Insight INVESTMENT

GLOBAL MACRO RESEARCH

US ELECTION 2024 AN EARLY LOOK

APRIL 2024

BNY | INVESTMENTS

WE EXPECT A CLOSE-RUN PRESIDENTIAL ELECTION. OUR CURRENT BASE CASE IS CLOSE TO A 50:50 PROBABILITY THAT EITHER CANDIDATE WILL PREVAIL WITH ANOTHER SPLIT CONGRESS.

NOTABLY BOTH CANDIDATES HAVE OPPOSING VIEWS OVER THE 'FISCAL CLIFF' THEY WILL FACE AFTER THE ELECTION, WHICH WE EXPECT TO BECOME A PIVOTAL DOMESTIC ISSUE.

EXECUTIVE SUMMARY

Our current base case for the elections:

- We expect very close elections, and our current call is for the House and Senate to flip to opposite parties (something that has never happened in a single election before). Our base case of a divided, polarised government will likely translate into more gridlock, with neither party fully able to implement its agenda.
- The return of President Biden to the White House would offer more policy predictability. At the same time, we also expect a second President Trump administration would be less chaotic in carrying out his agenda this time around, given a higher degree of familiarity with how Washington works and a more aligned Republican Party and Cabinet.
- Addressing the fiscal cliff (as some provisions from the 2017 Tax Cut and Jobs Act expire) will be a pivotal domestic issue. The two sides have differing views on the fate of these cuts, and the balance of power in Washington after the upcoming elections will have meaningful implications for the US outlook.

In upcoming papers in this series we will additionally explore the potential impacts of the election result on geopolitics and international trade.

A TENTATIVE LOOK AT THE NEXT PRESIDENT'S AGENDA

Although the Democrats and Republicans are bitterly divided across many issues, there are some areas where we expect bipartisan agreement. For example, we expect the defense sector to benefit under either candidate given a multitude of geopolitical flashpoints. Further, both candidates view China as the greatest threat to US national interests and both candidates will likely continue their respective flavors of trade protectionism.

Taxes

A divided Congress will be a major roadblock for either candidate's objectives

The next president will face the fiscal cliff due to the number of expiring provisions from the 2017 Tax Cuts and Jobs Act. The two candidates, however, have diametrically opposed views on how to proceed. President Biden has expressed a desire to raise taxes on corporations and high net worth individuals, while President Trump floated the idea of another round of across-the-board tax cuts. However, either candidate will need an accommodative Congress, which is far from a given.

Industrial policy

Any attempt to repeal the Inflation Reduction Act may look like the failed 2017 attempt to repeal Obamacare

President Trump has repeatedly criticised the Inflation Reduction Act (IRA) and vowed to hollow it out. However, we expect it to remain largely intact, given many of the projects benefiting are in predominately Republican states. We expect any attempt to repeal the IRAto be unsuccessful, reminiscent of the first Trump administration's failed attempt to repeal the Affordable Care Act (ACA, or 'Obamacare').

Trade

Free trade has become a politically toxic subject on both sides of the aisle

The Trump administration would likely pick up from where it left off with its "America First" agenda, potentially with tariffs on all imported goods and targeted tariffs on all Chinese imports. Biden would likely continue to focus on incentives-heavy domestic industrial policy.

Foreign policy

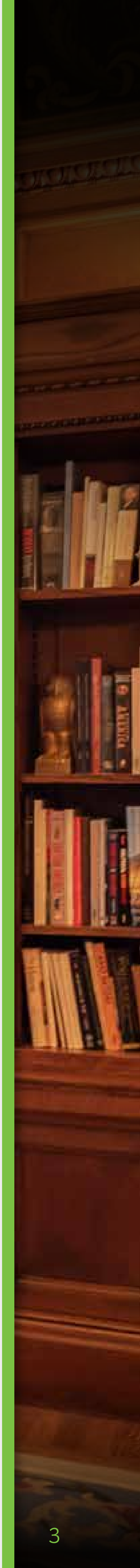
Countering China will likely be the centrepiece of both candidates' foreign policy

Trump will likely curtail or end US military and economic support to Ukraine altogether and will adopt a confrontational stance with NATO allies and pursue a more isolationist policy.

Immigration

Policy will be more restrictive, particularly under President Trump

Trump would likely bring back his "Remain in Mexico" program. There could also be large-sale deportations, travel bans and more funding for border enforcement, including the wall. The record levels of migrants crossing the US southern border will likely force President Biden to toughen his stance by enforcing more controls on migration and asylum rules.



Defense

The defense sector will likely benefit under either president

We expect military spending to get a meaningful boost over the coming years, given rising geopolitical tensions worldwide, the US' ongoing adversarial relationship with China, the rise of emerging technologies such as AI and concerns around cybersecurity.

Financials

President Trump would likely take a deregulatory approach

While President Biden is in favor of more stringent bank regulation, including additional capital requirements for banks, President Trump would likely embrace a more deregulatory policy that may include, among other things, capital markets reform and more fintech and crypto-friendly policies.

Federal Reserve

A new Federal Reserve chair is likely in 2026

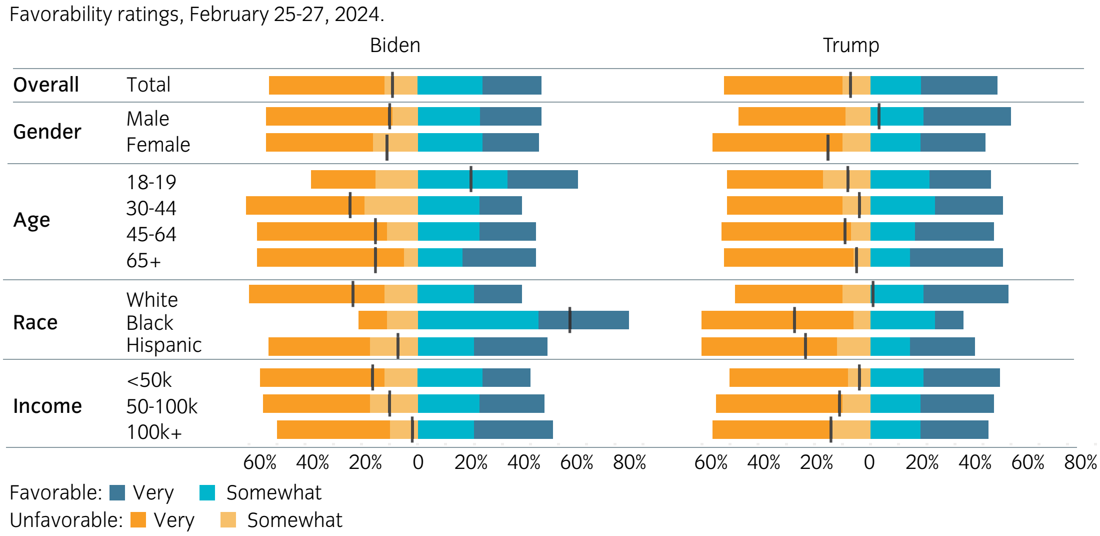
Trump has said that if re-elected, he will not bring back Jerome Powell after his term as Fed chair ends in May 2026. We suspect Biden would not either, potentially opting instead to elevate either current Vice-Chair Philip Jefferson or someone else to the role.

An important caveat: 'homo proponit, sed Deus disponit' (Man proposes and God disposes). Every president has learned that even their best-laid plans can be derailed by unforeseen events that divert attention and resources. President Trump learned that with the COVID-19 pandemic in 2020 and President Biden experienced that with wars in Ukraine and Gaza.

WE SEE NO CLEAR FAVORITE IN A BATTLE OF 'UNFAVORABLES'

The 2024 elections will feature two candidates that are disliked by much of the country (Figure 1). As of early April, we assign a close to 50% probability of either candidate winning and a combined 70% probability of a divided government with more gridlock and dysfunction, blocking much of the president's agenda.

Figure 1: A battle of 'unfavorables'[1]

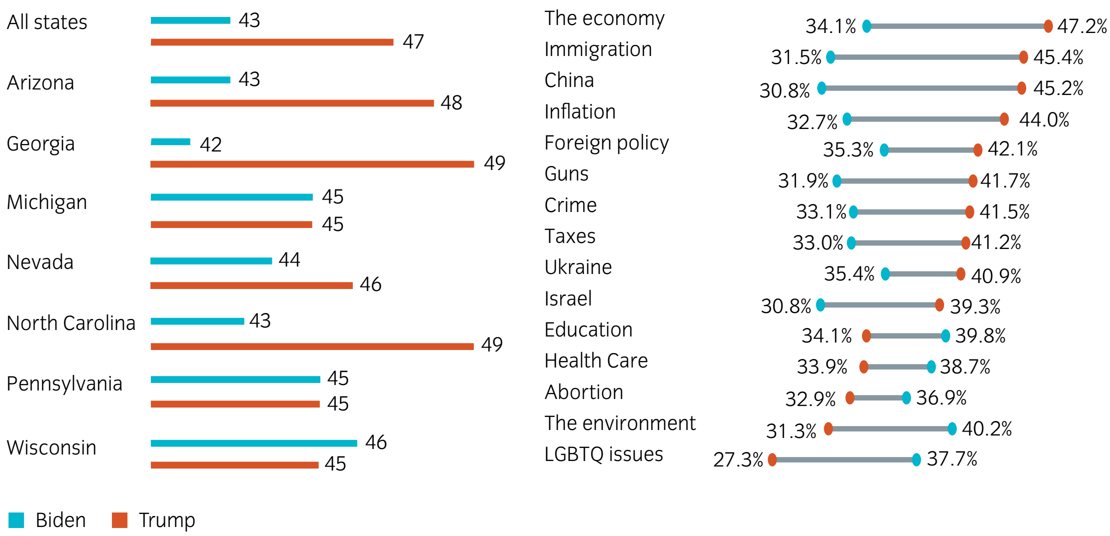


[1] The Economist / YouGov poll, Insight, March 2024.

THE CASE FOR A TRUMP PRESIDENCY

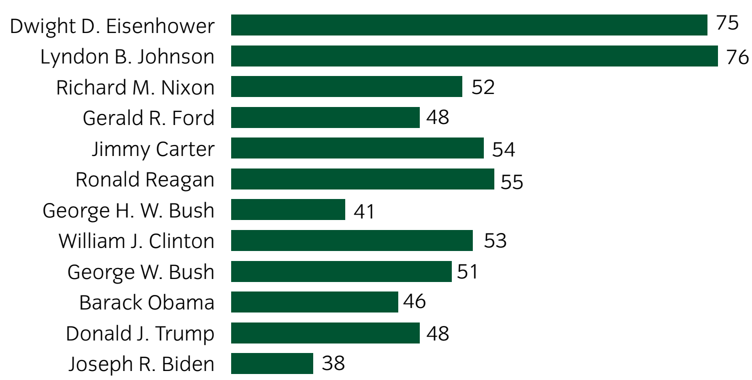
As a result of the quirks of the US electoral college system, although the entire nation will vote in November, only a handful of swing states will effectively determine the outcome. Trump currently leads Biden at the polls in most of them. Moreover, voters have also indicated they believe Trump would do a better job handling critical issues such as the economy, inflation, immigration, and foreign policy if he were to become president. One issue that is a clear weak spot for Trump is reproductive rights. The issue became a major galvanizing force for Democrats during the 2022 midterm elections, allowing Democrats to win several key national and state races. It is likely that the Democrats will campaign heavily on the issue into November and will try to make it one of the pivotal issues in 2024.

Figure 2: The polls look good for Trump[2]

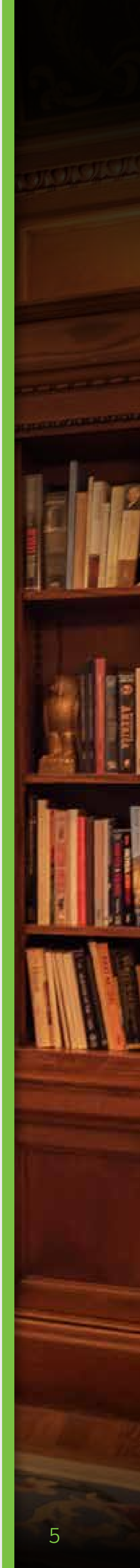


President Biden has a tough road ahead. His 38% approval rating is the lowest among incumbents in February of an election year, which puts him in a precarious spot. Presidents have historically needed approval ratings of 50% or higher close to the election to be safe in their re-election bids (Figure 3).

Figure 3: Biden is well short of the 50% approval rating threshold that incumbents have needed in the February ahead of the election[3]



[2] Morning Consult/Bloomberg, Insight, March 2024.
[3] Gallup, Insight, March 2024



THE CASE FOR A BIDEN PRESIDENCY

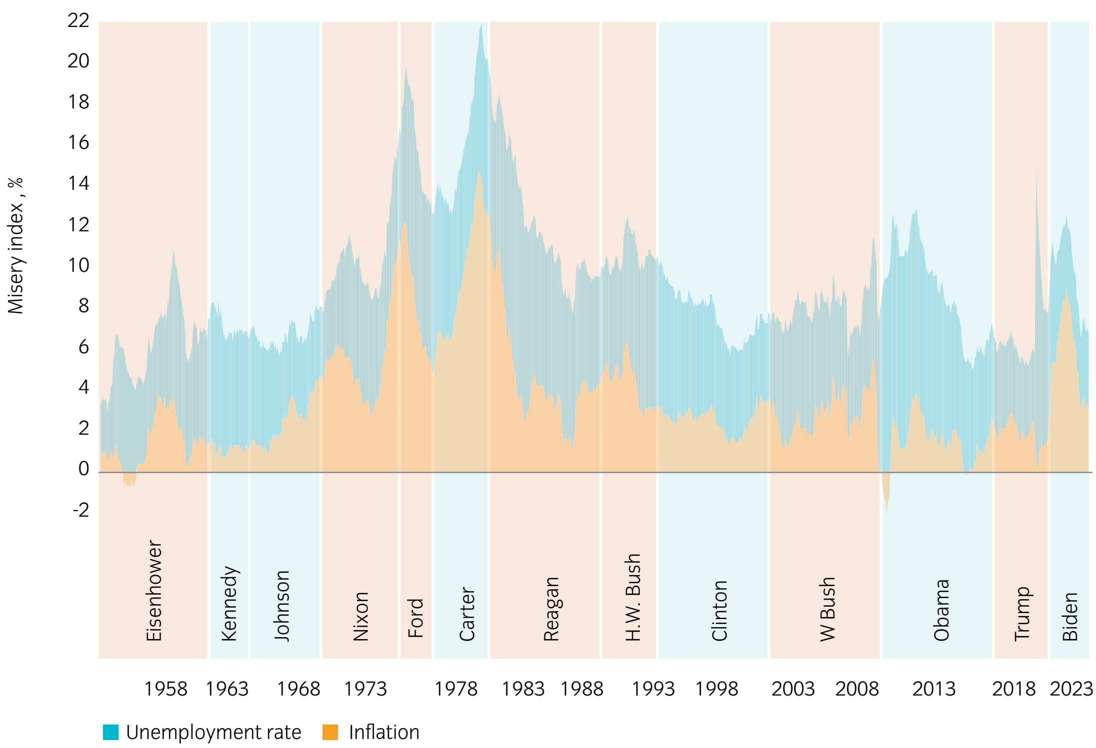
The good news for President Biden is that the improving economic backdrop should provide a lift to his re-election campaign. After all, in the words of the former Democrat strategist and political consultant James Carvillle: "It's the economy, stupid!"

A falling 'misery index' (inflation rate plus unemployment rate) during a president's term has historically been a good indicator of the incumbents' success in their re-election bid. One president who failed to get re-elected despite an improving misery index was Gerald Ford, likely due to his highly controversial full and unconditional pardon of Richard Nixon.

Since Biden took office, the misery index has fallen by 0.8 percentage points as of April 2024 (Figure 4). Biden's campaign will likely point to other indicators that highlight resilience in the US economy – strong job growth and wage gains, strong manufacturing investment and improving consumer sentiment.

However, so far, the Biden administration has struggled to translate this into a winning reputation with voters, likely due to a phenomenon called 'vibecession'. This refers to a disconnect between the state of the economy and how the general public is perceiving it. Much of this potentially reflects the rapid run-up in price levels over the past few years as well as other issues such as high interest rate environment and a housing affordability problem.

Figure 4: The wisdom of "It's the economy stupid", may prevail for Biden[4]



THE CANDIDATES OFFER VASTLY DIVERGENT PATHS FOR HANDLING THE UPCOMING FISCAL CLIFF

Among key looming domestic issues, two will require immediate attention in 2025. First, the next administration will need to address the debt limit, which was suspended through January 2025 as part of the Fiscal Responsibility Act of 2023. Second, the winning candidate will need to address the fate of several provisions from the 2017 Tax Cut and Jobs Act that are set to expire at the end of next year.

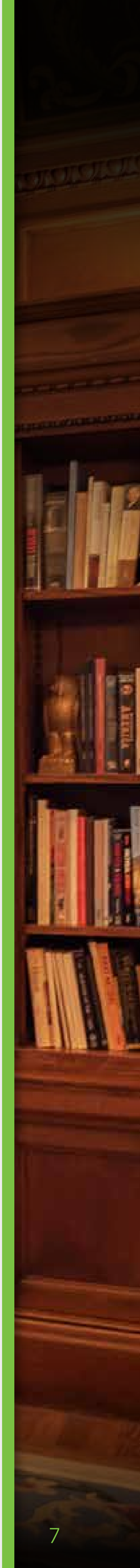
Both candidates offer vastly divergent paths for handling this fiscal cliff (see Table 1), with President Biden arguing for raising taxes for corporations, and high-net-worth individuals, while leaving the existing tax cuts in place for those making less than $400,000 annually.

[4] Macrobond, Insight, March 2024.

Table 1: Implications of expiring tax cuts[5]

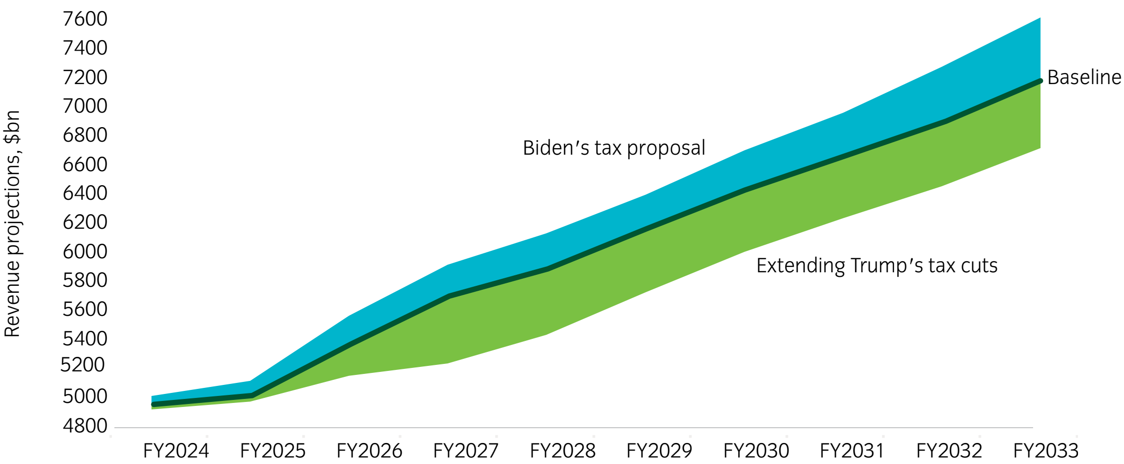
Provision	Tax Cuts and Jobs Act	Expiration
Marginal tax rates	Under the TCJA, marginal rates are 10%, 12%, 22%, 24%, 32%, 35%, and 37%	Marginal rates will revert to their permanent pre-TCJA levels of 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%
Standard deduction	Under the TCJA, basic standard deduction amounts in 2018 were nearly doubled to $12,000 for single filers, $18,000 for head of household filers, and $24,000 for married joint filers. These amounts were annually adjusted for inflation after 2018. In 2024, these amounts are $14,600, $21,900, and $29,200, respectively.	The basic standard deduction amounts will revert to their TCJA levels and then be adjusted for inflation
Personal exemptions	The personal exemption provisions is effectively suspended	Personal exemptions will revert to their pre-TCJA levels and then be adjusted for inflation
Child tax credit	The child tax credit allows a taxpayer to reduce their federal income tax liability by up to $2,000 per qualifying child	The child credit will revert to its pre-TCJA structure (maximum credit of $1,000 per child)
Itemised deductions	- Taxpayers who itemise their deductions can deduct up to $10,000 in state and local income, sales, and property taxes (SALT), as well as foreign income taxes - Taxpayers who itemise their deductions may deduct interest paid on the first $750,000 of mortgage debt - There is no itemized deduction for certain miscellaneous expenses such as unreimbursed employee expenses or tax preparation fees	The $10,000 cap on SALT deduction will not apply: - The $750,000 limitation will increase to $1 million - Individual taxpayers who itemise their deductions will be able to deduct miscellaneous expenses to the extent that such expenses collectively exceed 2% of their adjusted gross income
Alternative minimum tax (AMT)	A tax is imposed at 26% on an individual's alternative minimum taxable income, with a higher rate of 28% applied to taxpayers with alternative minimum taxable incomes above $232,600 in 2024. For 2024 the AMT exemption amounts are $85,700 for singles/heads of households and $133,300 for married couples	The AMT exemption and exemption phaseout will revert to pre-TCJA levels and then both will be adjusted for inflation. Prior to the TCJA, the higher 28% rate applied to incomes above $191,500 for married couples and the exemption amounts were $55,400 for singles/heads of households and $86,200 for married couples; and the exemption phaseouts were $123,100 for singles/heads of households and $164,100 for married couples in 2018
Deduction for pass-through business income	The TCJA created a deduction equal to 20% of qualified business income	The deduction will expire, and pass-through business income will generally be taxed according to ordinary individual income tax rates
Expensing	The TCJA temporarily allowed full expensing (i.e., 100% bonus depreciation) through 2022, before phasing down through the end of 2026. For long production-period property, the phasedown period begins after 2024	Will end the use of bonus depreciation
Estate and gift tax	The base estate and gift tax exemption amount was doubled from $5,000,000 to $10,000,000 and adjusted annually for inflation	The estate and gift tax exclusion will be reduced to pre-TCJA levels
Qualified opportunity zones	Opportunity zones provide several tax benefits to those who invest in these areas, including a temporary deferral of capital gains taxation, an increase in the investment basis, and a permanent exclusion of the capital gains from income	Investments in opportunity zones will not be eligible for deferral, adjustments to basis, or exclusions on gains

[5] Congressional Budget Office, Tax Foundation, Insight Investment, March 2024.



By contrast, Trump has expressed a desire to make his tax cuts permanent and potentially even cut them further. The gap between these two visions is a swing of $6trn in tax revenues by 2033 (Figure 5). However, it is likely that neither candidate will be able to fully implement his agenda, and the original proposal will be watered down as a result of horse-trading between the White House and Congress.

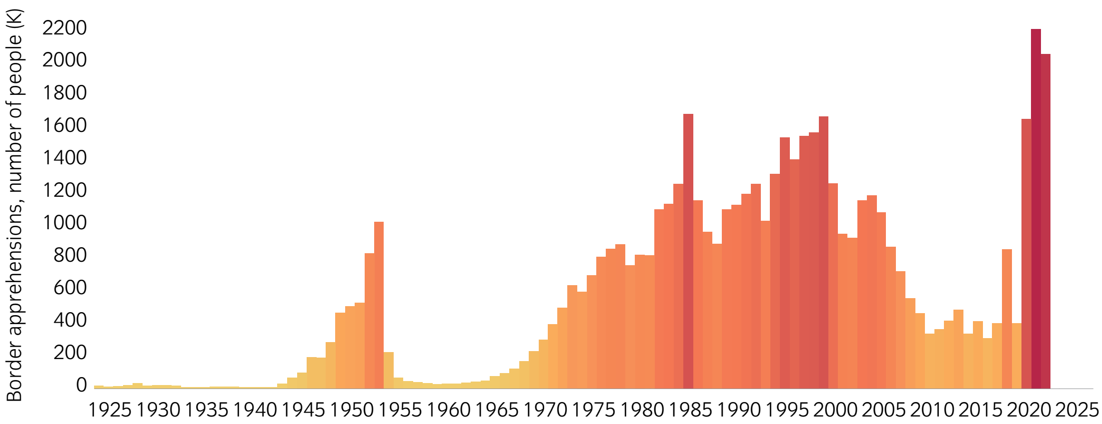
Figure 5: Tax receipts over the next few years could be heavily influenced by who wins the election[6]



EXPECT TIGHTER IMMIGRATION RESTRICTIONS

A surge of migrants seeking entry into the US at the US-Mexico border (Figure 6) has become one of the most contentious issues of the 2024 campaign.

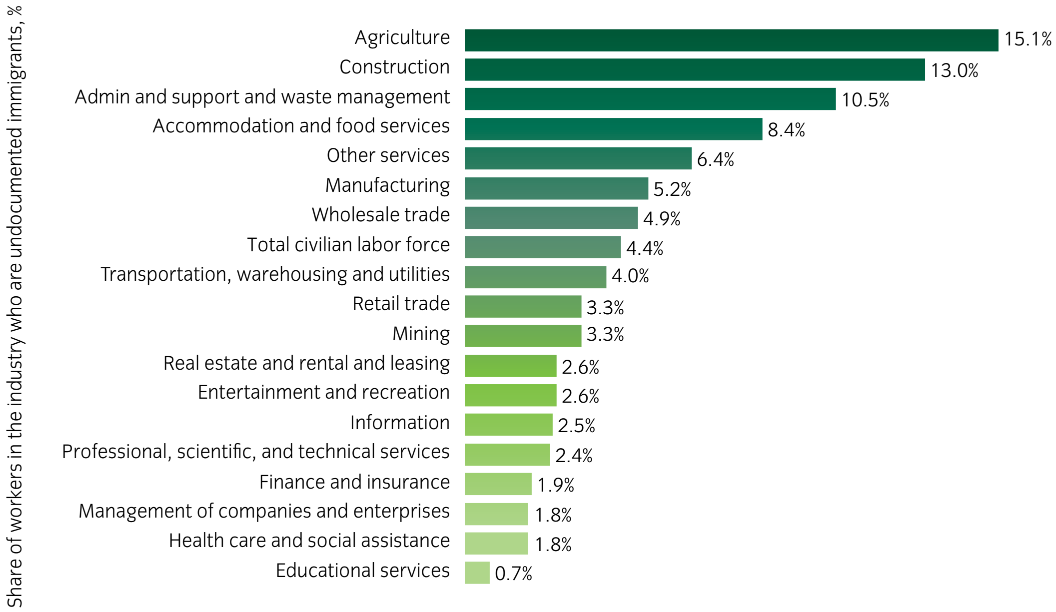
Figure 6: The border crisis threatens to derail Biden's campaign[7]

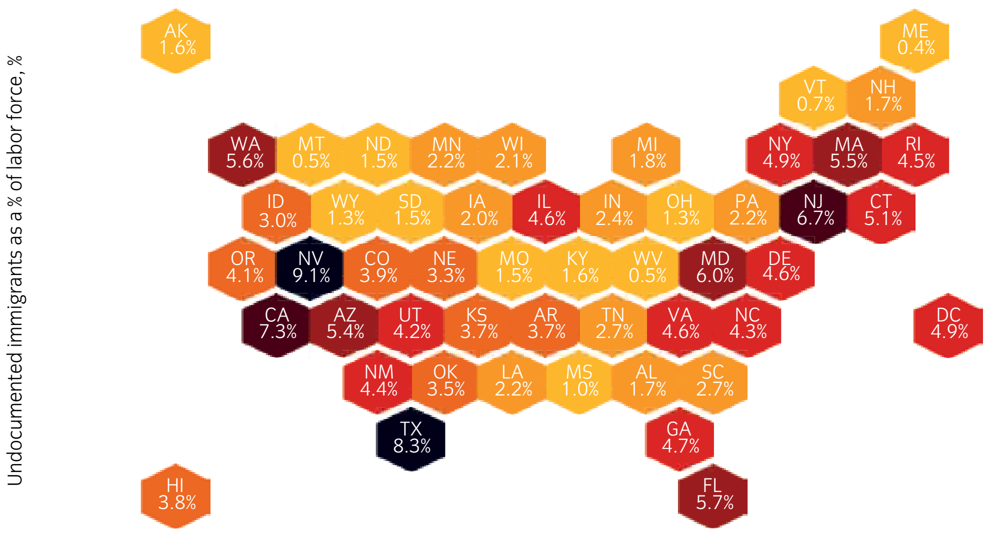


Stricter immigration policies may result in reduced workers in a still relatively tight labor market. For example, undocumented workers make up more than 15% of the workforce in the agriculture sector and 13% of the construction industry workforce. A major crackdown on unauthorised immigrants may have inflationary implications if employers need to bid up wages to make up for the shortfall. This effect may be particularly notable in the southwestern and southeastern states where undocumented workers tend to make up a larger share of the labor force.

[6] Congressional Budget Office, Tax Foundation, Insight Investment, March 2024.
[7] US Customs and Border Protection, Insight Investment, March 2024.

Figure 7: Undocumented workers make up a significant proportion of certain states and industry workforces[8]





A THIRD-PARTY WILD CARD COULD DISRUPT THE RESULT

Although the main event in November will be the contest between Biden and Trump, there remains the possibility that a third-party candidate will act as a political 'spoiler' by siphoning enough votes to sway the election.

The 2020 election was decided by fewer than 43,000 votes, and the independent presidential candidate Robert F. Kennedy Jr. has already announced that he intends to be a 'spoiler' for both Biden and Trump. Kennedy is currently polling better than any third-party candidate since Ross Perot in 1992.

[8] Center for American Progress, Pew Research Center, Insight, March 2024.

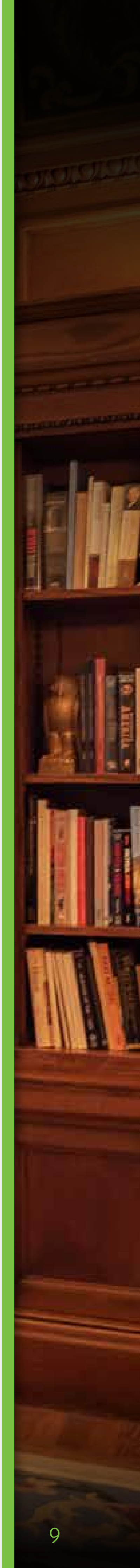
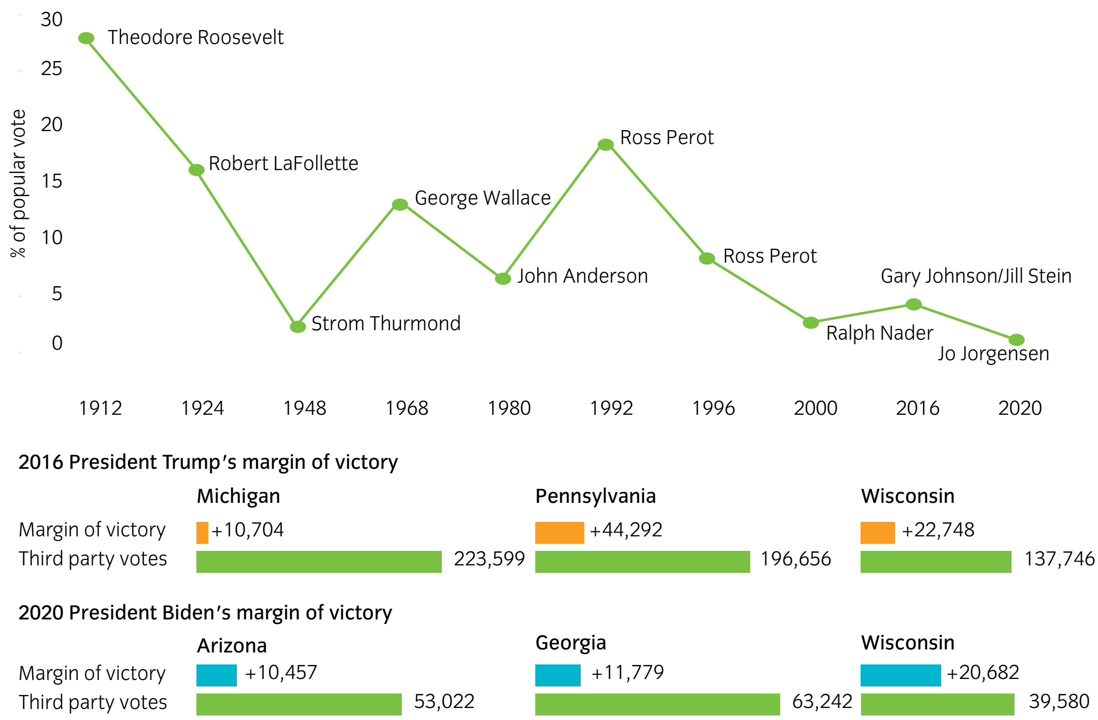


Figure 8: There is room for a third-party candidate to influence the election outcome[9]



CONCLUSION

The outcome of the election remains highly uncertain and will depend heavily on the path of the economy between now and November and each candidate's ability to weaponise their opponents' weaknesses. For now, our base case is that the winner is too close to call but we project a split Congress.

CONTRIBUTORS

Emin Hajiyev
Senior Economist
Active Management
Insight Investment

Amol Chitgopker
Senior Investment Content Specialist
Insight Investment

[9] Federal Election Commission, Insight, March 2024

FIND OUT MORE

Institutional Business Development
businessdevelopment@insightinvestment.com

European Business Development
europe@insightinvestment.com

Consultant Relationship Management
consultantrelations@insightinvestment.com

North America Business Development
inquiries@insightinvestment.com

Australia Business Development
insightau@insightinvestment.com

company/insight-investment

www.insightinvestment.com

IMPORTANT INFORMATION

16039-04-24