OCTOBER 2024

InFocus

Macro comment

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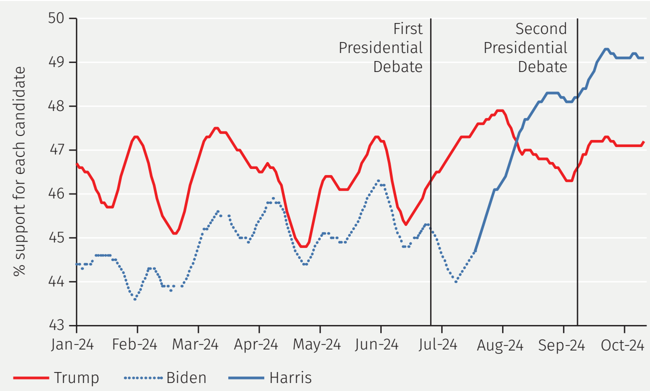
Election years usually come with increased equity market volatility, particularly in the last quarter of the year. Investors are understandably eager to position themselves for different scenarios ahead of the election and the expected increase in uncertainty. In this *InFocus*, Economist Joaquin Thul reviews the sectors that could benefit in the event of a Trump or Harris win.

US election polls currently show the race for the White House is very close, particularly in the swing states that determine the outcome. Since becoming the Democratic Party candidate, Kamala Harris has closed and now opened up a poll lead over Donald Trump nationally (see Figure 1). Trump is marginally ahead in all but one of the swing states[1] (see Figure 2) but the margin of error in such polls is, of course, always wide. In the absence of written manifestos, voters must rely on information gathered from a variety of media sources to ascertain what are the main policies of each candidate. A summary of the main policies supported by Harris and Trump is presented in the Appendix. It is important to stress that:

- Although we can summarise and contrast both candidates' proposals, the enactment of most of these policies will be highly dependent on who controls the Senate and the House of Representatives. The more Congress is divided, the less opportunity there will be for bipartisan legislation;
- The US Constitution allows the President to decide on issues related to trade and military actions, without requiring approval from Congress. Issues related to taxation, public finances and civil rights need approval, which might not be easy to achieve if majorities are small or if Congress is split;
- From a financial market perspective, a Red or Blue "sweep" of the White House and both houses of Congress could potentially be the most disruptive scenario. This would make it easier for the controlling party to pass some of the more controversial proposed policies.

1. US election polls (7-day average)



Source: RealClearPolitics, LSEG Data & Analytics and EFGAM. Data as at 15 October 2024

2. US election poll in key swing states (%)

Top battleground states	2020 result		21 July 2024			15 October 2024		
	Trump	Biden	Trump	Biden	GAP	Trump	Harris	GAP
Arizona (11)	49.0	49.4	47.4	41.6	5.8	48.1	47.6	0.5
Georgia (16)	49.2	49.5	46.2	42.2	4.0	48.3	47.8	0.5
Michigan (15)	47.8	50.6	44.0	41.9	2.1	48.5	47.6	0.9
Nevada (6)	47.7	50.1	47.2	41.6	5.6	48.2	48.0	0.2
North Carolina (16)	49.9	48.6	47.2	41.5	5.7	48.7	48.2	0.5
Pennsylvania (19)	48.8	50.0	47.8	43.3	4.5	48.3	47.9	0.4
Wisconsin (10)	48.8	49.4	46.6	43.3	3.3	48.0	48.3	0.3

Box colours (Red: Republican, Blue: Democrat) denote winner (2020) or poll lead in July/October 2024.
Numbers in brackets show number of electoral college votes in each state.
Source: RealClearPolitics, LSEG Data & Analytics and EFGAM. Data as at 15 October 2024.

[1] The swing states are those US states in which the polls are the closest and the result could go either way.

Continuation of Biden's policies under Harris
Harris is running as a continuity candidate. This means that despite a few differences on specific issues, it would be expected that a Harris presidency would pursue many of the same policies supported by the current government, of which Harris is the Vice President. From an economic policy stance, it would be reasonable to expect the persistence of existing policies on trade. Strong protectionist policies on materially sensitive sectors and a focus on bringing back some industrial production to the US or to countries close to the US (nearshoring) would be expected.

Fiscal policy would remain similar under Harris, requiring a decision on tax breaks that expire in 2025 and a renegotiation of the debt ceiling by the end of next year. However, the Inflation Reduction Act (IRA) and the Affordable Care Act (ACA) would remain in place, both of which are important for the energy and healthcare sectors. On the latter, a strong emphasis will be placed on imposing a cap on drug costs for older citizens with a focus on making coverage more affordable.

On the regulatory front, Harris is expected to maintain an aggressive stance on antitrust enforcement law. A Democrat administration would likely retain similar policies to Biden on immigration, with open channels for legal migration, but a tough stance on asylum seekers.

The main differences between Harris and Biden are in terms of foreign policy. Harris is unlikely to maintain the same level of support for Israel as Biden. She would be expected to set limits on how Israel can use some of US military aid to prevent a further escalation of the conflict. However, not much change would be expected on the US stance on Ukraine, China and NATO.

Policies under Trump 2.0
A victory for Donald Trump would be more disruptive. The threat of tariffs will increase as would the possibility of retaliation against countries that do not align with Trump's views of the world. Trump has hinted of his intention to impose a 10% tariff on all imports, with some small exceptions, for example, for Mexico and Canada. Additionally, Trump has threatened to impose a 60% tariff on all US imports from China.

The two big tariffs of the first Trump presidency were implemented without Congressional approval.[2] Those on steel and aluminium were imposed on the grounds of a threat to national security, while the tariffs applied specifically to China were implemented as a retaliatory measure for breach of an existing trade agreement. The use of these legal loopholes to avoid Congress was an effective tool. There does not appear to be anything that would prevent Trump from enforcing similar principles once again as a means of implementing tariffs on other countries, even though they would be expected to damage US economic prospects. For example, a study from the Tax Foundation found these policies could have a negative impact of 1.1% on US GDP and threaten over 800,000 jobs.[3]

With regards to economic policy, a Trump administration would be expected to repeal the IRA, cutting tax credits for the energy industry and reducing incentives for green energy projects. Trump would be expected to cap federal funding on Medicaid and replace the ACA with block grants to individual states.

On immigration, Trump has been explicit on the need to have tighter migrant controls, increasing funding for border protection and tougher restrictions on legal labour migration. He intends to pursue an agenda to reduce regulation across the Federal Trade Commission (FTC), the Federal Communications Commission (FCC) and Securities and Exchange Commission (SEC).

Sector implications
Based on what we have been able to establish from multiple sources, we have put together a summary of sectors (see Figure 3 overleaf). that could potentially benefit under either a Trump or Harris administration.

It is expected that economic policy under Harris would continue the same path as the current administration. Consumers would be expected to benefit from lower inflation, higher social spending, and an increase in the minimum wage. The boost to consumers' purchasing power would favour consumer discretionary and consumer staples sectors.

The extension of energy tax credits is expected to benefit defensive sectors such as utilities. The lower interest rate environment that would be expected to result, together with a focus on housing policies from a Harris administration would also favour real estate.

Alternatively, a victory for Donald Trump would be associated with a desire to deregulate certain sectors and impose fewer restrictions on M&A activity, something that may benefit the communication services and financials sectors.

Following the expected repeal of the IRA, a Trump administration is expected to boost US energy production to bring down fuel costs. This would be positive for the fossil fuel industry and the energy sector. Finally, lower regulation on

[2] https://tinyurl.com/kb924k7e
[3] https://tinyurl.com/48z5wss7

3. Sectors that could potentially benefit from a Harris or Trump victory

HARRIS		TRUMP	
Rationale	**Sector**	**Sector**	**Rationale**
Benefit from likelihood of lower inflation, boosting consumer's purchasing power.	**Consumer Discretionary**	**Financials**	Increase in small business optimism and deregulation initiatives. Success on deregulation dependent on composition of Congress.
Benefit from likelihood of lower inflation, higher social spending, increase in minimum wage and extension of Child Tax Credits.	**Consumer Staples**	**Communication Services**	Benefit from deregulation and less restrictions on M&A.
Continuation and certainty on renewable tax credits extension.	**Utilities**	**Energy**	Positive for fossil fuel energy industry. Boost to domestic oil & gas production and refining.
Focus on housing policies and lower interest rates favour property market.	**Real Estate**	**Healthcare**	Benefit from lower regulation on drug pricing and lower taxes. No expansion of ACA and limited bipartisan legislation passed under split Congress.

Rationale under Harris	Sector	Rationale under Trump
Benefit from lower tariffs for inputs and continuation of immigration policies to attract talent. Support for domestic semi industry.	**Information Technology**	Enhanced support for domestic semiconductor industry. Benefit from lower corporate tax and regulation.
Benefits for green infrastructure projects and investment in clean energy initiatives.	**Industrials**	High tariffs on imported products, less regulation and incremental construction spending.
Cyclical sector to benefit from continued support for homebuilders, metal extraction and miners through Infrastructure law.	**Materials**	Benefit from pro-growth agenda and higher tariffs on foreign imports.

These scenarios and outcomes are based on EFGAM's own analysis and there is no guarantee that the outcomes stated will actually occur. We also note that our forecasts may change. Source: EFGAM. Data as at 10 October 2024.

drug pricing and lower corporate taxes for large companies – both expected to be implemented under Trump – could benefit the healthcare sector directly.

The technology sector could benefit from the support that both candidates are expected to show to the domestic semiconductor industry. Although Harris's reduction in import tariffs and a continuation of immigration policies to attract talent into the US could be beneficial for tech firms, so would be the reduction in Corporation tax promised by Trump.

Similarly, industrials could benefit from Harris's focus on green infrastructure projects and investment in clean energy initiatives. However, they could also benefit from more protectionist measures implemented to boost domestic production and increase construction.

Finally, the materials sector could gain from either candidate winning the election. The sector is expected to benefit from its cyclicality in the context of a return to stronger GDP growth. An extension of support for the sector, through the IRA and the Infrastructure Law, would be expected under Harris. This would favour homebuilders, metal extraction firms and miners. Under Trump, a more pro-growth agenda with higher barriers to imports would also be expected to benefit domestic firms.

Conclusion

The US election is too close to call, with tight polls in the swing states. Trying to anticipate which sectors would benefit in each scenario is always difficult, made even tougher due to the possibility of a split Congress, which would leave less space for bipartisan legislation.

Harris would be expected to continue some of the key economic policies of the Biden administration. A soft landing of the US economy would be expected, with lower inflation, a boost to consumers' purchasing power, and a focus on renewable energy infrastructure.

Under Trump, the risk of higher tariffs that would increase inflationary pressures cannot be ruled out. In that context, less regulation, and taxes for the corporate sector and a tougher stance on immigration should also be expected.

However, given the broad nature of some of the policies expected to be implemented and the possibility of a split Congress, it is possible to find a narrative for most sectors, or specific sub-industries, to benefit in either political scenario.

APPENDIX: SUMMARY POLICY TABLE

	Harris	Trump
Industrial policy	Rebuild US industrial capacity, continue efforts of nearshoring and boost supply-chain security.	
China	Maintain non-tariff barriers with China. Restrictions on US investment in entities linked to China's military and semiconductor export bans. Electric vehicles and renewable energy could be impacted down the line.	
Fiscal policy	Expect focus on constraining deficit through higher taxes on corporations and wealthy individuals. Control rising fiscal deficit.	Extend Tax Cuts and Jobs Act of 2017 (TCJA) and press for spending cuts. Full extension would add USD 3.5 trillion to deficits over 10 years. Control rising fiscal deficit.
Tax policy	Allow some of Trump's 2017 tax cuts to expire. Extend TCJA and expand Child Tax Credits to ranges between \$3,000 and \$6,000 depending on children's age. Raise marginal tax bracket on long-term capital gains for wealthier individuals to 28%. Increase Corporation tax from 21% to 28%, expected to increase revenue by \$1.3 trillion in the next 10 years. Raise tax on stock buybacks from 1% to 4%. Introduce a so-called "billionaires-minimum tax" of 25% on a combination of income and unrealized capital gains on assets for individuals with more than \$100 million in wealth.	Reduce corporation tax from 21% to 15%. Limit electric vehicle tax credits from the Inflation Reduction Act (IRA) and use revenue from new tariffs to create space for middle-class tax cuts. Support the increase in Child Tax Credit to \$5,000. Make expiring estate tax cuts from the 2017 TCJA permanent. Tax large private university endowments. Proposal to replace personal income taxes with increased tariffs. No change expected to capital gains taxation.
Trade policy	Trade policy expected to be a continuation of policies under Biden. Expansion of export controls, tariff expansions on politically and materially sensitive sectors and expansion of protectionist industrial policy. Negotiate some articles of USMCA, particularly on setting higher environmental standards and efforts to limit Chinese access to the US market via Mexico.	Increase tariff threats. Potentially try to impose a 10% tariff on all imports, with some small exceptions. Impose a 60% tariff on all US imports from China. Possible threat of tariffs on Mexican imports related to immigration. Negotiate articles of USMCA to limit China's access to the US market via Mexico.
Foreign policy	Ukraine: Continue to pursue peace on Kyiv's terms while providing military, financial and diplomatic support to Ukraine. Middle East: Unlikely to continue Biden's long commitment to Israel. Harris likely to draw some limits on how Israel can use US military aid, to prevent Israel starting an offensive outside of Gaza. Harris also likely to be more sceptical on potential Saudi defence pact than Biden. China/Taiwan: Expected to maintain a strategic ambiguity on Taiwan and prioritize keeping the US out of regional conflicts. Maintain US role in the Indo-Pacific Economic Framework (IPEF). NATO: Maintain status quo, with ongoing support for the transatlantic alliance and common defence commitments.	Ukraine: Push for an accelerated end to the conflict along with a cessation of military and financial aid. Middle East: Trump to remain more supportive of Israel's attempts to deter further aggressive action from Iran. Greater deference to Saudi Arabia and focus attention on Iran. US energy dominance would again be a tool of foreign policy in the region. China/Taiwan: Willingness to break longstanding view on Taiwan. Use support for Taiwan as bargaining chip for trade talks with China. US expected to abandon Indo-Pacific Economic Framework (IPEF). NATO: Set ambitious deadlines for EU countries to meet US demands on trade and defence spending, with the target probably set higher than the previous 2% of GDP.
Energy policy	Continue implementation of Inflation Reduction Act (IRA). Expansion of investment in green energy. Accelerate the energy transition and discourage the expansion of fossil fuel production. Maintain support for a Green New Deal, opposition to fracking and reduce oil and gas dependence. Keep current pause on new LNG export approvals into 2025.	Repeal IRA by cutting clean industry tax credits and reducing tax incentives for future projects. Curtail the grant and loan guarantee authorities of the Department of Energy and the Environmental Protection Agency through administrative actions.
Immigration policy	Maintain Biden's restrictive stance on the southern border. Continue to work with Latin American leaders to reduce migration by addressing "root causes" in the region. Formalize and open channels for legal migration but maintaining tough rules for asylum seekers.	Tighter migrant control. Increased funding for border protection and increased focus on migrant expulsions. Tougher restrictions on legal labour migration. Reinstatement of Title 42 and Remain in Mexico plans on the southern border. Restrictions on immigration from Muslim-majority countries. Increased scrutiny on the H-1B program to reduce number of economic migrants and restrictions on employment visas.
Regulation environment	Maintain status quo. Aggressive antitrust enforcement at the Federal Trade Commission (FTC) and Justice Department would continue to stifle the merger environment, even if not all enforcement actions are successful.	Reversal of financial regulation, enforcement at the FTC. The Federal Communications Commission (FCC) and the Securities and Exchange Commission (SEC) would become more lax. Scrutiny on big tech by FTC, the FCC, or congressional action.
Healthcare	Maintain and expand Affordable Care Act (ACA). Make coverage more affordable. Impose cap on drug costs for older citizens and allow Medicare to negotiate the price of certain drugs.	Repeal the ACA, replacing it with block grants to states. Cap federal Medicaid funding. Allow states to relax ACA rules regarding pre-existing conditions. Cut Healthcare funding by more than USD 1 trillion over 10 years.

Source: EurasiaGroup, Economist Intelligence Unit, POLITICO, Tax Foundation, The New York Times and EFGAM. Data as at 15 October 2024.

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- warrant to us that you are a 'wholesale client';
- agree to provide such information or evidence that we may request from time to time to confirm your status as a wholesale client;
- agree that we may cease providing financial services to you if you are no longer a wholesale client or do not provide us with information or evidence satisfactory to us to confirm your status as a wholesale client;

and agree to notify us in writing within 5 business days if you cease to be a 'wholesale client' for the purposes of the financial services that we provide to you.