INDOSUEZ WEALTH MANAGEMENT

CIO PERSPECTIVES

24 October 2024

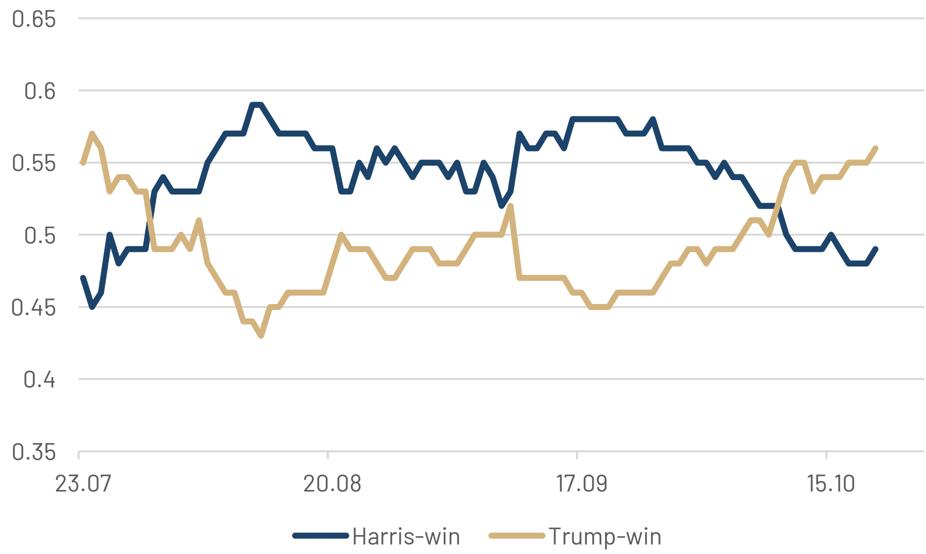
US elections: This time is different?

With the US elections less than two weeks away, Indosuez had the pleasure of exchanging insights with US political expert Amy Greene on the 2024 election outcomes and their implications (*click here to view the webconference replay*). This election is shaping up to be a very tight race, with a high probability of a divided government, where the House of Representatives may go to a different party than the President-elect. Here are a few key takeaways from our web conference to keep in mind as we approach the 5 November outcome.

Fasten your seat belts and prepare for a bumpy landing

After her "honeymoon" period in the polls, Kamala Harris's popularity has been going down recently, most likely a form of normalisation as she is becoming a more established candidate. Polls are nevertheless very tight (Chart 1) and so close that their predictive powers lie in the margin of error. While we project a soft landing for the US economy going ahead, it is clear that the US elections outcome will be bumpy with probable recounting and election result delays as well as possible social unrest, regardless of the candidate.

Chart 1: Evolution in polls – Who is ahead in national polls?



Source: PredictIt, Indosuez Wealth Management.

A typical US election, with some notable differences

First, how is this election <u>not</u> different? These elections depend on a couple of swing states and within these states polls are tight, with election results potentially hinging on a couple thousand voters. These elections are once again very polarised between the two parties. Trump's anti-establishment popularity has also benefitted from his appeal to lower income voters that highlight the increasing social fractures in the US.

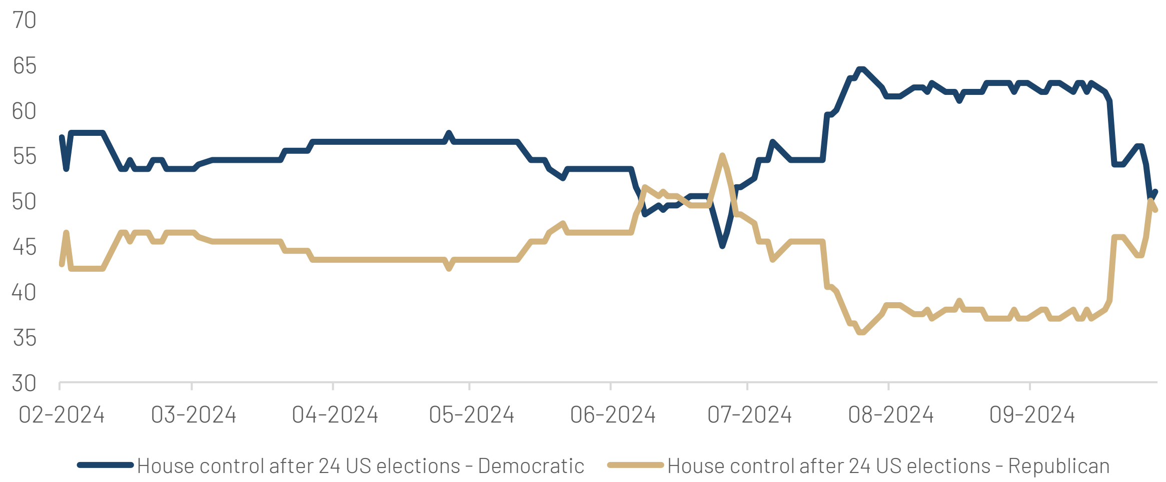
According to US political expert Amy Greene, the thing that should not change for Former President Donald Trump's third election campaign is high a voter turnout. Trump being a divisive figure tends to activate voter turnout on both sides while Kamala Harris has the potential to re-energise Democratic enthusiasts. Joe Biden's victory in 2020 saw historic participation. This time, however, Donald Trump may be more limited in his ability to widen his already well-established voter base as he attempts to make a political comeback. This potentially gives Kamala Harris an opportunity to widen her own, even if this has proved challenging notably among the lower-educated population.

In a key difference with 2016 elections, Kamala Harris, unlike Hillary Clinton, does not emphasise being the first woman in her role, despite being the first female Vice President. Instead, she channels a Barack Obama-like approach, focusing on embodying American values and bridging divides. Nevertheless, these elections have been highly gendered, with on the one side the very vocal support of Elon Musk (and Twitter/X) and the other All-American pop star Taylor Swift, both embodying the strategic voter targets of each campaign (young men versus young women with increasing purchasing power).

Are Trump and Harris campaign measures really that different and how likely are they to be implemented?

A split Congress looks like a probable scenario (Chart 2), especially under a Harris-win as the Senate has an 80% probability in polls to go Republican. It is important to keep this prism when looking at the different measures announced and their subsequent impacts. The respective campaigns revolve mainly around the candidates' positions on the economy, taxes, immigration and foreign-trade policy. The economy is always key to elections, with most US voters favouring Trump on this issue. Immigration has become an increasingly popular issue (Chart 3), despite having been supportive of GDP growth by allowing to fill labour shortages in the agriculture and services sectors notably. Both candidates support a tough stance on immigration, but Trump's campaign takes it further. He plans the "largest domestic deportation operation in American history," targeting 1 to 8 million unauthorised workers. If Republicans sweep, these measures could significantly impact US GDP growth given their already unfavourable demographics; potentially diluting the benefits of Trump's deregulation and innovation efforts. The International Peterson Institute estimates that fully implementing Trump's immigration policy could reduce real GDP growth by 7% over his four-year term (everything else held constant) and increase inflation by 3% in 2026 before dropping to 1% in 2028. Under a divided government we expect these policies to be significantly limited, having an impact of -1% on GDP growth.

Chart 2: What are the chances of having a split congress?

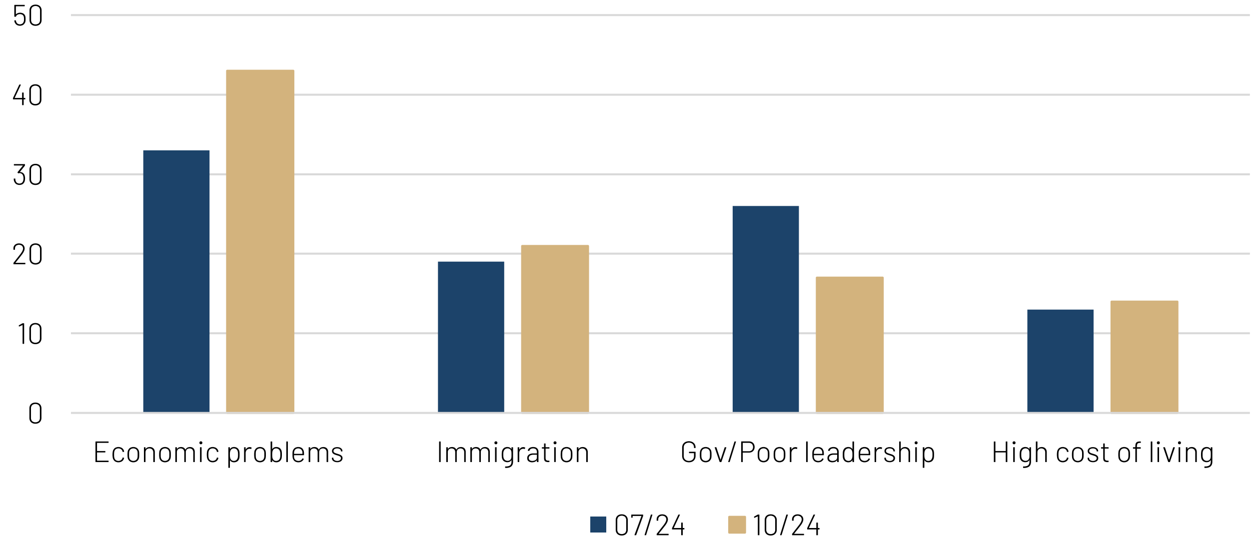


Source: Real Clear Politics, Bloomberg, Indosuez Wealth Management.

Tax policies will be the biggest difference under a divided government, with Kamala Harris having a more difficult time applying her proposal of corporate tax hike from 21% to 28%. In contrast Donald Trump has proposed to lower the corporate tax rate to 20% and 15% for domestic manufactures, a positive factor for growth, notably for US mid-caps. His largest splurge, however, would be his proposed full extension of his own Tax Cuts & Jobs Act (TCJA) that is set to expire end 2025 and which would be watered down if under a split government scenario.

Finally, on foreign policy, the US president cannot unilaterally impose a universal tariff without some form of congressional approval or delegation of authority. Under the US Constitution, Congress has the power to regulate international trade, including setting tariffs. However, there are certain legal frameworks that allow the president to use his/her executive powers to impose tariffs without direct congressional approval. This could be the case for Trump's proposed 60% tariffs on China, justified by acclaimed unfair production subsidies.

Chart 3: What do you think is the most important problem facing the country today?



Source: Gallup "Most important Problem Survey" October 2024, Indosuez Wealth Management.

Implications of the 2024 elections: the US economy

1. The good news, the 2024 US elections are contributing to economic uncertainty: according to a Duke University survey, 30% of Chief Financial Officers (CFOs) in the US are scaling back investments amid election concerns. This suggests a potential catch-up in investment and employment early in 2025 regardless of the outcome.
2. A divided government can often be seen as a positive for investors, as it tends to moderate the implementation of more extreme policies, resulting in a more balanced approach. In the event of a win by Vice President Harris, we are likely to see a divided government where immigration policies are less inflationary compared to those under Trump. This outcome would align with our current soft landing macroeconomic scenario, which is supported by anticipated Federal Reserve (Fed) rate cuts. Essentially, a Harris-led administration with a divided Congress would maintain a status quo that fosters stability and predictability in the market.
3. This is where it gets complicated. A Trump-win presents a more complex scenario with many contrasting factors to take into account. If Trump manages a government sweep (retaining the House and the Senate), it could be favourable for equity markets and US corporations due to the likelihood of tax cuts, a more business-friendly environment, and deregulation (at least that is what the past has taught us). The extension of his 2017 tax cuts - that would come into effect by the end of 2025 - would also be positive for consumption and less harsh than Harris tax hikes for corporates.

4. Uncertainties remain high on the overall impact of a Trump-win on GDP growth, particularly concerning the application of tariffs and tough immigration policies, which could vary depending on whether the government remains divided or united. Trump's stance on tariffs, especially towards China, could reignite inflation in the US and Europe. Moreover, his stringent immigration policies could further fuel inflation by limiting the size of the labour market, thereby putting pressure on wages. All in all, while a Trump victory could be positive for economic growth (assuming extreme tariffs and immigration measures are not fully implemented), it poses challenges for inflation and complicates the Fed's current rate cut strategy.

Finally, neither candidate has demonstrated the political will to address fiscal tightening and rein in spending. The winner of the 2024 election will inherit an unprecedented fiscal situation, exacerbated by the recent surge in public debt. The Congressional Budget Office (CBO) projected this week that Trump's tax cuts, particularly the near-full extension of the Tax Cuts and Jobs Act (TCJA), could push the debt ratio to 142% of GDP by the end of 2035. In comparison, the Harris campaign's policies would result in a debt ratio of 135% of GDP.

Despite a weakened demand for US debt, partially due to the People's Bank of China's shift towards tangible assets like gold since the Ukraine War, the market for US debt remains highly liquid, indicating that its sustainability is not an issue. However, the government's increasing expenditure on debt interest payments—around 4% of GDP in the US, comparable to Italy and notably higher than France at 2%—is not friendly for long term growth. These funds, which could be more efficiently allocated to areas such as education and healthcare, are instead being diverted to service debt and increasing the pressure on the term premia and the long end of the curve.

Implications of a Trump-win on the rest of the world

- **European Union (EU):** The EU faces weak growth prospects, and US trade tensions under Trump could spell bad news, especially for Germany. There is a risk of increased dumping from China due to a production glut from reduced US import demand, which would not be well-received and could reinforce disinflationary pressures. However, if universal tariffs are not applied and US growth increases as expected under a Trump win, this would be positive for EU exporters.

- **China**: The US is China's third-largest trading partner. Trump's proposed tariffs on China are a blow to the Chinese economy and the probability that they are applied increases in a divided government scenario as mentioned above. The 2017 US-China trade tensions already slowed growth in China in 2018 and highlighted the need for China to focus policies on stimulating domestic demand. Projections vary as to the impact of these tariffs, but the Peterson Institute estimates they would reduce growth by one percentage point already in 2025. This however does not take into account the increase in demand from US consumers under a lower-tax Trump environment. Our scenario on China remains moderate growth in 2025 (of 4.2%), but we remain optimistic for additional stimulus possibly after the US elections.

- **Emerging Markets**: As the main growth drivers, emerging markets are vulnerable to tariffs on China, which could hamper China's growth and affect those economies dependent on it. However, countries like Vietnam, India, and South Korea could benefit from potential China tariffs, as is already evident. Under Trump, higher inflation, higher interest rates, and a stronger USD could also negatively impact emerging market currencies. If these trends are prolonged or outsized, EM central banks may be pressured to stabilise their currencies through interest rate hikes (or less cuts).

What implications for financial markets?

As the Senate appears poised to remain under Republican control, we may be left with three likely scenarios: Harris with a split Congress, Trump with a split Congress, and Trump with full Republican control of Congress.

The fourth scenario, Harris with full Democratic control, seems unlikely but in a nutshell could negatively impact US equities due to Harris's intent to raise the corporate tax rate to 28%, which could reduce future earnings and investment.

In scenarios with a split Congress, investors might anticipate continuity, as the future president—whether Harris or Trump—would face limitations in implementing significant reforms. Conversely, a Trump victory coupled with full control of Congress could have more profound implications. If Trump does not succeed in enacting a 10% universal tariff, his win could potentially be positive for equities as investors might expect lower corporate tax rates and increased deregulation. While deregulation could boost business activity in the short term, it may not always yield long-term benefits, as evidenced by the 2018 easing of the Dodd-Frank rule under Trump, which led to regional banks' bankruptcy five years later.

Ironically, Trump's repeated calls for the Fed to lower rates might clash with his policies. Lower tax rates, reduced regulation, and higher tariffs could spur inflation. While a Trump administration may not push inflation much beyond current levels, it could maintain it closer to 3% for a prolonged period, thereby tempering the speed at which the Fed is expected to lower rates. This scenario would likely keep the entire yield curve elevated for longer.

Globally, tariffs could negatively impact countries with a positive trade balance with the US. However, a stronger US economy would benefit the global economy and Trump's inflationary policies could bolster the US dollar, weakening other currencies. This would be advantageous for many companies outside the US that benefit from a weaker local currency and a robust US economy, particularly in sectors such as luxury goods, healthcare, industrials and autos in Europe for example.

A Trump win might also have mixed implications for the energy sector. While both Donald Trump and Kamala Harris support renewable energy and nuclear power, Trump could scale back some of the tax incentives introduced by the Inflation Reduction Act. Additionally, Trump's "drill, baby, drill" approach could lead to increased oil exploration. However, with the US already being the largest oil producer (22% of global production, ahead of Saudi Arabia), adding more oil to the market at a time when OPEC+ members are lowering their demand forecasts could create an oil surplus, potentially driving prices lower in the coming years.

Bénédicte KUKLA
Senior Investment Strategist

Nicolas MOUGEOT
Head of Investment Strategy
& Sustainability

DISCLAIMER

This document entitled "CIO Perspectives" (the "Publication") is issued for marketing communication only.

The languages in which it is drafted form part of the working languages of Indosuez Wealth Management.

The information published in the Publication has not been reviewed and is not subject to the approval or authorisation of any regulatory or market authority whatsoever, in whatever jurisdiction.

The Publication is not intended for or aimed at the persons of any country in particular. The Publication is not intended for persons who are citizens, domiciled or resident in a country or jurisdiction in which its distribution, publication, availability or use would contravene applicable laws or regulations. This document does not constitute or contain an offer or an invitation to buy or sell any financial instrument and/or service whatsoever. Similarly, it does not, in any way, constitute a strategy, personalised or general investment or disinvestment recommendation or advice, legal or tax advice, audit advice, or any other advice of a professional nature. No representation is made that any investment or strategy is suitable and appropriate to individual circumstance or that any investment or strategy constitutes a personalised investment advice to any investor.

The relevant date in this document is, unless otherwise specified, the editing date mentioned on the last page of this disclaimer. The information contained herein are based on sources considered reliable. We use our best effort to ensure the timeliness, accuracy, and comprehensives of the information contained in this document. All information as well as the price, market valuations and calculations indicated herein may change without notice. Past prices and performances are not necessarily a guide to future prices and performances.

The risks include, amongst others, political risks, credit risks, foreign exchange risks, economic risks and market risks. Before entering into any transaction, you should consult your investment advisor and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. You are advised to contact your usual advisers in order to make your decisions independently, in light of your particular financial situation and your financial knowledge and experience Foreign currency rates may adversely affect the value, price or income of the investment when it is realised and converted back into the investor's base currency.

CA Indosuez a French company, the holding company for the Crédit Agricole group's wealth management business, and its related subsidiaries or entities, namely CA Indosuez (Switzerland) SA, CA Indosuez Wealth (Europe), CFM Indosuez Wealth, their respective subsidiaries, branches, and representative offices, whatever their location, operate under the single brand Indosuez Wealth Management. Each of the subsidiaries, their respective subsidiaries, branches, and representative offices, as well as each of the other Indosuez Wealth Management entities are referred to individually as the "Entity" and collectively as the "Entities".

The Entities or their shareholders as well as its shareholders, subsidiaries, and more generally companies in the Crédit Agricole SA group (the "Group") and respectively their corporate officers, senior management or employees may, on a personal basis or in the name and on behalf of third parties, undertake transactions in the financial instruments described in the Publication, hold other financial instruments in respect of the issuer or the guarantor of those financial instruments, or may provide or seek to provide securities services, financial services or any other type of service for or from these Entities. Where an Entity and/or a Crédit Agricole Group Entity acts as an investment adviser and/or manager, administrator, distributor or placement agent for certain products or services mentioned in the Publication, or carries out other services in which an Entity or the Crédit Agricole Group has or is likely to have a direct or indirect interest, your Entity shall give priority to the investor's interest.

Some investments, products, and services, including custody, may be subject to legal and regulatory restrictions or may not be available worldwide on an unrestricted basis taking into consideration the law of your country of origin, your country of residence or any other country with which you may have ties. In particular, any the products or services featured in the Publication are not suitable for residents of US and Canada. Products and services may be provided by Entities under their contractual conditions and prices, in accordance with applicable laws and regulations and subject to their licence. They may be modified or withdrawn at any time without any notification.

Please contact your relationship manager for further information.

In accordance with applicable regulations, each Entity makes the Publication available:

- **In France:** this publication is distributed by CA Indosuez, a public limited company with a capital of 584'325'015 euros, a credit institution and an insurance brokerage company registered with the French Register of Insurance Intermediaries under number 07 004759 and with the Paris Trade and Companies Register under number 572 171 635, whose registered office is located at 17, rue du Docteur Lancereaux - 75008 Paris, and whose supervisory authorities are the Prudential Control and Resolution Authority and the Autorité des Marchés Financiers.
- **In Luxembourg:** the Publication is distributed by CA Indosuez Wealth (Europe), a limited company (société anonyme) under Luxembourg law with share capital of euros 415.000.000, having its registered office at 39 allée Scheffer L-2520 Luxembourg, registered with the Luxembourg Companies Register under number B91.986, an authorized credit institution established in Luxembourg and supervised by the Luxembourg financial regulator, the Commission de Surveillance du Secteur Financier (CSSF).
- **In Spain:** the Publication is distributed by CA Indosuez Wealth (Europe) Sucursal en España, supervised by the Banco de España (www.bde.es) and the Spanish National Securities Market Commission (Comision Nacional del Mercado de Valores, CNMV, www.cnmv.es), a branch of CA Indosuez Wealth (Europe), a credit institution duly registered in Luxembourg and supervised by the Luxembourg financial regulator, the Commission de Surveillance du Secteur Financier (CSSF). Address: Paseo de la Castellana número 1, 28046 Madrid (Spain), registered with the Banco de España under number 1545. Registered in the Madrid Trade and Companies Register, number T 30.176, F 1, S 8, H M-543170, CIF (Company tax ID): W-0182904-C.
- **In Belgium:** the Publication is distributed by CA Indosuez Wealth (Europe) Belgium Branch, located at 120 Chaussée de la Hulpe B-1000 Brussels, Belgium, registered with the Brussels Companies Register under number 0534 752 288, entered in the Banque-Carrefour des Entreprises (Belgian companies database) under VAT number 0534.752.288 (RPM Brussels), a branch of CA Indosuez Wealth (Europe).
- **In Italy:** the Publication is distributed by CA Indosuez Wealth (Europe), Italy Branch based in Piazza Cavour 2, Milan, Italy, registered in the Register of Banks no. 8097, tax code and registration number in the Business Register of Milan, Monza Brianza and Lodi n. 97902220157.
- **Within the European Union:** the Publication may be distributed by Indosuez Wealth Management Entities authorised to do so under the Free Provision of Services.
- **In Monaco:** the Publication is distributed by CFM Indosuez Wealth, 11, Boulevard Albert 1er - 98000 Monaco registered in the Monaco Trade and Industry Register under number 56S00341, accreditation: EC/2012-08.
- **In Switzerland:** the Publication is distributed by CA Indosuez (Switzerland) SA, Quai Général-Guisan 4, 1204 Geneva and by CA Indosuez Finanziaria SA, Via F. Pelli 3, 6900 Lugano and by their Swiss branches and/or agencies. The Publication constitutes marketing material and does not constitute the product of a financial analysis within the meaning of the directives of the Swiss Bankers Association (SBA) relating to the independence of financial analysis within the meaning of Swiss law. Consequently, these directives are not applicable to the Publication.
- **In Hong Kong SAR:** the Publication is distributed by CA Indosuez (Switzerland) SA, Hong Kong Branch, Suite 2918, Two Pacific Place, 88 Queensway. No information contained in the Publication constitutes an investment recommendation. The Publication has not been referred to the Securities and Futures Commission (SFC) or any other regulatory authority in Hong Kong. The Publication and products it may mention have not been authorised by the SFC within the meaning of sections 103, 104, 104A or 105 of the Securities and Futures Ordinance (Cap. 571) (SFO).
- **In Singapore:** the Publication is distributed by CA Indosuez (Switzerland) SA, Singapore Branch 168 Robinson Road #23-03 Capital Tower, 068912 Singapore. In Singapore, the Publication is only intended for persons considered to be high net worth individuals in accordance with the Monetary Authority of Singapore's Guideline No. FAA-G07, or accredited investors, institutional investors or expert investors as defined by the Securities and Futures Act, Chapter 289 of Singapore. For any questions concerning the Publication, recipients in Singapore can contact CA Indosuez (Switzerland) SA, Singapore Branch.
- **In the DIFC-UAE:** the Publication the brochure is distributed by CA Indosuez (Switzerland) SA, DIFC Branch, Al Fattan Currency House, Tower 2 – Level 23 Unit 4 DIFC PO Box 507232 Dubai – UAE a company regulated by the Dubai Financial Service Authority ("DFSA"). This brochure is intended for professional client and/or market counterparty only and no other person should act upon it. The financial products or services to which this publication relates will only be made available to a client who meets the DFSA professional client and /or market counterparty requirements. This brochure is provided for information purposes only. It is not to be construed as an offer to buy or sell or solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction.
- **In the UAE:** the Publication is distributed by CA Indosuez (Switzerland) SA, Abu Dhabi Representative Office, Zayed - The 1st Street- Al Muhairy Center, Office Tower, 5th Floor, P.O. Box 44836 Abu Dhabi, United Arab Emirates. CA Indosuez (Switzerland) SA operates in the United Arab Emirates (UAE) via its representative office which comes under the supervisory authority of the UAE Central Bank. In accordance with the rules and regulations applicable in the UAE, CA Indosuez (Switzerland) SA representation office may not carry out any banking activity. The representative office may only market and promote CA Indosuez (Switzerland) SA's activities and products. The Publication does not constitute an offer to a particular person or the general public, or an invitation to submit an offer. It is distributed on a private basis and has not been reviewed or approved by the UAE Central Bank or by another UAE regulatory authority.
- **Other countries:** laws and regulations of other countries may also limit the distribution of this publication. Anyone in possession of this publication must seek information about any legal restrictions and comply with them.

The Publication may not be photocopied or reproduced or distributed, in full or in part, in any form without the prior agreement of your Bank.

Photo credits: iStock.