

US ELECTIONS



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For institutional, professional and wholesale investors only

CLEAN SWEEP OR LENGTHY RECOUNTS?



Will there be a clean sweep by either the Democrats or the Republican parties, and will there be lengthy recounts? These are two questions to focus on when looking at the financial market implications from a win by either Kamala Harris or Donald Trump.

With the US presidential elections fast approaching, we assess the potential impact on markets based on the two candidates proposed economic and international policies.

We conclude that a Trump presidency could lead to a more inflationary environment, but one potentially more supportive to corporate profits and earnings growth from lower taxes. Blanket tariffs, with a particular focus on China, could contribute to inflation and a more hawkish US Federal Reserve (Fed). With a stronger US dollar (USD), and with less certainty around his international policies, this increases the risk for international and emerging markets (EM) equities.

In contrast, a Harris presidency could have a negative impact on corporate profits from higher corporate tax rates, but this might be supportive of a benign inflationary environment. With a dovish Fed and a potentially weaker USD, this may be supportive for both EM equities, which tend to be supported by USD weakness, international equities, and the bond market. Less uncertainty on Harris's international policies, given a likely continuation of Joe Biden's, should result in less overall volatility across global financial markets.

Both candidates need to consider the impact of the expiry in 2025 of trillions of dollars of tax breaks from Donald Trump's 2017 Tax Cuts and Jobs Act. If there are no cuts in fiscal expenditure, any benefits from the tax rises will be spent and the US budget deficit will remain at approximately 6% of Gross Domestic Product (GDP)¹.

The key aspect to watch will be whether either candidate wins with a clean sweep, which would permit the winning candidate to apply more of their policy initiatives in a more meaningful manner. It all hangs on seven swing states, where polls are so narrow that the race is too close to call. There is also a risk of lengthy recounts, which could weigh on markets near term. Volatility in markets around the day of the results could open up a good opportunity for investors who focus on the longer-term picture, and who focus on fundamental dynamics for businesses and the economy.

Source: Federal Bank of St Louis as at 26 September 2024. Federal Surplus or Deficit [-] as Percent of Gross Domestic Product (FYFSGDA188S) | FRED | St. Louis Fed (stlouisfed.org)



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Below, we first summarise the implications the market and economy, then look at each sector in turn.










Market and economy highlights



Markets and economy implications	Harris	Trump	Comments
Corporate Taxes	Higher	Lower	Trump: Lowering the corporate tax rate to 18% a positive for corporates. But tariffs could weigh on margins if costs are not passed onto customers, which is negative for earnings growth.
Corporate Profits	Lower	Higher	Harris: Proposing to increase corporate tax rates to 28% from 21%.
Tariffs	Neutral	Higher	Trump: Blanket tariffs of 10-20% on all trading partners, and a minimum of 60% import tariffs on China proposed. This is likely inflationary, impacting consumer spending and real investment. Harris: Status quo maintained in trade policies.
Inflation	Neutral	Higher	Trump: Higher inflation risk from tariffs would likely push the Fed to a more hawkish stance. Resulting in higher interest rates and a strong USD. Harris: Higher tax revenues could help the budget deficit and support a benign/dovish monetary policy regime. This could be supportive for the economy and markets, but with a weaker USD.
Monetary policies	Dovish	Hawkish	
US dollar and Foreign Exchange (FX)	Weaker	Stronger	
Consumption	Neutral	Negative	Trump: The consumer would be less well off as a result of tariffs, the cost is passed onto the consumer eroding their purchasing power. Harris: No change of note.
Geopolitics	Positive	Negative	Trump: Greater uncertainty with lack of clarity on stance around various geopolitical hotspots. Tariffs could cause further tensions. Harris: Likely to continue the policies of the Biden administration, which means less uncertainty on the international scene.
Emerging markets	Better	Worse	Trump: Less supportive backdrop with a stronger USD and the risk of tariffs, notably on China. Harris: More supportive with a weaker USD and more constructive international policy.
Market volatility	Lower	Higher	Trump: Higher volatility with a less predictable approach to communication and a change in administration. Harris: Lower volatility with a perceived sense of continuity from previous administration.
Bond markets	Higher	Lower/Neutral	Trump: Higher inflation and hawkish monetary policies could weigh on bond markets, but increased geopolitical risk could support government bonds. Harris: Lower inflation and a more dovish monetary policy should be supportive for bonds.

Sector highlights



Sectors	Harris	Trump	Comments
 Consumer	Positive	Negative	Trump: Tariffs would risk increasing the Consumer Price Index (CPI) reducing purchasing power. Harris: Positive on the margin for lower income consumers.
 Industrials	Neutral	Neutral	Trump: Neutral but tariffs could increase the Producer Power Index (PPI), but equally support some segments from external competition. Harris: No change.
 Energy	Negative	Positive	Trump: Supportive of traditional energy i.e. fossil fuels. Harris: Supportive of renewable energy.
 Utilities	Mixed	Mixed	Trump: Increased support. Harris: Support for renewables is a negative for traditional utilities.
 Financials	Positive	Negative	Trump: Less favourable yield curve due to inflation risk would be less supportive for financials if the yield curve flattens. Harris: A favourable yield curve would be more supportive to financials.
 Healthcare	Negative	Neutral	Trump: Neutral on the sector. Harris: More pressure on drug pricing and medical costs are a negative for the sector.
 Technology & Media	Negative	Positive	Trump: More friendly of Big Tech given a JD Vance vice-presidency, but tariffs could significantly impact the input costs in this sector. Harris: More focus on anti-monopolistic initiatives, which could weigh on Big Tech.
 Telecoms	Neutral	Neutral	Trump: No policies of note. Harris: No policies of note.
 Materials	Negative	Positive	Trump: Less focus on sustainability consideration is positive. Harris: Negative given higher sustainability considerations.

Overall, as always, the increased focus on the US presidential elections brings uncertainty in markets. One point of note is that it is never a given, in politics, that stated policies intentions will be implemented once a candidate is elected.

There is also the added consideration of how Congress and the Senate are split - if there is a split between Democrats potentially winning back Congress, and the Republicans winning back the Senate, it will be difficult for any major policy initiatives to be voted through. This could end up being the lowest risk outcome for markets, at least in terms of volatility.

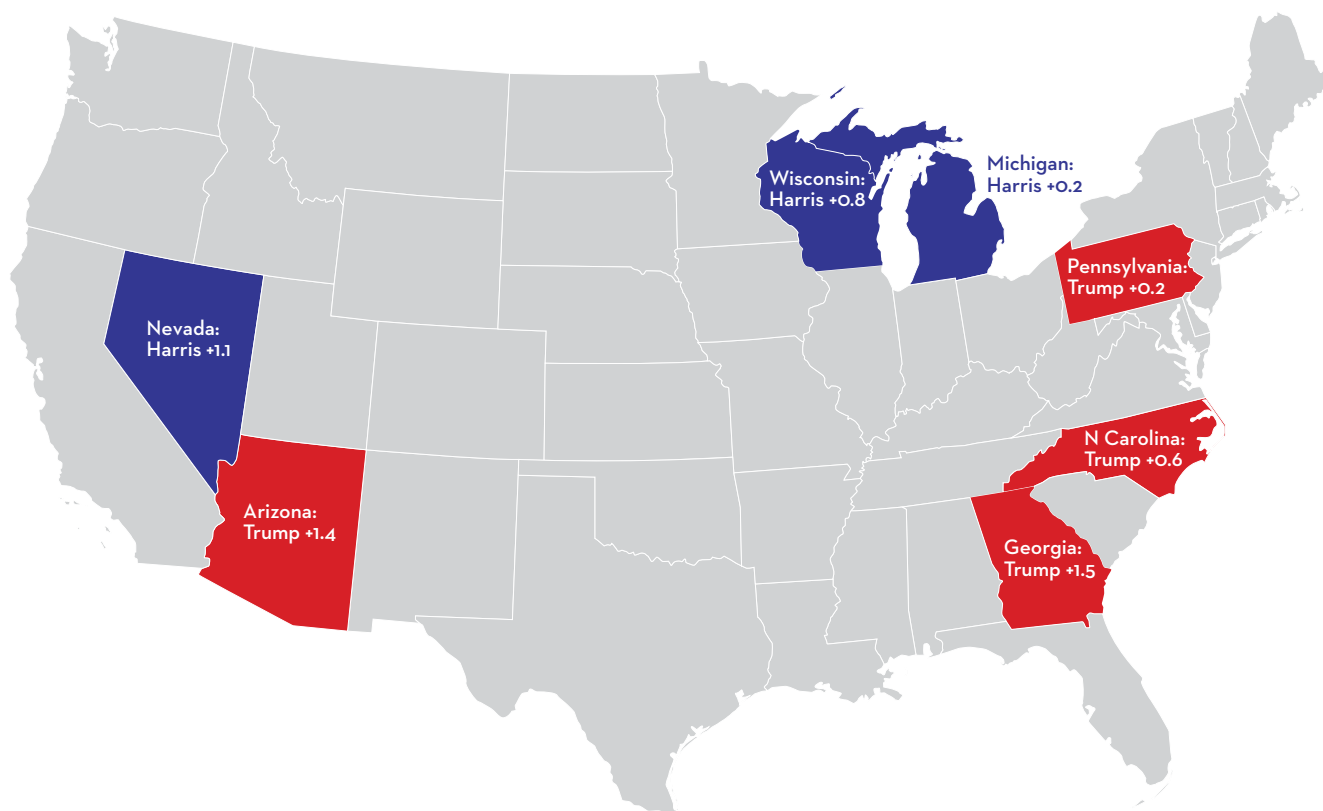
Notably, if Trump was to win the presidency, we understand that the blanket implementation of tariffs could not be implemented unilaterally by the presidency; it would need to be ratified by Congress, making it less likely that such policy will be applied if it is Democrat controlled. The scenario that carries the most potential for policy shifts is one where either one of the candidates' parties takes control of both houses - a so-called clean sweep.

The importance of the seven swing states

Currently, the polls are very close, and neither candidate is shown to have a lead that is wide enough to be able to say that one candidate has a stronger probability of winning than the other. The importance of the swing states will be critical - there are seven swing states that will determine the outcome of the election. It appears that things will be very tight, and it is too close to call any outcome for certain.

As we write, polling averages point to Harris leading in Nevada, Michigan, and Wisconsin, whilst Trump is leading in Arizona, Georgia, and North Carolina, with Pennsylvania pointing to a tie. Polling margins in these states are however very narrow, which means that the race in these swing states is too close to call.

Average polls in the seven swing states



Source: Real Clear Politics as at 8 October 2024.

Short-term volatility but long-term opportunity

Given the closeness of the poll, there is a non-negligible risk of the elections going into close counts and recounts, which could delay the final outcome. Volatility in markets around the day of the results, notably if a final result is delayed, could open up a good opportunity for investors who focus on the longer-term picture, and the fundamental dynamics of businesses and the economy.

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