



Year of the Election: Why New Global Leadership Matters

December 11, 2024

Key Takeaways

- ▶ While Donald Trump's presidential victory has dominated global headlines, a number of key election results outside the U.S. could have significant impacts on international markets going forward. Given the U.S. market's stretched multiples and peak valuation gaps with international markets, any reversal in outperformance could trigger significant capital flow shifts to international equities.
- ▶ Despite political setbacks, a new minority government in Japan has delivered key legislation supporting growth, with tax reform, support for AI and semiconductors and normalizing interest rates bolstering optimism.
- ▶ In Europe there is a clear disconnect between valuations and where infrastructure assets are trading; importantly, the new U.K. government remains supportive of infrastructure investment, both electricity and water.

Portfolio Takeaways from 2024 Elections Outside the U.S.

2024 has been called the Year of the Election, with at least 64 countries plus the European Union, representing almost half of the earth's population, holding national elections. Shane Hurst, Portfolio Manager of ClearBridge Global Infrastructure Strategies; Elisa Mazen, Head of ClearBridge's Global Growth team; and Jean Yu, Portfolio Manager of ClearBridge Value, International Value and Global Value Improvers Strategies weigh in on what stood out for them in a busy election year around the world.

Which election were you following the most outside the U.S. in 2024?

Shane Hurst: Key elections for infrastructure outside of the U.S. in 2024 included those in France, the U.K. and Mexico. In France a coalition of left-leaning parties won most seats, beating back a far-right surge, although they failed to gain a majority. This cobbled-together French government now faces the daunting task of implementing a budget that proposes meaningful spending cuts and tax hikes across business, infrastructure and individuals — the no confidence motion against the prime minister in December certainly impedes this.

In the U.K. the Labour government won in a landslide, handing a brutal defeat to the conservatives. Some of Prime Minister Keir Starmer's key promises were to improve the cost of living, better manage immigration and rebuild the country's services like the health and transportation systems. Importantly, the Labour government remains supportive of infrastructure investment, both electricity and water. In Mexico Claudia Sheinbaum became the country's first female president after a landslide victory. Like in France, Mexico must now go through a difficult process of cutting expenditure, but also in an environment where the country may be in Trump's crosshairs.

Elisa Mazen: We have about half of our international growth portfolios in Europe, and about two thirds if you add in the U.K., so elections in France and the U.K. were meaningful, as will be the upcoming election in Germany in 2025. With some notable exceptions, such as the U.K. and Mexico, we've seen a theme of rightward shifts in 2024 — few thought, for example the ruling coalition of the Liberal Democratic Party (LDP) and New Komeito in Japan would not win a majority.

Jean Yu: Outside of the U.S. election, we closely followed the 2024 Japanese election, as the country stands at a critical juncture for economic opportunity. After three decades of deflation, the economy has started to normalize with sustained wage growth, price inflation and positive nominal GDP growth. Significant progress in [corporate governance reform in 2024](#) — encouraging governance disclosure, return on equity improvement and balance sheet restructuring — has further enhanced the investment appeal of the Japanese market. With \$5 trillion of private capital trapped in zero-yielding government bonds poised to seek higher-yielding financial vehicles like equity, Japan offers a promising ground for returns. However, strong government leadership is essential for this potential to materialize.

How did the result affect risks or opportunities for your portfolio?

Shane Hurst: The French market, under greater political uncertainty, underperformed in 2024. Specifically, the threat of higher taxes affected airport and toll road assets. In some of our portfolios we increased our exposure to Vinci, a French owner of road and airport assets that screened attractively on valuation and, due to its global diversification, should not be as affected as many other French companies.

In the U.K., strong support from the Labour government in investment in infrastructure gave us conviction in network, renewable and water exposures. While still early days of the Starmer government, there are certainly indications of greater support for investment and attracting capital into U.K. water and electricity networks and power assets. We have captured this primarily through Severn Trent, United Utilities, Pennon and National Grid, where regulators have approved capital growth plans that should see regulated asset bases grow at record rates.

The ClearBridge Global Infrastructure Income and Value Strategies do not currently have exposure in Mexico, although historically this has occurred through airports. While valuations of Mexican airports currently look stretched, Sheinbaum's support for nearshoring, airline capacity constraints and the U.S. avoiding a recession will all be tailwinds for the sector.

Elisa Mazen: We tend to not take on a lot of political risk in our portfolios, preferring larger companies whose international footprints give them a lot of flexibility to mitigate country risk. That said, following its snap election, France has been and should continue to be messy, and it has underperformed of late, partially reflecting this. However, this is more pertinent to smaller cap companies, which is not what we tend to focus on.

Mexico could be interesting and is something we've been sharpening our pencils on given Sheinbaum's election there in June. The market is cheap, and although some are skeptical of Sheinbaum being far left, it's hard to know how a politician will do in office until you actually see them in action. She wants to see more economic growth, which is great, but she has also discussed reforming the judiciary, which has some rattled to the extent that it creates more uncertainty for contracts. One company we spoke to was not as negative on this as you might expect — they're taking a "wait and see" approach, as initial fears often don't bear themselves out. So Mexico could be better than expected broadly.

Jean Yu: The Japanese election's developments were both consequential and dramatic. The ruling LDP was shaken by funding scandals and inflation-related dissatisfaction, leading to Prime Minister Kishida's resignation. The heated race to succeed him saw a strong challenge from pro-growth candidate Takaichi, who advocated for continued ultra-low interest rates and fiscal stimulus. Her victory could have led to higher growth, lower rates and a weaker yen. Instead, the new prime minister, Shigeru Ishiba, called a surprise snap lower house election, where his party lost its majority for the first time since 2009, raising concerns about governance effectiveness amid a potential political stalemate.

Despite this setback, Ishiba's minority government has delivered key legislation supporting growth. He endorsed a significant tax reform, raising the income tax threshold from 1 million yen to 1.8 million yen — a \$45 billion tax relief for consumers. Fiscal measures include direct support for AI and semiconductor industries, transfers to low-income families and energy subsidies. Meanwhile, the Bank of Japan is normalizing interest rates cautiously, moving from 25 bps to an expected 50 bps by early 2025 and potentially 75 bps by year-end. These developments bolster our optimism for the Japanese market in 2025, especially in areas such as:

- Domestic consumption (driven by real wage growth)
- AI and semiconductors (benefiting from secular global growth and government policy support)
- Exporters, though we are mindful of yen appreciation and tariff risks, tempered by Trump's strong-dollar policies and a high U.S. growth outlook

What makes you optimistic about international markets where you're investing in 2025?

Shane Hurst: Opportunities continue to be widespread across the infrastructure landscape, with utility fundamentals some of the best we have ever seen. The market is still massively underestimating the growth in electricity demand driven by AI and data growth, as well as any pro-growth fiscal policy that would boost manufacturing. Utilities with exposures to these strong themes, and a high likelihood of earnings upside surprises, look well positioned. North American energy infrastructure assets also have an outstanding growth trajectory, driven by consolidation in the sector, rising AI-related demand for gas infrastructure and the essential role gas fuel plays in stabilizing the grid as coal plants get retired. In Europe, there is a clear disconnect between valuations and where infrastructure assets are trading. European utilities continue to benefit from drivers very similar to those in the U.S., where utilities have seen greater share price gains. Transport infrastructure, in particular airports, may see some economic headwinds in Europe in 2025, but with idiosyncratic drivers and the removal of overhangs we see these assets remaining attractive.

Elisa Mazen: We are encouraged by improving conditions across our investable universe. Valuations for international equities are getting to extremes, so they are attractive. Much will depend on their reaction to a U.S. Trump administration, the strength of the U.S. dollar and markets, and potential tariffs. International markets are going to have to respond, restart their growth engines, and there is some soul-searching happening at the government level. But this should be distinguished from the corporates, which should do well, in our view. Companies we target have leadership positions and the ability to pivot quickly amid changing international conditions. European luxury goods selling into the strong and lucrative U.S. market are well-positioned to continue to grow, for example. But broadly speaking, the companies we like have many strategies to significantly dampen negative effects of tariffs.

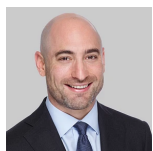
There is a chance U.S. exceptionalism will peak and a correction in U.S. stocks will coincide with easing fiscal policy in Europe and Asia and a rotation into international stocks. On that note, we'll also be watching China: aggressive stimulus measures recently announced there have yet to do much magic, but if China can jumpstart some growth in 2025, it would be a boon for international stocks.

Jean Yu: International markets are definitely appealing due to their attractive valuations relative to the U.S. market. Over the past 15 years, U.S. economic growth has outperformed the rest of the world, leveraging structural advantages such as abundant resources, a large domestic market and regulatory stability. This was amplified by the dominance of tech giants and the shale revolution. However, the U.S. market's performance has far exceeded its economic growth, with valuation levels at their 97th percentile over the past century. U.S. indexes have outperformed global markets by 4x, even when equally weighted, with 70% of global capital flows drawn to an economy that constitutes just 27% of global GDP. This dynamic strengthens the dollar, further attracting inflows.

Given the U.S. market's stretched valuations and peak valuation gaps with international markets, any reversal in outperformance could trigger significant capital flow shifts to international equities. This underscores the importance of diversifying beyond U.S. exposure. Among developed markets, Japan stands out, while the U.K. also offers compelling opportunities with its low valuations and service-heavy economy less exposed to tariff risks.

Elsewhere, despite tariff uncertainties, central banks' ability to ease policies provides offsets, and attractive valuations offer alpha opportunities. At the sector level, consumer stocks remain promising, supported by relatively strong wage growth, disinflation and lingering COVID-era savings.

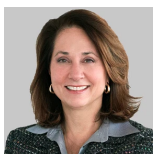
About the Authors



Shane Hurst

Managing Director, Portfolio Manager

- 27 years of investment industry experience
- Joined ClearBridge Investments in 2010
- Master of Commerce (Advanced Finance) from the University of New South Wales
- Bachelor of Business from the University of Technology Sydney



Elisa Mazen

Managing Director, Head of Global Growth, Portfolio Manager

- 39 years of investment industry experience
- Joined ClearBridge Investments in 2008
- BA in Economics and Finance from Rutgers University



Jean Yu, CFA, PhD

Managing Director, Portfolio Manager

- 22 years of investment industry experience
- Joined ClearBridge Investments in 2002
- PhD in Molecular Biology from Columbia University
- MBA in Health Sector Management and Finance from Duke University
- MD from Beijing Medical University

ClearBridge Investments

One Madison Avenue, New York, NY 10010 | 800 691 6960 | [ClearBridge.com](https://www.clearbridge.com)