

Six Minute Strategy

Different economic paths as America decides

September 2024



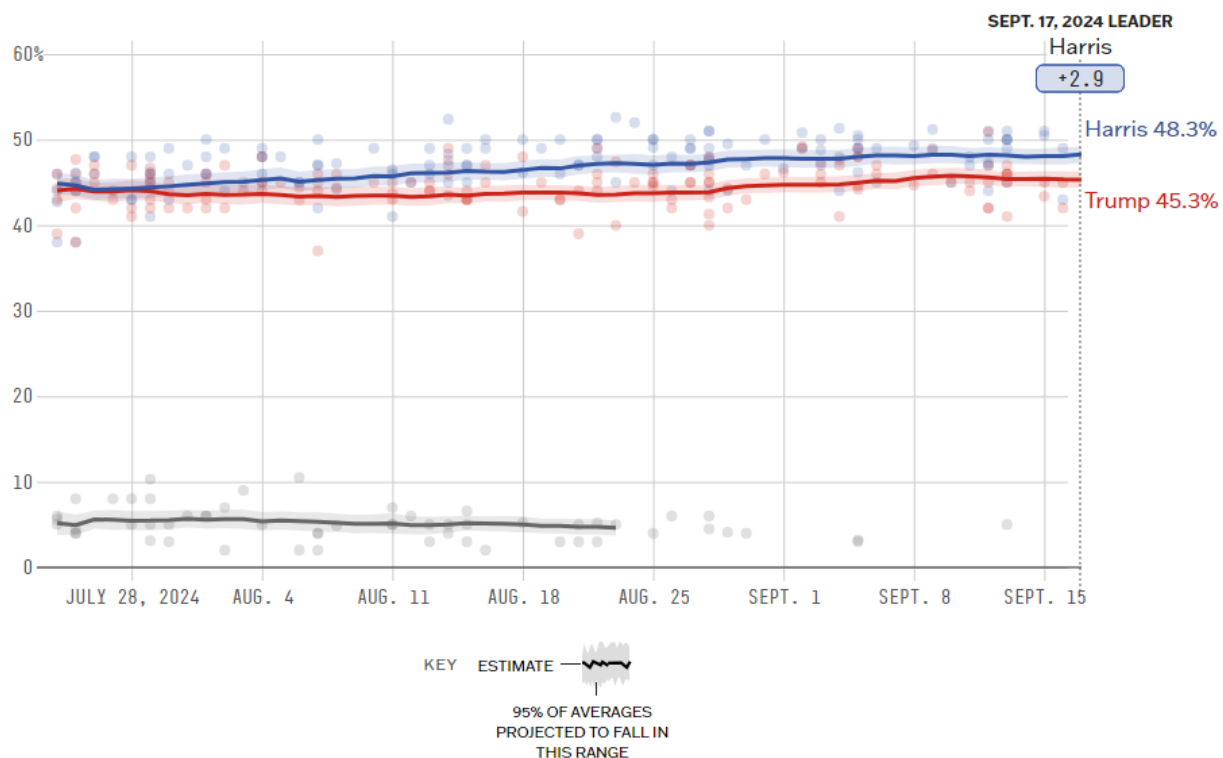
2024 US elections: A defining moment for politics, economics and markets



Poll Aggregator 538's odds on the US Presidency

Who's ahead in the national polls?

Updating average for each candidate in 2024 presidential polls, accounting for each poll's recency, sample size, methodology and house effects.



- Despite Harris bounce, polls are too close to call
- Harris needs about 2.5% lead to overcome the electoral college disadvantage
- Senate is likely to remain Republican
- House of Representatives likely to go with the winner of the Presidency
- Candidates have widely different views on taxation, tariffs, spending, regulation, climate and global governance

Source: 538, 18.08.24.

President Trump's proposals



	GDP	Debt
10 year change	-0.4%	+9.3%

1. Extend individual income tax cuts of the Tax Cut and Jobs Act (TCJA) due to expire in December 2025
2. Extend business tax provisions of the TCJA (100% depreciation on tangible investment and 100% depreciation on research and experimentation)
3. Reduce corporate tax rate to 15%
4. Eliminate taxes on social security benefits
5. *Reciprocal or universal tariffs on all trading partners; 60% tariffs on China*
6. *Repealing clean energy tax credits in the IRA (\$7500 for household EVs) and clean energy production and claw back unspent funds*
7. *Deport illegal immigrants*

Vice President Harris's proposals



HARRIS WALZ

	GDP	Debt
10 year change	-1.3%	4.4%

1. Extend TCJA for households making less than \$400K
2. Expand child tax credit permanently to as much as \$6K per newborn, £3K – 3.6K young children
3. Expand earned income tax credit for childless adults
4. Down payment support of \$25K for first-time home buyers
5. Raise corporate tax rate to 28%; corporate AMT to 21% from 15%; quadruple buyback tax to 4%
6. Lower prescription drug costs
7. *New capital gains tax bracket of 28% and NIIT to 5% for those with incomes > 1m*

Distributional effects are meaningfully different

Harris is appealing to the lower three quintiles (60%) vs Trump is targeting the top two (40%)



Distributional effects of the Harris vs Trump

Income group	Harris		Trump
	Change in income, after taxes and transfers		Change in income, after taxes and transfers
First quintile	24.40%	>	6.40%
Second quintile	3.90%	>	1.70%
Middle quintile	2.40%	>	2.20%
Fourth quintile	1.80%	<	2.90%
80-90%	0.80%	<	2.60%
90-95%	0.40%	<	2.70%
95-99%	-0.20%	<	3.40%
99-99.9%	-0.50%	<	2.10%
Top 0.1%	-0.90%	<	1.60%

Base case for Trump policy

Economic implications and asset allocation

- **Economic implications:**

- **Inflation** – tariffs on imports from China will raise inflationary pressures as US importers will likely pass tariffs on to consumers.
- **Deficit** – budget deficit to increase by approximately 1% as result of increased spending and lower taxes (TCJA expiry).
- **Growth** – unlikely to be dramatically stimulated, consumer reaction to higher inflation may lead to economic weakness. Deregulation may have moderate stimulating effect at the margin.

- **Asset allocation:**

- **Equities** – US equities supported by higher inflation, deregulation and expectation of fiscal largesse. Chinese equities likely under pressure due to tariff concerns.
- **Fixed income** – US treasuries likely to sell off due to higher inflation. US yield curve to steepen on concerns of debt sustainability.
- **Gold (and potentially crypto)** – supported as inflation hedges.
- **US Dollar** – tariffs and inflation are supportive of currency but debt sustainability likely to weigh on investor sentiment.

Base case for Harris policy

Economic implications and asset allocation

- **Economic implications:**

- **Growth** – corporate tax increase to 28% will likely offset the benefit of low-middle income support.
- **Inflation** – slower growth, but more equal distribution of income across earners nets out to broadly neutral inflation effect.
- **Deficit** – Budget deficit to increase due to increased government spending; this may be offset somewhat by higher corporate taxes.

- **Asset allocation:**

- **Equities** – if Democratic sweep, negative for US equities. If divided Congress, positive for US equities.
- **Fixed income** – no material change. Deficit higher, but unlikely to lead to a sharp sell-off in US Treasuries.
- Gradual weakness likely for the **US dollar**.

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