Flash Economics

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What effect will the US election have on growth and value?

A 'value stock' is a share whose price is low compared with the usual stock market criteria. Value stocks are mainly found in financial services, healthcare, industrials and energy. A growth stock is a share in a company whose profits (revenues) are growing faster than average because it is in a high-growth sector and has significant pricing power. Growth stocks are mainly found in new technologies, such as in the Magnificent 7 (Apple, Microsoft, Alphabet, Amazon, Tesla, Meta, Nvidia).

We wonder whether the outcome of the US presidential election will influence the relative performance of growth stocks compared to value stocks.

Donald Trump has said that he wants to introduce tariffs on all US imports, that he wants to repeal the Inflation Reduction Act (IRA) and that he wants to reduce immigration much more radically than Kamala Harris.

Kamala Harris wants to help property buyers, help parents from the birth of their first child, control certain prices and reduce taxes for the middle class.

We can expect :

- From the election of Donald Trump, an increase in inflation (tariffs, a halt to immigration) and a slowdown in growth (a halt to immigration, abolition of the IRA) compared to what would happen if Kamala Harris were elected;
- If Kamala Harris is elected, an increase in the public deficit above the level that would result from the election of Donald Trump, with support for middle-class demand.

What are the consequences for value stocks and growth stocks?

- Inflation (Donald Trump's election) would lead to a rise in interest rates, which is unfavourable to growth stocks; however, higher interest rates favour companies that hold a lot of cash;
- A fall in growth would also be unfavourable to growth stocks, especially if, in the case of Donald Trump's election, it resulted from the abolition of the IRA;
- The rise in social spending and public deficits (election of Kamala Harris) would be favourable to value stocks by stimulating demand for goods consumed by the middle class (healthcare, energy, industrial products).

Overall, we can expect a narrowing of the gap between the growth and value indices, in the case of the election of Donald Trump through a decline in growth stocks, and in the case of the election of Kamala Harris through an increase in value stocks.

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The likely economic effects of electing either Donald Trump or Kamala Harris

Donald Trump has a programme based on stopping immigration, ending the Inflation Reduction Act and introducing tariffs on all imports: the result would be higher inflation (Chart 1), with higher tariffs leading to higher import prices and increased labour market tightness, and lower growth, with the return of labour market tightness (Chart 2) and the repeal of the IRA.

Chart 1
United Sates : Inflation (CPI, Y/Y as %)

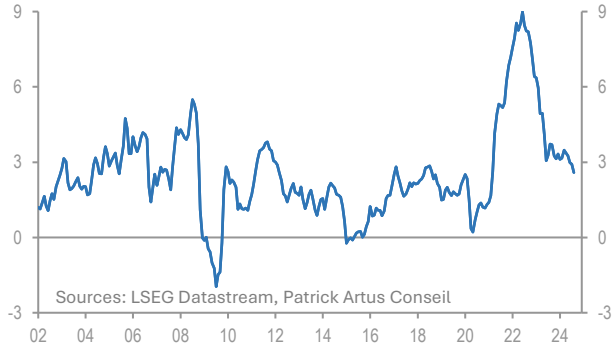
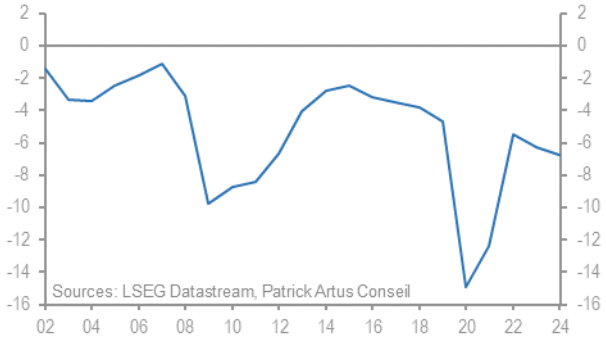


Chart 2
United States: Proportion of companies experiencing recruitment difficulties (as %)



The election of Kamala Harris would lead to an increase in the public deficit, which is already very high (Chart 3), and an increase in consumption and house purchases by the middle class, since she wants to support the middle class financially.

Chart 3
United States: Budget deficit (as % of nominal GDP)



The effect on growth stocks and value stocks

Chart 4 shows the stock market indices for growth stocks and value stocks, while Chart 5 shows the year-on-year growth of these two indices.

Chart 4
United States : Stock market indices (01.01.1995 = 100)

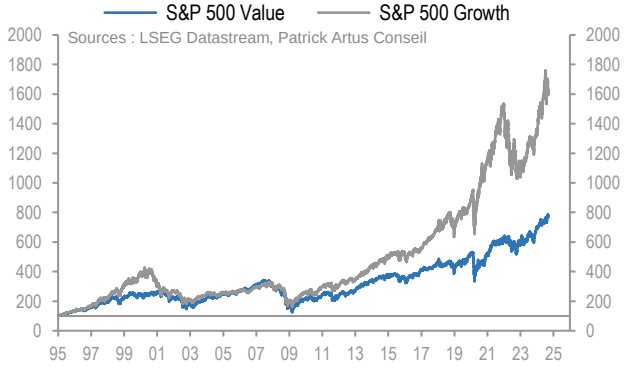
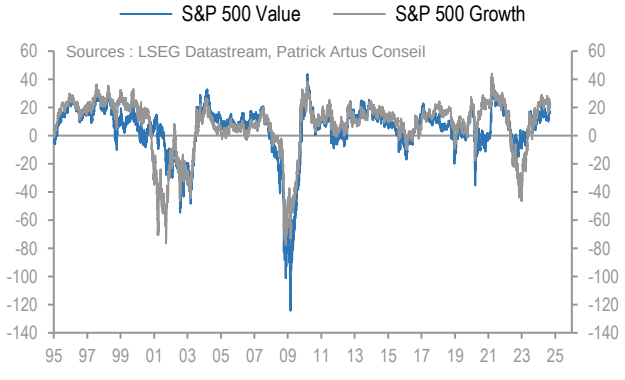


Chart 5
United States : Stock market indices (Y/Y as %)



One can see that growth stocks have risen sharply in relation to value stocks:

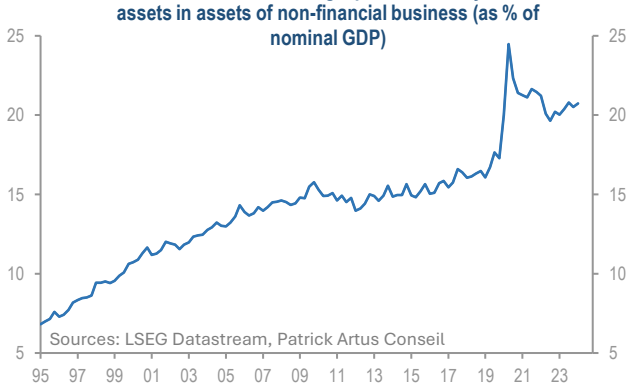
- From 1997 to 1999;
- Since 2009, except for the period following the Russian invasion of Ukraine in 2022.

This sharp rise in growth stocks since 2009 and especially since 2017 is linked to the rise in the prices of technology companies.

What would be the effect on the two groups of stocks of the election of either Donald Trump or Kamala Harris?

If Donald Trump is elected, we have seen that **there is a risk of higher inflation and an economic policy favourable to fossil fuels and unfavourable to the energy transition**. We can therefore expect **a decline in the level of growth stocks relative to value stocks**, unless the rise in interest rates is sufficient to cause a sharp increase in the interest received by companies on their holdings of liquid assets (**Chart 6**).

Chart 6
United States: Outstanding liquid and money-market assets in assets of non-financial business (as % of nominal GDP)



If Kamala Harris is elected, we can expect an increase in middle-class demand for goods and services and housing, favouring value companies (**healthcare, industry, energy**).

The election of Donald Trump would therefore cause growth stocks to fall, while the election of Kamala Harris would cause value stocks to rise.

What effect have past US presidential elections had on growth stocks and value stocks?

Since 1995, there have been **the following presidents in the United States**:

- Bill Clinton (re-elected in 1996);
- George W. Bush (elected in 2000 and 2004);
- Barack Obama (elected in 2008 and 2012);
- Donald Trump (elected in 2016);
- Joe Biden (elected in 2020).

The following presidencies are associated with a strong increase in growth stocks compared to value stocks:

- Bill Clinton (1997) ;
- Barack Obama (2009 and 2013) ;
- Donald Trump (2017) ;
- Joe Biden (2021).

The presidencies of George W. Bush (2001 and 2005) are associated with a decline in growth stocks relative to value stocks.

One can see that **there is no systematic effect of the election of a Democrat or Republican president** on the relative performance of growth stocks and value stocks.

Summary: a downward correction in growth indices relative to value indices in all cases?

These are our thoughts:

- If Donald Trump is elected president in November 2024, his economic policies (halting immigration, introducing customs duties, halting the Inflation Reduction Act) will be unfavourable to growth stocks; the only mechanism in the other direction comes from the rise in interest rates and its positive effect on income from corporate cash reserves.
- If Kamala Harris is elected President in November 2024, her economic policy (supporting middle-class incomes) will be favourable to value stocks, because it will support household demand for industrial products, healthcare, energy, etc.

In either case, the price differential between growth stocks and value stocks will narrow.

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