Market Chronicles

Post-Election Surge:

Five Key Themes Driving Market Momentum into 2025

Jeffrey O'Connor
Head of Market Structure and Liquidity Strategy
joconnor@liquidnet.com

Three weeks post-election and the hangover doesn't seem to have kicked in yet. Major indexes are hitting fresh all-time highs, and volumes have yet to retreat from the elevated levels set on the day after the election. That day delivered a loud statement, with over 18 billion shares trading hands and major indexes moving with a magnitude exceeding three standard deviations. Such power, paired with a clear directional conviction, often sets the tone for where the market's path of least resistance will lead. Signals of strong institutional flows were evident, and the self-reinforcing nature of systematic and quant funds contributed to the momentum. This technical feedback loop, coupled with momentum funds driving fresh highs, continues to define the market. Until we see a comparable response in the opposite direction, the market reaction to Trump's victory seems firmly in control.

Volumes tell the story. Over the past three weeks, US markets have averaged 15.4 billion shares daily, the second-highest sustained volume over a three-week period, second only to March 2020, as the COVID-19 crisis peaked. For perspective, this is a 40% increase in volume compared to the same post-election period in 2020. Given the lighter macroeconomic calendar ahead, a pullback in volumes and intraday price volatility wouldn't be shocking. That said, this elevated institutional activity has been remarkable, and it sets the stage for five themes to watch as 2024 comes to a close and 2025 begins.

Continued on next page

1. Traditional asset Manager activity: How long can it last?

This year has brought some of the most consistent institutional volume in nearly a decade—not the quant-dominated flow of 2021 or 2022 but traditional asset manager-driven activity. Both buy- and sell-side participants have welcomed this normalization. Metrics at Liquidnet, including liquidity pool availability, symbol match rates, and block appetite in dark algos, paint a picture of heightened engagement and favorable trading conditions, a positive development from a buy side perspective marking the return of the much desired "like-minded" contra availability.

But the question is: can this level of activity hold? I'd argue that the sustainability of these volumes into 2025 is uncertain. Valuations are stretched, cash positions are low, and over-exposure in US markets is evident. Trump's proposed policies on tax cuts, deregulation, and tariffs offer potential economic and corporate profit growth but come with inflation risks. And while markets seem to be ignoring an 80 bps move in the 10-year Treasury yield, you'd think higher rates might eventually give pause. For now, though, institutional flows are riding high, but the foundation may feel shakier heading into 2025.

2. Low correlations: A stock picker's paradise or a warning sign?

Realized correlations have plummeted to rock-bottom levels this year, a stark contrast to 2022's elevated environment, when everything moved in lockstep with little regard for fundamentals. Back then, it didn't matter what a company did. Everything moved together, and individual stock picking wasn't just hard—it was futile. In 2024, though, it's been the opposite. Correlations this low often signal higher risk, but they also create a haven for stock pickers who thrive on differentiated fundamentals.

Enter the "Trump Trade," a textbook example of clear winners and losers. Whether it's corporate tax plans, tariff policies, or sector plays, the divergence between candidates created a roadmap for macro and sectoral bets. But here's the thing: extreme lows in correlations don't last forever. Historical patterns suggest these valleys often precede market pullbacks, so while active managers might enjoy the spotlight for now, it's worth keeping an eye on the broader risk environment which could shift quickly.

But keep in mind that the calm on the surface contradicts what's happening underneath. Real price volatility has stayed low, which is part of the draw for money flowing into US equities. However, major indexes have been heavily influenced by a few superstar stocks, creating a concentrated effect. Despite the docile appearance of headline-stealing indexes, individual stock movement has been high—prime conditions for stock-picking asset managers.

Add to that the clear macro and sector opportunities tied to Trump's policies—tax cuts, deregulation, and tariff changes—and the environment becomes even more ripe for targeted plays. With beneficial trades so easily identifiable, the impact on individual stocks and themes could remain significant. For now, that means a fertile ground where fundamental managers can continue to flourish and correlations to stay low.

3. Polls, markets and the disconnect

The election didn't just highlight a political divide—it exposed a glaring disconnect between polling and market signals. While polls insisted the race was neck and neck, market movements told a different story. From the dollar's rally to crypto surging and gains in bank stocks, energy equipment and small caps, the smart money had already bet on a Trump win. With candidates offering starkly different visions on taxes, regulation, and tariffs, the stakes for market sectors were clear. So why were polls so far off?

Swing state polls, in particular, were expected to keep the results in limbo for days, maybe longer. Instead, the decisive nature of the victories, both presidential and congressional, shocked many and unleashed a wave of market conviction by Wednesday morning. That speed and power of the reaction underscored how far polling had missed the mark and set the tone for what's now a sustained rally.

Pre-election trades reflected this confidence, ramping up weeks in advance of Election Day, cooling briefly as polls suggested uncertainty, and accelerating into the final stretch. While valuations remain stretched, Trump's agenda of tax cuts, deregulation, and tariff-driven growth has kept optimism high. For now, markets are content to follow that lead, but the durability of this momentum will depend on whether those policies can deliver without triggering inflation or trade disruptions.

Continued on next page »

4. Market Structure Overhaul and Gensler's exit

OK, so Gensler stepping down isn't exactly breaking news—it's the timing and context that made it noteworthy. Almost immediately after announcing his plans to leave at the end of the Biden presidency, a federal judge struck down his proposed dealer rule. Ironic, isn't it?

Still, Gensler's legacy will likely hinge on the Market Structure Overhaul Proposal, with elements like tick sizes, access fees, and odd-lot handling poised to move forward. Passed unanimously at the commission and across party lines, these changes—though more aggressive than many industry participants wanted—are expected to roll out by next year. The broad support could help shield them from legal challenges, but the burden of implementation will largely fall on broker-dealers, who face significant adjustments. For the buy side, these changes will have ripple effects—volatility metrics could shift, sub-penny quoting may impact liquidity, and ATSs will now compete on the same economic footing as exchanges. One thing's certain: Gensler's influence will linger well beyond his tenure.

5. The Push for 24-Hour Trading

As noted earlier, US markets are riding high, but the levels of overexposure are starting to raise eyebrows. Trump's policy agenda—heavy deregulation and a clear preference for boosting domestic business over foreign—is fueling this rally with impressive direction and conviction. The S&P 500 is up 26% on the year, making diversification away from US equities a tough sell. But here's the catch: while these moves have bolstered performance, they've also exacerbated the valuation conundrum, and the cracks are starting to show.

This momentum is also adding serious weight to the case for around-the-clock US trading. The 24X National Exchange has already secured approval to extend trading sessions into overnight hours, a development that feels inevitable given the global demand for US market access. But let's be real—broker-dealers have shied away from this for years, and for good reason. Inconsistent liquidity, uneven trading quality, and added risk have made the concept more of a headline-grabber than a practical reality.

Still, with demand at an all-time high and the US market continuing to outperform, the push for 24-hour trading feels different this time. Whether it finally takes hold or continues to fall short will depend on whether the infrastructure and liquidity can evolve to meet the growing appetite. For now, it's a story worth watching closely.

Looking Ahead

As the year closes, the post-election rally, sustained volumes, and institutional flows have created a unique backdrop. The interplay between market dynamics, policy expectations, and structural reforms will define the road ahead. For now, the market's tone remains firmly bullish, but as history has taught us, markets rarely stay on one trajectory for long. The final chapter of 2024 promises to be anything but boring. The coming months will test the resilience of these trends and offer a clearer picture of the next phase in this remarkable market cycle.

Questions? For more information, please contact your Liquidnet Coverage.

US
+1 646 674 2274
eqs-us@liquidnet.com

Canada
+1 416 594 2481
eqs-canada@liquidnet.com

Liquidnet