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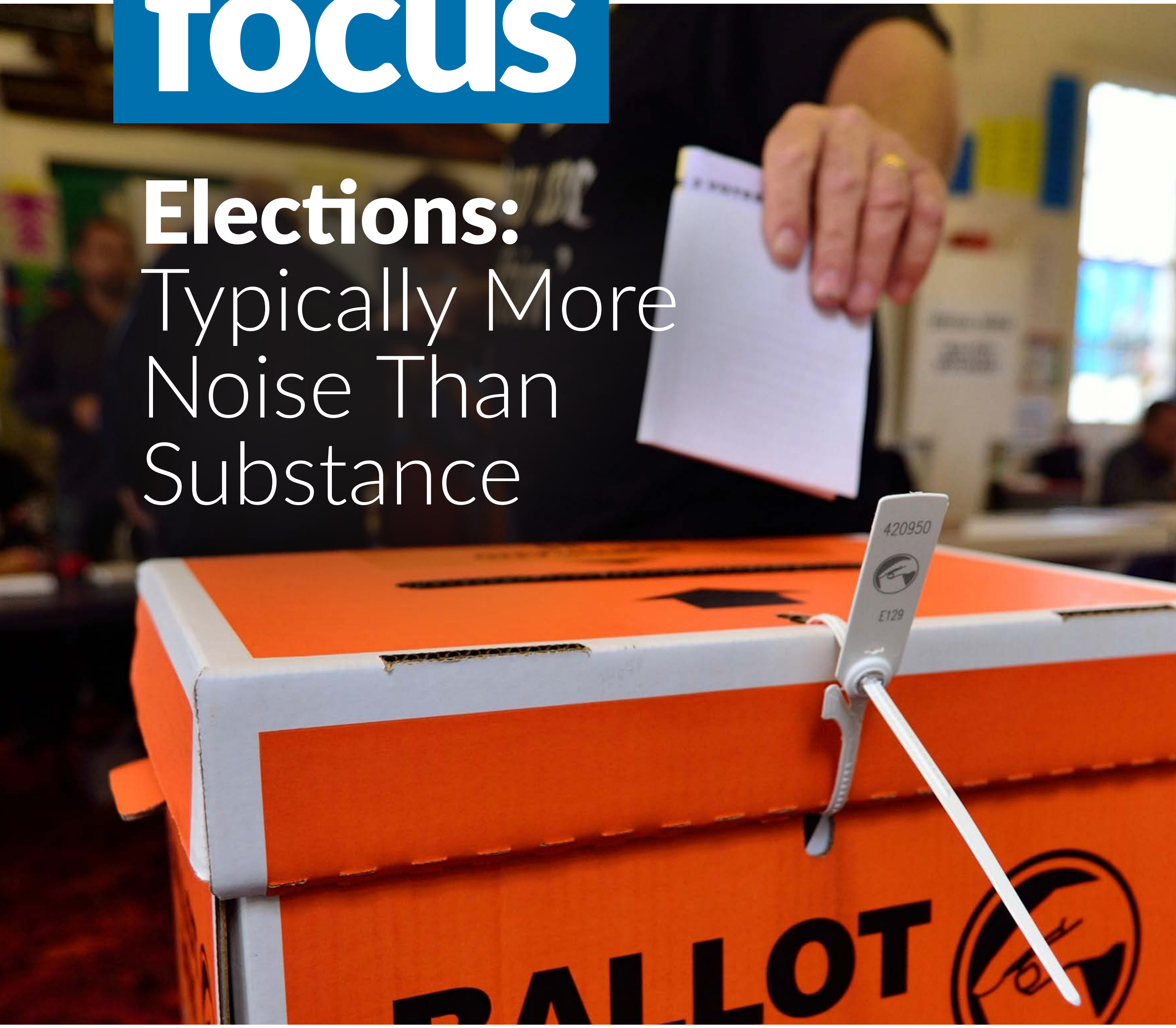
focus

Elections: Typically More Noise Than Substance



In the space of four days this November, voters in the United States and New Zealand will go to the polls. Expect wall-to-wall coverage, close scrutiny of the polls, and no shortage of opinions about what it means for the economy and markets. Elections can matter. They can alter tax settings, regulation, and business confidence. But for long-term investors, their effect on broad market returns is usually less dramatic than the headlines imply. Once the votes are counted, attention tends to return to the forces that matter most: company earnings, economic growth, inflation, and interest rates.

FORSYTH BARR
INVESTMENT ADVICE
90 YEARS

> *…Politics rarely determines what markets do beyond the short term…*

It's the not knowing

Since President Trump returned to the White House in January 2025, the headlines have come thick and fast. Tariffs. Designs on Greenland. Public rows with the Federal Reserve. Conflict in the Middle East. Several of these moved markets sharply.

Look past a few weeks, though, and a familiar pattern emerges. Political headlines make markets jumpy, the initial shock fades, and attention returns to fundamentals: earnings, growth, and interest rates. Politics rarely determines what markets do beyond the short term.

With elections, it is usually not the policies themselves that unsettle investors. It is the not knowing. Once the fog lifts, businesses get on with it and adapt to whatever they are given.

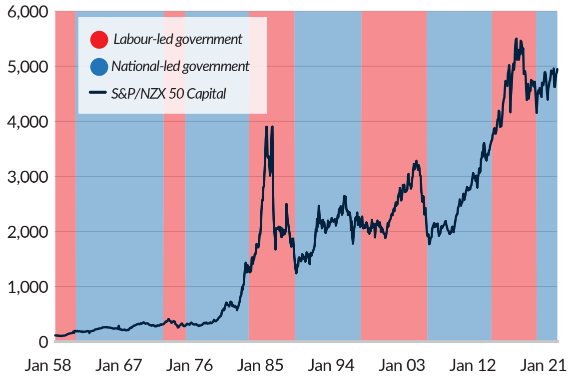
In New Zealand we know this as the pre-election hiatus. Firms hold off on major investment and hiring decisions, and the property market takes a breather whenever there is talk of changing property taxes, as there is this time with a capital gains tax on the table. But once a government is formed and people can see what is coming, they adjust and carry on.

Left or right, the numbers say the same

Ahead of the 2023 election we ran the numbers in detail, looking at whether a right- or left-leaning government had any impact on the markets or the economy. Nothing since has changed the conclusion.

Going back to 1957, over full three-year terms, the S&P/NZX 50 Capital Index has compounded at 7.9% under National and 2.2% under Labour. Those numbers look decisive until you consider what has happened through history. Labour happened to hold office during the 1987 crash, the bursting of the dot-com bubble, and the first half of the Global Financial Crisis, none of which had anything to do with who was in the Beehive. The same pattern appears when looking offshore: the MSCI World Index returned 7.2% a year under National-led governments and 2.9% under Labour-led ones. If the gap were really down to New Zealand politics, it would not repeat itself in a global index. Allow for these events and there is no reliable pattern in either direction.

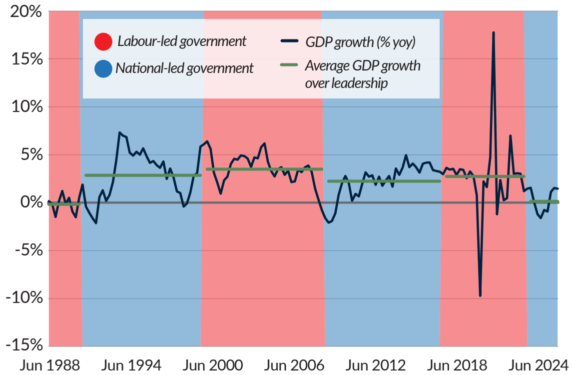
NZ EQUITY MARKET THROUGH POLITICAL CYCLES



Source: LSEG, Forsyth Barr analysis

Economic growth tells a similar story. Track GDP through political cycles and the difference in output under the two sides is negligible. The global cycle, commodity prices, and interest rates carry far more weight than the colour of the government.

NZ GDP GROWTH THROUGH POLITICAL CYCLES



Source: Statistics NZ, Forsyth Barr analysis

New Zealand: too close to call

Close polls add to the uncertainty, and this election is tight. It may also prove messier to resolve than 2023.

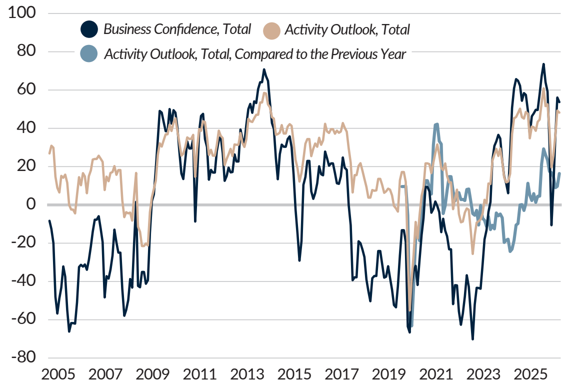
At the time of writing, polls are providing no clear direction as to who is ahead. One had the National, ACT, and NZ First bloc scraping a slim majority. Another, taken days later, had Labour narrowly in front of National.

The more interesting story lies beneath the headline. Combined support for the two major parties has fallen to a record low, with minor parties attracting an increasing share of the vote.

For investors, the question is less who wins than how long it will take for the result to become clear. Recent coalition negotiations have taken three to six weeks. A more crowded Parliament could mean this takes longer. A drawn-out negotiation could push into December before the shape of the next government is known.

Meanwhile, companies will be busy with the things that matter more. The latest reporting season showed signs of cautious improvement. Business confidence has rebounded from its slump at the peak of the Middle East conflict. A relatively low New Zealand dollar is supporting exporters, and high agricultural commodity prices are flowing through to the regions. Company profits, interest rates, and inflation will shape returns over the coming year far more than the make-up of Cabinet.

ANZ BUSINESS CONFIDENCE HAS CLIMBED BACK TOWARD RECENT HIGHS



Source: LSEG, ANZ, Forsyth Barr analysis

Where policy could matter

Most election policy is noise for the share market as a whole. But there are two areas that deserve closer attention for possible impact on specific sectors.

The first is electricity. Several reviews of the market are underway, and the future shape of the sector has become a campaign issue. It is unlikely that any of the policies proposed by the political parties, including separation of the gentailers, would materially change the sector's earnings. The debate itself is not costless, though. Sustained political attention makes it harder for the sector to outperform, whatever the eventual outcome.

The second is capital gains tax. Labour is campaigning on a flat 28% tax on gains from residential investment and commercial property accruing after 1 July 2027, replacing the bright-line test. The family home, farms, shares, KiwiSaver, and business assets sit outside it. The Greens have gone further, proposing a 2.5% annual wealth tax on net assets above $10 million for an individual, a ten-year bright-line test, and the removal of interest deductibility for residential landlords. The Opportunity Party is campaigning on a land tax.

The main effect of these possible changes is likely to be on the property market. This could come at a time when property price growth is already weak. But it's also worth highlighting that all these policies coalition negotiations. A Labour, Greens, and Opportunity government would have to reconcile three different tax packages. Whatever emerges will probably look different from the campaign documents.

> *...Neither [election] is worth repositioning a portfolio around ...*

Washington: gridlock is the base case

Across the Pacific, the mid-terms are a report card on Trump's first two years back in office. Every House of Representatives seat and a third of the Senate are up for grabs.

Democrats need a net gain of three seats to take the House. Polls through August have had them ahead by five to eight points. The Senate is a harder climb, given the current 53 to 47 Republican majority and an unfavourable map. A split Congress looks the most likely outcome, ending the red sweep the Republicans currently hold across the White House, the House, and the Senate.

What would that mean for markets? Probably not a great deal. A divided Congress would slow the passage of new fiscal legislation, which at the margin is helpful for a Treasury market already worried about deficits. It would change little on tariffs, which are largely exercised by the President through executive authority and need no help from Congress to continue.

What actually matters between now and November

Both elections are worth watching. Neither is worth repositioning a portfolio around.

The forces that will drive New Zealand investors' returns over the next three years are already in motion: the Reserve Bank has started lifting the OCR, taking it to 2.75% in early September, a domestic recovery that is real but uneven, and global earnings that remain heavily concentrated in a handful of large technology companies. These factors will have a far greater influence on portfolio outcomes than the composition of the 55th Parliament or US Congress.

If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.

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