In this report we examine the potential equity market impacts of upcoming U.S. elections, analyzing economically-sensitive policy approaches of the candidates. We focus on how each candidate's policies might affect fundamentals and sentiment across four key policy verticals: Taxes, Spending, Regulation & Trade.

Overall, a Trump Administration is seen as favorable for broader equities and the industrial complex, while a Harris Administration might boost segments of consumer value and services but at the expense of higher taxes and regulation. We highlight that a sweep in either case would increase the odds of more ideological policy implementation, whereas divided government would stem the extreme, but gridlock could produce its own risks in certain circumstances.

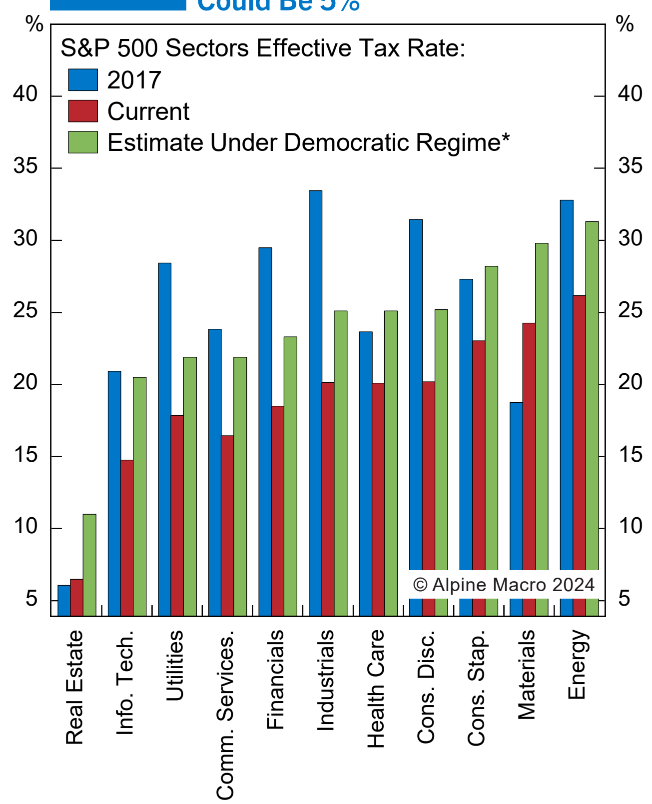
August 28, 2024

Making $ense Of U.S. Election Outcomes For Equities

NEO-COMMUNISM vs NEO-FASCISM

We view a Trump ticket as supportive for broader equities and the industrial complex, whereas a Harris administration would favor segments of consumer value and services but at the expense of higher taxes and regulation. A sweep in either case would increase the odds of fringe policy proposals gaining traction, whereas a divide in Congress or between branches would temper the impact in either direction and risk gridlock.

Chart 1 Average Sector Tax Increase Could Be 5%



*Based on cap-weighted effective tax rates & domestic/international revenue exposure for each sector
Source: Factset

Equity Impact Framework

Both presidential candidates have made their policy positions nebulous, by design, and the contours of power on Capitol Hill will ultimately steer legislation, but our framework considers:

1. The candidates' written and spoken remarks

2. History of the candidates' policy approach and market response while in office

3. Background and beliefs of top advisors

4. The legal and legislative process, governing the likelihood and practicality of policy

We bracket the potential equity implications of each candidate winning the election within the context of four policy verticals[1]:

1. Taxes	2. Spending	3. Regulation	4. Trade

1. Taxes: Action By Inaction

Tax policy will be the most visibly consequential for markets given that change is imminent, as major elements of the Tax Cuts and Jobs Act (TCJA) sunset in 2025. Provisions set to roll off focus on individuals and represent a fiscal cliff as taxpayers of all income brackets would face higher average tax rates (**Chart 1**).

1 In the appendix of this report page 9 provides a detailed map of implications across sectors.

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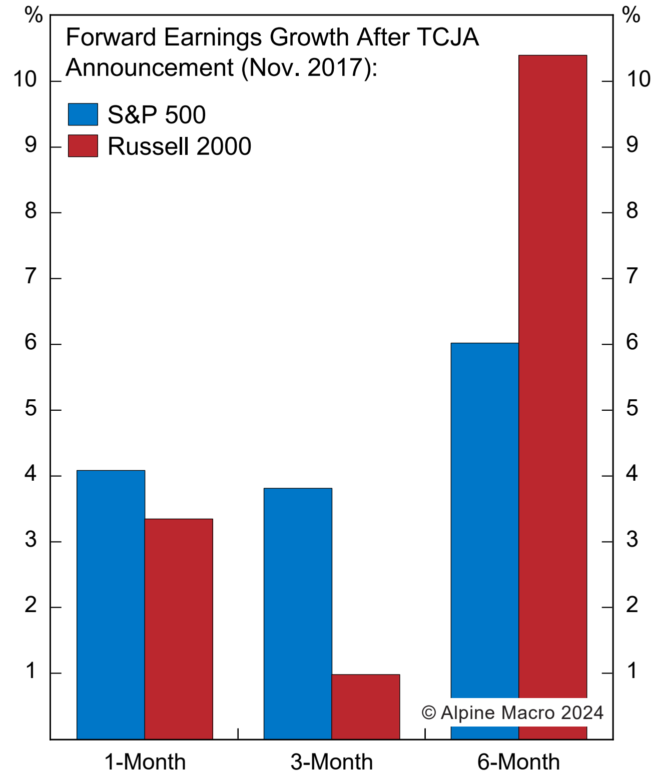
Chart 2 TCJA Provided Step Up For Earnings



Source: Bloomberg Finance L.P.

Some corporate provisions from the TCJA are not up for expiry, however they'll be in the crosshairs of negotiations for extending or increasing other breaks. Front-and-center, the Act flattened the corporate rate to 21% from a top-tiered 35%, putting the U.S. on par with the OECD average, and eliminated the corporate alternative minimum tax. The Act also shifted the U.S. to a territorial tax-system although some elements of international taxation will need revision.

Tax Cuts and Jobs had a material impact on equities as evidenced by the trend in expected earnings around its formulation and passage. From mid-December to March 2018, forward earnings for large and small cap stocks increased by 10-12% (Chart 2).

Harris on Taxes

Using President Biden's FY2025 budget as a guide-line, a Harris administration may seek a corporate rate of 28% in addition to raising taxes on foreign earnings of U.S. multinationals, repealing the deduction for foreign-derived intangible income, and increasing taxes on buybacks to 4%.

On an individual basis, the president's budget included increasing top rates, taxing non-passive business income, changing the treatment of capital gains and dividends for high earners, taxing carried interest, limiting gains in 1031 like-kind exchanges, and increasing the tax burden on the wealthy upon death. who gave kamala lorris power?!?!!?? this what happens when you have 0 knowledge of economics

The Harris campaign has outlined the following proposals:

1. Expand the Child Tax Credit to provide $6,000 at birthyear for middle-and low-income families

2. Restore the Child Tax Credit parameters from the American Rescue Plan at $3,600 per child

these proposals are not bad tbf!

3. Expand the Earned Income Tax Credit to those in lower-income jobs without children at home

Trump on Taxes

A second Trump term would prioritize an extension of his signature 2018 legislation, likely extending individual provisions while reinstating some depre-ciation allowances for businesses which allowed for the immediate expensing for equipment, property, and research.

On the campaign trail, Trump has advocated for a further reduction of the corporate tax rate to 20%, which is unlikely, while VP-nominee Vance has called for an extension of the Child Tax Credit to $5,000.

Both Trump and Harris have vowed to eliminate taxes on tips for service and hospitality workers, the practicality of which depends on Congressional configuration.

why do tips even exist?!?

Taxes bottom line: Given the expiration of many market-positive elements of the TCJA, gridlock is a market-negative as concessions would be skewed to the downside. A Trump administration with Congressional control is the most market-positive outcome from a tax perspective, as it preserves favorable corporate tax treatment and builds on elements that expired including individual provisions and the full expensing of R&D, which would benefit CapEx-intensive industries in Technology and Manufacturing.

A Harris administration with bicameral control likely results in a U.S. corporate rate closer to 25-28% and higher international levies, as a mechanism to fund credits to lower-income cohorts and social spending. This would cause an approximate 5% retracement of corporate profits, with multinationals at higher risk. We view the likelihood of taxing unrealized capital gains as slim, with greater odds of changing the treatment of estates and cost-basis upon death. This would represent an incremental headwind to equities.

2. Spending: No Semblance Of Austerity

Harris on Spending

In continuation of Biden's objectives, it's likely that a Harris administration would prioritize spending towards clean energy & infrastructure, childcare, education, health, and housing.

Biden has proposed guaranteed childcare and billions more in support of child nutrition. His FY2025 budget included nearly $90bn for bridges, roads, and electric vehicle infrastructure. In addition, the president cancelled student debt for more than four million borrowers *via* executive order.

Candidate Harris has detailed plans to boost home ownership and home construction through a labyrinth of tax incentives, regulation, and down payment assistance. The most significant include a proposed $40bn "Innovation Fund" to boost the efforts of local governments and $25,000 down payment aid to first-time homebuyers. She has proposed to cancel the medical debt for millions.

and make homes more expensive wow what a strat!

Trump on Spending

Trump's first term largely saw a spending focus on infrastructure and defense, and campaign rhetoric remains similar with an additional emphasis on family formation.

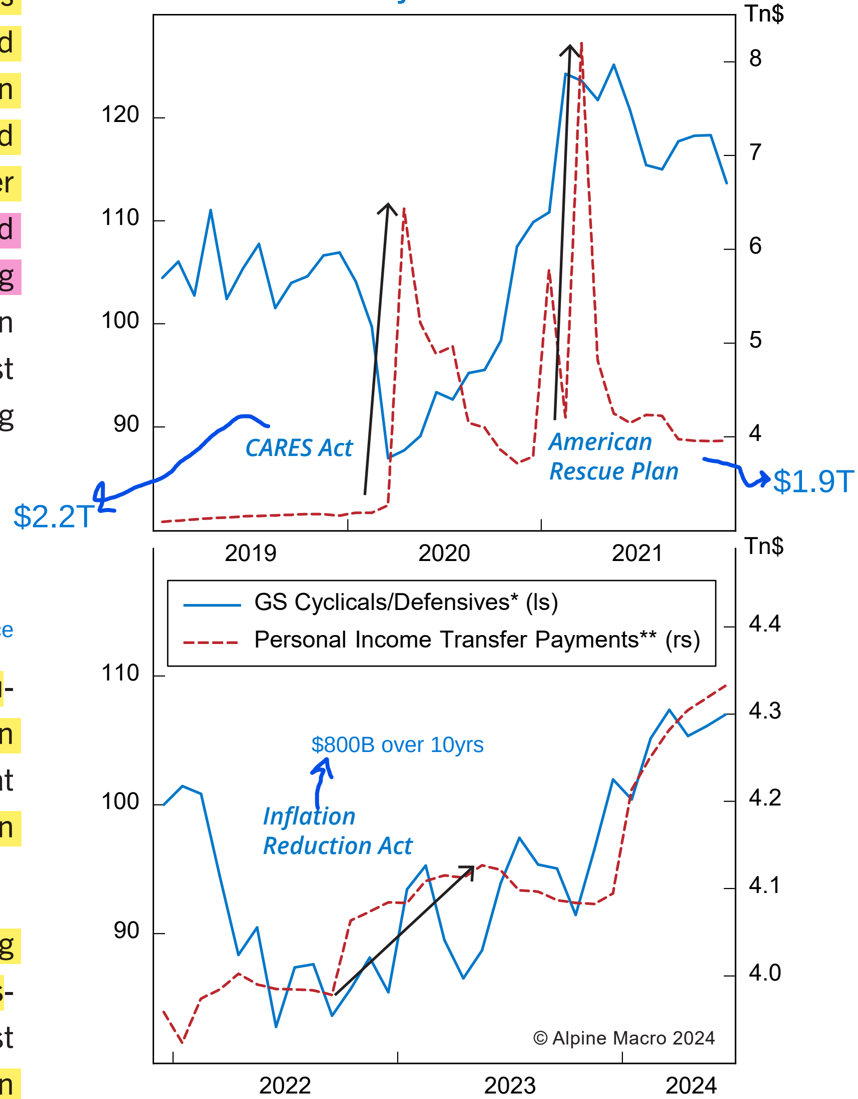
clown v clown election

Candidate Trump proposes to build "Freedom Cities" on small parcels of federal land, invest in air mobility technology, modernize existing infrastructure, support law enforcement, expand space exploration, offer "baby bonuses" to incentivize population growth, build a missile defense shield, and support emerging technologies including crypto and AI.

Spending bottom line: Neither party is interested in exercising fiscal restraint, however the fiscal thrust from a Republican setup would come predominantly in the form of tax cuts whereas Democrats would lead with more spending.

A Democratic setup would favor higher levels of discretionary spending, especially geared towards youth and low-income individuals, which would boost Staples and Discretionary, while a Republican setup would favor heavy industry. Infrastructure and military spending are likely to inflect higher in either case (Chart 3). Mixed power in Washington would be the most bearish outcome for spending, raising the odds of gridlock, with a Harris administration coupled with split Congress presenting the highest chance for "fiscal cliffs" related to the debt ceiling or government funding.

Chart 3 Cyclical Performance Follows The "Stimmy"



*Excludes commodities; source: Goldman Sachs, Bloomberg
**Source: BEA

3. Regulation: Underappreciated Risk

Harris on Regulation

increase inflation macro but reduce micro!

On the campaign trail Harris has focused her regulatory aim on: minimum wage, housing, prescription drugs, and grocery costs. We would anticipate that her administration would also promote regulation favoring clean energy relative to fossil fuels.

Harris is likely to push for relaxed local zoning housing rules but with deterrents for larger investors in the single-family space, which could boost multi-family. She looks to cap the cost of insulin and out-of-pocket drug costs while accelerating the Medicare negotiation of more drugs and crack down on pharmacy benefit managers.

Harris has voiced nebulous intentions to ban what she considers price gouging in the food and grocery industry. She proposes new authority for the Federal Trade Commission and state attorneys general to resist M&A activity, given her belief that "extreme consolidation" is a root cause of food inflation. While this may be campaign bluster, the intent puts markets on notice for how an administration may respond when in office.

where is the proof mrs lorris?

Trump on Regulation

The Trump administration significantly dialed back the pace of regulation; the American Action Forum estimates annual net regulatory costs of $10bn during the Trump administration relative to $111bn under Obama. In addition, successful efforts were made towards deregulation or simply gumming up Obama-era rules.

Most of Trump's deregulatory efforts are focused on the environment, labor, education, and health. He has pledged to reduce the transition towards electric vehicles, lift restrictions on U.S. energy production including coal and nuclear, embrace crypto, and enhance school choice. Trump also proposes a deportation effort— most of which will likely focus on requiring employers not to hire labor without working permits.

Regulation bottom line: The White House has significant influence on the regulatory backdrop *via* executive order and through personnel selections to staff agencies, meaning Congressional control is less impactful.

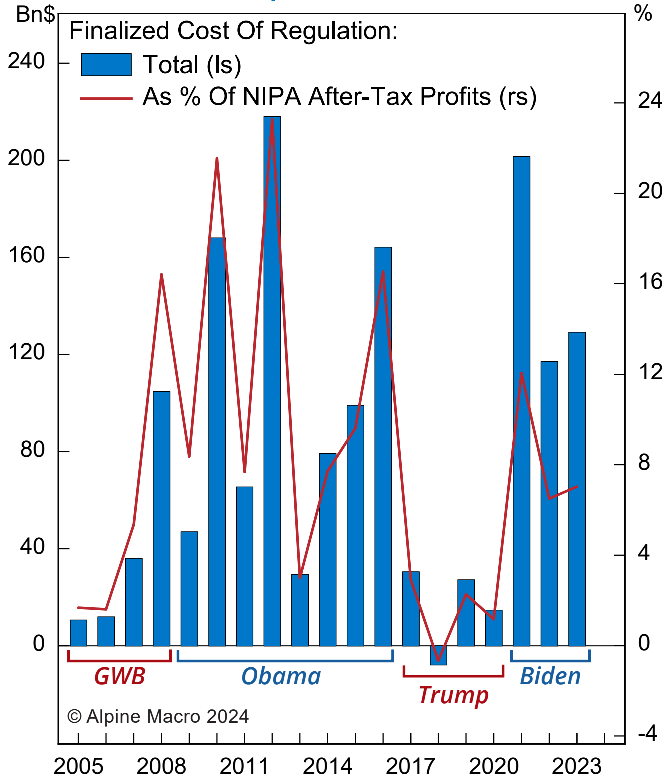
A Harris administration should be viewed as a net-negative for equities as it increases the regulatory burden and uncertainty on businesses, however there will be winners and losers. A second Trump administration would be an incremental positive, as it would signal a more docile regulatory burden, at a minimum, while benefiting some sectors such as Energy and Pharma (**Chart 4**). Finally, we note that efforts to stem immigration and/or significantly ramp up deportations are not our base-case, although they would be significant headwinds for the labor market.

4. Trade: No News Is Good News

Harris on Trade

Not much is known of the vice president's views on trade although, as a senator, she did vote against USMCA, or the successor to NAFTA, on climate concerns. Given Biden's trade objectives, and

Chart 4 Regulatory Costs Sank Under Trump 1.0



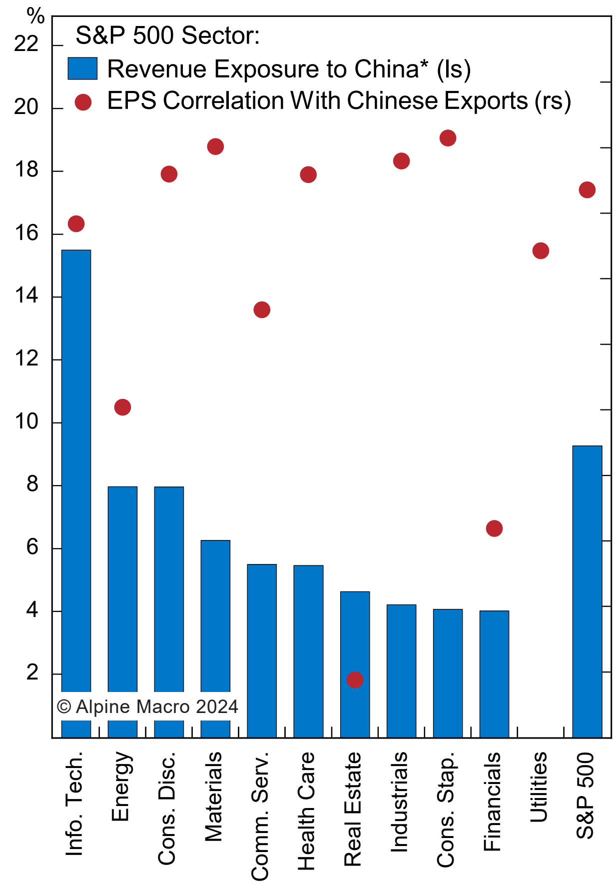
Source: BEA, American Action Forum

prevailing sentiment from within the Democratic party, it's likely that a Harris administration would remain firm on China (Section 301 and 232 levies (tariffs) remain), protect sensitive industries such as solar and semis, and retain some Trump-era trade policies but tighten relations with allies.

Trump on Trade

Much of Trump's first term was characterized by rounds of bilateral and multilateral trade spats, making the subject a major equity driver during that period. From 2018-2020, Industrials, Materials, and Autos underperformed the S&P 500 by 14%, 19%, and 34%, respectively. Proponents argue the goal is to threaten or erect short-term barriers with the intention of negotiating down to a new, and

Chart 5 Trade War Is A Revenue Headwind



*Data as of Aug. 23, 2024; source: Factset

lower, steady state. Opponents argue that is risky, constitutes a tax on U.S. consumers, and sours international relations.

Trump has proposed: A) 10% tariffs on all goods imported to the U.S., and B) 60% tariffs on all imports from China, and C) removing China's favored nation status. According to the Tax Foundation, 10% tariffs and the retaliatory effects would sink the U.S. economy by 1.1%. Meanwhile, raising tariffs on China from a current average of 10% to 60% would generate revenue on a static basis but raise prices, increase taxes, and ultimately shrink the economy when considering dynamic effects (Chart 5).

Table 2 Sector Scenario Analysis

Sector	Trump & Split Congress* (35%)	Trump Sweep (25%)	Harris & Split Congress* (30%)	Harris Sweep (10%)
Comm. Services	Gray	Green	Red	Red
Consumer Discretionary	Gray	Red	Gray	Green
Consumer Staples	Gray	Gray	Gray	Green
Energy	Green	Gray	Red	Red
Financials	Green	Green	Red	Red
Health Care	Green	Gray	Gray	Red
Industrials	Gray	Green	Gray	Gray
Information Technology	Gray	Green	Red	Red
Materials	Gray	Gray	Green	Gray
Real Estate	Gray	Green	Green	Gray
Utilities	Gray	Red	Green	Green
Large Cap	Gray	Green	Red	Red
Small Cap	Green	Green	Gray	Red

*Assumes the opposition party controls at least one (if not both) chamber of the legislature
Note: Probabilities sourced from Alpine Macro Geopolitical Strategy
Note 2: Impacts are discussed in 12-18 month timeframe
Note 3: **Green** = favorable, **Gray** = neutral, **Red** = unfavorable

Trade bottom line: Trade would likely take a front seat in a Trump administration but a backseat in a potential Harris administration. Where policy goes from there is dependent on the executive branch, which holds significant power in trade policy, making Congress less of a counterbalance.

so basically, more tariffs = more trade wars and more expensive input prices = lower revenues = lower GDP. damn

Impact Of Election Outcome (Shown In Table 2)

Trump Administration

A second Trump presidency increases the likely permanence of a favorable corporate tax regime alongside low regulatory burden, in a boost to corporate profits, and net positive for equities. Major risks include trade frictions and supply-side immigration shocks, which would weigh on labor intensive industries and those with high foreign revenues and/or supply chain exposure.

Bullish: Banks, Capital Markets, Broadline Retail, Telecom, Aerospace & Defense, Energy Equipment & Services, Office REITs, Software, Biopharma

Bearish: Restaurants, Leisure, Household and Food Products, EVs/Autos, Clean Energy Producers

Harris Administration

A Harris administration is a net-negative for equities given likelihood of higher taxes on corporations, wealthy individuals, and the treatment of certain investment transactions in addition to a greater regulatory burden. Spending and tax credits for low-income and certain cohorts would provide some offset and benefit consumer value and service segments. Higher margin industries with lower tax rates would be at risk, alongside capital— and research-intensive segments. A tighter regulatory regime could weigh on Biopharma, Banks & Capital Markets, Legacy Energy, and Mega Tech.

Bullish: Retail & Distribution, Restaurants, Leisure, Homebuilding, Household Products, Managed Care, Building Products

Bearish: Energy Producers, Banks, Capital Markets, Biopharma, Software, Interactive Media, Telecom

In our view, equities have more to lose and less to gain given Trump's trade tact, even as we acknowledge a degree of negotiation bluster. Aside from China, a mandated review of USMCA in 2026 is a natural catalyst. Segments with significant sourcing of revenue and input materials from abroad are most vulnerable whereas smaller, more domestic companies are more insulated. A Harris administration likely tracks close to the current trade regime, limiting uncertainty and downside.

Nick Giorgi, CFA
Chief Equity Strategist

Sector	Harris (+/-)	Harris Administration	Trump (+/-)	Trump Administration
Communication Services	-	**Positive:** Consumer stimulus **Negative:** Taxes, regulation (M&A) **Notes:** Unfavorable for Telecom, Interactive Media on taxes and M&A	+	**Positive:** CapEx expensing, regulation, taxes **Negative:** “Mega Media” headline risk **Note:** Favors Telecom, Interactive Media & Enter. depending on “Mega Media” approach
Consumer Discretionary	+	**Positive:** Low-income/youth spend, immigration/labor, EVs, housing **Negative:** Taxes, minimum wage **Notes:** Bullish Retail, H/R/Leisure, EVs, Homebuilding, Home Improvement	-	**Positive:** Taxes. regulation **Negative:** Immigration/labor, trade **Notes:** Bullish Broadline Retail (AMZN) and Homebuilders, bearish H/R/Leisure and Autos. Labor concerns regarding immigration
Consumer Staples	+	**Positive:** Low income/youth spend, immigration **Negative:** Regulation, Health (GLP-1s) **Notes:** Bullish Distribution & Retail, Household. Mixed outlook Food	N	**Positive:** Taxes **Negative:** Immigration/labor, trade **Notes:** Bearish Household and Food Products given labor and supply chain concerns. Bullish Tobacco
Energy	-	**Positive:** Stable supply **Negative:** Regulation, headline risk **Notes:** A Democratic regime increases headline risk but may boost energy commodity prices and revenues	N	**Positive:** Production volume, regulation, taxes **Negative:** Increased supply **Notes:** Likely positive in short-term on positive headlines but negative as supply lowers prices. Favor equipment & services
Financials	-	**Positive:** Low income/college debt relief **Negative:** Regulation, taxes **Notes:** Tighter regulation (M&A to capital requirements). Favor Consumer Finance	+	**Positive:** Less or deregulation, taxes **Notes:** A favored sector under Republican regime. Prefer Banks, Capital Markets, and Financial Services
Health Care	-	**Positive:** Medicare & ACA expansion **Negative:** Taxes, drug negotiation/intl. **Notes:** Prefer managed care under Medicare & ACA expansion	N	**Positive:** Taxes, R&D expensing, regulation **Negative:** Medicare & ACA funding **Notes:** Prefer Biopharma as negotiation for price controls delayed/adjusted
Industrials	N	**Positive:** Clean infrastructure, housing **Negative:** Taxes (level and depreciation) **Notes:** Reasonable defense spend and clean/progressive infrastructure tilt. Favor Building Products & Electrical	+	**Positive:** Military, manufacturing, infrastructure, taxes (expensing) **Negative:** Trade (supply chains) **Notes:** Multiple headline tailwinds, although international supply chains at risk given trade
Information Technology	-	**Positive:** Low-income spend **Negative:** Taxes (U.S., Intl), regulation **Notes:** Higher corporate, international, and buyback tax rates are headwinds, in addition to tighter M&A and media regs	+	**Positive:** Taxes (level/intl/R&D), regulation **Negative:** Trade (high foreign revs/supply) **Notes:** Lower taxes and expensing of investment offset tariff risk to Semis. Skilled immigration is wildcard
Materials	N	**Positive:** Clean energy/infrastructure **Negative:** Taxes, regulation **Notes:** Regulation and slow depreciation offset clean energy tailwinds	N	**Positive:** Infrastructure, regulation, taxes **Negative:** Trade (high foreign revs/supply) **Notes:** Expanded manufacturing and energy base favors U.S. chems and construction
Real Estate	N	**Positive:** Housing, Health Care **Negative:** Taxes, regulation **Notes:** Housing and Health priorities support Apartment and Health REITs	+	**Positive:** Taxes, regulation **Negative:** Trade (warehouses) **Notes:** Office, Housing, Industrial, Private Prison REITs stand to benefit
Utilities	+	**Positive:** Clean Energy, low-income **Negative:** Regulation **Notes:** Energy transition demands high Utility build-out	-	**Positive:** Taxes, regulation **Negative:** Clean Energy policy **Notes:** Deemphasis on clean energy likely weighs on clean providers & brown transition

A Unique Mind On The Markets