US Presidential Election 2024

Policy platforms and implications for investors

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NAVIGATING THE

2024 US election

2024 is an election year in the US, and ritual obliges that we offer our views on the global economy and global financial markets based on the potential outcomes.

Admittedly, we believe that investors often overstate the impact that the federal government has on broad financial markets. In fact, monetary policy is likely to have greater influence on markets in the next few years than any forthcoming legislation or executive action. Our approach therefore is to focus on the nuance.

If enacted, the different agendas of Democrat Kamala Harris and Republican Donald Trump may have a distinct impact on select sectors and industries, as well as regions, currencies, and commodities. However, as we illustrate, some of those market impacts may be counterintuitive. In the following pages, we identify the big issues driving this election, assess the primary differences between each candidate's policy platform, and highlight the potential implications for the financial markets.

For simplicity's sake, these implications assume that the White House and Congress will be led by the same party. On page 19, we consider what has historically been accomplished in a split government and share the potential legislation that could be passed and/or executive actions that could be taken in a divided government.

We look forward to this exercise every four years but also recognize that there are a wide range of potential outcomes, not only at the ballot box but also in how the candidates will govern. Ultimately, policy making is about setting priorities. No administration gets everything they want, nor do markets necessarily respond to the political initiatives in the "obvious" way. Nonetheless, very interesting investment views and themes emerged as we pored over the platforms.

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Trade and investment

Harris

Policy platform

- Focus on domestic competitiveness
- Continue to implement Infrastructure Investment and Jobs Act, CHIPS and Science Act, and Inflation Reduction Act and potentially pursue more industrial policies
- Maintain current tariff approach, including targeted tariffs on Chinese electric cars and Chinese solar panels
- Enforce tariffs on the import of certain products to increase domestic production

Implications

- **Less policy uncertainty.** Maintaining the status quo would provide greater trade policy clarity for markets and reduces risk of near-term volatility.
- **Weaker US dollar.** Without new trade and investment provisions, the dollar would likely moderate in an easing cycle.
- **Investment in select industries,** such as semiconductors, renewable energy, and artificial intelligence. Manufacturing and construction companies should also benefit as the nation builds new solar, battery, and semiconductor plants.

Trump

Policy platform

- Pursue "America First" agenda
- Implement universal baseline tariff of 10%
- Increase tariffs on Chinese goods to "more than 60%"
- Impose 100% tariff on cars made outside the US
- Use blanket tariffs to penalize companies that outsource US jobs

Implications

- **Policy uncertainty.** A period of trade policy uncertainty could potentially weigh on markets until greater clarity emerges.
- **Strong US dollar.** Despite the latest reporting that Trump is considering forcing a weaker dollar to encourage exports, the US dollar would likely strengthen amid expectations that policies would result in stronger US growth compared to the rest of the world.
- **Protection for select industries.** Tariffs on European and Chinese goods could benefit US companies in certain industries such as steel, aluminum, and paper.

Lack of policy clarity creates headwinds for the economy and markets

Both candidates intend to focus on American competitiveness. However, a Harris election will likely be viewed as a continuation of the status quo, with a focus on industrial policy, while second Trump term is likely to bring greater protection of US industries.

Protectionist measures have tended to result in less optimal economic growth globally but have not necessarily served as a long-term hurdle for the stock market. Nonetheless, "tariff wars" could potentially weigh on the economy and markets until greater clarity emerges.

For example, the uncertainty caused by the 2018 trade war between the US and China stalled US business investment, caused pricing pressures, and led to a flight to quality globally. As shown on the next page, the US dollar strengthened by 5% over the course of the year, US stocks sold off, and the VIX rose. Once a resolution was reached, the US economy and financial markets normalized.

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Manufacturers in all Districts expressed concern about tariffs and in many Districts reported higher prices and supply disruptions that they attributed to the new trade policies.
Federal Reserve Beige Book, July 2018

The firms continued to note greater uncertainty owing to tariffs and the threat of tariffs.
Federal Reserve Beige Book, October 2018

Reports of tariff-induced cost increases have spread more broadly from manufacturers and contractors to retailers and restaurants.
Federal Reserve Beige Book, December 2018

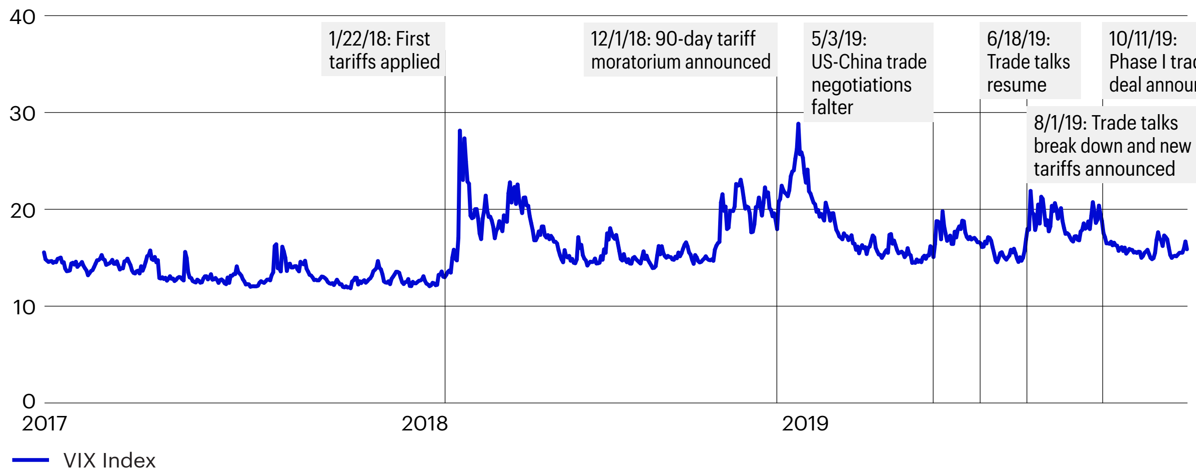
The Beige Book summarizes anecdotal information on economic conditions in each Federal Reserve district.

SPOTLIGHT ON

Tariff policy

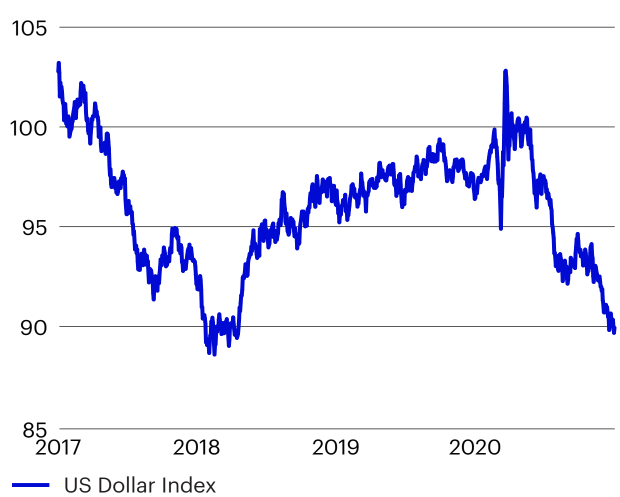
The 2018 – 2019 trade war is instructive in terms of the impact on the stock market. Over the course of the trade war, volatility rose and stocks fell when trade relations deteriorated; volatility eased and stocks rose when trade relations improved.

Volatility during phases of the 2018 trade war



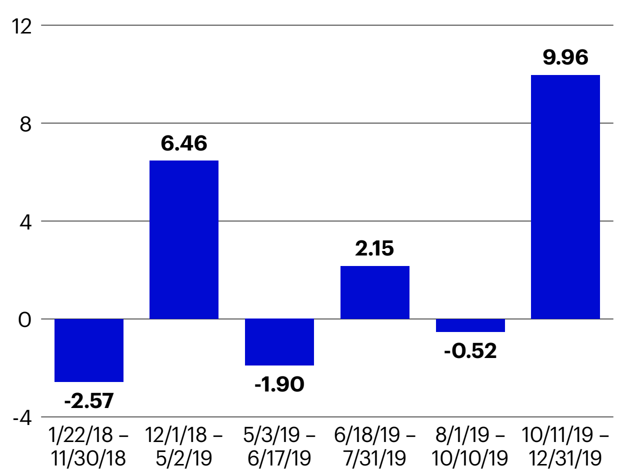
Sources: Bloomberg and Invesco Global Market Strategy Office, as of August 20, 2024. **Past performance is no guarantee of future results.** An investment cannot be made directly in an index. The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 Index option prices.

The US dollar during phases of the 2018 trade war



Source: Bloomberg. US Dollar Index (DXY) indicates the general international value of the US dollar by averaging the exchange rates between the US dollar and major world currencies. Data from Jan. 2, 2017, through Dec. 31, 2020. **Past performance does not guarantee future results.** An investment cannot be made directly in an index.

S&P 500 Index performance during phases of the 2018 trade war (%)



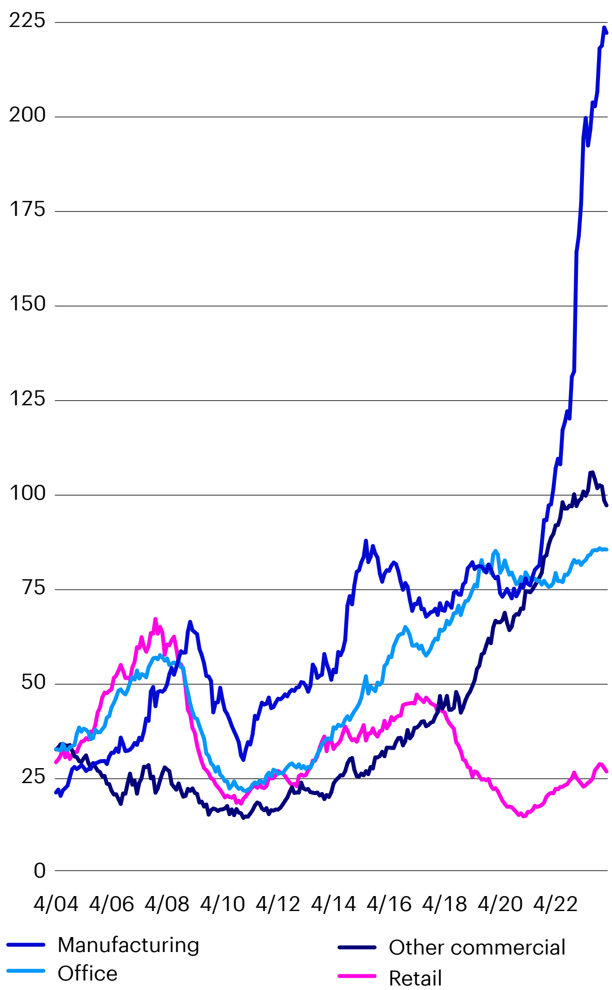
Sources: Bloomberg and Invesco Global Market Strategy Office, as of August 20, 2024. **Past performance is no guarantee of future results.** An investment cannot be made directly in an index. The S&P 500® Index is an unmanaged index considered representative of the US stock market.

SPOTLIGHT ON

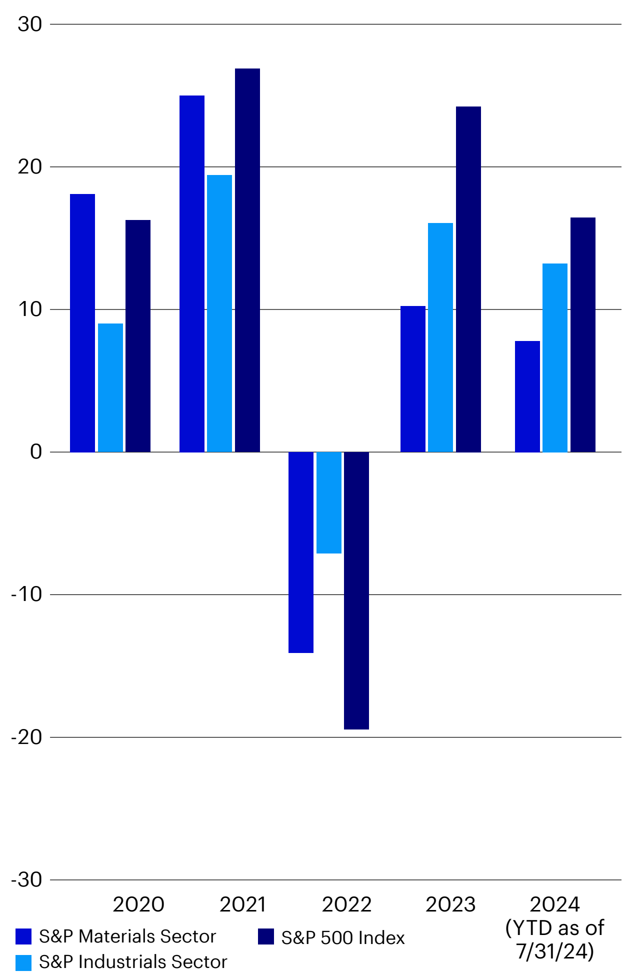
Biden's industrial policy

- Three major fiscal programs have driven Biden's industrial policy:
  1. **The Infrastructure Investment and Jobs Act**
     Signed into law on Nov. 15, 2021.
  2. **The CHIPS and Science Act**
     Signed into law on Aug. 9, 2022.
  3. **The Inflation Reduction Act**
     Signed into law on Aug. 16, 2022.
- The CHIPS and Science Act in particular helped prompt a surge in building in the US manufacturing sector over the last year.
- However, the impact of this legislation on the performance of the materials and industrials sectors has been mixed.
- These programs could result in less foreign direct investment from the US, and more firms moving operations to the US.

US construction spending in nonresidential structures (USD billion)



Sector performance (%)



Sources: DataStream, monthly data as of April 24, 2024. Retail is the sum of multi-retail, shopping centers, and shopping malls. Other commercial is commercial less retail. Sector performance represents price returns as of July 31, 2024. **Past performance does not guarantee future results.** An investment cannot be made directly in an index.

Immigration

Harris

Policy platform

- Will seek comprehensive immigration reform — increased border security plus path to citizenship
- Increase hiring of border security agents and officers, immigration judges, asylum officers
- Keep automatic citizenship for children of undocumented immigrants born in the US

Implications

- **Benefits for certain industries.** Less restrictive policies would likely help industries that attract immigrant workers, including hospitality, health care, manufacturing, construction, and agriculture, in terms of lower labor costs and less pressure on profit margins.

Trump

Policy platform

- Implement a sweeping mass deportation program to remove all illegal immigrants from the United States
- Issue executive orders to place conditions on immigration
- Resume the building of the wall at the US southern border
- End automatic citizenship for children of undocumented immigrants born in the US
- Partner with local law enforcement on "catch and release" strategy

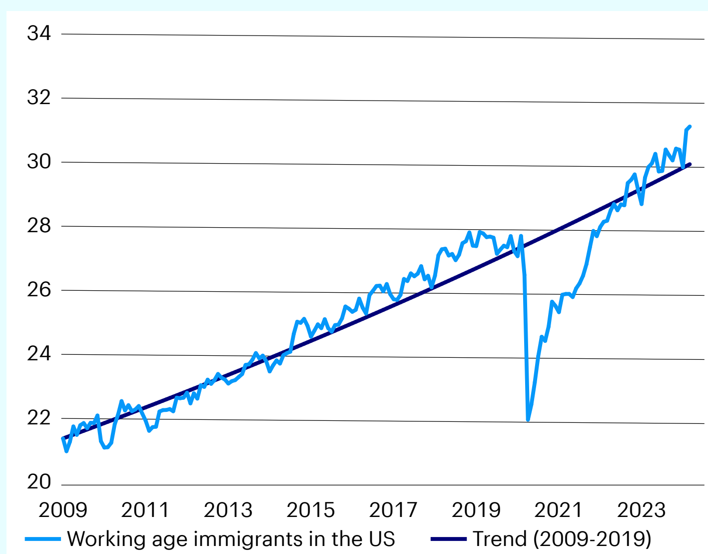
Implications

- **Negative impact to certain industries.** Industries that utilize immigrants for labor — including hospitality, health care, manufacturing, construction, and agriculture — could face challenges such as higher labor costs and lower profit margins.
- **Potential demographic and growth challenges** given the relatively low birth rate for United States citizens.

Immigrants return to the workforce

In 2020 and 2021, the number of immigrants entering the US decreased substantially. As the economy recovered from COVID-19, employers found it difficult to fill jobs. Wages pressed higher, particularly in industries such as hospitality and food-related services.

Immigrants have since returned to the workforce, likely boosting economic growth and helping to temper high wage growth.



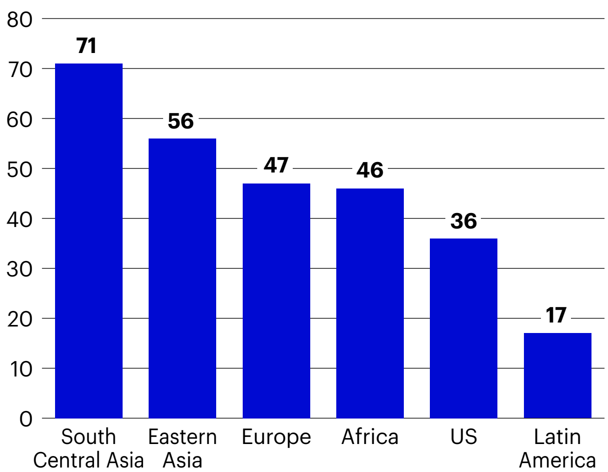
Source: US Bureau of Labor Statistics, March 31, 2024.

SPOTLIGHT ON

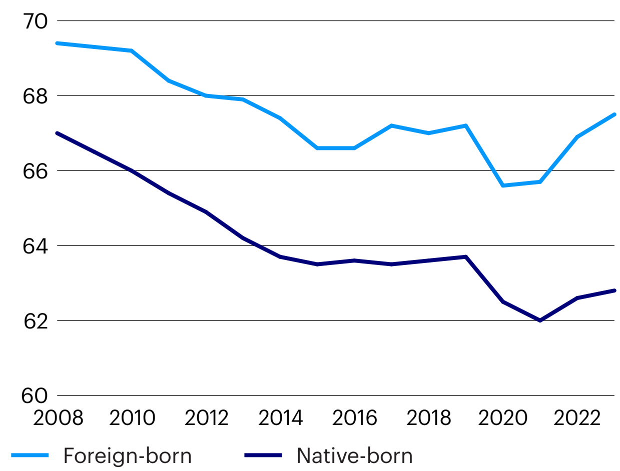
Immigration

Immigration has had a dramatic positive impact on the US economy for many decades. Foreign-born workers have historically had a higher labor force participation rate, and immigrants born in many regions have a higher average education level than native-born workers. Immigrants are critical to certain industries, such as food preparation, cleaning and maintenance, health care, and computer and mathematic occupations.

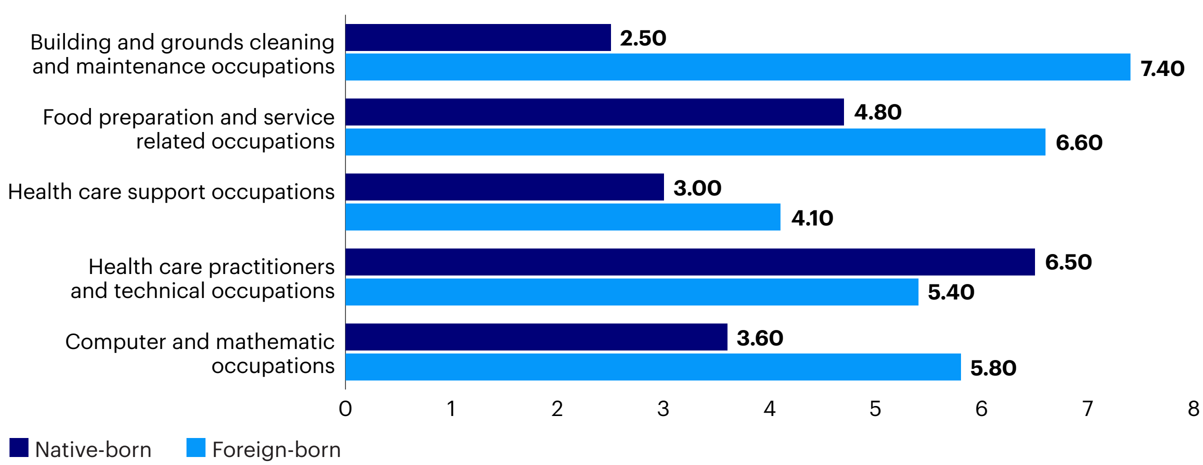
Percentage of US population with at least a bachelor's degree, by birthplace



US labor force participation rate, native-born and foreign-born



Percentage of US population in select industries, foreign-born and native-born



Sources: US Bureau of Labor Statistics, US Census Bureau, as of May 21, 2024

Energy

Harris

Policy platform

- Further tighten emission standards
- Continue implementation of the Inflation Reduction Act
- Continue focus on electric vehicle adoption
- Continue to support net zero energy policies including US government commitment to net zero by 2050

Implications

- **Spending favors select industries.** Renewable energy businesses would appear to be the most obvious beneficiaries. The electric vehicle tax credit would continue. Manufacturing and construction companies should also benefit as the nation builds new solar and battery plants, among others.

Trump

Policy platform

- Remove obstacles to increase drilling for oil and natural gas
- Big push to export more liquefied natural gas (LNG)
- Remove incentives for electric vehicles and wind
- Rescind US government commitment to net zero by 2050

Implications

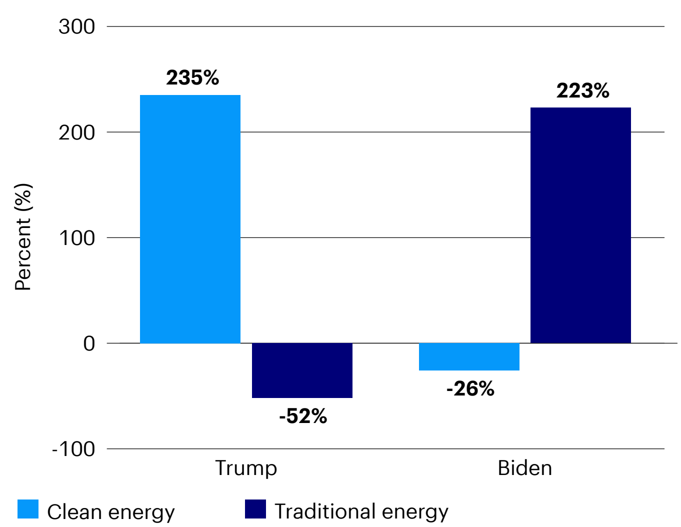
- **Lower oil prices.** Increased supply would weigh on prices with crude oil production already at an all-time high.
- **Greater energy independence** helps cushion the US economy from oil supply shocks.
- **Midstream benefit from increased volume.** Increased production would benefit the master limited partnerships that own and operate pipelines.
- **Natural gas exporters benefit.** Construction of new natural gas export terminals would help these companies.
- **LNG exports tied to trade strategy** could be used to combat Europe's dependence on Russian energy and compete with China's Belt and Road policy.

What powers energy prices?

Clean energy outperformed traditional energy during the Trump administration — a reminder that factors other than the president's policy agenda often drive performance. During Trump's term, one such factor was the pandemic, which resulted in a precipitous decline in commodity prices and a sharp decline in interest rates that likely benefited clean energy businesses. And during the Biden administration, despite the policy push for clean energy, the Russia-Ukraine war had the more prominent influence on oil prices.

Source: Bloomberg, July 31, 2024. Clean energy represented by the NASDAQ Clean Edge Green Energy Index, which is designed to measure the performance of companies in clean energy industries. Traditional energy represented by the S&P 500 Oil, Gas, and Consumable Fuels Index, which is a GICS level 3 index representing the oil, gas, and consumable fuels industries within the S&P 500 Energy sector. An investment cannot be made in an index. **Past performance does not guarantee future results.**

Clean energy vs. traditional energy performance under Trump and Biden



Defense

Harris

Policy platform

- Implement slight increase in defense budget
- Focus on integrated deterrence, supply chains, and workforce readiness
- Use presidential drawdown authority for Taiwan
- Invest in US alliances and partnerships to counter Russia and China
- Continue full commitment to NATO

Implications

- **Defense contractor payments could increase; defense industry could benefit.** Focus on arming US allies, such as Ukraine, with munitions and hardware, as well as bolstering the readiness of Western Europe.
- **Continued utilization of financial sanctions** to negatively impact foreign adversaries. This could result in less reliance on the US dollar as the pre-eminent global reserve currency.

Trump

Policy platform

- Emphasize burden sharing and reciprocity in NATO (3% of gross domestic product defense spending) and other alliances
- Integrate economic/industrial policy and military policy
- Avoid new wars
- Bolster nuclear defense capabilities
- Increase budget for the Pentagon, including for technological innovation and military pay
- Strengthen space and cyber capabilities

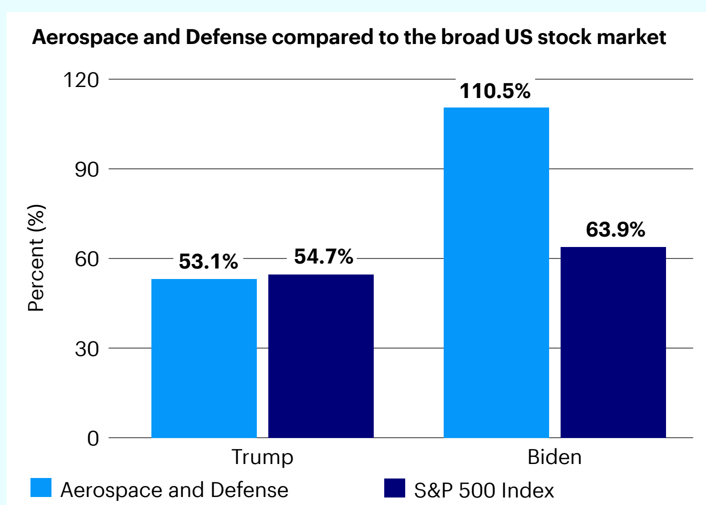
Implications

- **Stronger US dollar and higher gold price.** Concerns over US commitment to international alliances could result in US dollar strength as part of a flight to "safe haven" assets.
- **Aerospace and cybersecurity investment.** Funds would be directed to national security programs focused on cybersecurity and military capabilities in space.

Defense stocks outperformed under Biden

Defense spending increased every year under Presidents Trump and Biden, reaching a record level in 2023. Nonetheless, defense spending as a percentage of gross domestic product, which climbed modestly during Trump's term, now sits at a multi-decade low.

Nonetheless the traditional perception that Republican support of defense spending would be beneficial to defense industry stocks was not confirmed during the Trump years. Under the Trump administration, defense industry stocks narrowly underperformed the S&P 500 Index. Conversely, defense stocks have thus far outperformed the S&P 500 Index under the Biden administration as the nation addresses the challenges of multiple global conflicts.



Source: Bloomberg, July 31, 2024. The S&P Aerospace & Defense Select Industry Index comprises stocks from the S&P 500 Index that are classified in the GICS Aerospace & Defense sub-industry. Indices cannot be purchased directly by investors. **Past performance does not guarantee future results.**

SPOTLIGHT ON

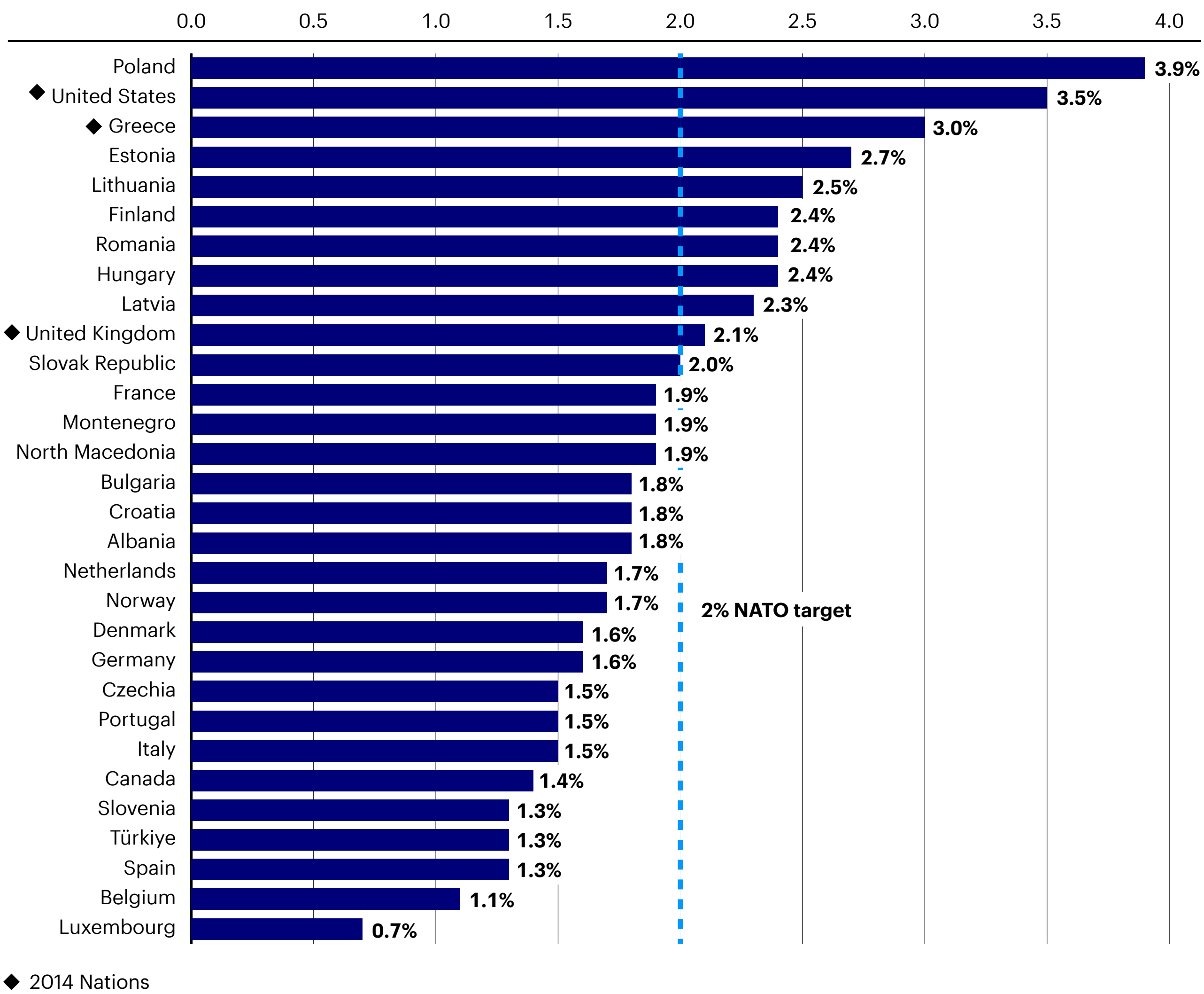
The North Atlantic Treaty Organization

2024 outlook

- The slow climb in defense spending in Europe since the 2010s has sharply accelerated since last year, led by equipment expenditure.
- 23 members of NATO (including France and Germany) are likely to meet the 2%-of-GDP military spending commitment this year, up from 11 in 2023 and just three in 2014.
- Former President Trump has now proposed a 3%-of-GDP minimum commitment.

Source: 2024 Outlook: Eurasia Group, March 2024.

Defense expenditure by country (Share of real GDP, 2023 estimate, (%)



NATO = North Atlantic Treaty Organization. GDP = gross domestic product.

Source: NATO.int, July 2023. Based on 2015 prices and exchange rates. Figures represent 2023 estimates. Note: Defense expenditure is defined by NATO as payments made by a national government (excluding regional, local and municipal authorities) specifically to meet the needs of its armed forces, those of Allies or of the Alliance. For the purposes of this definition, the needs of the Alliance are considered to consist of NATO common funding and NATO-managed trust funds. The list of eligible NATO trust funds is approved by all Allies.

Health care

Harris

Policy platform

- Continue to implement and expand Medicare price negotiations for prescription drugs
- Seek to strengthen medical supply chains with domestic manufacturing investments and reshoring efforts
- Strengthen and protect reproductive rights
- Reform Medicare Advantage and expand Medicaid
- Expand and strengthen the Affordable Care Act

Implications

- **Expanded Medicaid spending.** Would benefit Medicaid-funded Health Maintenance Organizations and facilities.
- **Increased funding for research.** Would benefit life science tools and services companies.
- **Pharmaceutical company profits** would likely be negatively impacted by drug price negotiations.

Trump

Policy platform

- Institute Most Favored Nation policy, requiring pharmaceutical companies to charge US customers no more than the cost of drug prices in similar countries abroad
- Leave abortion policy to the states
- May consider renewing efforts to repeal and replace the Affordable Care Act with an industry driven private health care system

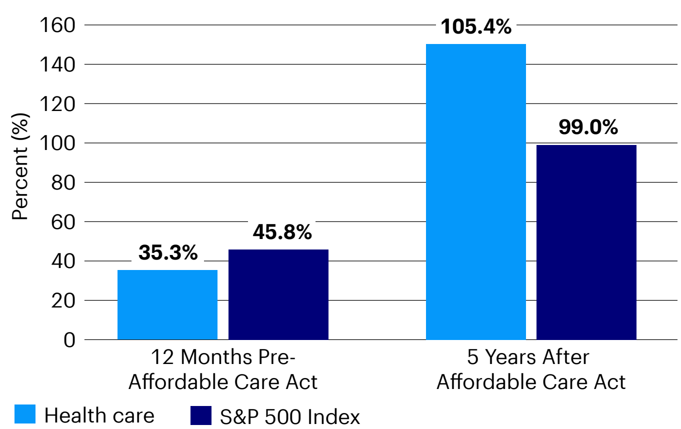
Implications

- **Reduced Medicaid spending** would be negative for Medicaid-funded Health Maintenance Organizations and facilities.
- **Less regulation in general** is likely for the health care sector under a second Trump administration.

How was the 2010 health care reform viewed by investors?

Health care stocks underperformed the broad market in the year in which investors anticipated the passage of the Affordable Care Act (ACA). The subsequent years were a different story. Health care stocks, in the five years after the passage of the ACA, outperformed the broad market as the law came with more net benefits for the industry than costs.

Health care stocks vs. the broad market before and after passage of Affordable Care Act



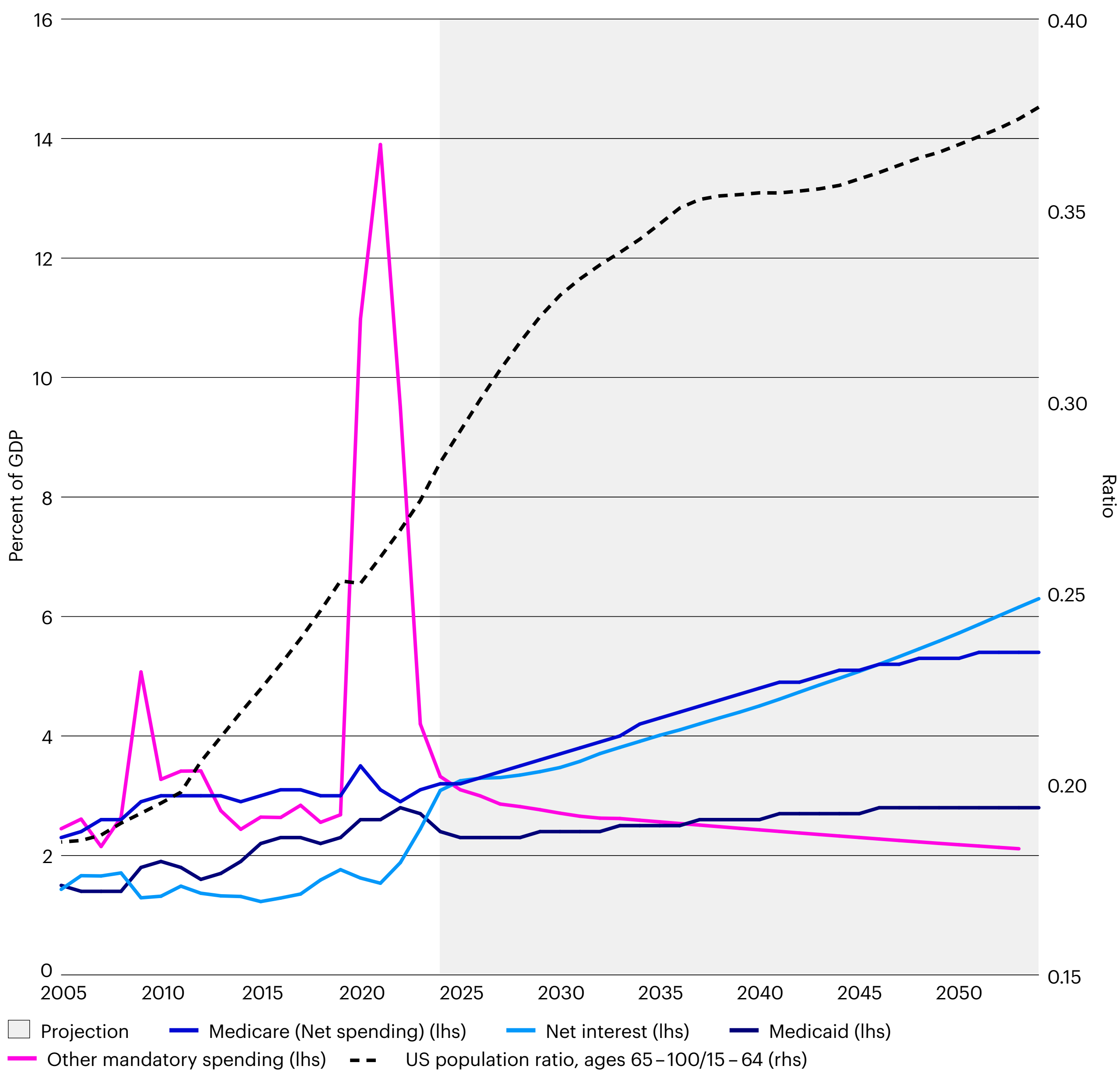
Source: Bloomberg, April 30, 2024. Health care represented by those companies included in the S&P 500 that are classified as members of the GICS health care sector. Indices cannot be purchased directly by investors. **Past performance does not guarantee future results.**

SPOTLIGHT ON

Medicaid

Vice President Harris has proposed expanding Medicaid. While Medicaid does not face the same increased funding challenges as Medicare and Social Security, since it's not driven by the aging of the US population, an increase in Medicaid spending would add to the burdens placed on the US government, increasing the fiscal deficit.

Higher interest rates and growing debt levels have made fiscal sustainability a bigger concern (%)



Note: "Other Mandatory Spending" includes unemployment compensation, retirement programs for federal employees, student loans, deposit insurance, and similar programs. In 2020 and 2021, unemployment insurance climbed dramatically. The scale omits these values for Other Mandatory Spending, which reached 11.0% of gross domestic product (GDP) in 2020 and 13.9% of GDP in 2021.

Sources: US Congressional Budget Office, Census Bureau, Macrobond, and Invesco, as of Aug. 21, 2024. Forecast data from 2024 to 2054,

Housing

Harris

Policy platform

- Increase housing supply by encouraging the construction of 3 million new housing units over four years by offering tax incentives for builders who construct "starter homes" and by speeding up permitting/review processes that slow down housing construction
- Offer $25,000 in potential down payment assistance to first-time buyers who have paid their rent on time.
- Place caps on rent growth by institutional owners of residential real estate
- Prevent landlords from using price-fixing algorithms to increase rents
- Limit tax breaks for large investors that acquire single-family rental homes in bulk

Implications

- **Housing supply** would increase.
- **Assistance to first-time home buyers** should increase demand, which should push up home prices.
- **Large investors of residential housing** would likely see reduced profit margins.

Trump

Policy platform

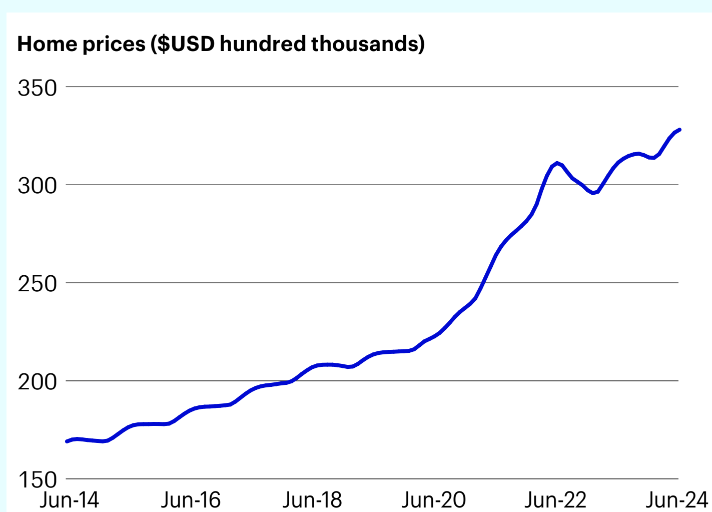
- Make federal land available for housing to increase supply
- Reduce housing demand by reducing immigration and deporting illegal immigrants, reducing pool of homebuyers
- Reduce regulations that slow down housing construction

Implications

- **Reducing immigration** and deporting illegal immigrants would significantly reduce labor pool, slowing down construction process and making the construction process more expensive

Housing imbalance in the US

The pandemic exacerbated the housing situation in the US, decreasing supply and increasing demand. As a result, home prices rose very significantly, creating a housing affordability crisis in many parts of the United States.



Source: Bloomberg, as of Aug. 27, 2024. Home prices based on the Case Shiller US Home Price Index, which is a composite of single-family home price indices for the nine US Census divisions. **Past performance is not a guarantee of future results.** An investment cannot be made directly in an index.

Fiscal policy

Harris

Policy platform

- Continue spending levels for foreign aid, clean energy and climate mitigation funds, and immigration
- Protect both Social Security and Medicare from benefit cuts; increase taxable maximum
- Promote housing affordability
- Support small business entrepreneurship by increasing tax deduction for new businesses from $5,000 to $50,000

Implications

- **The level of fiscal discipline** will depend on whether there is a split government. If there is a one-party sweep, we are likely to see higher fiscal deficits.

Trump

Policy platform

- Rein in government spending on foreign aid, clean energy and climate mitigation funds, and immigration
- Protect Social Security and Medicare reforms from benefit cuts
- Extend tax cuts implemented in first administration

Implications

- **The level of fiscal discipline will depend** on whether there is a split government. If there is a one-party sweep, we are likely to see higher fiscal deficits.

The impact of fiscal policy

Different fiscal policies can have different effects on the economy, some more powerful than others. The fiscal multiplier measures the effect that increases in fiscal spending will have on a nation's economic output. Fiscal multipliers are important because they can help guide policymakers in reaching their objectives.

Various entities, from Moody's to the Congressional Budget Office, provide estimates of the multiplier effect of various forms of fiscal spending and tax cuts. However, it is important to note that fiscal spending has negative consequences as well in that it can increase the budget deficit and add to the national debt.

Type of activity	Low estimate	High estimate
Purchase of goods and services by the federal government	0.5	2.5
Transfer payments to state and local governments for infrastructure	0.4	2.2
Transfer payments to state and local governments for other purposes	0.4	1.8
Transfer payments to individuals	0.4	2.1
One-time payments to retirees	0.2	1.0
Two-year tax cuts for lower- and middle-income people	0.3	1.5
One-year tax cut for higher-income people	0.1	0.6
Extension of first-time homebuyer credit	0.2	0.8
Corporate tax provisions primarily affecting cash flow	0.0	0.4

Source: Congressional Budget Office, 2015.

SPOTLIGHT ON

Social Security and Medicare

Both major candidates have pledged they will protect Social Security and Medicare and will not seek reforms such as raising the retirement age. However, neither Social Security nor Medicare is sustainable given the demographic picture in the United States. Medicare and Social Security face three paths forward and both candidates seem to have chosen the third path.

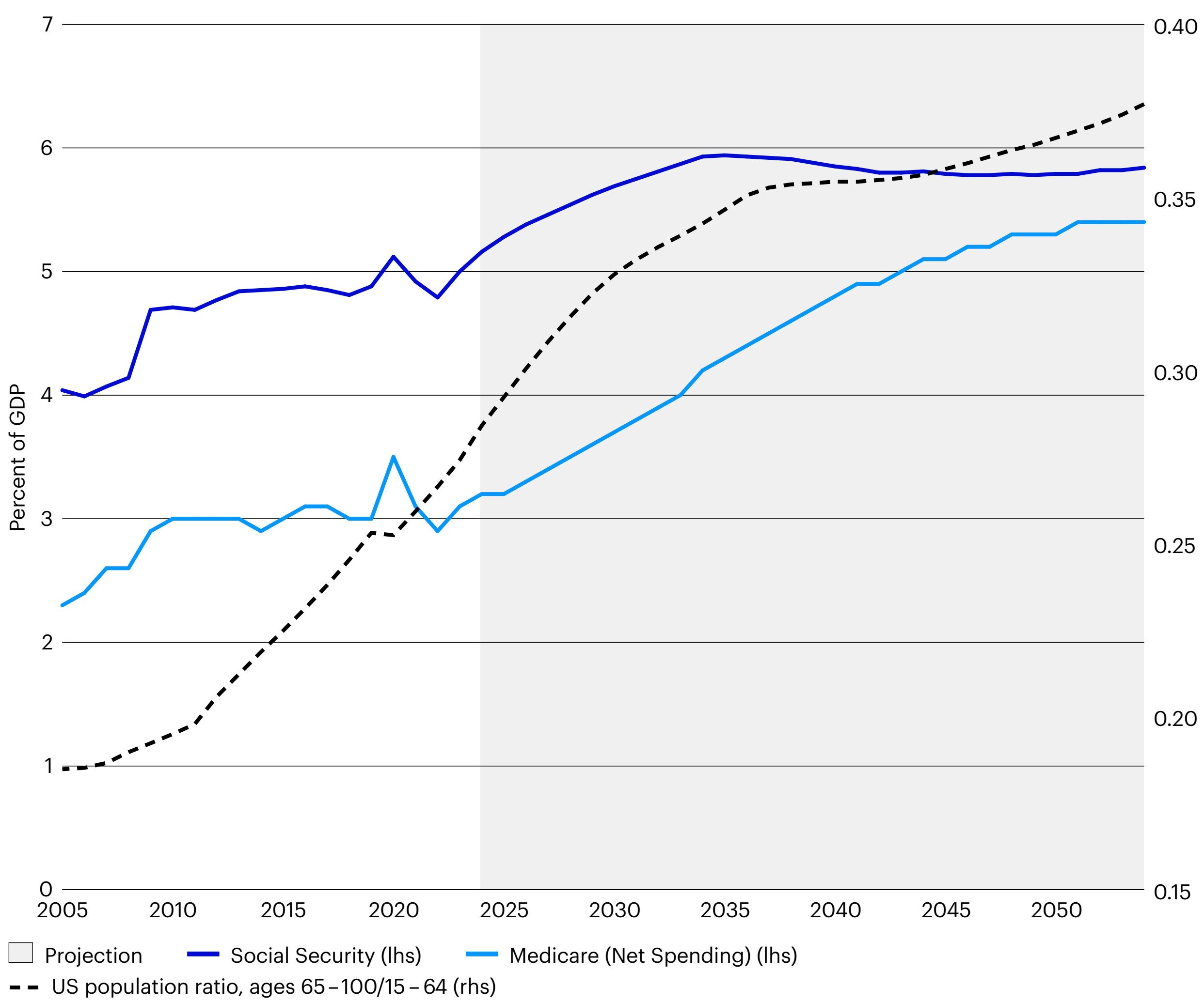
Three ways forward for Social Security and Medicare:

Reform
- Reduce benefits
- Change eligibility
- Change fund investments

Tax
- Increase Social Security and Medicare contributions
- Increase taxable maximums

Finance
- Pay for funding shortfalls with debt

Higher interest rates and growing debt levels have made fiscal sustainability a major focus (%)



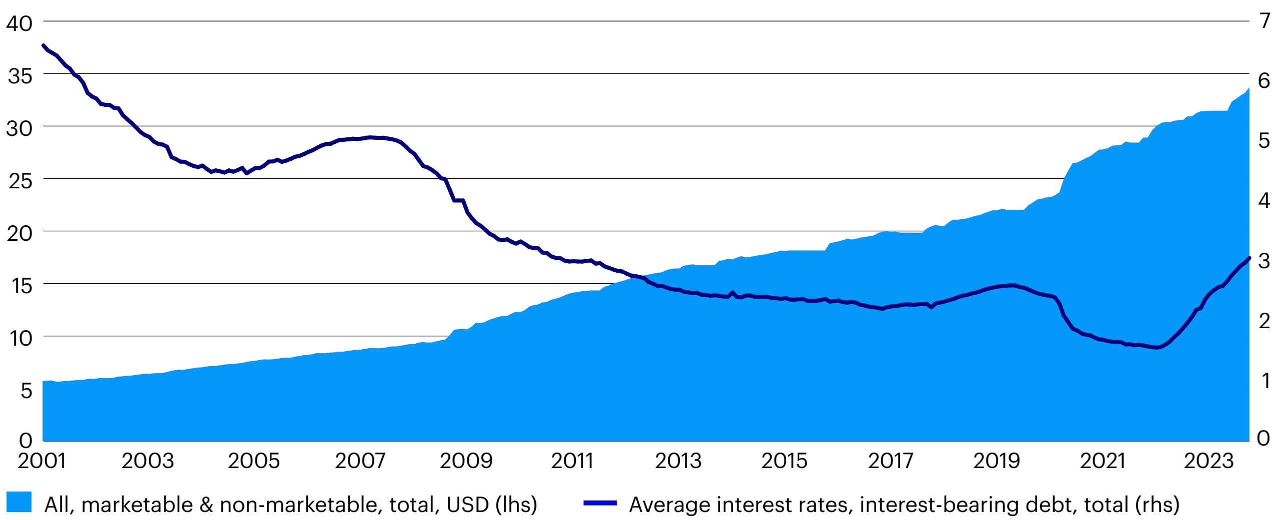
Sources: US Congressional Budget Office, Census Bureau, Macrobond, and Invesco, as of Aug. 21, 2024. Forecast data from 2024 to 2054, derived from the CBO's long-term budget projections..

SPOTLIGHT ON

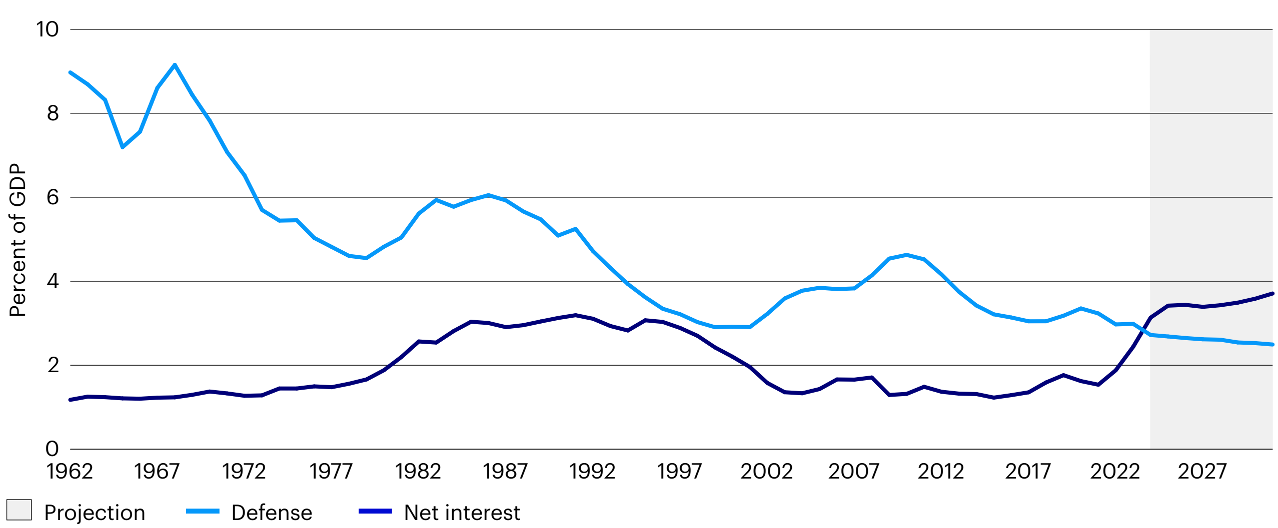
US debt

- It's becoming increasingly expensive to service US debt — debt service costs are projected to soon eclipse defense spending.
- The last time there was a major focus on US debt and fiscal sustainability, President Obama appointed the bipartisan Simpson-Bowles Commission to arrive at solutions to combat the growing budget deficit. Unfortunately, they experienced very little success.
- Current attention to this matter suggests there is likely to be more political infighting, greater potential for government shutdowns and debt ceiling standoffs, and greater policy uncertainty — but a similar lack of solutions.

Higher interest rates and growing debt levels have made fiscal sustainability a major focus



Net interest vs. defense spending, % of gross domestic product



Sources: Congressional Budget Office (CBO), Macrobond, and Invesco, as of Aug. 29, 2024. US Department of the Treasury, as of Dec 31, 2023, latest data available. Forecast data from 2023 to 2031 for Defense Spending, and from 2024 to 2034 for Net Interest. Derived from the CBO's 10-year budget projections. Gross domestic product is a broad indicator of a region's economic activity, measuring the monetary value of all the finished goods and services produced in that region over a specified period of time.

Tax policy

Harris

Policy platform

- Increase funding for the Internal Revenue Service
- Increase corporate tax rate to 28%, close the carried interest loophole, increase the tax on stock buybacks
- Retain Tax Cuts and Jobs Act (TCJA) tax cuts for those making under $400K, but increase taxes on corporations and individuals making more than $400K
- Align US corporate income tax policy with the Organization for Economic Cooperation and Development (OECD) agreement
- Extend $3600 child tax credit and provide $6000 tax credit to families with newborns
- Remove tax on tips
- Implement 28% capital gains tax on those earning $1M or more
- Unrealized cap gains tax on ultra wealthy ($100M+ in assets)

Implications

- **Higher taxes increase the allure of tax-free vehicles.** Appetite for municipal bonds and other tax advantaged vehicles such as real estate investment trusts and master limited partnerships could increase.

Trump

Policy platform

- Cut funding for the Internal Revenue Service
- Cut corporate tax rate to 15% for companies that produce their goods in the US
- Remove tax on tips
- Work with Congress to make permanent the individual tax cuts for those above and below $400K income level and make estate tax thresholds permanent
- Could extend the TCJA special 20% tax deduction for pass-through businesses that is set to expire
- Withdraw from or renegotiate the international tax agreement and make Social Security benefits tax free
- Remove tax on overtime pay

Implications

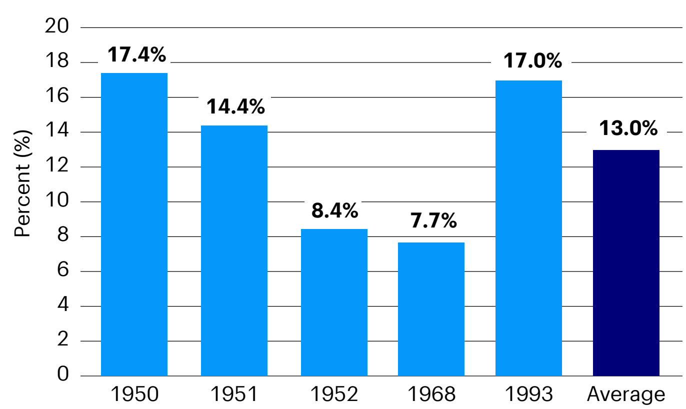
- **Reduced demand for tax-advantaged investment vehicles.** Historically, there has been lower demand for tax-advantaged vehicles during periods of lower taxes.
- **Real estate investment trusts (REITs) are likely to benefit**. If the special 20% pass-through tax deduction is extended, that would allow REIT shareholders to deduct 20% of taxable REIT dividend income they receive, not including dividends that qualify for the capital gains rates.

Higher corporate taxes haven’t deterred stock growth

A Trump victory would all but assure the extension of most provisions in the Tax Cuts and Jobs Act, while a Harris election would likely result in a return to a higher corporate tax rate.

Lest we get too concerned about increased taxes, the corporate tax rate has increased five times since 1950. The US equity market posted gains in each of those five years. The average return was 12.95%.

S&P 500 Index: Annual returns in years the US corporate tax rate increased



Source: US Department of Treasury, Bloomberg. Indices cannot be purchased directly by investors. **Past performance does not guarantee future results.**

Regulatory policy

Harris

Policy platform

- Focus heavily on antitrust and merger scrutiny
- Continue to focus on "junk fees" that impact consumers
- Direct regulators to finalize all open proposed rules
- Embolden certain agencies to pursue regulatory agenda
- Continue scrutiny of big tech

Implications

- **Consolidation of small and medium-sized businesses** that can no longer bear the cost burden of regulation.
- **Large businesses' merger and acquisition activity** may be stymied by greater regulatory scrutiny.

Trump

Policy platform

- Work with Congress to bring some regulatory agencies under presidential authority
- Use Congressional Review Act to overturn regulations enacted towards the end of the Biden Administration
- Eliminate a minimum of 10 old regulations for every one regulation
- Continue scrutiny of big tech

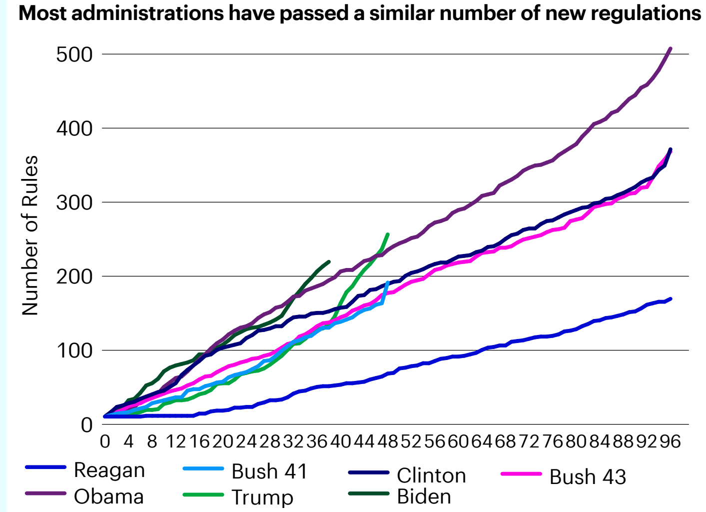
Implications

- **Less stringent environment for financials.** Less risk of additional bank capital requirements from the Federal Reserve. Credit card companies would benefit from reduced likelihood of consumer protections such as a crackdown on fees.
- **For-profit education** would likely benefit from less regulation.
- **For-profit detention centers** would likely benefit from less regulation.

Most administrations have passed a similar number of new regulations

The Reagan administration stands out as having rolled out a relatively low level of regulations. There has been less of a significant difference in the level of regulation among other administrations. Trump and Biden passed a similar number of new rules over their terms.

Most administrations have passed a similar number of new regulations



Source: The George Washington University Regulatory Studies Center, Dec. 31, 2023.

The Federal Reserve

Harris

Policy platform

- More likely to reappoint Fed Chair Jerome Powell
- Continue official stance of "respecting Fed's independence" while also indirectly working to influence Fed policy
- Likely to continue to push for heavier regulation

Implications

- **Status quo.** Easing cycle continues as the Fed assesses its progress in achieving its dual mandate.

Trump

Policy platform

- Could resume dovish pressure/rhetoric toward the Federal Open Market Committee
- Potential plans to make the Fed less independent
- Unlikely to reappoint Fed Chair Jerome Powell when his term expires in 2026
- May propose non-traditional candidates for Fed Chair

Implications

- **Challenges to Fed independence raises risks to markets.** Inflation expectations could potentially reaccelerate, resulting in higher interest rates and lower equity valuations.

The Fed's credibility appears to be intact

It has been a tumultuous four years for monetary policy authorities. The massive stimulus provided during the pandemic helped cause inflation to spike for the first time in four decades. The Federal Reserve reacted with an aggressive tightening cycle that began in March 2022, which appears to have restored the Fed's credibility. Inflation expectations over the next five years, as represented by the 5-year US Treasury Inflation Breakeven, are firmly within the Fed's perceived "comfort zone."

5-year US Treasury inflation breakeven

Source: Bloomberg, September 13, 2024

SPOTLIGHT ON

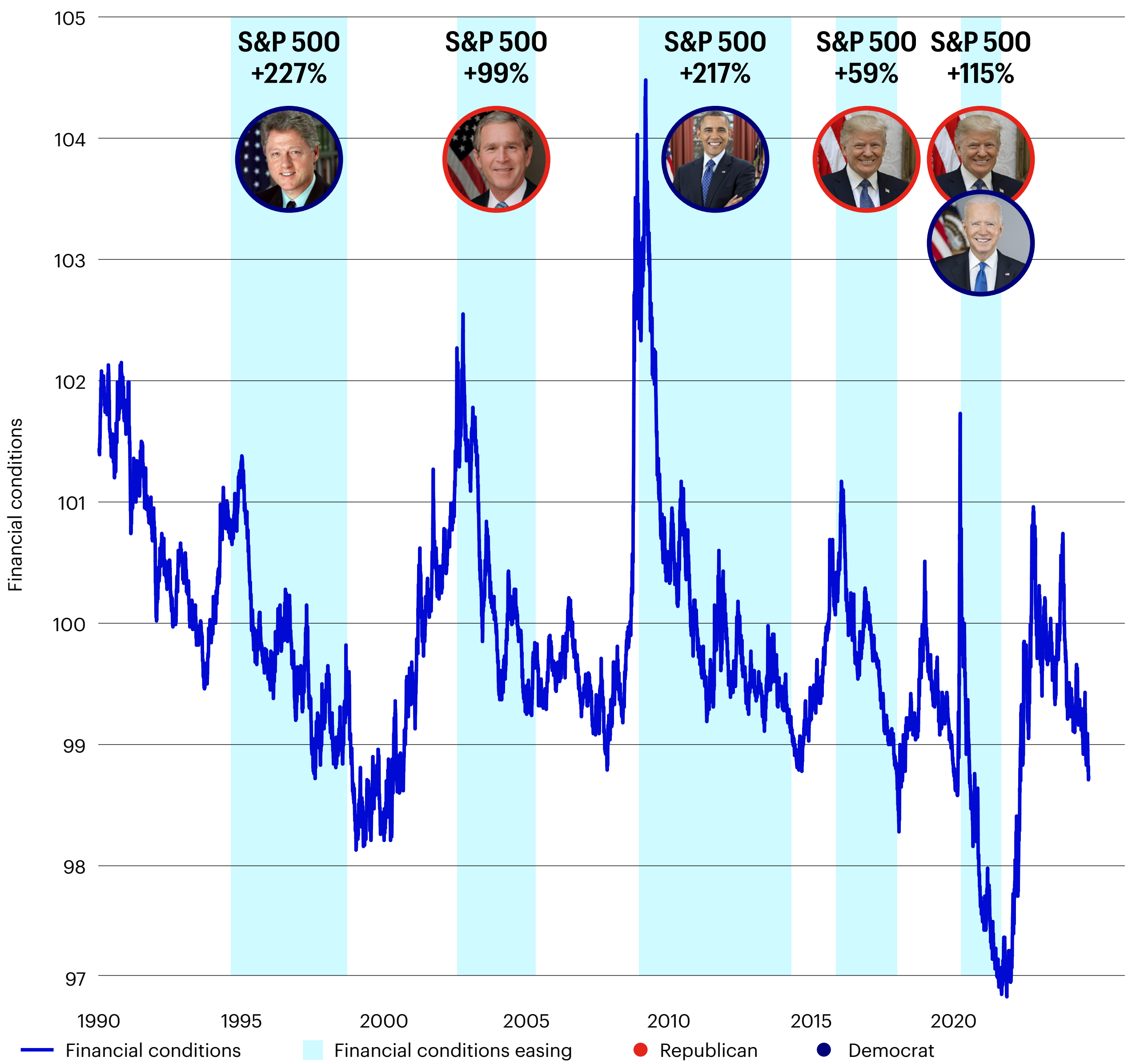
Monetary policy

Financial conditions are the weighted average of:

- Risk-free interest rate
- Yield curve
- Exchange rate
- Credit spreads
- Equity valuations

There is a strong correlation between easing financial conditions and stock market rallies. Monetary policy seems to matter more than other policies in terms of impact on markets.

The S&P 500 Index has performed strongly when financial conditions are easing



Sources: Goldman Sachs, Bloomberg L.P., September 23, 2024. An investment cannot be made in an index. **Past performance does not guarantee future results.**

Election outcomes

Will we have a party sweep?

- Trump could see a sweep, with the Republicans winning both House and Senate. (It's less likely that Harris would be able to retain a Democratic Senate given the legislative map this year).
- **More legislation tends to get passed when a single party is in power.** Both Trump and Biden passed their key legislative accomplishments when their party controlled both chambers of Congress.

What does a split government mean?

- The Senate confirms the president's high-level nominees. If the Senate is the same party as the president, most if not all nominees get approved. If the Senate is not the same party as the president, some nominees will be blocked and/or slowed.
- **A split government means there would be limited legislative action** with only those bills enjoying broad bipartisan support likely to achieve passage.
- Other legislation likely to pass in a split government would be must-pass items like annual appropriations bills and reauthorizations such as the National Defense Authorization Act.
- **Less partisan policy could come from executive orders.** The recent Supreme Court decision Loper vs. Raimondo has limited the scope of administrative powers going forward.
- **A split government also brings increased likelihood of fiscal discipline** if deficit reduction is a top concern with the public.

Major legislative achievements of the Trump and Biden administrations

Republican   Democrat

	President	Senate	House	Key pieces of legislation passed
2017 – 2018	Republican	Republican	Republican	Tax Cuts and Jobs Act, First Step Act (criminal justice reform)
2019 – 2020	Republican	Republican	Democrat	SECURE Act
2021 – 2022	Democrat	Democrat	Democrat	Infrastructure Investment and Jobs Act, Inflation Reduction Act, and CHIPS and Science Act
2023 – 2024	Democrat	Democrat	Republican	Defense Supplemental Act

Potential policy accomplishments from a future Trump or Harris administration

Harris

Possible legislation

- Tax reform
- China-related restrictions

Possible executive actions

- Restrict Chinese access in US to advanced semiconductor manufacturing, artificial intelligence technology and quantum computing. This includes financial regulation restricting outbound investment.
- Prioritize consumer protections in retirement and implement SECURE 2.0 and defend the fiduciary rule

Trump

Possible legislation

- Tax reform
- Energy independence/dominance agenda

Possible executive actions

- Exit from Paris Climate Agreement
- Reopen Keystone pipeline
- Department of Labor retirement reforms
- Reinstate the Remain in Mexico policy and Title 42
- An even more restrictive outbound investment regime focused on China

Policy impact

Possible impact on specific assets

■ Republican ■ Democrat

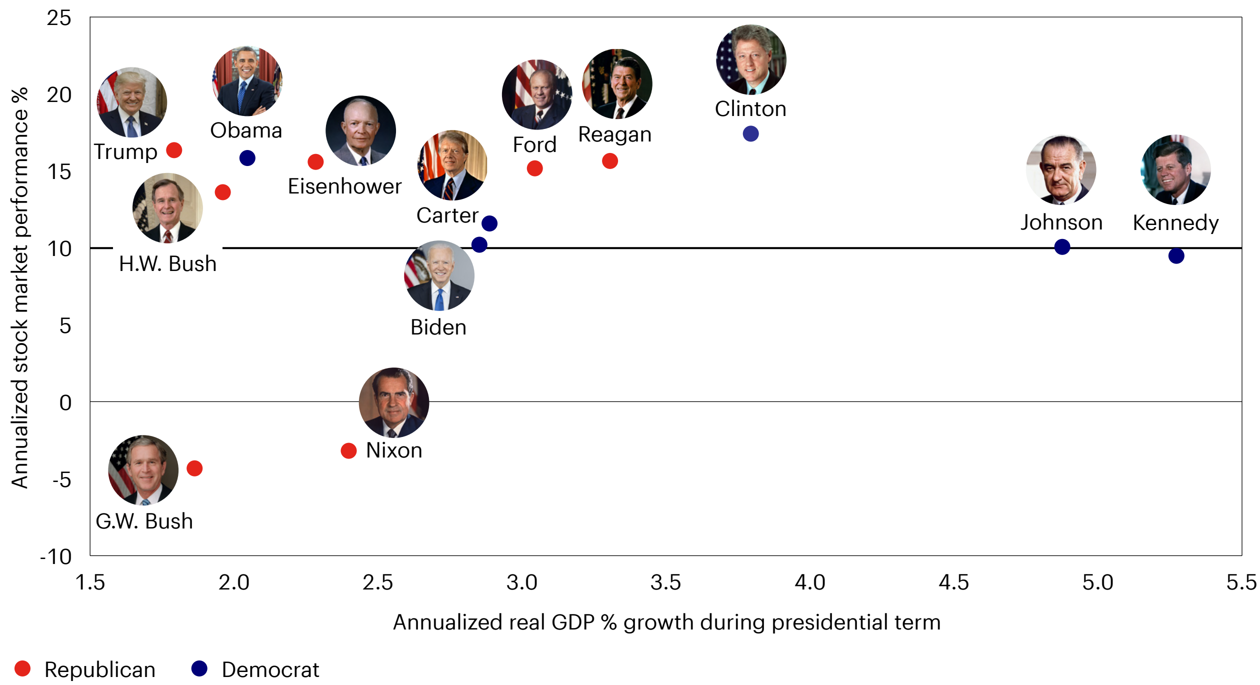
Asset	Candidate	Fiscal policy	Trade policy	Immigration policy	Regulatory policy
US Treasury yields	Harris	**Higher** Higher spending is more inflationary.	**Neutral** Less aggressive, more predictable trade policy.	**Lower** Driven by lower inflation from higher immigration.	**Neutral to lower** If regulation becomes very onerous and impacts growth.
	Trump	**Neutral** Tax cuts are unlikely to be very inflationary.	**Lower** More aggressive trade policy could cause move into "safe haven" asset classes.	**Higher** Driven by higher inflation from lower immigration.	**Higher** Driven by higher growth.
US dollar	Harris	**Stronger** Due to higher growth from fiscal spending.	**Weaker** Without new trade and investment provisions, USD likely to moderate in an easing cycle.	**Lower** Due to lower inflation from lower labor costs.	**Neutral**
	Trump	**Neutral**	**Stronger** Would strengthen on trade war or other America First policies.	**Stronger** Due to higher inflation from higher labor costs.	**Neutral**
US stock returns	Harris	**Higher** Increased fiscal spending could be positive for market sentiment.	**Neutral** The status quo would likely be maintained on trade policy.	**Positive** for service sector. because of higher supply of workers and lower labor costs.	**Neutral** Could be more negative for tech or other areas that become the subject of greater regulation. Could be positive for small caps and more negative for large caps.
	Trump	**Higher** Tax cuts could be positive for market sentiment.	**Lower** in the short term because of higher tariffs and greater unpredictability.	**Negative** for service sector because of lower labor supply and higher labor costs.	**Positive** More lax regulatory environment would be positive for stocks.
Non-US equity returns	Harris	**Neutral**	**Neutral**	**Neutral**	**Neutral**
	Trump	**Neutral**	**Neutral** Lower in the short term because of higher tariffs.	**Neutral**	**Neutral**
Gold	Harris	**Higher** Concerns about fiscal sustainability are likely to make gold more popular.	**Neutral**	**Neutral**	**Neutral**
	Trump	**Neutral** Tax cuts are unlikely to be very inflationary.	**Higher** Greater policy uncertainty could drive a flight to "safe haven" asset classes.	**Neutral**	**Neutral**

SPOTLIGHT ON

Market performance

Don't forget: Markets have performed well under both parties

Stock market returns vs. economic growth during presidential terms (1957 – present)



Sources: Haver, Invesco, August 31, 2024. Note: President Biden's stock market performance data is from Jan. 20, 2021, through August 31, 2024. President Eisenhower's second term only is shown. Real GDP data is from Dec. 31, 2016, through Dec. 31, 2023. Stock market performance is defined by the S&P 500 Index total return. The S&P 500® Index is a market-capitalization-weighted index of the 500 largest domestic US stocks. An investment cannot be made in an index. **Past performance does not guarantee future results.** Gross domestic product (GDP) is a broad indicator of a region's economic activity, measuring the monetary value of all the finished goods and services produced in that region over a specified period.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations), and investors may not get back the full amount invested.

Important information

All information as of September 21, 2024, in USD, unless stated otherwise.

Restrictions on distribution

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