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Chief Investment Office GWM
Investment Research

ElectionWatch 2024

24 questions for the 2024 US elections

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Dear reader

With fewer than eight weeks remaining until Election Day, Vice President Kamala Harris and former President Donald Trump are locked in a very close race to the finish. They are laboring to sway a diminishing number of undecided voters, with time running short. Six states begin early voting in late September and another nine do so before 10 October. It is not surprising that both Harris and Trump are concentrating their efforts in the seven pivotal states that will dictate the outcome. Field operations in those states are growing, and advertisements on behalf of their campaigns are ubiquitous. For those on the receiving end of incessant messages seeking support, the next eight weeks will require some endurance.

The 10 September presidential debate was the first—and perhaps the last—time that the two leading candidates will appear together to debate policy issues. While the quality of the debate left much to be desired, it did allow prospective voters to contrast the two individuals' principal policy positions. Economic populism is intrinsic to both candidates' policy platforms but directed at different segments of society. Trump prefers to focus on lower income taxes and trade protectionism. Harris emphasizes higher taxes targeted at the affluent and incentives for entrepreneurs. Neither is spending much time discussing recurring federal budget deficits.

In this edition of *ElectionWatch*, we have endeavored to answer the most frequent questions we receive from our clients. The inquiries range from election dynamics to monetary policy to the investment outlook for different equity sectors. We hope it answers some of your questions.

Regards,

Solita Marcelli
Chief Investment Officer Americas
Global Wealth Management

Tom McLoughlin
Co-lead of *ElectionWatch*
GWM CIO Americas

Check out our scenario analysis

Significant market implications emerge from the stark contrast between the presidential candidates' policies. While we believe portfolio construction should be an apolitical process no matter how distracting the lead-up to Election Day may be, we share our policy, economic, and market expectations for the most likely outcomes.

See what we think >

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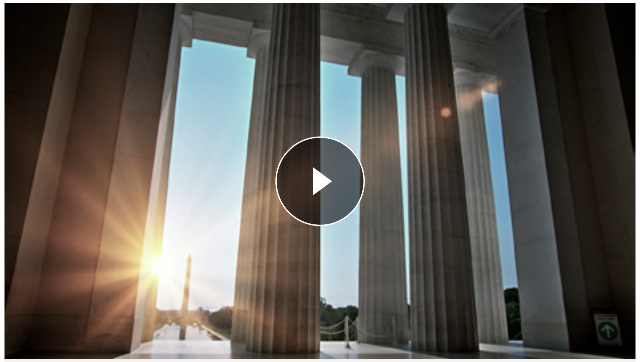
Reactions to the presidential debate



Virtual event replay: After the debate

On 11 September, Jason Chandler, Head of GWM Americas, hosted a livestream with Solita Marcelli, Chief Investment Officer Americas and John Savercool, Head of the UBS US Office of Public Policy, to discuss takeaways from the 10 September debate and the implications for policy, politics, and your investments.

Watch the replay >

US Vice President Kamala Harris and former President Donald Trump had never met in person before they took the stage on 10 September with eight weeks remaining until Election Day. A brief handshake at the beginning of the event yielded to vigorous criticism and contentious debate. Both candidates sought advantage in a presidential race that, when the night began, was essentially a statistical dead heat based on national opinion polls and very narrow margins in critical swing states.

The two candidates offered sharply contrasting visions for the country. They clashed on the economy, immigration, fracking, reproductive rights, and foreign policy. Harris often directed her comments straight at the former president, highlighted a range of middle-class tax cuts and small business incentives, and criticized the former president's support for tax cuts for the affluent and broader tariffs. Trump garnered more speaking time than did Harris but preferred to direct his comments to the two moderators and leveled criticism at the Biden administration generally, and Harris in particular, in the areas of inflation and border security.

US presidential debates often are remembered for isolated instances when a candidate responded with a clever rejoinder, offered a memorable soundbite, or committed a noteworthy gaffe. In an era when attention spans are short and social media is pervasive, these moments can have a lasting impact as they are recirculated repeatedly in subsequent advertisements and posts. There were few obvious examples of that happening this time, but our general conclusion is that Harris held the advantage by the end of the night.

Former UK PM Harold Wilson reportedly said "a week is a long time in politics." Apart from the debate between Trump and Biden in June, this is the earliest US presidential debate in the modern era, so there is still considerable time for the opinion polls to shift. Harris turned in a stronger performance, especially relative to expectations heading into this highly anticipated event. As a result, we retain our probabilities following the debate.

Election scenarios and probabilities

Scenario	Probability
Blue sweep Harris with a unified Democratic Congress	15%
Harris with a divided Congress Republican Senate and Democratic House	40%
Red sweep Trump with a unified Republican Congress	35%
Trump with a divided Congress Republican Senate and Democratic House	10%

Source: UBS, as of 11 September 2024

The candidates' policy platforms

Kamala Harris and Donald Trump are both pursuing populist economic policies, but like so much else in this presidential campaign, their pitch is more likely to resonate with different segments of American society. The vice president favors targeted taxation aimed at wealthier individuals and tax breaks for less affluent citizens. Larger corporations would pay more, but smaller startup businesses would receive incentives. The former president prefers to make permanent the personal tax cuts he was able to enact under a unified government in 2017, which are scheduled to expire at the end of next year, and instead takes aim at college endowments.

As the presidential campaigns enter the home stretch, both candidates are anxious to convince a diminishing number of undecided voters that they deserve support at the ballot box. In that context, it's not surprising to see Harris agree with Trump on the elimination of taxes on gratuities. There are myriad obstacles to the implementation of such a policy, but it resonates in at least one pivotal swing state. Housing affordability is top of mind for many voters, so the two candidates' agreement regarding the sale of federal land for new home construction is not as surprising as it might at first appear.

Neither campaign has focused much attention on the escalating national debt, and both advocate policies that would add to the projected budget deficit over the course of the next decade. Recurring budget deficits will be front and center in policy discussions again at some point, but that will be left for a future campaign.

Policy	Donald Trump / JD Vance	Kamala Harris / Tim Walz
Personal income tax	Extend and make permanent the 2017 tax cuts scheduled to expire at the end of 2025	Extend the 2017 tax cuts only for those making less than USD 400,000 per year
Corporate income tax	Lower to either 15% or 20%	Raise to 28%
Tax on gratuities	Eliminate	Eliminate
Capital gains tax	No policy announcement	Raise to 28%* for those with more than USD 1 mn in earnings
Limitation on state and local tax (SALT) deductions	No policy announcement but high probability of enactment because it is scored as a revenue raiser	No policy announcement but enactment with an increased limit on deductions is likely in a divided Congress
Child tax credit	Increase to USD 5,000	Expand to make it fully refundable; USD 6,000 for newborns and USD 3,000–USD 3,600 for each older child
Small business tax credit	No policy announcement	Raise tax credit for small business startup expenses from USD 5,000 to USD 50,000
Sell federal land to state and local governments for new housing	Yes, through a national competition for funds	Yes, with environmental and income restrictions
Estate tax	No policy announcement, but supports making all expiring tax cuts permanent	No policy announcement, but Harris has supported a lower threshold for exclusion in the past
Tariffs	Impose a universal tariff of at least 10% with a 60% tariff on imported goods from China	No policy announcement but has expressed support for existing targeted tariffs
Excise tax levy on private universities	Increase the tax rate on large endowments of private universities	No policy announcement
Housing	No specific policy announcement	USD 25,000 to first-time home buyers

*Excludes net investment income surtax

24 questions for the 2024 US elections

The two presidential nominees are locked in a very tight race with fewer than eight weeks remaining to Election Day. Recent polls suggest Kamala Harris has gained some momentum following President Biden's withdrawal, but Donald Trump has performed better in the past two elections than the polls have predicted. The outcome will likely depend upon the ballots cast in just seven states where voters are more or less evenly divided. Turnout from among each candidate's most avid supporters will be a determining factor.

As we gird ourselves for the final run to the finish, we wanted to take this opportunity to answer some of the questions we receive most frequently. They run the gamut from monetary policy to election dynamics to the two candidates' proposed fiscal policies.

Fiscal and monetary policy

1. The US federal debt continues to grow. Will the outcome of this election result in a balanced budget?
No. Both political parties recognize that public finances are on an unsustainable path in the long run but neither one is likely to be able to implement policies that would balance the federal budget. Republicans generally prefer to reduce expenditures while Democrats prefer to raise revenue. Both approaches require shared sacrifice and are difficult to enact in a bitterly divided Congress.

According to the Congressional Budget Office, US nominal spending is expected to increase from USD 6.8 trillion in 2024 to USD 10.3 trillion in 2034. Approximately 87% of that increase is attributable to Social Security, federal health care expenditures (Medicare, etc.), and interest on the national debt.[1] Presidential candidates rarely advocate policies that would restrain the growth of popular programs, and opposition to reform is entrenched among the public.

Both presidential candidates are making promises that would make balancing the budget more difficult. Former President Donald Trump suggested eliminating the partial income taxation of Social Security benefits, which would increase the deficit by approximately USD 1.7 trillion over ten years, according to the Committee for a Responsible Federal Budget (CRFB). Meanwhile, Vice President Harris' published "Agenda to Lower Costs for American Families" would increase the deficit by a similar amount, absent new revenue, according to the CRFB.

2. Could the election outcome complicate negotiations over the FY 2025 budget and debt ceiling?
Yes. A new federal fiscal year will begin on the first of October, which will require positive action by Congress to avoid a government shutdown. In the absence of legislation to fund government operations for the entire fiscal year, Congress can enact a Continuing Resolution (CR) to fund the government until such time as disagreements over government funding are resolved. CRs usually extend the level of funding established by a prior year's appropriation but can also alter spending levels or extend the life of expiring programs.[2] The use of temporary measures to postpone a legislative compromise over the annual budget has become commonplace.

We expect Congress to enact a CR again, but the duration of that temporary measure is subject to further negotiation. House Republicans are inclined to pass a stopgap measure that would extend funding for six months. Senate Democrats prefer a shorter time frame, which would require action in a lame duck session of Congress in December. The presidential election in November weighs on both parties and neither

[1]Committee for a Responsible Federal Budget, Interest, Social Security, and Health Responsible for Nearly 90% of Spending Growth, 20 August 2024. CRFB relies on The Congressional Budget Office Baseline in its analysis.
[2]*UBS ElectionWatch*, "The impact of a government shutdown," 1 September 2023.

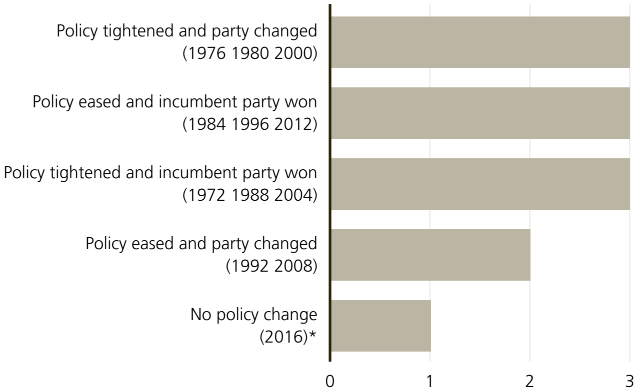
one appears willing to enact a full-year budget before voters go to the polls.

The federal debt limit (aka the debt ceiling) will be reinstated on 2 January 2025, at a level covering all borrowing since it was suspended on 2 June 2023. If Congress does not act before then, the Treasury Secretary will rely on cash reserves and will have to deploy extraordinary measures to pay the federal government's bills. Raising the debt ceiling is a critical responsibility for Congress but is often accompanied by intense negotiations over future spending plans. A divided government is more likely to result in a last-minute resolution.

Figure 1

The Fed's election-year moves

The Fed moved rates in 11 of the 12 presidential election years between 1972 and 2016



*The Fed raised rates in December 2016, after the election.
Policy change describes net easing or tightening.
Source: Reuters, Cornerstone Macro, UBS

3. Is there any precedent for the Federal Reserve raising or lowering its policy rate in a presidential election year?

Yes. In a recent speech to the Stanford Graduate School of Business, Fed Chair Jerome Powell asserted that Open Market Committee decisions are made "without consideration of short-term political matters."[3] The data supports the chairman's position. The Fed has adjusted its policy rate in 11 of the 12 election cycles between 1972 and 2016. In some instances, the adjustment was relatively minor and occurred in the first quarter of the calendar year. At other times, the adjustment was made much closer to Election Day. There is little evidence that altering the Fed funds rate has had a definitive impact on the outcome of the election (see Fig. 1).

4. How have recent Supreme Court decisions altered the regulatory landscape and the potential for deregulation in the next administration?

For nearly four decades, lower courts deferred to administrative agencies' reasonable interpretations of ambiguous laws or statutes under a doctrine known as "Chevron deference." In fact, Chevron became one of the most widely cited cases in federal court decisions. Courts gave agencies the benefit of the doubt and assumed they held a level of expertise that was sufficient to interpret a statute.

A series of recent Supreme Court decisions has reduced the amount of discretion granted to federal agencies to interpret regulatory laws. These decisions have fundamentally altered the authority of federal agencies to regulate vast reaches of US economic and corporate activity, with potentially important implications for corporate profitability and economic productivity. The overturning of the Chevron doctrine introduces a lengthy period of uncertainty about how the courts will now rule on long-standing interpretations of statutes, how the White House will construct new regulatory rules, and how Congress will shift the way it writes legislation to build in greater detail in its statutes.

5. Will the outcome of the election affect how much money from the Inflation Reduction Act is spent?

The Inflation Reduction Act (IRA) of 2022, passed along partisan lines, represents the single largest US investment in clean energy, electrification, and decarbonization. It is also one of the largest global government investment packages in these sectors. We expect a Harris administration to preserve the programs embodied in the IRA. The reversal of Chevron deference (see question 4) could result in challenges to Treasury rulemaking on IRA tax credit eligibility, which would create uncertainty given that litigation would likely take years to resolve. Full reversal of the IRA in a Trump administration is unlikely, even in a Red Sweep, owing to committed funding and significant solar and wind capacity in Republican-majority districts. Electric-vehicle-specific tax credits are potentially at risk, but Trump has recently left open the door for their preservation alongside solar production and investment tax credits.

[3] Jeff Hunter, Monetary policy and presidential politics, American Bankers Association, 4 April 2024.

Geopolitics and foreign policy

6. Can a US president impose tariffs on other nations without restriction? How might the economy react to the imposition of such tariffs?
Yes, with few constraints. Congress has exclusive authority "to regulate Commerce with foreign Nations" but has delegated more authority to the executive branch of government to manage trade with other nations.[4] The president's authority to impose a tariff now rests on either the preservation of national security or as a response to unfair trade practices by other nations. There are restrictions on presidential authority, but they are not particularly onerous. The relevant statutes require consultation with Congress and impose some limits on the duration of the levy and the process by which they are introduced.

America's two political parties are generally aligned on the issue of global trade. Regardless of who wins in November, the use of tariffs as a tool by which leverage may be exerted on trading partners is likely to continue. Former President Trump may rely on the broader application of tariffs as a foreign policy tool; Vice President Harris is more likely to use them in a targeted manner against geopolitical rivals.

Tariffs are a tax on the consumer of imported products. They are also inflationary in the short term. When targeted toward specific products from a single trading partner, the impact on the aggregate economy is generally limited. When applied more broadly, the imposition of tariffs runs the risk of reciprocal action that suppresses global commerce and distorts global supply chains. For more, see our 3 September report, "The economic and investment implications of higher tariffs."

7. Can a US president withdraw from treaties and alliances without the consent of Congress?
It's unclear. This question has arisen more frequently in the wake of former President Trump's admonition that North Atlantic Treaty Organization (NATO) allies were not paying their fair share of the alliance's costs. The US Constitution empowers the president to execute treaties with other nations "provided two thirds of the Senators present concur" but does not assign responsibility for the termination of treaties.[5] The ambiguity led Congress to pass a statute in 2023 that expressly prohibits any president from withdrawing from NATO or using funds appropriated by Congress for that purpose unless two-thirds of the Senate concurs or pursuant to an Act of Congress.[6] The legislation did not address other treaties.

8. Does the president have the power to commit US military forces without the consent of Congress?
This question often arises when regional disputes around the world threaten to ensnare the US or its allies in a kinetic conflict. While Congress has the unilateral power to declare war and initiate hostilities against another nation, it has not done so since 1942.[7] The president is vested with plenary authority over the disposition of military forces and the preservation of national security. The War Powers Resolution of 1973 imposes some conditions on the use of military force by the president but subsequent chief executives from both parties have claimed constitutional authority to deploy military forces to deter threats to the US without reliance upon congressional approval.

9. Is the US president empowered to order the deportation of undocumented individuals?
The US Constitution endows Congress with the authority to establish uniform rules by which individuals may become citizens but is silent on the power to deport them.[8] However, Supreme Court decisions have affirmed the right of Congress to "exclude aliens from its territories" and concluded that the right to expel or deport foreigners…is as absolute and unqualified as the right to prohibit and prevent their entrance into the country."[9]

In 1952, Congress enacted the Immigration and Nationality Act over President Truman's veto. The Act conveyed to the president the power to "suspend the entry" of any individual who "would be detrimental to the interest of the United States."[10] In a subsequent case, the Supreme Court concluded that the federal government could deny an entry visa without providing the applicant with a reason for the rejection.[11]

Former President Trump has pledged to engage in the "largest deportation effort in American history." The power of the executive in areas associated with immigration is expansive. However, there are numerous practical obstacles, not the least of which is an insufficient number of immigration agents, hearing officers, and detention facilities after years of inadequate funding. Further litigation is likely.

[4] US Constitution, Article I, Section 8.
[5] US Constitution, Article II, Section 2.
[6] Section 1250A, National Defense Authorization Act. See Scott R. Anderson, What Congress Has Done—and What it Still Needs to DO—to Protect NATO, Lawfare. 22 March 2024.
[7] US Constitution, Article I, Section 8.
[8] US Constitution, Article I, Section 8.
[9] Chae Chan Ping v United States, 130 US 581 (1889) and Fong Yue Ting v United States, 149 US 698 (1893)
[10] Immigration and Nationality Act of 1952, Title 8, Section 1182 of the US Code.
[11] Kerry v Din, 576 US 86 (2015).

Election dynamics

10. Which contests are likely to determine control of the Senate and House of Representatives?
Regardless of which party controls the Senate and the House in the 119th Congress, the margin is likely to be very slim. In the Senate, the key races we are watching are those in Montana, Ohio, Pennsylvania, Nevada, Arizona, Wisconsin, and Michigan. Democrats are defending seats in these states. Two seats currently held by Republicans, in Texas and Florida, will be actively contested by both parties but the GOP retains a polling advantage.

Democrats are optimistic about their chances to assume control of the House because Republicans occupy 17 districts won by President Biden in 2020, while Democrats hold just five districts won by former President Trump.[12] House races tend to be more idiosyncratic than those in the Senate, but voter turnout for the presidential race will be an important factor. If either Trump or Harris wins by a larger-than-expected margin, their respective party will likely gain control of the House.

11. Has polling become less accurate in recent elections?
Public confidence in opinion polls has declined over the past eight years. Donald Trump's unexpected victory in 2016 and Joe Biden's narrower-than-expected win in 2020 forced the industry to reexamine its canvassing methods. According to the American Association of Public Opinion Research, the 2020 polling errors were the highest in 40 years.[13] Polls conducted exclusively by land lines have given way to a combination of online, mail, wireless communication, and greater use of probability sampling.

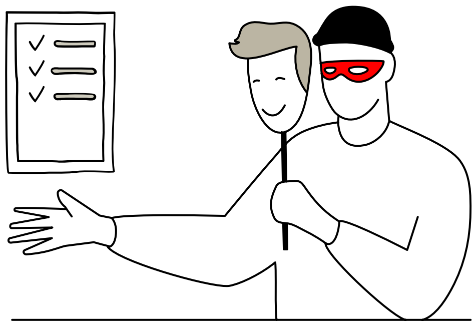
It is worth noting that the accuracy of polls was greater in the midterm elections in 2018 and 2022 than in recent presidential contests, which suggests that the presence of Donald Trump on the ballot might have a tangible impact on polling accuracy. The ability of the former President to turn out voters at the polls who otherwise do not vote regularly or respond to pollsters' inquiries may be the critical difference.

12. How secure are mailed ballots?
The practice of using the mail to record votes is not new; active duty military members and the US diplomatic corps have been voting by mail for decades. But it has certainly become more commonplace. According to a study by the Massachusetts Institute of Technology, 32% of all votes across the nation in 2022 were submitted by mail.[14] Eight states and the District of Columbia now conduct all elections exclusively by mail.[15]

State governments have taken steps to reduce the potential for fraud by mailing ballots only to registered voters. Ballot envelopes are barcoded and only one ballot per registered voter is ever counted. Signature identification is used by a majority of states to verify eligibility and stiff criminal penalties are assessed for election interference. A study by the Heritage Foundation identified only 15 instances of attempted fraud out of 15.5 million ballots cast in Oregon between 1998 and 2020.[16]

15 out of 15.5 million

instances of attempted fraud were found on ballots cast in Oregon between 1998 and 2020.



The timely delivery of mailed ballots by the US Postal Service (USPS) is critical. The National Association of State Election Directors has urged the USPS to improve its delivery performance in advance of this year's election.

13. Does early voting affect election outcomes?
The opportunity to vote early in presidential elections is increasing. Voters in 15 states will have the opportunity to

[12]Jonathan Weisman, Battle for the House, New York Times, 24 August 2024.
[13]American Association for Public Opinion Research, Task Force on 2020 Pre-Election Polling. See also Scott Keeter and Courtney Kennedy, Key Things to know about the US Election polling in 2024, Pew Research Center, 28 August 2024.
[14]Massachusetts Institute of Technology, Election Data and Science Lab, 28 February 2024.
[15]California, Colorado, Hawaii, Nevada, Oregon, Utah, Vermont, and the District of Columbia conduct elections my mail. Two others, Nebraska and North Dakota, allow their counties to opt into voting exclusively by mail.
[16]Andy Sullivan, "Fraud is rare in US mail-in voting," Reuters, 7 July 2020.

begin doing so by October 10. However, the availability of early voting as an option does not appear to have a significant impact on outcomes. Prior to 2020, registered Republicans opted to vote early more frequently than did Democrats. Former President Trump's criticism of the practice may have been a factor in changing the narrative; registered Democrats voted early in greater numbers in 2020.[17]

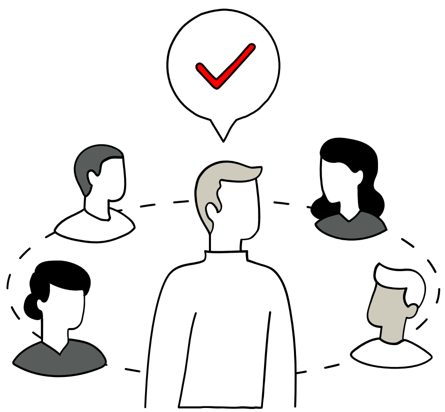
14. Do third-party candidates affect the outcome of presidential elections?

Third party candidates have had a pronounced impact on the results of presidential elections in only a handful of instances. Ross Perot garnered 18.9% of the popular vote in 1992, for example, which was the best result for a third-party candidate since Theodore Roosevelt 80 years earlier. While he did not win any electoral votes, his presence may have been a factor in Bill Clinton's victory in the presidential election, which Clinton won with only 43% of the popular vote (to George H.W. Bush's 37.4%). Eight years later, Ralph Nader's presence as an independent candidate may have cost Al Gore the 2000 election. Nader received more than 97,000 votes in Florida, which George W. Bush won by only 537 votes. Nader received more than 22,000 votes in New Hampshire, which Bush won by a little more than 7,000.

The withdrawal of Robert F. Kennedy, Jr. is noteworthy but may not have the same impact as the foregoing examples. He was draining support from both Biden and Trump prior to the former's withdrawal from the race. Harris' entry and subsequent nomination may have contributed to deterioration in RFK Jr.'s poll numbers, which were halved in relatively short order. Some of his remaining support may transfer to former President Trump but it is by no means clear that this will happen in large enough amounts to alter the dynamics of the current race.

Fewer than 270 votes

acquired by any one candidate results in each state's delegation getting a single vote.



15. Why does the US have an Electoral College in lieu of a popular vote for president?

The use of "electors" was the result of a political compromise at the Constitutional Convention in 1787. Some delegates to the Convention believed that either the Congress or state legislatures should elect the president. Others preferred a popular vote. While northern and southern states had equivalent populations, enslaved individuals made up about one third of the population in southern states. As a result, a direct popular vote by white propertied males might have favored the north. The compromise allowed three out of five slaves to be counted toward the population of a given state, with a consequent increase in the number of southern electors.

The origins of the Electoral College are ignominious, but it has survived for a number of reasons. Those in support of its retention argue that it encourages presidential candidates to form a broader political coalition and increases the probability that a candidate will pay closer attention to less populous states and states with smaller urban populations.

16. What happens if no candidate gets 270 electoral votes?

If no candidate receives 270 votes, the presidential election moves to the House of Representatives, where each state's delegation is allowed a single vote. The District of Columbia does not vote in this instance. The state delegations must choose from the three candidates who received the most electoral votes for president. The Senate elects the vice president from the two candidates who received the most electoral votes. If the House fails to elect a president by Inauguration Day, the vice president-elect serves as acting president until the deadlock is resolved.[18]

17. Could either candidate contest the presidential election results?

Federal elections are managed by state governments, so the process of disputing the results is defined by each state's own statutes. Some states require an automatic recount if the result is close. Candidates are also free to contest the outcome through litigation, which can take place in either state court or the federal district court, depending upon the plaintiff's argument.

[17]Matt Grossman, "How early voting is changing American elections," Niskanen Center, Michigan State University, 30 November 2022.
[18]The National Archives, 28 August 2024.

Investment considerations

18. How has the US equity market performed in presidential election years, and does party affiliation of the US president matter?
Only two dozen presidential elections have been held since 1928, so there are too few data points to draw a statistically defensible conclusion regarding the political impact of one party or another's victory on market behavior. Moreover, the data referenced by pundits often rely on calendar-year performance. This can be misleading because the incumbent executive occupied the presidency for the entire calendar year in which the election occurred. While the result of any election might have a temporary impact on equity market sentiment, a credible argument can be made that the incumbent president bears as much responsibility, or more, as the newly elected individual for market performance when a change of administration occurs (see Fig. 2).[19]

19. How do we expect the energy sector to perform based on the election results?
Since 2018, the US energy industry has become focused on capital discipline, which attempts to maximize returns on invested capital and maintain a longer-term perspective on commodity prices and capital spending. All of this has modestly shifted how companies react to changes in short-term commodity prices, different administrations, and regulations. As a result, we do not expect a wide variation in energy stock performance to either potential election outcome.

Looking at the specific election outcomes, a Red Sweep would pose slightly lower legislative and regulatory risks to the fossil fuel energy industry, which could see additional consolidation and higher exports of natural gas. A Harris administration would likely be neutral to slightly negative for the fossil fuel energy industry given the potential for additional regulations. However, we expect a Harris administration would represent the status quo with respect to regulatory oversight of the energy industry. Some focus on renewable energy will likely remain in either election outcome and we are not expecting a repeal of the Inflation Reduction Act (IRA).

Keep in mind that oil markets appear slightly oversupplied looking out to the beginning of 2025, and spare capacity from OPEC+ nations is likely to keep the prospect of global crude oil supply continuing to exceed demand as a key investor focus. Global oil demand has proven resilient, though Chinese demand has been modestly weaker than expected.

Figure 2

Returns are similar regardless of the winning party

Average S&P 500 total returns, excluding 2008

Presidential election years	Performance with Republican elected	Performance with Democrat elected
1928–2020	15.3%	12.3%
1948–2020	12.4%	13.9%
1960–2020	12.4%	15.1%

Source: Bloomberg, UBS

20. How do we expect the financial sector to perform based on the election results?
We expect that a Trump administration would be positive for the financial services industry while a Harris administration would likely be neutral to negative.

In our view, there are three main election risk factors for US financials, namely: legislative risk, regulatory risk, and headline risk. While there could be some targeted bills in areas like Government Sponsored Enterprise reform, we believe legislative risk remains modest given the wide-ranging scope of the 2010 Dodd-Frank Act. It also seems likely that the currently high degree of headline risk will not change much—especially under a divided Congress scenario. Accordingly, in our opinion, the main risk consideration based on the election results is regulatory risk as any new administration would likely nominate new heads of the various regulatory agencies that oversee the financial services sector. We believe a Trump administration would likely nominate regulatory heads who are less likely to interpret existing (or impose new) regulations that add to sector compliance and capital costs.

Personnel is policy. New regulatory heads at the Fed, FDIC, OCC, CFPB and other agencies could hold fewer negative views about the financial sector's role in the broader US economy. This could involve a lighter-touch supervisory regime and fewer regulatory orders and penalties. Accordingly, the overall regulatory burden including the cost of compliance and balance sheet requirements for liquidity and capital could be eased somewhat. Also, we believe the Consumer Finance Protection Bureau could be more restrained under a new administration, potentially lowering the risk of fines and costly corrective measures. Finally, new regulatory leadership could lessen or even reverse the anti-consolidation pressures that have emerged in recent years. In particular, we believe the significant excess capacity in banking (with over 4.300

[19] *UBS ElectionWatch*, 2 February 2024.

chartered US banks) could lead to more strategic as well as scale-driven consolidation of smaller and mid-sized US banks.

21. How do we expect the tech sector to perform based on the election results?

The chip industry has been the center of geopolitical tensions between mainland China and the US for a number of years and for good reason: semiconductors are the foundational technology that drives global economic development with significant implications for cybersecurity and national defense.

No matter the election outcome, we expect export restrictions on semiconductor technology to continue, ranging from semiconductor manufacturing to finished chips. In our view, this is the one technology issue that has bipartisan and bicameral support. We see the potential for further action on shipments of manufacturing tools into mainland China, along with a strong probability of further limits on the shipments of advanced semiconductors, with the potential for efforts to cut off "gray market" supply that has circumvented US rules.

This further tightening of semiconductor policy, along with the potential for increased tariffs under a Trump Administration, could have knock-on effects. China may promote a policy that encourages domestic brands in hardware to the detriment of US companies. Additionally, tariffs could have a dampening effect on demand as any increase in tariffs would likely be passed on to final consumers given the thin margins in most hardware companies.

The expected ultimate impact of enhanced technology restrictions would be partially offset by shifting production. We have already seen an increase in semiconductor fab construction outside of the Southeast Asia region, and this could accelerate. At the same time, the global hardware supply chain would likely rebalance production to areas not subject to tariffs. While the financial impact is likely manageable, we believe that the semiconductor and hardware industries could see increased volatility.

22. Is tax policy likely to change after the election?

Yes. Congress will need to address the expiring provisions of the Tax Cuts and Jobs Act in 2025. Former President Trump is adamant that the expiring personal tax cuts be made permanent. He also has expressed support for a lower corporate tax rate and a lower payroll tax rate. Vice president Harris has argued that tax cuts be made permanent only for those Americans earning less than USD 400,000 per year. She also has expressed support for a higher corporate tax rate.

The ability of the two candidates to enact these policies will depend upon the composition of the next Congress. In a Red Sweep, where the GOP controls both chambers, the tax cuts are highly likely to be made permanent. In a Blue Sweep, where Democrats control the flow of legislation, we expect personal and corporate taxes rates to increase. An expanded child tax credit and a permanent earned income tax credit are also likely. The scenarios become more complicated if the Congress is divided. In that case, we believe Democrats will hold a slight edge in tax bill negotiations because a failure to take any action will trigger a reversion to higher tax rates in 2026.

23. What is the outlook for the US dollar under various election outcomes?

The dollar faces a mixed outlook under the different macroeconomic reactions to the election outcomes. Increased taxes on higher-income households in a Harris presidency, as well as a potential nudge higher to the corporate tax rate, represent a modest negative for economic growth. To the extent this is disinflationary and leads to somewhat larger Fed rate cuts, this would be a slightly negative for the dollar. Under a second Trump administration we would have a range of offsetting macro policies. An extension of the personal tax cuts and a cut to corporate taxes would prove positive for the economy. Along with strict immigration policies and higher tariffs, inflationary pressures would likely increase, resulting in fewer Fed rate cuts. While a Trump administration and especially a Red Sweep could be positive for the dollar, at least initially, higher deficits and trade tensions could eventually undermine the dollar.

24. If I am worried about the market reaction to an election outcome, how do I protect my portfolio?

We are obliged to remind our readers that portfolio management is best treated as an apolitical exercise. A well-constructed portfolio management plan will be able to withstand the market volatility following the results of a close election, and a reduction in equity exposure in the wake of a disappointing election outcome is likely to be counterproductive over the longer term. With that important caveat, an investor eager to protect a portfolio from short-term fluctuations in value can pursue an option strategy that locks in gains now or limits the magnitude of a potential loss. Structured notes are another alternative, which can preserve existing gains in return for a willingness to forego future growth for some period. Gold can be an effective hedge against concerns over geopolitical polarization, the US fiscal deficit, or a weaker US dollar. In all instances, clients should consult their financial and tax advisors.

Additional resources

Find our reports, videos, and more online at ubs.com/electionwatch

Market insights

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Scenario analysis

Significant market implications emerge from the stark contrast between the presidential candidates' policies. While we believe portfolio construction should be an apolitical process no matter how distracting the lead-up to Election Day may be, we share our policy, economic, and market expectations for the most likely outcomes.

See what we think

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