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PRIVATBANK

US elections 2024

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It is not only the US presidential elections that will take place on 5 November. On the same date, the people of America will also decide on the composition of the country's parliament, namely the US Congress. This will determine whether a Democratic or Republican majority will govern the bicameral parliament made up of the Senate and the House of Representatives. It is therefore not only the question of Trump or Harris that is important for economic and foreign policy as well as legislation. For the financial markets, and the equity markets in particular, however, a look back at history shows that developments in terms of economic growth and corporate earnings are far more pivotal than the outcome of the US elections.

This US election year is already sure to go down in the history books. After all, it is the first time that a president has withdrawn his candidacy since 1968 (President Johnson because of the unpopular Vietnam War), while we have also seen the first assassination attempt since 1981 (then on President Reagan). The styles and personalities of the two presidential candidates are as different as the economic approaches advocated by the two rival parties. This is important, as there have been few times in US history that the level of polarisation within society and politics has been as extreme as it is today.

In light of the fact that the majorities in both chambers of the US Congress are also to be redefined, it is currently interesting to analyse the differences in the economic policy approaches between America's two major parties. It should be noted that the detailed economic policy agenda will only be drawn up after the elections or even after the White House's new incumbent takes their place in the Oval Office, meaning that it may still change. Among other factors, this may be due to the exact shape that the government team takes as well as the final composition of important committees within the US Congress.

Tax policy is of particular importance this time around, as

the massive cuts in income and corporate taxes passed by Donald Trump in 2017 and the Republican majority in Congress at that time are set to expire at the end of 2025. These cuts have had a very positive effect on US economic growth and corporate earnings in the years since their introduction. The Republican party is therefore in favour of continuing the policy of low taxes, with the budget effects of this policy being compensated for by lower government spending, especially on wind and solar projects, and by tariff hikes. The Democrats, by contrast, are in favour of tax increases for wealthy Americans as well as higher corporate taxes, which would likely reduce growth in corporate earnings and in the economy. Traditionally, the Republicans tend to support traditional, i.e. fossil, energy firms, a fact that would by no means be disadvantageous for the security of US energy production owing to increased investments in oil and gas projects. The Democrats, on the other hand, want to continue investing in alternative energy and providing subsidies and government spending for solar and wind power, a policy that has significantly increased US national debt over recent years. The Democrats also appear more determined with respect to the possible reduction or control of drug prices, a fact that also explains the pressure on the valuations of pharmaceutical companies that has been observed in recent years.

“For the financial markets, economic and earnings trends are ultimately more important than the US government.”

Gérard Piasko, Chief Investment Officer

There are also clear differences when it comes to both foreign and defence policy. In view of the technological and military threats posed by China, Iran and Russia, the Republicans are in favouring of ramping up defence efforts. In order to keep control of the budget, higher defence spending could be offset by cuts in other government expenditure, including subsidies for alternative

energies. In terms of trade policy, however, the additional trade tariffs planned by the Republicans appear less positive for the economic growth of Asia and Europe, with US firms potentially winning additional market share through any tariff increases. Traditionally, Republicans have been against stronger regulation. This is true with respect to both the US tech titans, which are becoming ever more dominant due to artificial intelligence, and the financial sector, even if no precise details have yet been finalised. Finally, the plans of both parties and their presidential candidates differ markedly on the issue of immigration. Illegal border crossings into the US have increased by more than 300% under President Biden, which is why the Republicans would like to limit them. While this is understandable, this could lead to less available workers for the agricultural and construction sectors and impact the wages of the Americans active in these industries, which might possibly push up both consumption and inflation.

In addition, if we take a look back at how US equities have fared under Republican and Democratic presidents over history, it can be seen that performance depends less on the governing party than on the issue of whether there was a recession during the respective term of office. For the financial markets, the economy is more important than the political party leading the US government.

Gérard Piasko

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