

US Election

Latest views from the investment team



History book events

With just over 100 days until the US election on 5 November 2024, the run up is proving to be quite eventful. On Saturday 13 July, former President and Republican candidate, Donald Trump, survived an assassination attempt at a rally. Just over a week later, on Sunday 21 July, US President Joe Biden made history by voluntarily stepping down as the Democrat's presidential candidate, a position for which he had already secured the parties nomination.

Biden's decision to step down was not unexpected. There have been concerns about his age and health for some time, which intensified following his poor performance at the first presidential debate last month. Encouragement for him to relinquish power has come broadly from senior Democrats and large donors, with pressure substantially ramping up in recent weeks. Vice president Kamala Harris is the most likely replacement to Joe Biden as the party's presidential candidate following endorsements from Biden himself as well as other senior Democrats (including some of those who could have pursued the nomination themselves) and big donors. There remains a process to follow in which she needs to formally secure the nomination from delegates (from each state) at the Democrat National Convention to be held in Chicago on 19-22 August. However, the campaign which was known as 'Biden for President' has had its name changed to 'Harris for President' and the campaign money raised to date has been transferred. In addition, online donations to the Democrats surged on Sunday 21 July to more than \$50 million, making it the single biggest day for online contributions since the 2020 election.

Who is Kamala Harris?

Kamala Harris was born in California in 1964 to immigrants; an Indian-born mother and Jamaican-born father. She studied law and spent more than twenty-five years as a local and state prosecutor, gaining a strong record on crime reduction and consumer protection. She was elected as California's attorney general in 2010. In 2016, she was elected to the US Senate and was picked as Biden's Vice President in 2020. She became known for posing difficult questions during Trump's term as President on issues such as gun control, abortion and healthcare. The Supreme Court ruling in 2022, which narrowly passed with the help of judges appointed by Donald Trump, that overturned the federal right to an abortion was a huge divisive moment for the US – Kamala Harris may make this a key campaign issue. Additionally, her deciding vote in the Senate helped pass the Inflation Reduction Act and American Rescue Plan, key policies enacted in response to Covid-19. She is viewed as a continuity candidate, with similar views to Biden on key policies, but one with greater energy and momentum who is likely to perform better in future debates against Trump. Critics point to her failed 2019 bid for the Democratic nomination, which was viewed as disjointed and there are also some concerns about her ability to win over swing voters because she comes from California, where Democrats dominate.

Key policy differences

Policy differences between the Republicans and Democrats that are most likely to influence financial markets include tax and regulation, foreign policy and immigration. If elected, the Republicans promise reductions in taxes and red tape as well as a stricter stance on immigration and reduced foreign aid.

Donald Trump is pledging a broad range of tax cuts, as well as increases in tariffs – 10% on all US imports and 60% on imports from China. While tax cuts should encourage investment and consumer spending, tariffs will make imports more expensive. The aim is to promote products produced in the US and boost US jobs. He has also pledged to reduce the regulatory burden – a policy likely to more significantly support small businesses because regulations impose the same requirements regardless of firm size. The Democrat's approach is different – aiming to support growth via investing in infrastructure and clean energy. Biden invested a historic \$300 billion into clean energy and climate initiatives through his Inflation Reduction Act, although oil and gas production have also increased under Biden. Trump vows to greatly increase domestic oil production.

On immigration, the Republicans take a much harder line. Restricting immigration is a policy which, all else equal, should support US wages but possibly also make finding employees more challenging. Trump often points to crime involving migrants whereas Biden points to the need for additional workers. J.D. Vance has recently been announced as Donald Trump's vice-presidential pick; this has implications for foreign policy. Whereas Trump has expressed scepticism in the past about NATO, some potential vice-presidential picks may have alleviated any concerns – this is not the case with



Vance who takes the view that the US spend much more than is fair on international defence. If elected, this stance may increase tensions with Europe. Also, on Ukraine, the Democrats support ongoing funding but the Republican view is very different – they want to restrict aid and find a quick resolution between Russia and Ukraine – an approach at risk of igniting global tensions. Also notable are recent Trump comments that Taiwan’s chip industry has prospered at the expense of US business.

Market impact

The attempted assassination of Donald Trump led to increased expectations that he would win the election and the Republicans would gain control of both chambers. Taking control of both the House and the Senate would greatly facilitate the implementation of their policies and, therefore, instigated some significant market moves. After lagging their large cap counterparts for some time, small cap stocks have recently outperformed – propelled by recent low inflation prints but also by expectations that reduced red tape will be beneficial. In contrast, chipmaker stocks, which have led equity gains year-to-date, have sharply underperformed over recent days on fears of a tougher trade environment.

Meanwhile, the Republicans’ stance on immigration and tariffs is a mix likely to push up inflation. Trump also openly expresses the view that he wants to see lower interest rates and a weaker US dollar. Lower interest rates will underpin short-dated bonds but higher inflation, in a growing economy, casts doubt on the value of longer-dated bonds. Many investors associate Trump’s US-centric policies as positive for the economy which ultimately will lead to a stronger US dollar. This is, therefore, favourable for overseas investors of US equities. However, if the Republicans were able to engineer a weaker currency (eg by keeping interest rates lower than other regions, through rhetoric or by selling USD assets), the drivers for foreign investors would be a lot less compelling. Lastly, Bitcoin’s value has risen since the assassination attempt. Trump has not yet released any detailed proposals regarding cryptocurrency regulation, but he is viewed as broadly supportive, despite past scepticism.

Bottom line

Betting markets see Donald Trump as the clear favourite to win the US election with a probability around 60%. During the immediate aftermath of the attempted assassination his probability increased to around 69% but settled at approximately 65% before Biden stepped down. Currently, the odds of Donald Trump winning the US election are back to circa 60%. Therefore, it is still expected that Trump will win a second term but the last couple of weeks serve as a reminder that changes can happen extremely quickly. The likelihood of Republicans gaining control of both chambers seems reduced with Biden’s exit from the presidential race; potentially restricting any policy changes. The US economy is growing and with inflation falling towards target, the Federal Reserve are expected to begin lowering interest rates soon – with or without additional political pressure to do so. This is an environment that should be broadly supportive for markets. However, political developments generate additional uncertainty over which sectors will fair best. Therefore, we think investing in a diversified multi-asset portfolio continues to be a responsible approach.

For more information, please contact your adviser.

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