Harris | Oakmark

Commentary

2024 Election: Economic forces are stronger than political winds

October 2024

Client Portfolio Manager Danny Nicholas shares why we largely exclude politics when making long-term forecasts.

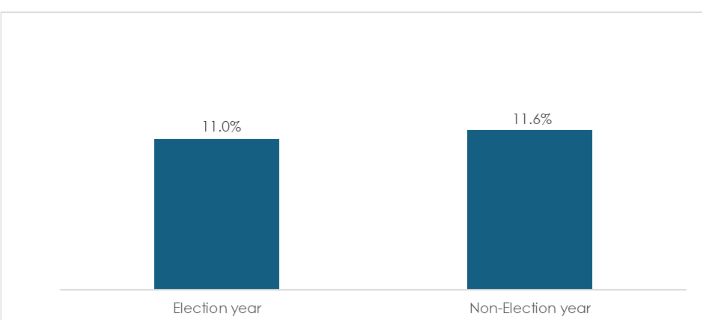
KEY TAKEAWAYS:

- Historically, election years and administration political affiliation have little effect on a stock's intrinsic value
- We view short-term market reactions to political events as investment opportunities
- The 2024 U.S. presidential election outcome may affect mergers and acquisitions

Globally, more people than ever are headed to the polls in 2024, and elections are top of mind for many investors. In the U.S., political division is stark, and it affects investor outlooks for the economy and the stock market.

At Harris | Oakmark, we believe that economic forces are stronger than political ones, which gives us the luxury of largely excluding politics when making long-term forecasts for the businesses we own.

Stocks perform similarly in election years and non-election years
S&P 500 performance, 1928-present



Source: S&P 500 Index total returns from Bloomberg. Election years consist of years in which a U.S. president was elected. S&P 500 Index annual returns between December 31, 1928 and March 31, 2024. Past performance is no guarantee of future results.

The data supports this view. Stocks perform similarly in election years and non-election years, increasing approximately 11% per year for the S&P 500 Index since 1928. In addition, the stock market fluctuates under both Republican and Democrat administrations.

Knee-jerk investing responses bypass intrinsic value

We realize that political elections can lead to short-term price volatility, however. Case in point, this summer's European Parliamentary elections led French President Emmanuel Macron to dissolve the lower house of Parliament and call for new elections.

Immediately, the euro dropped, French bond prices rose and the France CAC 40 Index fell 8%, all in one week. BNP Paribas, France's leading bank, declined 15% in the first two weeks of June.

We do not believe that BNP Paribas was 15% less valuable when the leading party in France changed from Macron's centrist party to Le Pen's right of center party. The short-term price volatility from these events, in most cases, has little or nothing to do with the intrinsic value of the businesses in which we invest.

Fearful traders and investors often sell as a knee-jerk reaction in response to any geopolitical disturbance. We believe that for patient investors, this provides an opportunity.

How we benefit from market short-term fears

We try to measure the true impact, if any, these events may have on the company's ability to generate free cash flow in the present and the future. We then take advantage of the market's short-term fears.

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After the 2016 U.S. presidential election, hospital stocks sold off due to concerns that the benefits from health care reform achieved in the Obama administration would be lost. We initiated a position in HCA Holdings, the largest for-profit hospital, as we estimated that its share price discounted the effects of repealing the entire Affordable Care Act, providing an attractive risk reward. When we looked beyond the presidential administration, we expected HCA to thrive regardless of potential policy changes given its scale advantages, attractive exposure to higher growth geographies and its solid management.

Implications for mergers and acquisitions in the 2024 U.S. presidential election

Regarding the 2024 U.S. presidential election, on the margin we would expect a change in administration would make business consolidation more likely, which could allow our holdings that have potential acquisitions sitting in limbo to complete them.

For instance, we believe Kroger's pending merger with Albertsons may drive accelerated earnings growth and further scale advantages. If the merger is not approved, the company will have the capacity to return over 25% of its market cap to shareholders. Capital One has a pending acquisition of Discover Financial Services, which, if approved, would create the nation's sixth largest bank by assets. The merger is currently under review by the Federal Reserve and the Office of the Comptroller of the Currency. The review is expected to wrap up by the end of 2024 or early 2025.

We know geopolitical events will always be part of the investing climate, but we've learned it's impossible to predict these outcomes, so we don't explicitly position the portfolio for the impending event. Rather, we focus on investing alongside management teams that can defend their competitive advantages, allocate capital wisely and grow per share value for its shareholders, regardless of which political party holds office.

The securities mentioned above comprise the following percentages of the Oakmark Fund's total net assets as of 09/30/2024: Albertsons 0%, BNP Paribas 0%, Capital One Financial 2.4%, Discover Financial Services 0%, HCA Holdings 0% and Kroger 2.4%. Access the full list of holdings for the Oakmark Fund as of the most recent quarter-end.

The securities mentioned above comprise the following percentages of the Oakmark Select Fund's total net assets as of 09/30/2024: Albertsons 0%, BNP Paribas 0%, Capital One Financial 4.9%, Discover Financial Services 0%, HCA Holdings 0% and Kroger 0%. Access the full list of holdings for the Oakmark Select Fund as of the most recent quarter-end.

The securities mentioned above comprise the following percentages of the Oakmark Global Fund's total net assets as of 09/30/2024: Albertsons 0%, BNP Paribas 0%, Capital One Financial 2.8%, Discover Financial Services 0%, HCA Holdings 0% and Kroger 1.8%. Access the full list of holdings for the Oakmark Global Fund as of the most recent quarter-end.

The securities mentioned above comprise the following percentages of the Oakmark Global Select Fund's total net assets as of 09/30/2024: Albertsons 0%, BNP Paribas 0%, Capital One Financial 5.4%, Discover Financial Services 0%, HCA Holdings 0% and Kroger 0%. Access the full list of holdings for the Oakmark Global Select Fund as of the most recent quarter-end.

The securities mentioned above comprise the following percentages of the Oakmark International Fund's total net assets as of 09/30/2024: Albertsons 0%, BNP Paribas 3.4%, Capital One Financial 0%, Discover Financial Services 0%, HCA Holdings 0% and Kroger 0%. Access the full list of holdings for the Oakmark International Fund as of the most recent quarter-end.

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Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.

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The S&P 500 Index is a float-adjusted, capitalization-weighted index of 500 U.S. large-capitalization stocks representing all major industries. It is a widely recognized index of broad, U.S. equity market performance. Returns reflect the reinvestment of dividends. This index is unmanaged and investors cannot invest directly in this index.

The CAC 40 is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant stocks among the 100 largest market caps on the Euronext Paris. This index is unmanaged and investors cannot invest directly in this index.

All investing involves risk, including the risk of loss. Investment risk exists with equity, fixed-income, and alternative investments. There is no assurance that any investment will meet its performance objectives or that losses will be avoided.

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