

Election years have typically been volatile for equity investors. Will history repeat in 2024?

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Synopsis

In all likelihood, it could be the elections rather than the central banks that will move the markets as both India and the US face elections in 2024.



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Indian [markets](#) have been fairly resilient in one of the most challenging times if one excludes the once-in-a-century pandemic years.

Indian stocks hit record highs through the most aggressive campaign of interest rate hikes by the [Federal Reserve](#) as well as an intense campaign of tightening from the Reserve Bank of India.

The two central banks are now expected to cut interest rates, and the worst of policy tightening is over. Should the markets, as referenced by stocks, continue to surge, or could the coming of good times (let's say better times) prove to be more challenging for the markets than the tough times they have braved?

In all likelihood, it could be the elections rather than the central banks that will move the markets as both India and the US face elections in 2024.

The Indian economy is expected to grow by 7% in 2024-25 on top of 7.3% expected for 2023-24. The US central bank has managed to soft land the economy despite taking policy rates to two-decade highs.

The markets have priced in all the positives, but have they considered the negatives? How would they deal with perceived upsets to what they have priced in?

The year 2024 is being touted as “The” Election Year.

Some 60 countries globally go for national elections in the year, including India, Indonesia, Russia, the UK, and the United States. The markets will keenly watch elections in the US apart from, of course, the ones in India. What happens in the run-up to the November US elections will be as important.

Donald Trump will likely challenge incumbent Joe Biden, but it remains to be seen if the courts allow him to run. Trump had run-ins with the Fed. He, of course, prefers tax cuts and high borrowings to drive growth and favours protectionism for American corporations. America under Trump – 2 could have a different view of China and Russia. How that impacts geopolitics and the markets will be something that investors will have to ponder over in the coming months.

The talk in the US around Trump's re-election bid is about retribution for the 2020 elections. How the dollar behaves during the primaries or with each opinion poll will keep the markets hooked. The markets expect Trumponomics to bolster the dollar as he is expected to prefer more tariffs to counter Chinese imports. Moreover, any deal to ease tensions with Russia could weaken the Euro and, of course, abandon Ukraine.

Not just the central banks, the markets will have to keep an eye on politicians and what they say in 2024. In India, the markets believe that a third term for Prime Minister Narendra Modi is a given. Heavy investments in infrastructure are expected to continue, triggering capex by India Inc. to fuel growth.

Expensive Markets

As per a Goldman Sachs report there is a base case of “policy continuity” for India post-elections and is overweight on expectations that corporate earnings will grow by 15% CAGR this year and the next. It is expected that continued corporate earnings growth will counter the concerns of Indian markets being expensive.

Deep corrections could be there if there are election surprises or if corporate earnings slow down. It will be most prudent for investors to choose debt instruments in addition to equities. The year 2024 would mark the ideal time for investors, particularly the retail ones, to step up bond investments.

This is because interest rates in India have peaked, and the present levels are ideal for locking into good and safe returns in a declining interest rate regime.

A recent statement by the RBI Governor Shaktikanta Das indicates as much that interest rates have peaked in the current interest rate cycle. The market expects the RBI to start cutting interest rates in the middle of 2024.

Indian bonds are set to witness sharp increases in foreign fund activity following the FTSE's decision to include Indian bonds in its bond indices. Bloomberg, too, has said it is seeking feedback to include India in its own bond indices. About \$25 billion - \$30 billion of foreign money could flow into India over the next 18-24 months.

Election years, historically, have been volatile years for markets. Nothing is certain about election outcomes, and prudence is always better. A mix of debt and equity instruments could be a better bet for investors. They could add a touch of gold, too.

(The author is MD & Head - Investment Grade Group, [JM Financial Products](#))