US Election: Policy differences, economic and asset implications

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CREATIVITY WITHIN EXCELLENCE

US Election: Policy Differences, Economic And Asset Implications

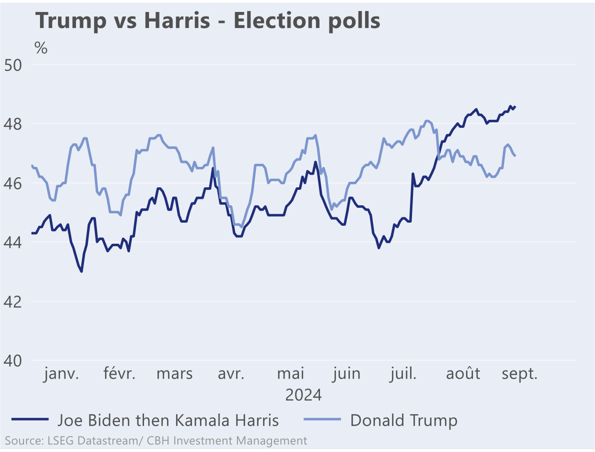
In less than 2 months, US voters will go to the polls to elect their next President and vote for members of Congress. On November 5th, all 435 seats in the House of Representatives will be up for grabs, while 34 of the 100 seats in the Senate will be up for election. Following the withdrawal of the current President, Vice President Kamala Harris will be running against former President Donald Trump.

The points of divergence between Harris and Trump are numerous, especially on societal topics, but we will focus on economic issues and assess their impact on the US economy. It is worth remembering that the candidates' programs remain proposals, and the translation of these proposals into policy will depend on the composition of Congress.

1. Scenarios

The presidential race looks too close to call, while the Senate is likely to flip back to Republican control. The current US Senate has 51 Democrats and 49 Republicans, but 23 out of the 34 seats up for election in November are held by Democrats. In contrast, the House of Representatives election looks more evenly split. Therefore, the outcome will largely depend on the momentum of the presidential race.

In other words, if Kamala Harris wins, she would likely have to work with a Republican-led Senate. A Trump victory, on the other hand, would likely come with a Republican majority in the House and the Senate.



2. Trade protectionism and taxes

Both parties have shown a willingness to protect domestic manufacturing but former President Trump now pledges to impose tariffs of 10% to 20% on all imports and a 60% tariff on Chinese imports. Such measures would raise prices and reignite inflation. Meanwhile, he would extend most of the provisions of the *Tax Cut and Jobs Act*, which was introduced in 2017 and expires at the end of 2025. High tariffs coupled with tax cuts would shift the tax burden from wealthier taxpayers to lower-income households. According to the Peterson Institute, Trump's tariff proposals would cost the typical American household more than 2600 USD per year, negatively impacting consumer spending. Bloomberg estimates that Trump's proposed plans would result in consumer prices 2.5% higher and GDP 0.5% lower after two years. In the event of retaliation, the economic impact could be even worse.

Democrats would repeal tax measures that favor wealthy households, allocate more resources to low-income and young families, and provide tax credits for small businesses. A Democratic-led administration is likely to increase the corporate tax rate from 21% to 28%. Such measures would support consumption but hurt corporate earnings.

3. Immigration

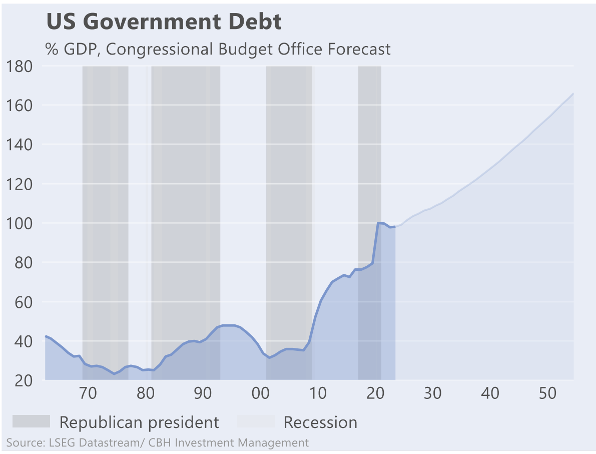
Both administrations are likely to impose tighter restrictions on immigration with a tougher stance on the Republican side. In that case, labor costs could rise, especially in sectors that rely on immigrant labor. This could push up inflation and interest rates, at least in the short term.

4. Regulatory and Inflation Reduction Act (IRA)

The Democrats are likely to push for more regulation. The pharmaceutical and energy sectors would likely be the hardest hit, with further caps on prescription drug prices, for instance. In contrast, a Trump administration could loosen financial regulation, including restructuring the banking regulators, reducing surveillance, and repealing laws and regulations perceived as limiting investment. Furthermore, a Republican victory would increase the policy uncertainty surrounding the IRA's clean energy provision, although a full rollback of the program is unlikely. According to JP Morgan, as of August 2024, 60% of the announced projects and 71% of the estimated job growth are located in Republican congressional districts.

5. Public finance trajectory

Both programs are expected to increase government deficits and debt. Neither candidate is committed to budgetary consolidation, even if it is not to the same extent. According to the Penn Wharton Budget Model, Trump's policy package would raise the US deficit by USD 5.8 trillion (over ten years) while Harris's proposals would expand the deficit by about USD 1.2 trillion over the same period.



6. Cross asset implications

In summary, the upcoming U.S. presidential election presents two different economic paths, each with distinct implications for financial markets and the broader economy. A Harris-led administration would likely focus on redistributive policies, fostering support for lower-income households, and prioritizing regulatory measures, particularly in the healthcare and energy sectors. This could create headwinds for corporate profitability, but it could sustain consumer-led growth and help keep inflation in check.

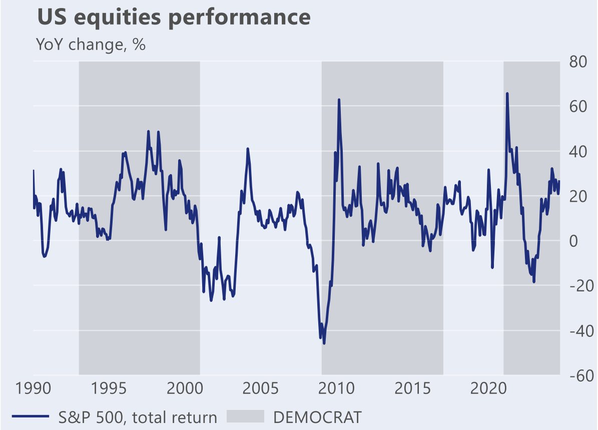
In contrast, a Trump-led administration would prioritize fiscal stimulus through tax cuts, and deregulation, which would particularly benefit industries such as energy, financials and healthcare. However, this approach could lead to higher inflation, increased interest rates, and potential market volatility, especially if global trade tensions reignite.

With the exception of tariffs, which would inflate prices as soon as they are imposed, it is worth remembering that future policy changes will increase uncertainty in the short term, but will mainly affect long-term trends and will take time to be reflected in earnings.

In the short term, volatility could spike, especially in the event of a disputed outcome such as the 2000 US presidential election.

For investors, navigating this environment will require close attention to key sectors and macroeconomic indicators.

While equities may find short-term support in either scenario, the broader trajectory for potential growth, interest rates, inflation, and government debt will ultimately shape long-term portfolio strategies. Over the long run however, it is critical to recognize that global interest rate trends and economic cycles generally have a far more significant and lasting impact on financial markets than political outcomes. Over the longer term, the party in power appears to make little difference to the performance of equities.



Source: LSEG Datastream/ CBH Investment Management

Harris-led administration
The soft-landing scenario remains in place with disinflation process continuing - Higher corporate tax might negatively impact equities - Consumer's cyclicals could benefit from measures aimed at supporting low-income households - Healthcare and energy companies may suffer due to increased regulation - Weaker inflation and public debt could lead to lower interest rates even though yields have already declined a long way

Trump-led administration
Lower growth and acceleration of inflation - The fiscal framework would be more supportive for equities - The consumer-related sector could suffer from higher prices, with consumer staples being affected the most - Clean energy companies would face pressure due to policy uncertainty - Deregulation might benefit the energy, financials and healthcare sectors - Higher inflation and public debt could lead to higher interest rates, with potential financial and economic spillovers

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