

US special – what the election could mean for markets

Key takeaways



The US electorate go to the ballot box on 5 November 2024. At this time, the polls remain close, with seven key battleground states likely to determine the eventual winner.



The ability of the parties to enact their Presidential policies is likely to depend upon who controls the House of Congress. A divided government has historically been favoured by markets on the assumption there's a degree of political cooperation and the dreaded political deadlock is avoided.



We caution against making any significant investment decisions based on the potential outcomes of the election. Whilst it's easy to get caught up in 'election fever' given its domination of newswires, when it comes to markets, the impact tends to be fleeting with global macroeconomic drivers being more important over the long-term.



Remember, remember, the 5th of November

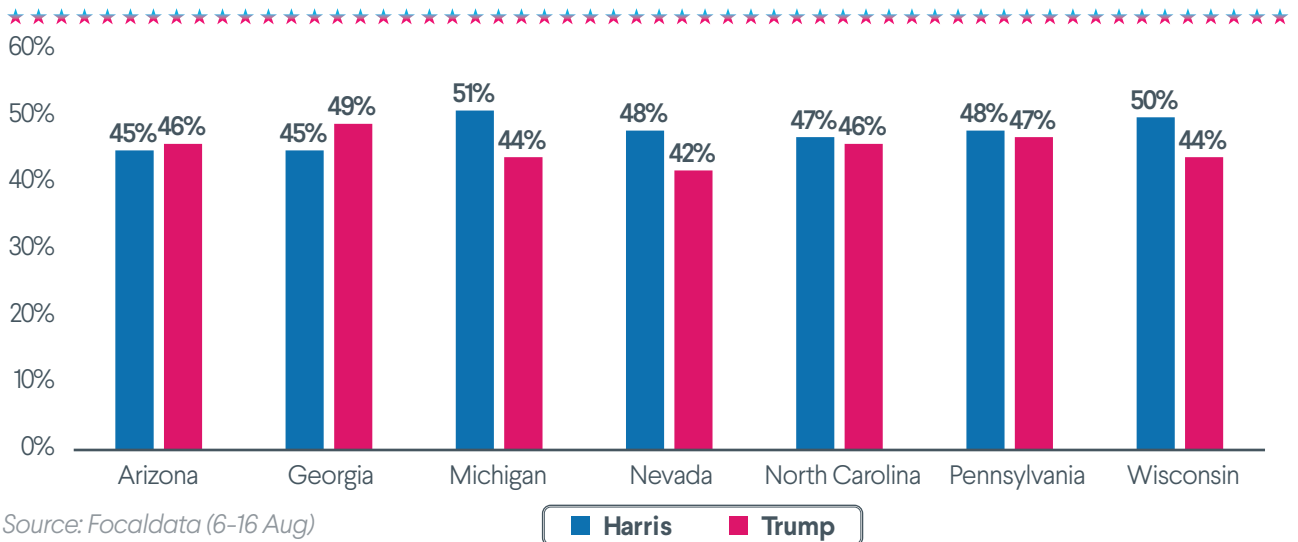
2024 was marked as the year of the election, with over 2 billion people going to the polls across 50 countries. We're now arguably approaching one of the most globally significant of these elections, in terms of the potential impact on economies and markets, with the US going to the polls on 5 November.

In this article, we provide some further background on the US elections, our thoughts on potential scenarios and what these might mean for investors.

Harris versus Trump








As recently as July, President Biden was locked in presidential battle with former President Trump, however, now it's Vice President Harris representing the Democratic party following a rocky couple of months for Biden. Clarity around the Democratic nominee has certainly helped their bid for re-election; Harris has already seemingly clawed back the deficit to her opponent with some polls now even putting her marginally ahead.

We caution against reading too much into this though. There's still more than two months to go to election day which in the world of politics, is a lifetime. What we can say with some degree of certainty is that the race appears to be going down to the wire and it's a race that will likely be determined by seven key battleground states that are too close to call.







Key policy battlegrounds and possible outcomes

As with any election, each party is making several pledges to attract would-be voters. We've summarised and compared these at a high level in the table below.

	Harris 	Trump 
 Taxes	Unwinding some 'Trump tax cuts' - maintain cuts for middle class	Extending corporate and higher income individual "Trump tax cuts"
 Trade	Targeted Chinese tariffs	Universal tariffs of at least 10%
 Immigration	Managed immigration – raise bar to enter country	Restrictive immigration – 'shut down Mexico border'
 Energy	Clean energy focussed	"Drill, baby, drill"
 Foreign Policy	Continued support for NATO and international alliances	"America First" narrative – less unconditional support of Nato

Although there are some clear policy differences between the two parties, we recommend caution is applied before making any decisions based on these. In particular, history shows that, what politicians say they will do and what can be enacted are often quite different. Over the last four US elections, the successful candidates made a combined 700 campaign promises¹, but less than half of these have made it into law. Much is likely to depend upon who leads the House of Congress and who makes it to the White House. We set out four possible outcomes in the table below, alongside the varying impact each could have on the direction of US politics.

¹ Source JP Morgan

 Republican clean sweep 	 Democratic clean sweep 	Republican President – divided congress	Democratic President – divided congress
<ul style="list-style-type: none"> Continuation of tax cuts for business and higher income individuals Restrictive immigration leading to potential labour shortages Introduction of universal tariffs Decreased regulation Widening of US deficit/debt 	<ul style="list-style-type: none"> A continuation of current policies Paring back of tax cuts Continued trade restrictions toward China and current immigration policy Increased spending on social welfare with a focus on clean energy and net-zero transition Widening of US deficit 	<ul style="list-style-type: none"> Unlikely tax cuts for businesses and higher income individuals would-be extended – power lies with Congress A Trump Presidency could however move forward with universal tariffs Would likely still see more restrictive immigration 	<ul style="list-style-type: none"> Again, largely continuation of status quo Paring back of tax cuts Targeted trade restrictions towards China Spending on social welfare and clean energy may be pared back to pass through Congress

What does it mean for markets?

Markets hate uncertainty, therefore there's undoubtedly scope for increased market volatility as investors react to the latest news and changes in the polls in the lead up to 5 November. The impact post-election is more difficult to predict regardless of which one of the four possible outcomes outlined above transpire:

- A Republican clean sweep could see initial volatility as markets digest a sea change in US politics, though markets could find relief from a lower tax environment and reduced regulation. Conversely, market pressures could arise from what some perceive as more 'inflationary' policies impacting the Fed's ability to maintain "lower" interest rates.
- Should the Democrats retain the Presidency and take full control of the House, markets could react favourably in the near-term to a perceived stability from a continuing government. Over the medium-term though, markets could be impacted by potentially higher taxes and increased debt issuance to fund spending plans.
- Markets have historically favoured divided governments due to the perception of improved stability with less likelihood of "extreme" policies being pushed through, though much will be dependent on the degree of harmony between the parties. Disharmony could lead to the dreaded political deadlock and increased market volatility.

Whilst there may be some notable differences between scenarios, we caution against making significant investment decisions based on the potential outcomes of the election. Whilst it's easy to get caught up in 'election fever' given its domination of newswires, when it comes to markets, the impact tends to be fleeting with global macroeconomic drivers being more important over the long-term.

If you have any questions, or would like to find out more, please get in touch.



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