CIO recommends investors remain invested, as a well-constructed portfolio management plan should be able to withstand the market volatility surrounding a close election. (UBS)

Election uncertainty is no reason to exit the market

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US equities are sitting at record-high levels as markets enter the final two weeks before the US presidential election. The S&P 500 closed at its 47th all-time high this year on Friday, after making gains for six consecutive weeks, the longest winning streak this year.

As neither party holds a clear advantage in any of the key swing states that could decide the outcome, the race remains too close to call, and we expect volatility to pick up in the coming weeks amid elevated uncertainty. But we also think the potential volatility is unlikely to derail positive equity fundamentals, and remind investors not to make dramatic portfolio changes based on expected election outcomes.

The election is taking place against a backdrop of healthy earnings growth and solid economic momentum. Companies that represent about 15% of the S&P 500 market capitalization have reported their third quarter results so far, with nearly 80% of them beating earnings estimates and more than 60% beating sales estimates. Bank management teams are optimistic about the broader economy and confident in capital markets activity, while consumer spending remains steady. There are also signs that point to the sustainability of artificial intelligence (AI) demand. With the Federal Reserve likely to cut interest rates further amid a resilient economy, we continue to forecast S&P 500 earnings to grow 11% this year and 8% in 2025. Reducing equity exposure in the wake of a "disappointing" election outcome is likely to be counterproductive over the longer term, in our view—data going back to 1928 show that US equities tend to rise into US presidential elections and thereafter.

The potential policy implications for the equity market will need to be viewed in the context of actual implementation and policy sequencing. For example, we believe the knee-jerk market reaction to a Donald Trump victory may be positive, as the risk of tax increases or greater regulation gets priced out. But markets would soon likely

move to consider potential tariff and deficit risks, which could temper any rally. In fact, cutting corporate taxes would likely only be possible if the Republicans control both houses of Congress, and the cuts may only be introduced after potential trade tariffs come into force, which could have more negative macro and equity market implications. Similarly, while markets may initially show concern about some of the tax, antitrust, and regulatory aspects of Kamala Harris' policy platform, many are unlikely to be passed. In our view, the odds of her winning the presidency alongside control of Congress remain a remote outlier.

The election outcome may not be known for several weeks after the ballot closes on 5 November. The prospect of recounts and legal contests means that the winner might not be known before 11 December, the deadline for states to declare their electoral college votes. And even that date might not fully draw a line under the outcome if the result is still undecided or contested. Investors deferring investment plans in anticipation of the election result therefore need to factor in the potential risk and cost of a potentially long wait.

So we recommend investors remain invested, as a well-constructed portfolio management plan should be able to withstand the market volatility surrounding a close election. Investors can consider hedges if they are particularly concerned about election outcomes, including capital preservation strategies, structured notes, and exposure to hedge funds and gold.

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