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US ELECTION 2024 UPDATE

For UK residents and taxpayers, focus has been firmly on the UK parliament and the Labour government's first budget delivered by Rachel Reeves on Wednesday 30th October. However, of far more consequence for both markets and geopolitics is the imminent US presidential election. The campaign has been one of the most abrasive and polarising on record, with the outcome likely to hinge on the narrowest of voter margins in seven key swing states. Whilst the election is on the 5th November, the final result may not be known for several days – even if the vote is uncontested!

Both financial and betting markets are currently leaning towards a victory for Donald Trump alongside the Republicans gaining a clean sweep majority in both houses of Congress and with it control of the legislative agenda. However, polling is incredibly tight leaving all potential outcomes on the table.

With the parties seemingly miles apart politically and on many social issues, we consider what the result could mean for investors and how that could influence portfolio positioning.

What's the policy pitch?

For investors the pitch has largely coalesced around four key topics: immigration, taxes, trade and regulation.

The driving force of the Trump campaign has been an agenda built on cutting taxes at home, increasing tariffs on imports, and rolling back regulation (particularly around energy and environmental policies) whilst reversing immigration – including deporting anywhere between 3 and 10 million people according to reports.

Harris' policy agenda is less well defined, but likely will involve a continuation of much of the Biden administration's agenda. This will mean ongoing government spending, investment in infrastructure and a balanced energy mix, tax increases, specifically on the highest earners (those above $400k), more regulatory intervention across industries and a more targeted trade policy, with China, the strategic focus of tariffs.

Domestic Implications

Whilst all eyes are on the main event, the outcome of the undercard elections for the Senate and House of Representatives are important in that they will define how much of the President's domestic agenda can make it through the legislature.

A Republican clean sweep is being seen as positive for equity markets, at least initially. The Republicans support not only extending Trump's 2017 tax cuts beyond their scheduled expiration in 2025 but reducing corporate tax rates. Good news for corporate profit margins. They are also expected to reduce regulatory interference providing a further boon to corporate flexibility and dynamism.

By contrast the Democrats are seen as likely to favour higher corporate tax rates and greater regulatory interference, creating the potential for an initially negative reaction from equities in the months after the result and pressure on currently sky-high profit margins.

Looking back, US and global markets have reached new highs under a succession of administrations and under both parties, including both the previous Trump and current Biden presidencies. The old maxim is that markets care more about profits than politics and so it has been the exceptional performance of the US economy that has underpinned new highs in equities. Those profits have, however, benefitted from fiscal support provided by both Republicans (in the form of lower taxes) and Democrats (through higher government spending).

Current momentum in the US economy remains strong. Inflation has receded sufficiently to embolden the Federal Reserve to begin cutting interest rates whilst Gross Domestic Product (GDP) looks likely to have expanded at a rate near 3%; comfortably above the trend of the last 15 years and multiples faster than the rate in the UK or EU. US consumers continue to benefit from low unemployment, high asset prices and growing wages. With both candidates committed to maintaining some form of Federal support to the economy the US looks well placed to continue its expansion whoever wins.

If overall growth looks solid for now, then focus shifts instead to what the potential policy impact may be for specific industries. Here Trump's comments on renewable energy and oil ("drill baby drill") suggest a rolling back of support for renewable energy and technology and an increasing support for oil companies and domestic auto manufacturers under threat from cheap Chinese electric vehicle exports – which may partially explain Elon Musk's decision to join the MAGA cheerleaders with such fervour.

Harris, conversely, would continue to support the infrastructure and onshoring agenda of Biden's Inflation Reduction and Infrastructure and Jobs Acts, with their emphasis on broad renewal and investment in energy transition. She has softened on big oil, but the longer-term focus would very much remain renewable energy generation and electrification.

Healthcare is also in the spotlight. Trump has previously expressed reservations about the Affordable Care Act and scope of Federal healthcare support through Medicare and Medicaid. Harris by contrast has focussed on drugs pricing and the ability of pharmaceutical companies to charge high prices for important medicines. The outcome of the election could have very different implications for companies within the same industry group.

Deregulation under the Republicans should prove a boost for banks and financial services as they did under Trump's first presidency. The Democratic agenda is predisposed to interventionism; they have mooted placing price controls not just on big pharma but also on food retailers who they accuse of gouging prices at consumers' expense. This would limit companies to increase prices and with them, profits. Increased regulation has rarely proved a positive catalyst for innovation and growth.

Finally, the Harris campaign has highlighted the importance of housing affordability as a cornerstone of the American dream. With houses less affordable than ever she has proposed incentives for construction that could see a pickup in the housing market and associated companies in renovation and renewal. This could be powerful if accompanied by falling interest rates and with them mortgage costs.

Our focus on strong underlying business fundamentals and building resilient portfolios balanced across sectors and industries leaves us confident that we are well prepared to absorb the initial reaction to the election and allow time for a cool-headed assessment of what actual policy may mean for longer-term opportunities.

What about the rest of the world - return of the Tariff Man?

Amongst the most eye catching of Trump's promises is a universal tariff on all imports of 10% to 20% and a blanket tariff on all Chinese imports of 60%.

Protectionist policies have been growing since Trump's first stint in the White House and have spread beyond the US, most recently in the form of a tit-for-tat between the EU and China over cars and cognac. The Biden administration has not objected to protectionism, retaining Trump's tariffs and applying additional levies on Chinese autos and steel. However, the approach has been more measured and strategic.

Universal tariffs would not be a good thing for US consumers raising prices and could potentially illicit a price shock that brings with it the spectre of inflation. This could have negative implications for consumer confidence, spending and interest rates. We note that trump has previously used the threat of tariffs as a negotiating technique to extract better terms of trade and benefits for the US. The hope is that he is reverting to the same playbook this time.

Beyond tariffs, Trump's foreign policy is more overtly "America First" meaning the reversal of global co-operation would only continue. Not a positive development for global growth but likely worse for the rest of the world than the US.

Furthermore, an introspective and more outwardly aggressive US has been increasingly willing to weaponise the dollar as a foreign policy tool given its role as the world's reserve currency. Most obviously by freezing Russian assets and access to the financial system following the invasion of Ukraine. The major beneficiary of this policy has been gold as central banks in China and beyond have looked to reduce their vulnerability to US financial sanctions by selling US Treasuries and buying gold. The return of Trump could easily raise the stakes and tension higher. Gold remains a core holding for us even after its strong recent run.

Trump & Harris seem to agree on at least one thing; the budget deficit isn't an issue. We're not so sure.

The US budget deficit in 2023 was 6.3% of GDP, or $1.7 trillion. Whilst the national debt is c$36 trillion, over 1.2x annual GDP and double the level of 2016.

Both Trump and Harris' policies involve maintaining a high level of support from the Fiscal government. Both are likely to further swell the debt in coming years. The independent Committee for a Responsible Federal Budget estimates that Harris' policies would add $3.5 trillion to the US Federal deficit in the next 10 years whilst Trump could add $7.5 trillion. Even before the impact of the candidates' policies US government spending is expected to reach $13 trillion by 2029; more than double the $6.1 trillion spent in 2023. Austerity is firmly out of fashion.

We have already seen in the UK under the Liz Truss government how markets can respond to the prospect of ballooning deficits. Donald Trump has also suggested that he could take a more active role in monetary policy, removing the independence of the Federal Reserve. This threat combined with potentially ballooning budget deficits could undermine investor confidence in the US bond market.

Bonds are supposed to be a defensive asset. The building risks in the US have tilted the balance of risk and return and already prompted us to rein back our exposure.

Conclusion

The outcome of the US election will absolutely have implications for investors both at a headline and at a sector level, just as it did in 2016 and 2020. Perhaps more so this time given the polemic. It is not a time for knee-jerk decisions but we are loathe to be complacent as to the potential implications.

Quite what those implications will be will depend not only on who is in the Oval Office, but also who wins the house. In a campaign of extreme and divisive rhetoric it remains to be seen whether the most extreme promises of either candidate find their way into law or simply prove to have represented clever electioneering.

Irrespective of the outcome next week, we continue to remind ourselves of the resilience and dynamism of the US economy both in absolute terms and relative to much of the rest of the economically mature world. It has consistently shown itself capable of progress almost irrespective of the political leadership. It would take a brave individual to bet against the US.