarter GDP growth was reported at an annualized rate of 2.7%, indicating moderate expansion despite the headwinds of high interest rates. [Figure 19]

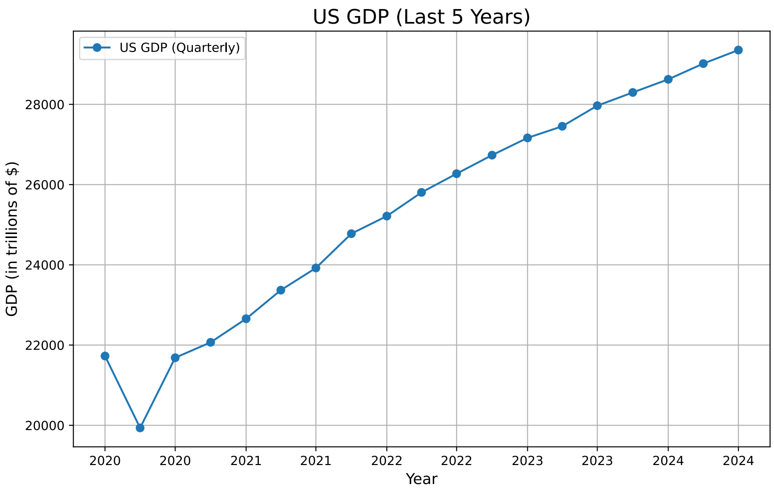


Figure 18: US GDP Growth of last 5 Years

However, concerns about slowing global demand and geopolitical uncertainties tempered optimism, as analysts predicted slower growth in 2025, potentially hovering 2% as indicated in the FED projections for September last year.

7.1.2 Unemployment and Labor Market Trends

The labor market remained a bright spot in the pre-election economic landscape, with unemployment rates holding steady at 4.1%, historically low levels. However, job growth showed signs of deceleration compared to the post-pandemic recovery boom. Although wage growth was positive, it began to lag behind inflation-adjusted gains, affecting real household income. The tight labor market supported consumer spending, but added to inflationary pressures, complicating the Fed's policy decisions. The labor market has shown signs of weakening over the last two quarters, with Q2 and Q3 reflecting a rising unemployment rate. Furthermore, multiple non-farm payroll (NFP) reports have consistently fallen below expectations, further underscoring the growing softness in labor market conditions. [Fig. 20].

Figure 19: US Unemployment Rate

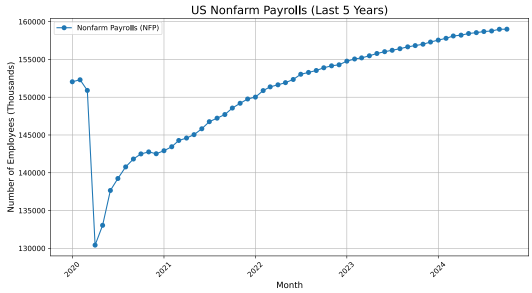


Figure 20: US Non-Farm Payrolls

7.2. Pre-Election Economic Outlook

The pre-election economic outlook [Tab. 1] was clouded by uncertainty, with competing narratives about the trajectory of the US economy. Optimists pointed to stabilizing inflation, a resilient labor market, and incremental GDP growth as signs of a soft landing, avoiding a full-blown recession despite aggressive rate hikes. However, skeptics highlighted risks including a potential credit crunch, the fragility of global supply chains, and geopolitical tensions. Below are some key information:

- Inflation Outlook: Projected to gradually decline toward the Fed's target 2% at the end of 2025, assuming no major supply side shocks.
- GDP Growth: Expected to slow to 2% in 2025 as the lagged effects of monetary tightening fully materialize.
- Unemployment: Anticipated to rise modestly to around 4.4% as economic activity cools, but still below historical averages.
- Monetary Policy: Markets are pricing in the possibility of rate cuts in mid-to-late 2025, contingent on inflation remaining under control and economic growth slowing further.

Economic Projections

Variable	**2024**	**2025**	**2026**	**2027**	**Longer run**
Change in real GDP	2.0	2.0	2.0	2.0	1.8
Unemployment rate	4.4	4.4	4.3	4.2	4.2
PCE inflation	2.3	2.1	2.0	2.0	2.0
Core PCE inflation	2.6	2.2	2.2	2.0	
Federal funds rate	4.4	3.4	2.9	2.9	2.9

Table 1: Economic projections of Federal Reserve Board, September 2024

In summary, the U.S. economy before the 2024 election was characterized by cautious optimism tempered by significant uncertainties. Policymakers and businesses navigated a delicate balance between managing inflation, maintaining growth, and avoiding a potential recession. These dynamics not only shaped voter sentiment but also set the stage for the economic policies that the next administration would inherit and implement.

Following the 2024 elections, the Federal Reserve faces a complex economic environment, requiring it to balance inflation control, support economic growth, and maintain labor market stability. The election results and the incoming administration's policies have prompted the Fed to reassess its strategy while remaining focused on its dual mandate of price stability and full employment [11].

7.3. Changes in the Fed's Outlook

After the elections, the Federal Reserve adopted a more flexible stance, maintaining its long-term goal of bringing inflation closer to the 2% target. The Fed's rhetoric shifted from a markedly hawkish approach, characterized by aggressive rate hikes, to a more data-dependent strategy, where future decisions will be guided by key economic indicators.

The change in political leadership influenced the Fed's outlook, as the new administration's economic program, featuring potential fiscal stimulus and tax cuts, may amplify inflationary pressures, necessitating a calibrated monetary response [5].

7.3.1 Key Indicators to Monitor

Post-election, economic data plays a crucial role in determining the Fed's next moves. Among the most significant indicators are:

- CPI (Consumer Price Index): A primary measure of overall inflation. A steady slowdown in the CPI could provide room for the Fed to moderate its restrictive policies.
- Core CPI: Inflation excluding food and energy, closely monitored to identify underlying inflationary trends.
- PCE (Personal Consumption Expenditures): The Fed's preferred measure of inflation. Any significant shifts will strongly influence monetary policy decisions.
- Unemployment: With rates at around 4.0% before the elections, a modest increase to 4.5%-5.0% is anticipated. The Fed will closely analyze this data to avoid negative impacts on the labor market.
- NFP (Non-Farm Payrolls): The pace of job creation will be critical for understanding labor market resilience.
- JOLTS (Job Openings and Labor Turnover Survey): A measure of labor demand, useful for detecting potential slowdowns in hiring.
- ZQ (Fed Funds Futures): An indicator of market expectations for future interest rates, crucial for assessing how investors perceive Fed actions.
- Fed Watch Tool: Used to predict the likelihood of rate hikes or cuts during upcoming FOMC meetings.

7.4. Monetary Policies After the Elections

In the aftermath of the elections, the Fed has begun to adjust its communications and actions to address the evolving political and economic landscape [12]:

1. Uncertainty in Rate Cuts: As of now, with the Federal Funds Rate ranging between 4.7% and 4.50%, the Fed has taken a more cautious stance. The next rate adjustment is expected, with a 52.5% probability of a reduction to between 4.5% and 4.25%, and a 47.5% probability of a pause at the current range of 4.7% to 4.50% [Fig. 22]. These decisions highlight the Fed's growing caution as it aims to strike a balance between controlling inflation and fostering economic growth.
2. Balance Sheet Reduction (Quantitative Tightening): The Fed continued to shrink its balance sheet through Quantitative Tightening (QT), reducing market liquidity [Fig. 23]. Nevertheless, it signaled readiness to slow this process if market volatility arises. As we can see in the chart below FED started the tapering of the QT.
3. Enhanced Monitoring of Inflation Data: The Fed has placed particular emphasis on core PCE and core CPI, which are more stable and less volatile than headline inflation figures.

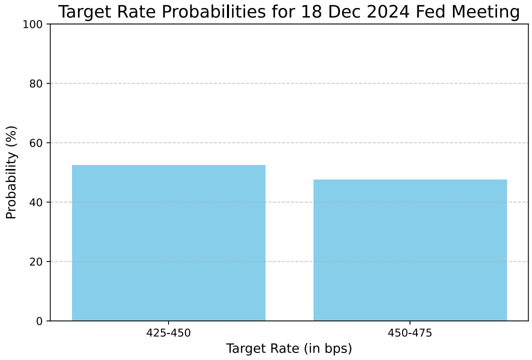


Figure 21: Fed's Watch Tool

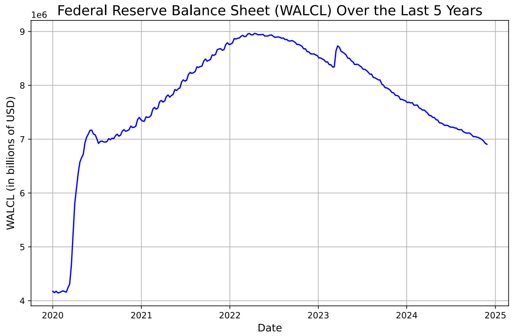


Figure 22: Fed's Balance Sheet

7.5. Uncertainty and Future Projections

Despite taking preventive actions, the Fed remains uncertain about how the market will respond to its policies in the near future. It has acknowledged that the evolving fiscal policies of the new administration could affect inflationary trends and the overall economy in unexpected ways. This uncertainty is reflected in the Fed's cautious stance, with flexibility being a central theme in its decision-making process.

The FOMC meeting on December 18th will be a pivotal moment, as the Fed will release its updated Economic Projections. This will provide clearer insight into how the central bank's outlook has shifted since the September 18th FOMC meeting. Based on recent data, including inflation indicators and labor market conditions, the Fed will likely adjust its forecasts for both economic growth and inflation, influencing its future policy decisions. This document will be critical in determining whether the Fed continues its cautious approach or takes more aggressive actions in response to inflation and economic developments post-election.

In conclusion, the Federal Reserve, in the post-election period, remains vigilant and responsive, balancing its goals of price stability and full employment in a dynamic political and economic environment. The coming months will be critical as the central bank navigates the challenges posed by the new government's fiscal policies and global economic trends, with December's FOMC meeting providing important clues about the Fed's future course.

8. Impact on Extra US Country (China and Europe)

As the U.S. economy continues to navigate the aftermath of the 2024 elections, the fiscal and monetary policies implemented under President-elect Trump are set to have significant repercussions for global markets. In particular, the European Union (EU) and China, two of the largest economies, are expected to experience notable shifts as a result of Trump's proposed fiscal actions, interest rate policies, and trade strategies. In this analysis, we will explore the economic implications of U.S. policy changes for both regions, utilizing key economic indicators and stock indices to better understand the broader impact.

8.1. Impact on Europe: Trade, Inflation, and Monetary Policy

- Trade and Tariffs: Trump's renewed focus on protectionism, especially regarding trade tariffs, could directly affect European exporters, particularly those in the automotive, aerospace, and industrial manufacturing sectors. Europe has already been impacted by the trade war between the U.S. and China in recent years, and any increase in tariffs or the introduction of new trade restrictions could create additional challenges for European firms, especially if Trump follows through on potential tariffs on European goods. The Euro Stoxx 50 index, which tracks the largest companies in the eurozone, would likely show volatility if trade tensions between the U.S. and Europe escalate. Major exporters like Volkswagen, Daimler, and Siemens would be directly impacted by tariffs or trade barriers, leading to a decrease in stock prices and economic slowdowns in key industrial sectors.

- Inflation and Monetary Policy: The U.S. fiscal stimulus, including tax cuts, could fuel inflationary pressures globally, impacting the EU. As the U.S. potentially increases its fiscal deficit, European markets will need to monitor the resulting capital flows. If U.S. interest rates remain high, or if the Fed's monetary tightening persists, the euro could face depreciation as investors seek higher returns in U.S. assets. This would impact the Eurozone inflation outlook, particularly for countries with high import dependencies. The DAX index in Germany, which represents the health of the largest European economy, would also be impacted by changes in U.S. trade policies. A rise in U.S. tariffs or geopolitical tensions could result in weaker performance from companies with significant exposure to the American market.

8.2. Impact on China: Trade Relations, Currency, and Economic Growth

China is one of the largest global trading partners for the U.S., and its economic health is closely tied to U.S. policy changes. The continuation or escalation of trade tensions between the U.S. and China, along with Trump's fiscal policies, will likely have deep effects on Chinese markets, industries, and the broader economy.

- Trade Relations and Tariffs: The trade war between the U.S. and China has already resulted in tariffs on Chinese goods, and with Trump's stance on protectionism, this could worsen. Any new tariffs on Chinese exports could negatively affect key sectors in China, particularly in manufacturing and technology. The Shanghai Composite Index and Hang Seng Index will likely reflect this pressure, particularly from large exporters and tech companies like Alibaba and Huawei, which rely heavily on U.S. markets for growth. In response, China may opt to devalue its currency, the Yuan (CNY), to help maintain competitiveness in global markets. A weaker CNY would make Chinese goods cheaper in global markets, potentially helping offset the impact of U.S. tariffs, but this could also raise concerns about capital outflows and inflation in China, particularly if it leads to increased import prices.
- Impact of U.S. Fiscal Policy on China's Growth: With Trump's proposed tax cuts, the U.S. economy could experience short-term growth, leading to stronger demand for imports. However, this would be coupled with a rising U.S. fiscal deficit, which could negatively affect global economic stability. As China is highly reliant on exports, any volatility in U.S. demand could directly impact Chinese GDP growth. The Chinese economic outlook is also impacted by the U.S. Federal Reserve's interest rate policies. With the U.S. tightening its monetary stance, Chinese policymakers may have to adjust their own monetary policy to maintain growth and avoid excessive currency depreciation. This could lead to higher interest rates in China to support the CNY or mitigate inflation, potentially leading to slower growth in domestic consumption and investment. The China A50 Index, which reflects the performance of large Chinese companies, will be crucial in understanding how China's key sectors are responding to these external pressures. The manufacturing and tech sectors would be particularly sensitive to new trade restrictions and changes in global demand patterns influenced by U.S. fiscal policies.
- Geopolitical Risks: Both Europe and China will need to navigate potential geopolitical risks linked to U.S. policies. In Europe, the possibility of further trade wars with the U.S. and the evolving relationship with the U.S. could create political and economic uncertainty. In China, the tension over Taiwan and trade policy could escalate if the U.S. takes a more aggressive stance in its foreign policy. These tensions are likely to reflect in the broader global risk sentiment, affecting market stability in the EU and China.

8.3. Key Indicators to Monitor in Global Markets Post-Election

1. Stock Indices
   - Euro Stoxx 50 (EU): Watch for volatility linked to trade relations and any regulatory changes.
   - DAX (Germany): Sensitive to U.S. policies, especially those affecting the automotive and industrial sectors.
   - Shanghai Composite (China): Reflects China's economic health and the impact of tariffs and trade relations with the U.S.
2. Currency Markets
   - Euro/USD: The euro's value will be influenced by U.S. interest rates and trade policies.
   - CNY/USD: The yuan's performance could signal China's response to potential tariffs and U.S. fiscal

    policy shifts.
  - Global Capital Flows: Watch for shifts between emerging markets and developed markets, particularly the flow of investments into U.S. bonds.
3. Bond Markets
  - U.S. Treasury Yields: Watch for the yield curve to provide signals of global risk appetite and inflation expectations.
  - EU Sovereign Bonds: Particularly those of Germany, as fiscal concerns rise.
  - Chinese Government Bonds: Reflects the response to Chinese monetary policies and potential capital controls.

8.4. Conclusion

The impact of U.S. fiscal policies under President-elect Trump on the European Union and China will be multifaceted, with both risks and opportunities for global markets. Europe faces potential trade challenges and inflationary pressures, while China will need to navigate the complexities of trade relations, currency fluctuations, and global growth uncertainty. As both regions adapt to these evolving U.S. policy shifts, investors should monitor key indicators such as stock indices, currency performance, and bond yields to better understand the market's response to these geopolitical and economic changes.

9. Future Prospect of the US Economy

As the U.S. economy heads into 2025, future prospects are shaped by a complex interplay of factors, including the trajectory of macroeconomic conditions, monetary and fiscal policies, and market seasonality. The economic landscape is further complicated by the uncertainties surrounding post-election fiscal policies and their broader impact on inflation, growth, and market sentiment. Here's a detailed analysis of the prospects for key asset markets: stocks, bonds, currencies, and commodities, based on the evolving scenario [7].

9.1. Stock Market: Impact of Economic Cooling and Fiscal Policies

The U.S. stock market in 2025 is likely to face significant challenges but may also present opportunities, depending on how macroeconomic trends unfold. The period of high interest rates, which characterized much of 2024, has slowed consumer spending and business investments, impacting earnings growth, especially in sectors sensitive to interest rates such as housing, automotive, and technology.

However, with a potential rate cut cycle expected to begin later in 2024, the stock market could see some relief. Historically, when the Federal Reserve moves to lower interest rates, equities tend to respond positively, especially in growth sectors such as tech and consumer discretionary. Still, the trajectory of fiscal policy will play a critical role. If the new administration focuses on tax cuts and stimulus measures, it could boost consumer spending and corporate profits, particularly for companies with significant domestic exposure.

On the flip side, if inflationary pressures persist, it could limit the scope for aggressive rate cuts and maintain a restrictive environment, especially for interest rate-sensitive sectors. Moreover, seasonality in the equity markets could add complexity. Typically, Q1 and Q4 are positive periods for stocks, but the summer months (Q2) could face more volatility, as fiscal policies are clarified and the economic impact of election outcomes starts to play out.

9.2. Bond Market: Interest Rates, Inflation, and Fed Policy

The U.S. bond market is closely tied to the Fed's monetary policies and the trajectory of inflation. With interest rates between 5.00% and 4.75% in the run-up to the 2024 election, the bond market has had to adjust to historically high yields. As the Fed signals a potential rate cut cycle, bond prices are likely to see upward pressure, especially long-duration bonds, as the yield curve steepens.

However, rising fiscal deficits and ongoing government spending, coupled with potential tax cuts under the new administration, could put upward pressure on yields in the medium-to-long term. The bond market will be watching closely for any signs of stagflation, a combination of persistent high inflation combined with high unemployment, that could challenge the Fed's ability to cut rates without risking further economic instability.

In terms of seasonality, the bond market tends to face weaker periods in Q2 and Q3, as investors adjust to economic data releases and seasonal shifts. However, the post-election period could see a reversal of yields as market expectations for Fed policy solidify, with possible yield declines if the economic outlook weakens or if the Fed provides clearer signals of dovish policy adjustments.

9.3. Currency Market: Dollar Dynamics in a Changing Policy Environment

The U.S. dollar (USD) is influenced by the Fed's interest rate policies, U.S. fiscal policies, and the broader global macroeconomic environment. Given the high interest rates through most of 2024, the U.S. dollar has benefitted from higher yields, attracting foreign capital. However, as the Fed begins to cut rates, the dollar's strength could wane, especially if other central banks (e.g., ECB, BOJ) maintain their hawkish stances.

Global trade dynamics, including potential tariff policies and shifts in international monetary policy, will also shape currency valuations. If the U.S. administration pushes for more protectionist trade policies, such as tariffs on imports, it could have a mixed impact on the dollar. On one hand, tariffs could hurt the U.S. economy by increasing costs; on the other hand, it could protect certain domestic industries, leading to temporary strength in the currency.

Seasonality suggests that the USD tends to strengthen in Q1 as investors reassess portfolios post-year-end, but weakness could emerge in Q2 and Q3 as uncertainties about fiscal and monetary policies persist.

9.4. Commodities Market: Inflation, Supply Chain, and Demand Factors

The commodities market is deeply connected to inflationary pressures, supply chain dynamics, and the Fed's monetary stance. With oil prices, gold, and agricultural commodities all highly sensitive to both inflation expectations and global economic growth, the 2025 outlook will hinge on several factors:

- Oil and Energy Prices: The market will be watching the U.S. administration's approach to energy policy, as potential restrictions or subsidies could affect supply and demand dynamics. A focus on green energy and reductions in oil dependency could dampen the outlook for traditional energy markets. However, in the short term, geopolitical tensions or supply chain disruptions could push oil prices higher.
- Gold: As a safe-haven asset, gold prices could see an uptick if inflation remains elevated, particularly in the wake of stagflationary pressures. A potential weaker dollar and ongoing concerns about economic instability could further boost demand for gold, which traditionally thrives in inflationary and uncertain environments.
- Agricultural Commodities: The outlook for agricultural commodities depends heavily on climate conditions and trade policies. Tariffs and trade restrictions could lead to higher.

Seasonality plays a significant role in the commodities market as well, with oil prices typically peaking in the summer months, while gold tends to perform better during times of heightened geopolitical uncertainty or market volatility, often strengthening towards Q4.

9.5. Conclusion

The outlook for the U.S. economy in 2025 will be shaped by the interaction between fiscal and monetary policies, economic cooling, and market seasonality. Stocks, particularly in growth sectors, may benefit from easing monetary policy, while bonds are expected to react to future rate cuts. The U.S. dollar could face downward pressure if the Fed's policy shifts, and the commodities market will be closely tied to inflation, energy policies, and geopolitical tensions. The post-election period will introduce significant policy uncertainties that will influence the economic trajectory, with both risks and opportunities across different asset classes. The evolving balance between fiscal expansion, inflation control, and economic growth will be the key theme guiding these markets.

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