The US Presidential Election and its implications for economic and financial market performance

Presentation prepared by Mickey D. Levy, for Moneycorp Group.

A MESSAGE FROM DR. MICKEY LEVY

Introductory observations

The outcome of this Presidential election has potentially significant economic and financial implications for both the U.S. and global economy.

My assessments are based strictly on the economic platforms of the candidates, and I strive to remain even-handed.

At face value, the economic platforms of both Presidential candidates, Harris and Trump, appear detrimental to U.S. economic growth and global economic performance. Neither platform addresses the U.S.'s growing debt problem and both seem geared more to garnering votes than on being economically rational or strategic.

The actual economic policies will heavily depend on the Congressional election results and the balance of power between Democrats and Republicans. For instance, if Harris wins the Presidency but Republicans control the Senate, as current polls suggest, her most severe tax hike proposals would likely be moderated.

The uncertainty surrounding the Congressional election results complicates the assessment of potential impacts on financial markets and the development of economically efficient hedging strategies.

However, caution is warranted: while Congress can significantly influence a President's fiscal policies, its power is limited regarding other economic policies. The President can implement substantial policies through Executive orders or regulations that Congress cannot easily block, such as tariffs, trade barriers, and industry constraints and subsidies.

Overview of U.S. and global economic and financial market performance

- U.S. economy has been resilient, with growth above estimates of longer-run potential, and moderate inflation that is above the Fed's 2% target.
- Healthy growth in consumption has been driven by ongoing growth in disposable personal incomes supported by gains in employment and wages.
- Healthy gains in business investment have been heavily oriented toward software and R&D (partially supported by government) and productivity-enhancing. Government stimulus has boosted investment in manufacturing.
- There are few imbalances either in the form of business inventories or labor supply and demand; this reduces probability of a jarring recession.
- U.S. potential growth is the strongest among all advanced nations.

Global economic performance is fragile

- Europe’s economic growth remains notably weak, underscored by Germany’s struggling export-driven model.
- Potential growth in Europe has declined to an estimated 0.75%, with policymakers failing to propose any substantial pro-growth strategies.
- China’s domestic economy is much weaker than official data suggests, as the negative wealth effect from government-induced real estate excesses hamper consumer spending.
- Japan continues to face challenges in achieving sustained healthy economic growth.
- Meanwhile, the UK is rebounding well from recession, with high hopes for the future.

The candidates’ polarizing economic platforms

I have analyzed the economic platforms of U.S. presidential candidates since 1992, and the 2024 candidates are the most polarizing, abandoning moderate Democrats and Republicans.

Neither candidate addresses the U.S.’s high government debt or reflects the lessons of history.

Harris's economic platform could be likened to Bernie Sanders' with its high taxes and high spending, and it incorporates price controls. The proposed tax on undistributed capital gains is particularly concerning.

Trump's proposals to centralize control, including over the Federal Reserve, are risky. Additionally, higher tariffs at this time would harm the fragile global economy.

Highlight comparison of Harris & Trump

Kamala Harris

- Traditional Democratic platform (higher taxes and spending) but far left and similar to Bernie Sanders' platform of 2016
- Reliance on price caps to control "price gouging" and drug costs
- Aggressive use of regulations ("anti-business" and pro-labor)
- Spending increases; don't touch entitlements and more spending on social, housing and childcare

Donald Trump

- Traditional Republican on taxes but heavy reliance on central control rather than free enterprise
- High tariffs to bring jobs home and punish unfriendly partners
- Deportation of undocumented immigrants
- Pro-business, pro-oil drilling
- No cuts in spending; higher (unspecified) defense spending

Platform details: Taxes and spending

Kamala Harris

- Raise individual rate to 44%; let 2017 tax cuts expire; tax realized capital gains as ordinary income; tax unrealized cap gains for high wealth taxpayers; no tax increases for individuals with AGI less than $400,000; raise corporate tax rate to 28% from 21% and set minimum taxes on multinationals.
- Raise spending on housing, child credits; social programs; don't touch Social Security or Medicare

Donald Trump

- Extend 2017 tax cuts; lower corporate tax rate to 15% from 21%
- Increase defense spending, but unspecified
- Don't touch Social Security or Medicare

Economic and financial implications

In my opinion, the implementation of either candidate's economic platform would harm the U.S. economy and have negative global implications.

Both Harris's higher taxes and Trump's higher tariffs (which would function as taxes) would reduce the expected real after-tax rate of return on capital, leading to lower real interest rates and a weaker U.S. dollar.

Harris's higher taxes on realized and unrealized capital gains could potentially shock the stock market, with the latter possibly forcing sales.

Trump's tariffs could provoke international retaliation. Additionally, deporting immigrants would be very detrimental, and exerting control over the Federal Reserve would be highly unhealthy.

Congressional Election Outcomes

- A split in power would soften economic policy outcomes, as a simple majority controls power in both the Senate and the House of Representatives.
- The House Ways and Means Committee initiates all tax legislation, while the Senate can block most legislation and the Senate Banking Committee oversees all Presidential nominees to the Federal Reserve.
- If Republicans control the Senate, Harris's proposed tax increases would likely be softened, leading to a compromise on the expiration of the 2017 tax cuts.
- Neither candidate proposes any cuts to entitlement programs, and neither political party is willing to address deficit reductions.

Presidential power can circumvent congress

The Executive Branch wields significant power. The President can impose tariffs, certain trade and immigration policies, and business regulations **without** needing Congressional approval.

Trump's tariffs in 2018-2019 were imposed through Executive Order. Interestingly, the Biden Administration has collected more in tariffs than Trump's.

Biden's regulations on corporate mergers and oil pipelines are examples of Presidential control.

Managing risks amid election uncertainties

#1
Harris wins and Democrats sweep
(Critical issue: what's the possibility of this outcome?)

#2
Harris wins and Republicans take control of either House and/or Senate

#3
Trump wins and Republicans sweep

#4
Trump wins and Democrats take control either House or Senate

#1
Consider hedging against downside U.S. stock market risk

#2
Cost of hedging is likely to outweigh the benefits

#3 or #4
Consider hedging against China and/or international trade

All outcomes
Hedge against a fall in U.S. Dollar strength

I do not consider there to be any questioning of the validity of the election outcome.

Managing election risks in perspectives

While both economic platforms present downside risks to the U.S. economy, the U.S. will still have the largest potential growth among all major advanced economies.

Even if the new President's policies negatively impact economic growth and expected after-tax real rates of return, the U.S. will continue to lead in technological innovation and entrepreneurship.

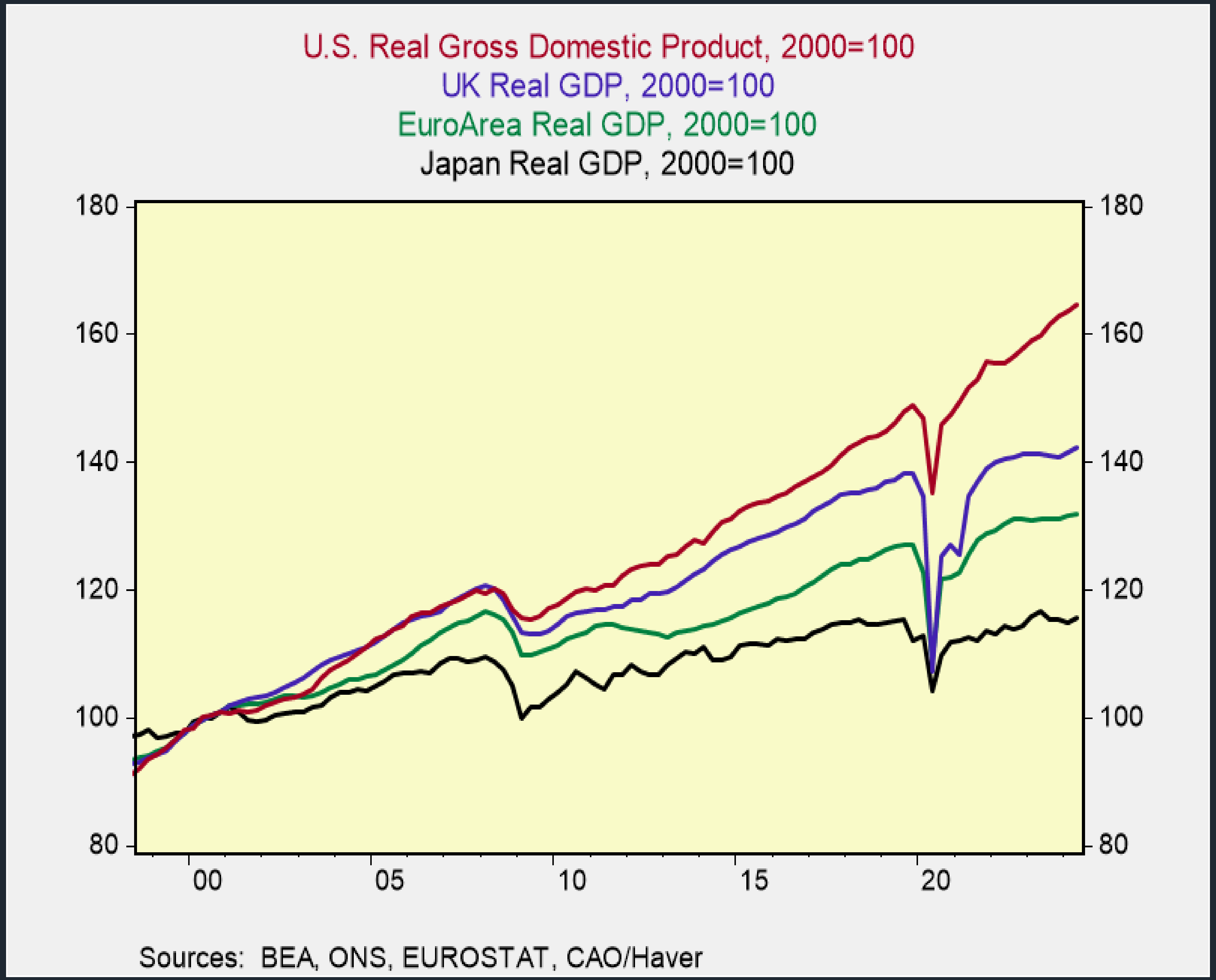
It may be prudent to hedge against risks, but it's important not to overdo it.

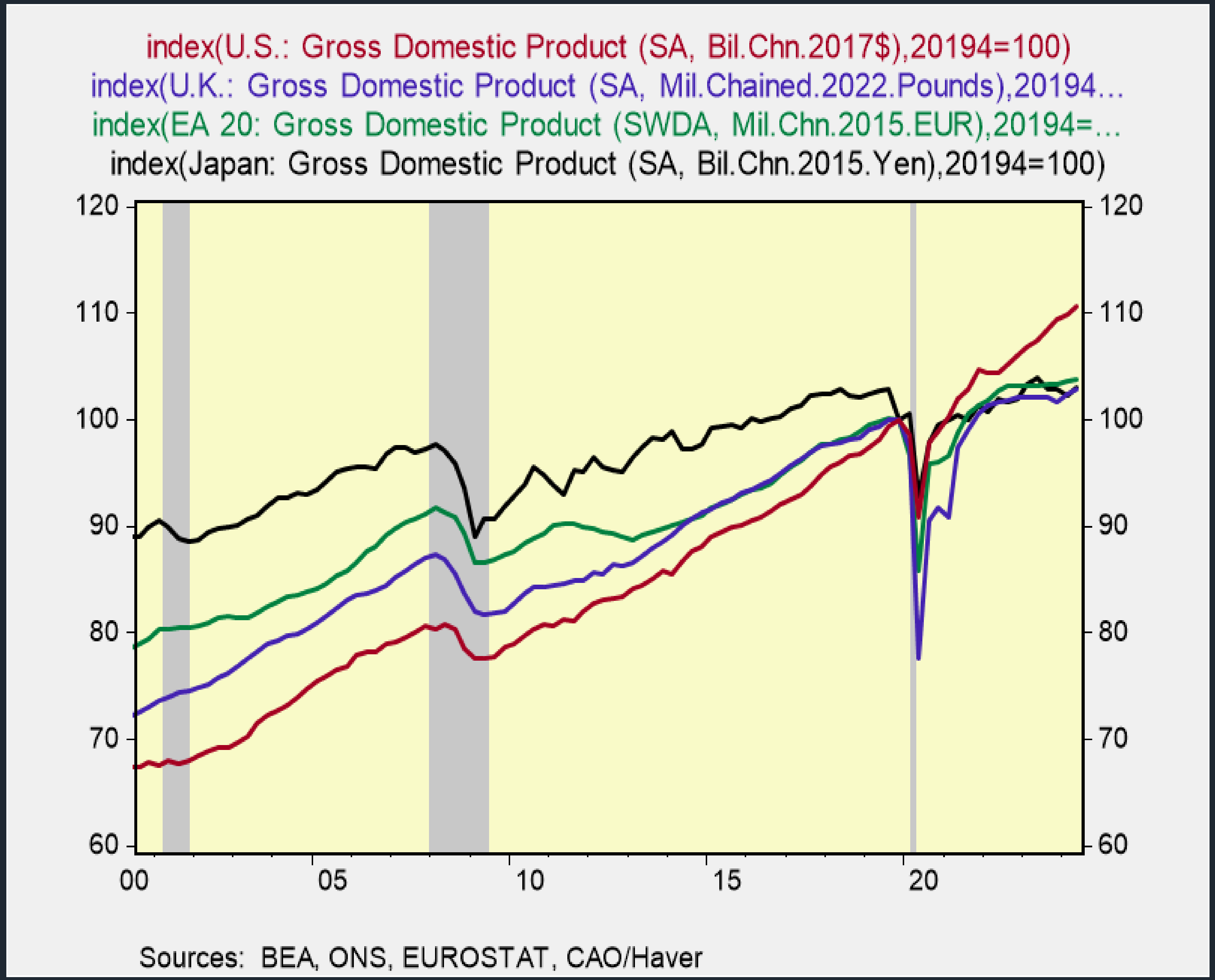
Additionally, the non-economic platforms of the candidates could have significant global economic implications that warrant attention.

Finally, potentially bigger risks lie in Europe and the Middle East.

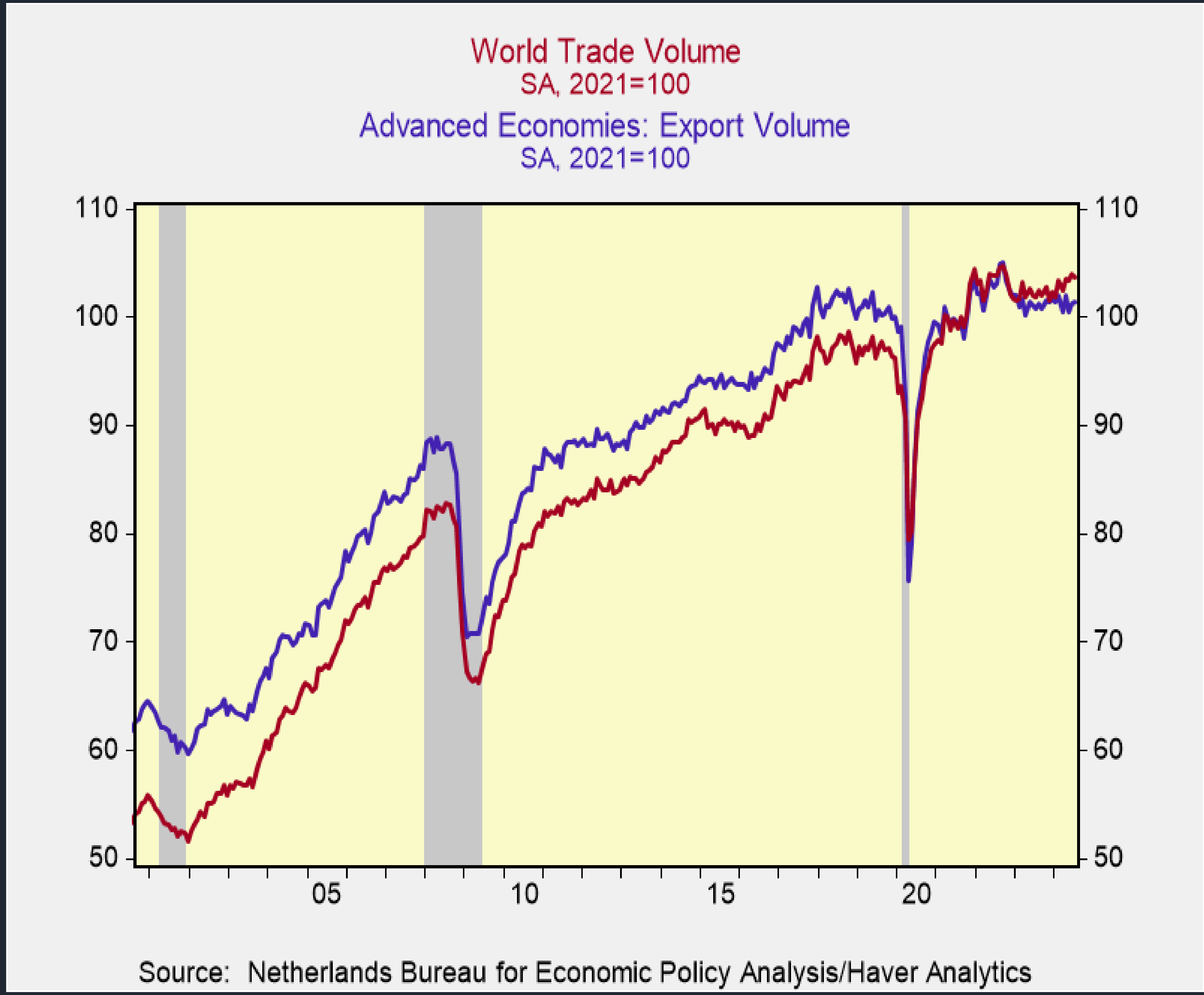
2024

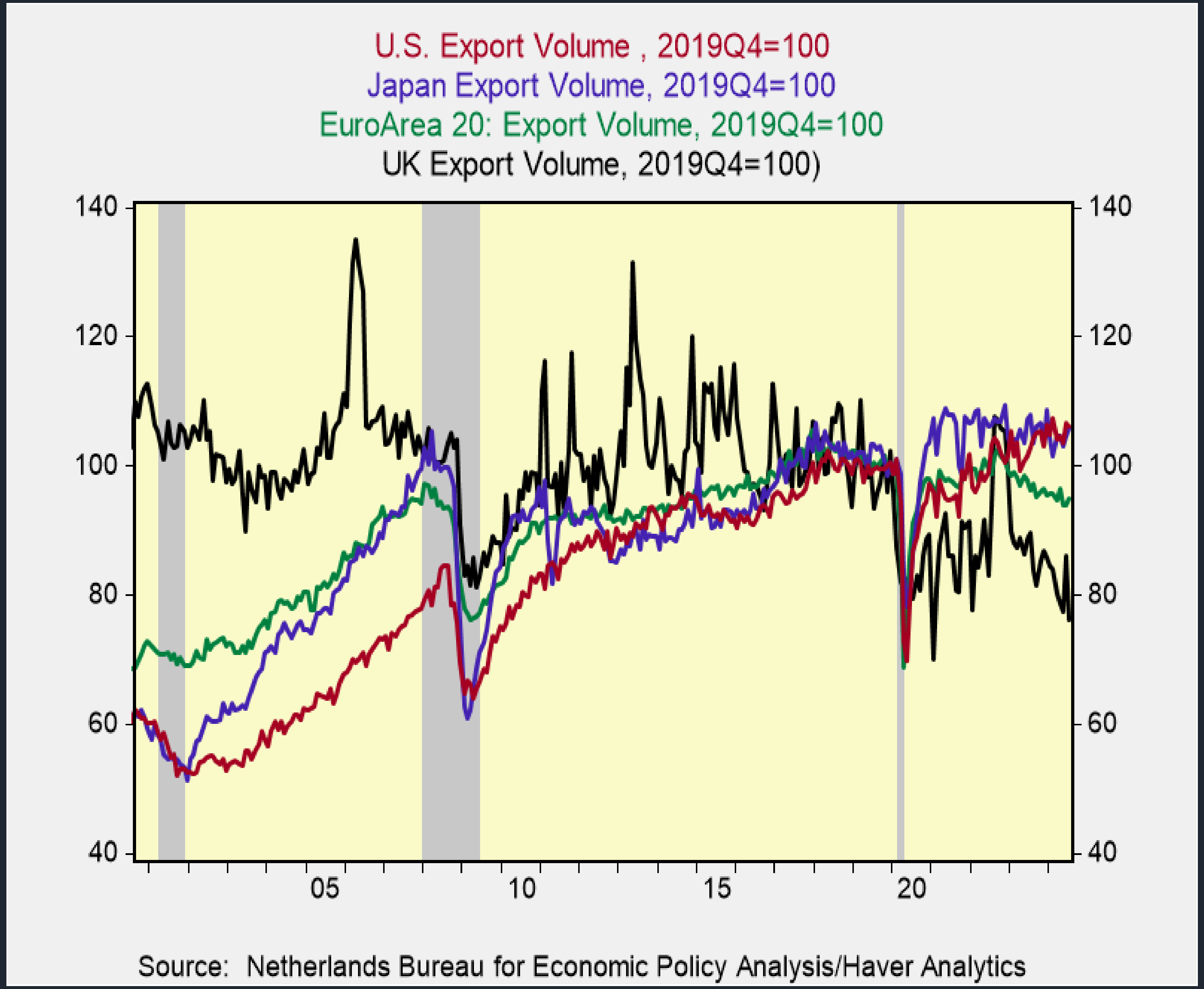
International comparisons of real GDP





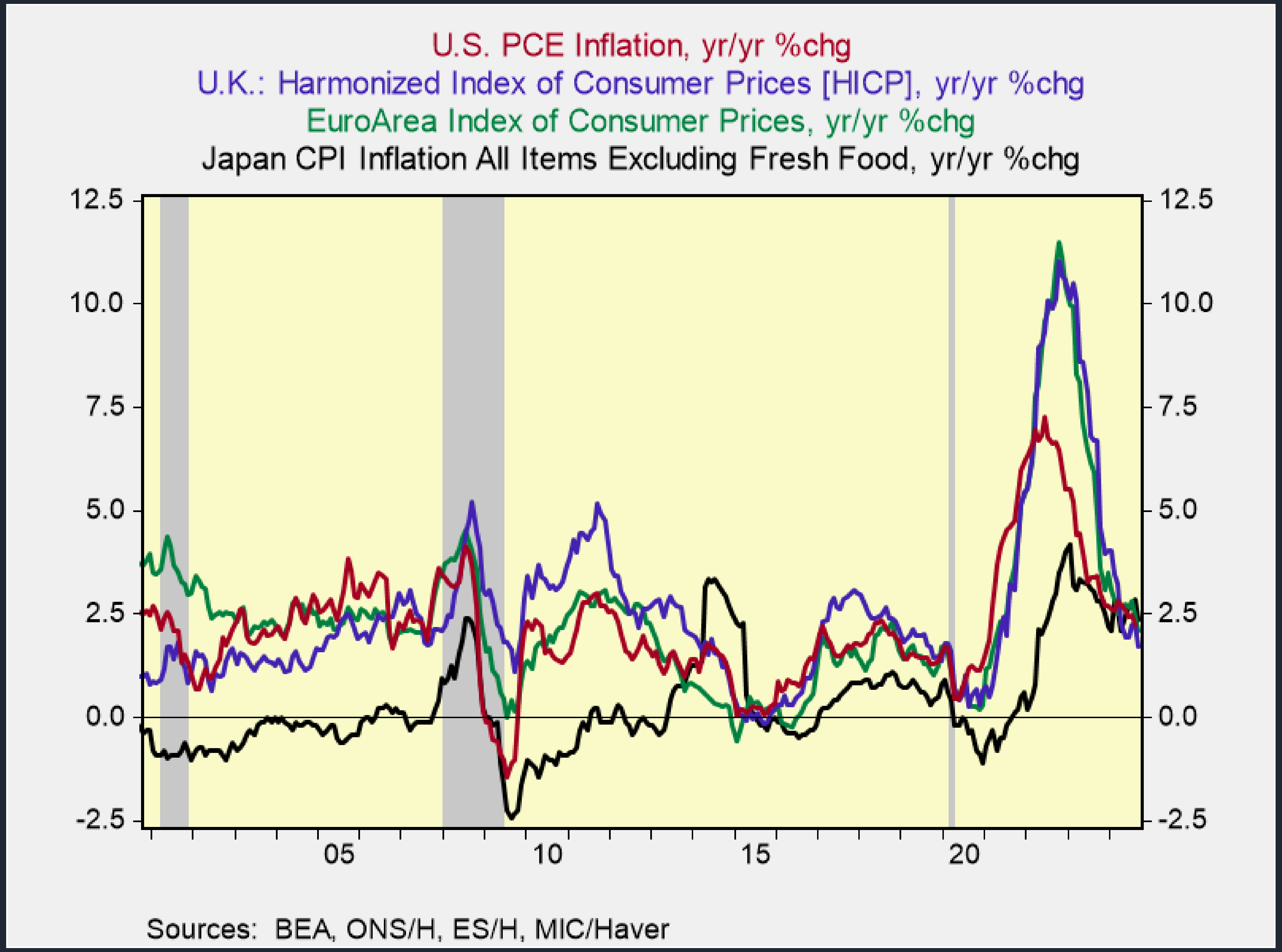
International trade volumes have flattened



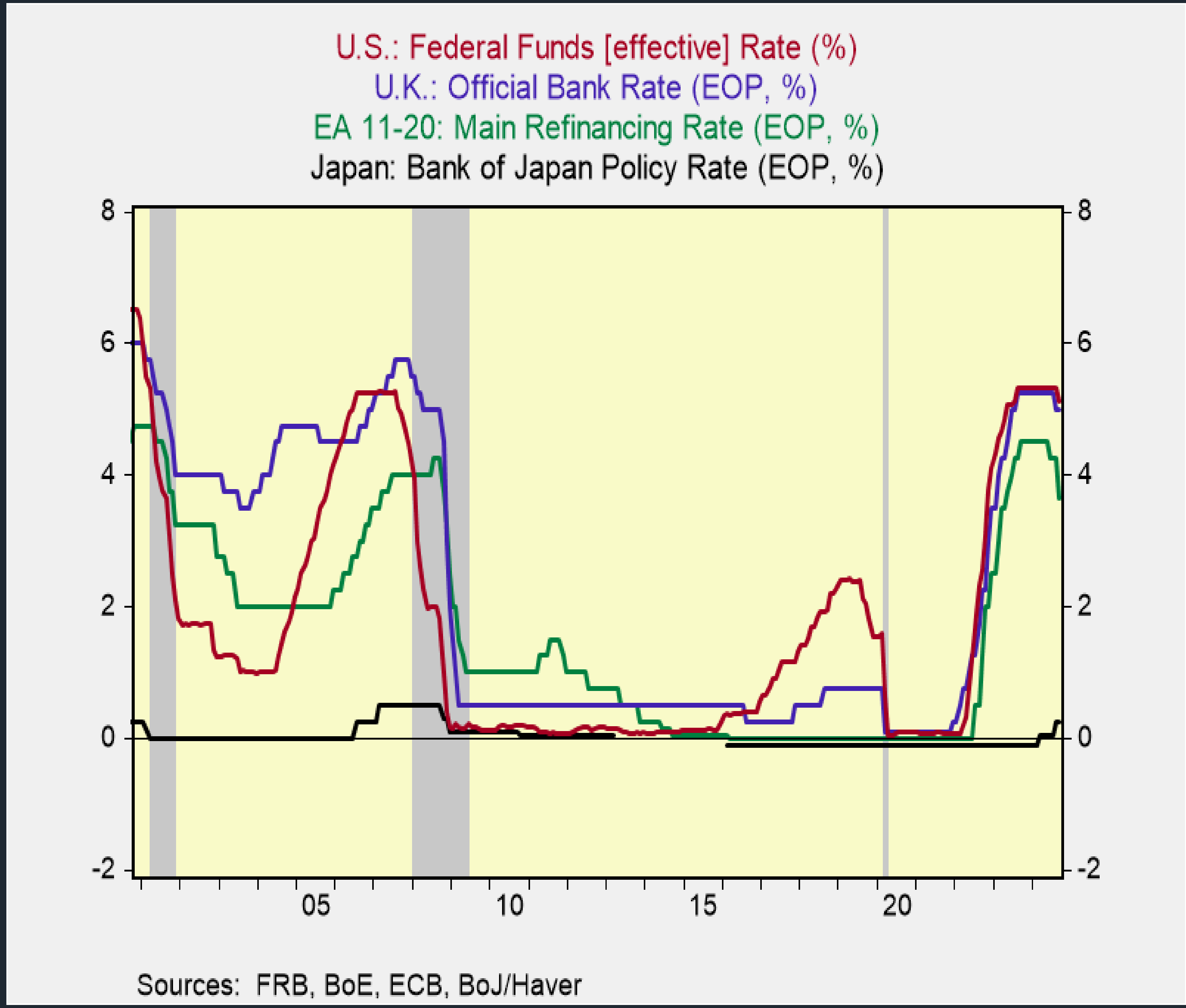


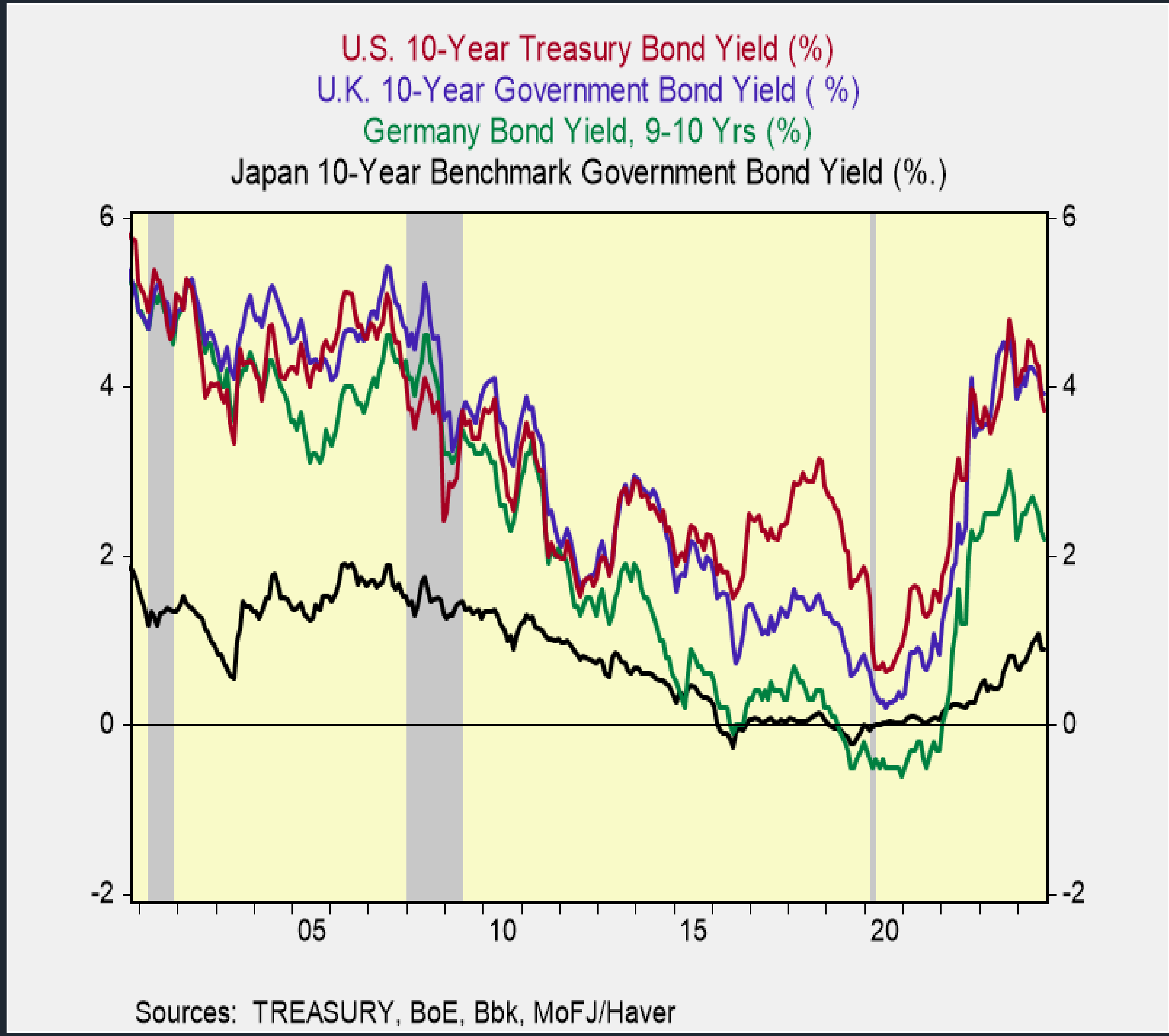
Inflation has moderated toward 2.5%

- Inflation has eased from its 2021-2024 peaks in the U.S., UK, and Euro Area.
- In Japan, after periods of intermittent deflation, inflation has increased.
- Inflationary expectations have diminished in the UK, EU, and U.S., while remaining low in Japan.

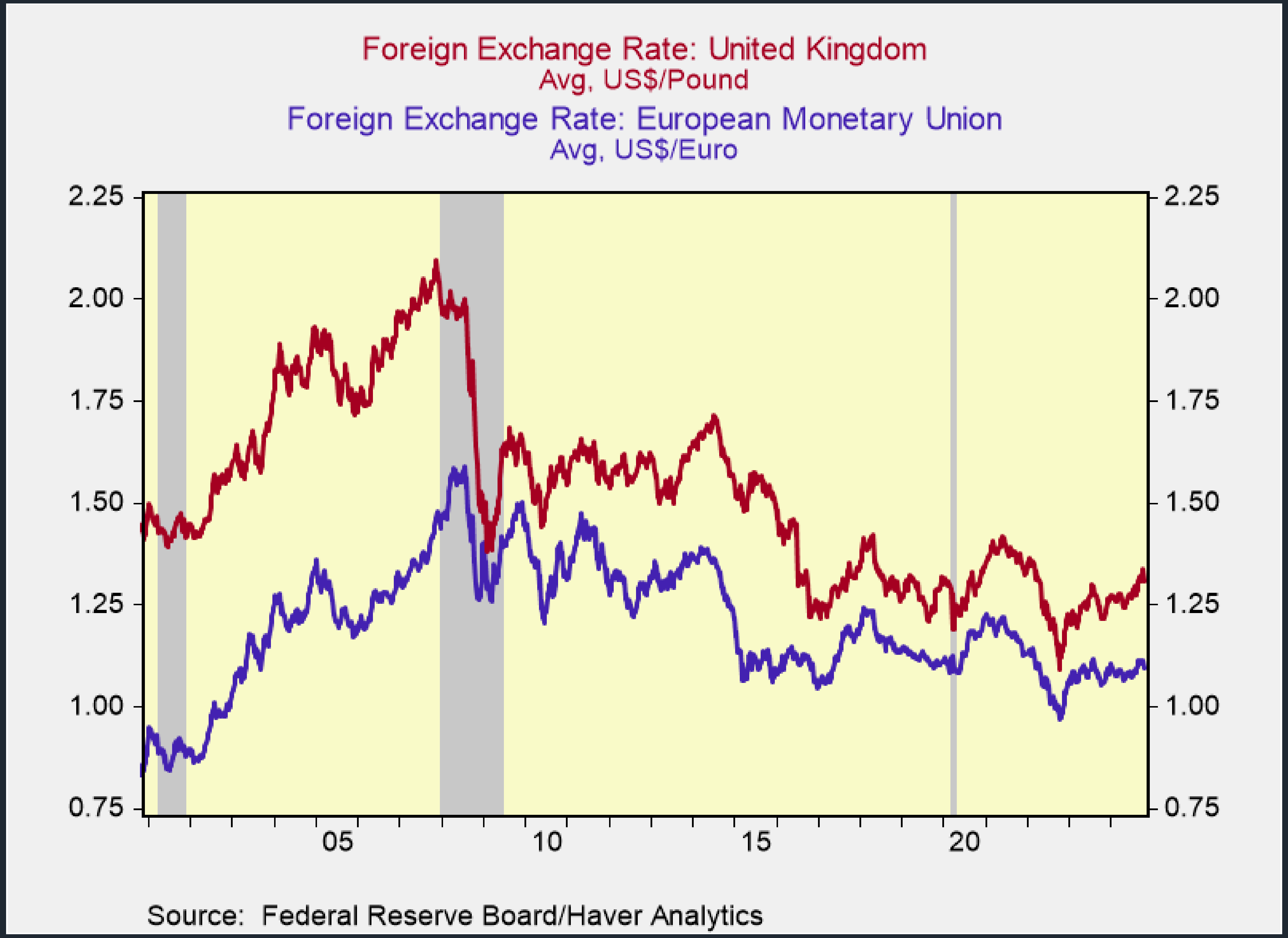


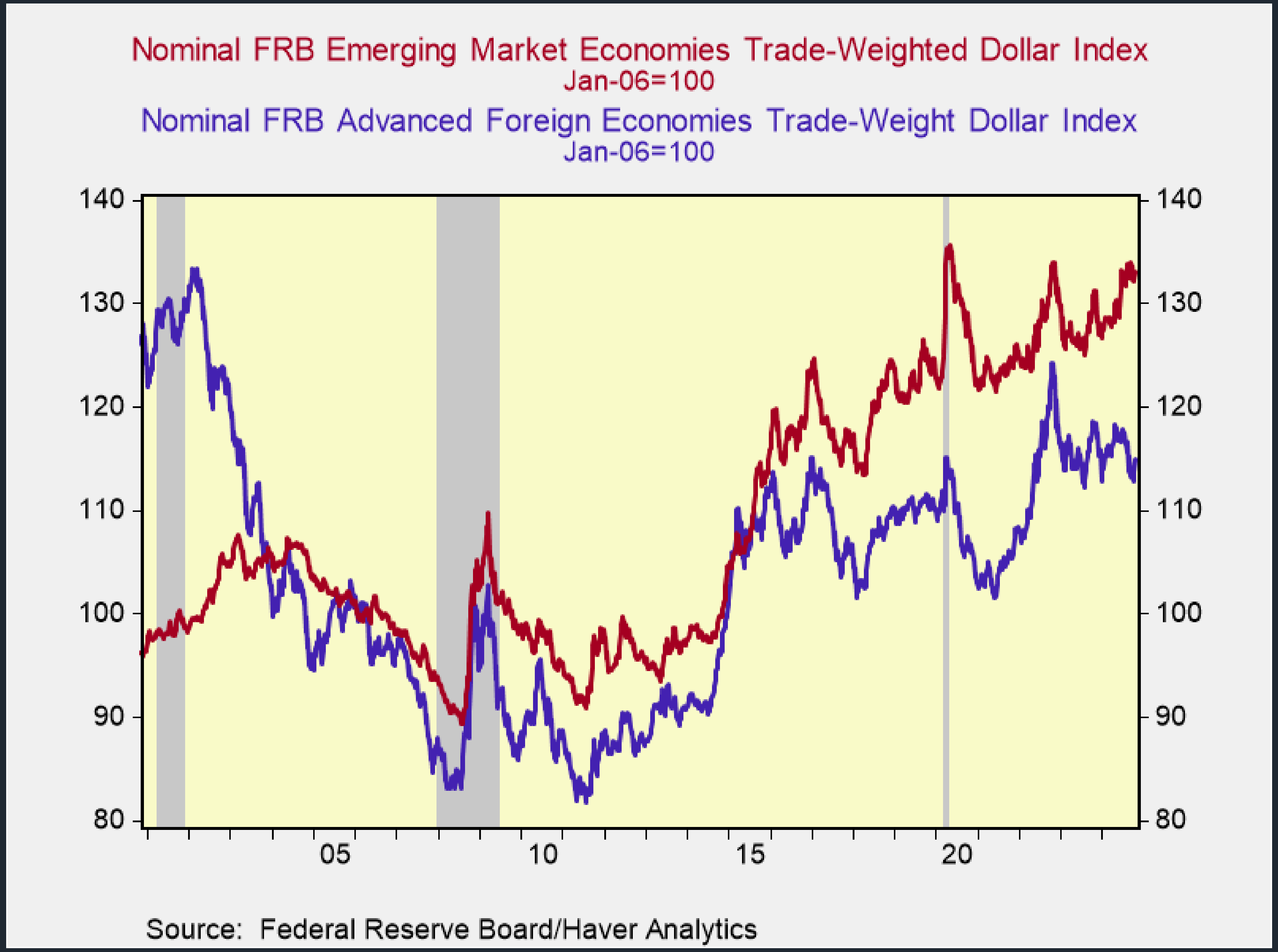
Interest rates and bond yields





US Dollar exchange rates





International stock market performance

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