

U.S. Election Monitor, November 2, 2024

A Narrow Trump Lead, And A Higher GOP Sweep Potential

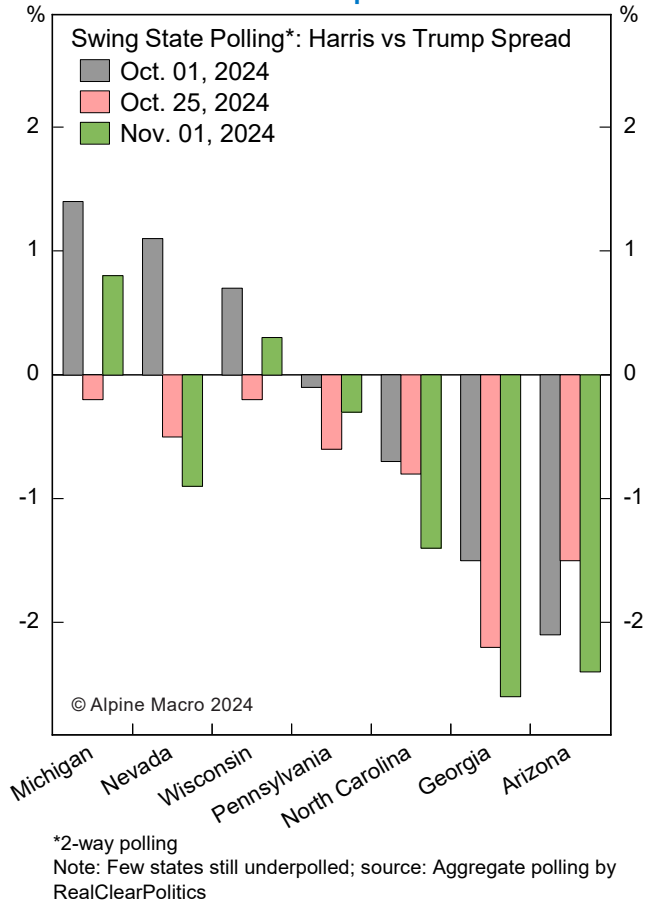
- Trump maintains a tenuous lead, while odds of a Republican sweep improve (25%).
- Market volatility may ease post-election, barring major election outcome uncertainty.
- Fiscal risks: Markets likely overplay such risks under a Trump administration, and underestimate them under a Democratic sweep scenario.

Four days before November 5, Trump remains slightly ahead in most swing state polls ([Chart 1](#)), while national polls show him to be even with Harris ([Chart 2](#)). Trump's momentum, evident in polling over the past two months, has stalled, and in some swing states (e.g. MI, WI) it has slightly reversed.

We continue to give Trump a slight edge at 55%, for the same structural reasons outlined previously¹. [Chart 3](#) compares our forecast with others (top panel) and shows our forecasts over time (bottom panel). A takeaway from this chart is the closeness of the election: no forecaster or prediction market gives either candidate more than a ~65% chance, while all polling remains within the margin of error.

¹ Alpine Macro *Geopolitical Strategy* "United States: (Still) Trump's Election To Lose" (October 24, 2024).

Chart 1 Polling In Swing States: Tight, But Favors Trump



Thus, a Trump win remains a low-confidence call. The biggest "known unknown", or wildcard, is voter turnout. Many forecasters try to estimate this by looking at past elections, particularly 2020 and 2022, but we find this unhelpful: 2020 was an unusual pandemic year, and 2022 was a low-turnout midterm election. Attempting to predict based on those past two elections relative to current early voting and mail-in trends, is reading too much into the tea leaves.

Chart 2 Harris' National Polling Lead: Gone

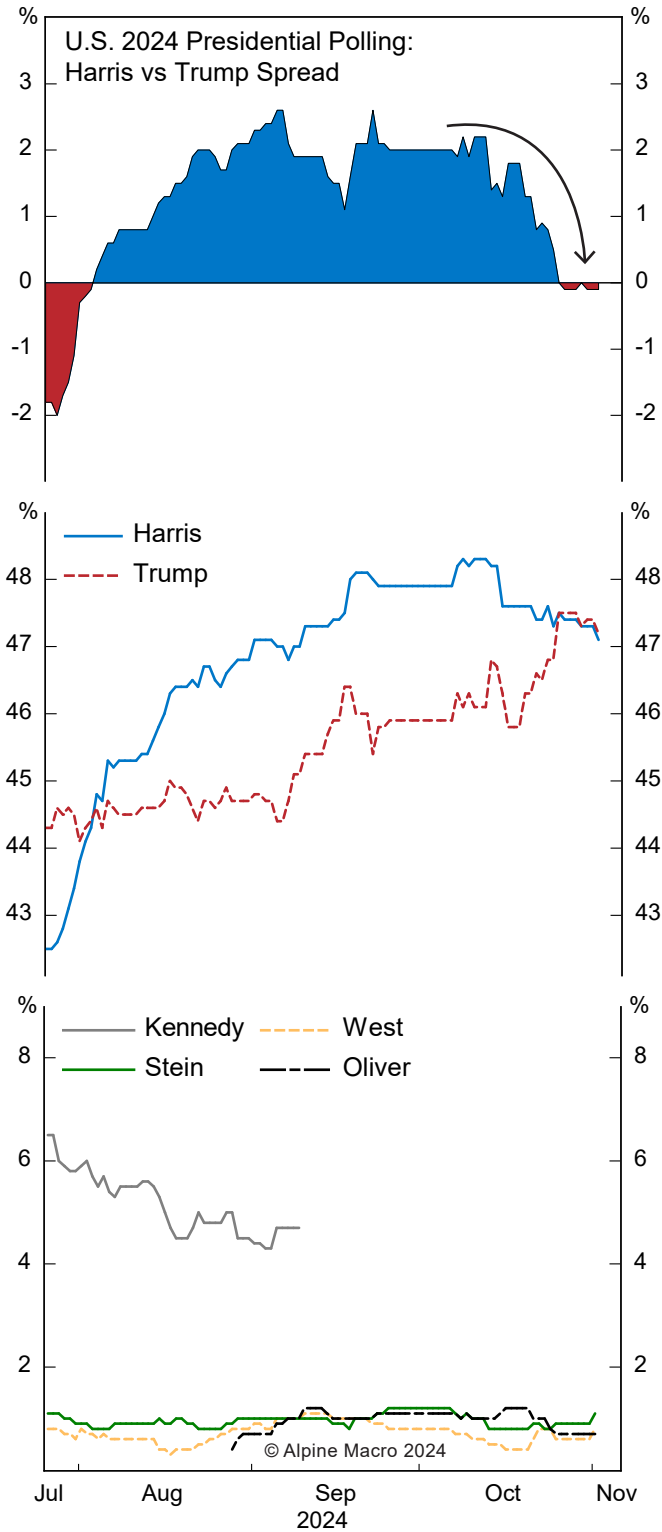
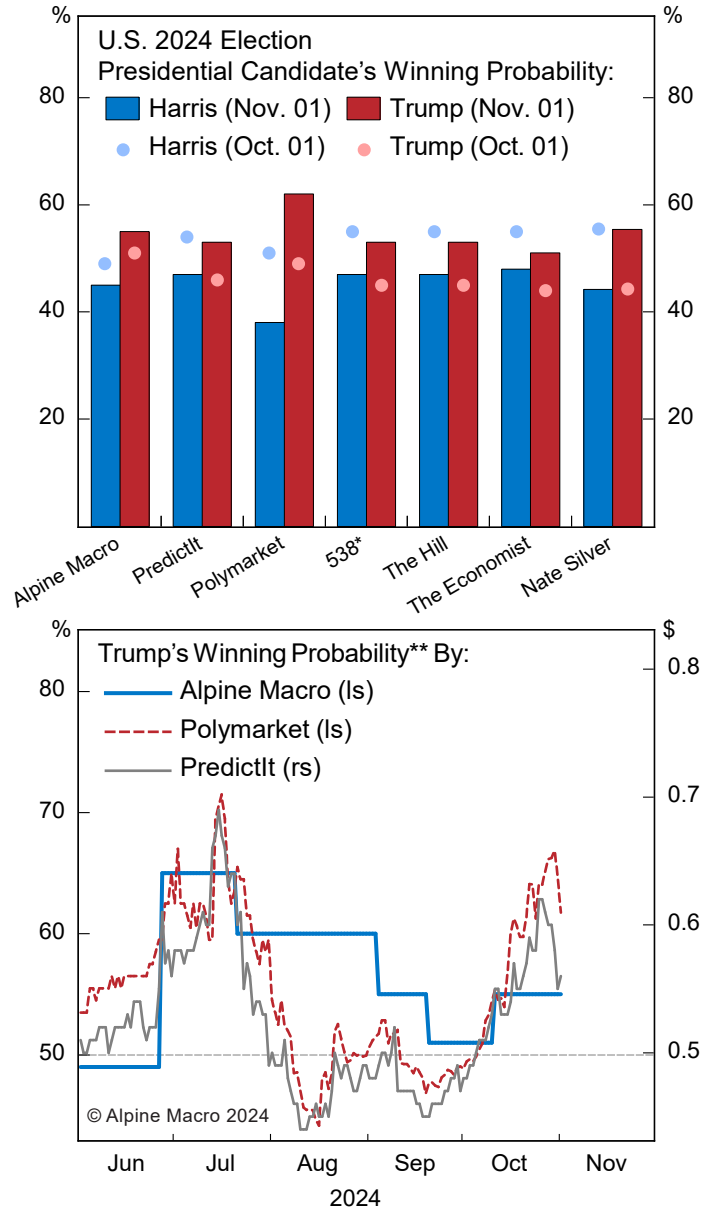


Chart 3 Forecasts: Advantage Trump

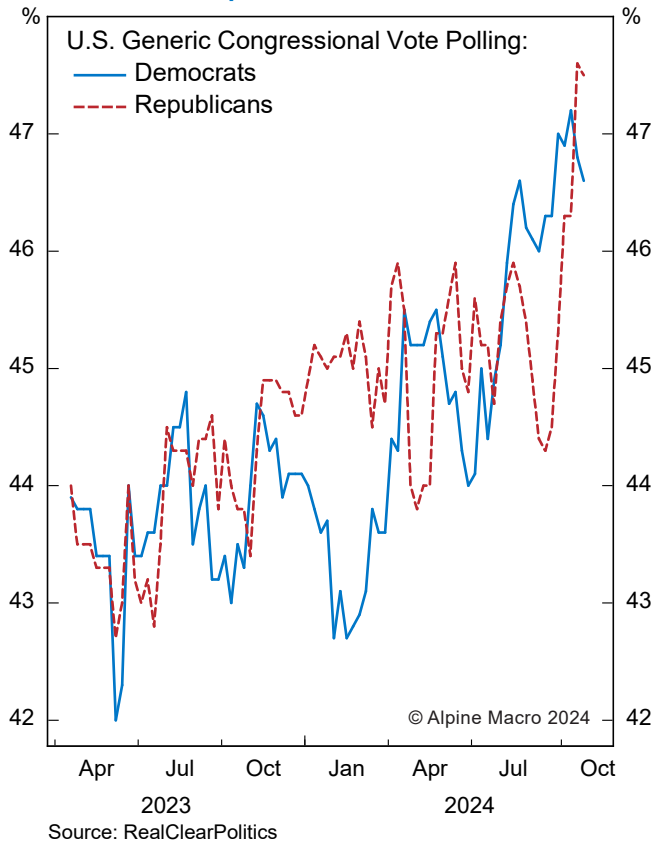


*Source: ABC News - 538

**Harris' winning probability is inverse of Trump

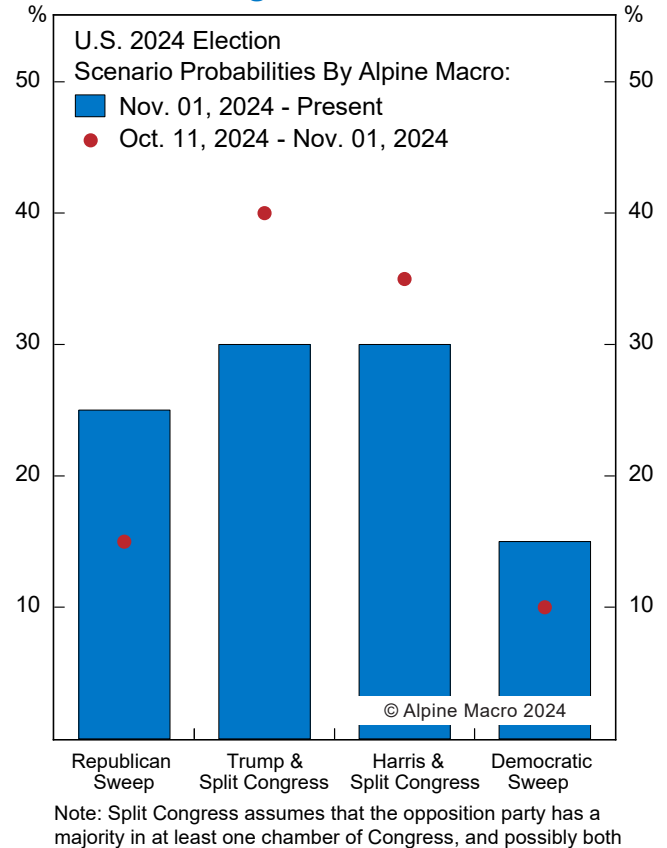
Given changing voting patterns since 2020, demographic shifts in the electorate, ongoing political realignments (e.g., working-class voters leaning Republican, college-educated voters leaning Democratic), and intense polarization, turnout remains highly uncertain.



Chart 4 Republicans' Polling For Congress Improves

What we can say is that Trump has recently gained momentum, yet Harris and the Democrats have stronger voter turnout operations and funding. Considering current discontent with the incumbent administration, we give Trump a slight advantage, while acknowledging Harris' strong potential.

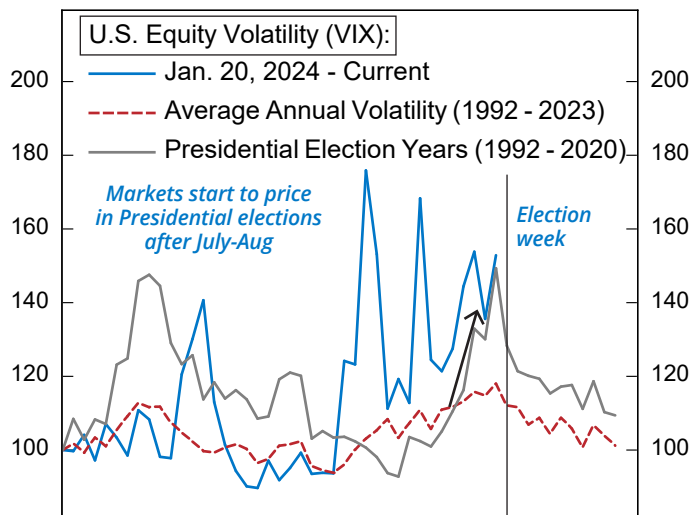
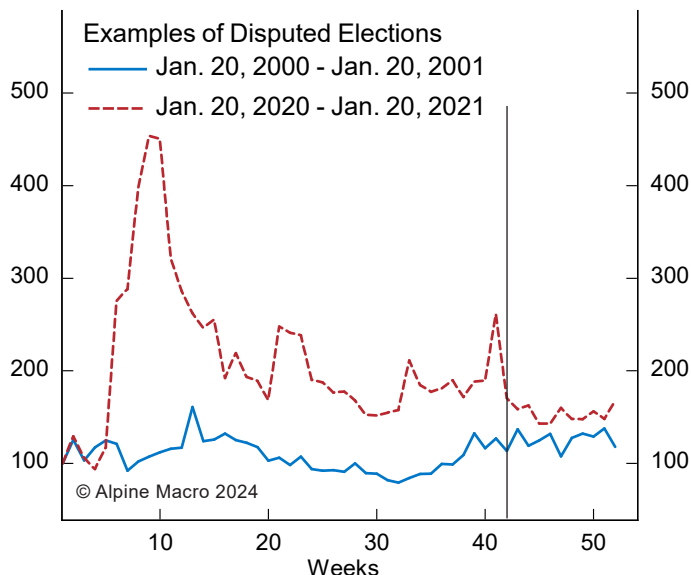
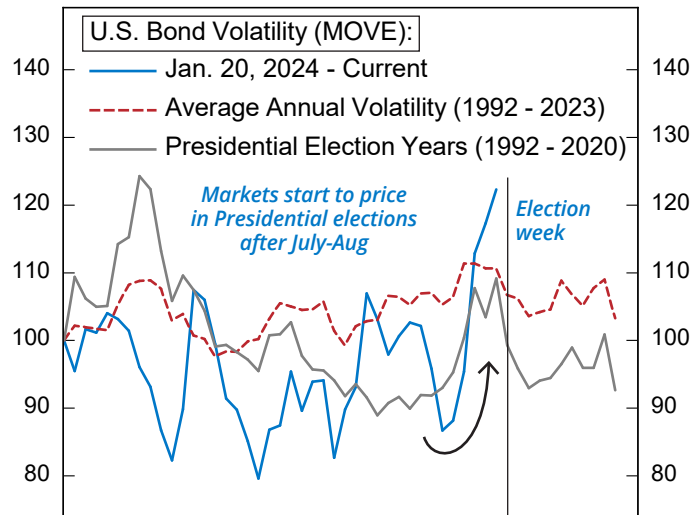
We now see a slightly increased chance of Republicans taking both the White House and full control of Congress. Recent generic congressional vote polling shows Republicans gaining, making **House of Representatives control nearly a 50-50 toss-up (Chart 4)**. If Trump wins, he is thus more likely to help down-ballot Republicans in the House. A Harris win could similarly boost congressional Democrats'

Chart 5 Election Outcomes: President And Congress

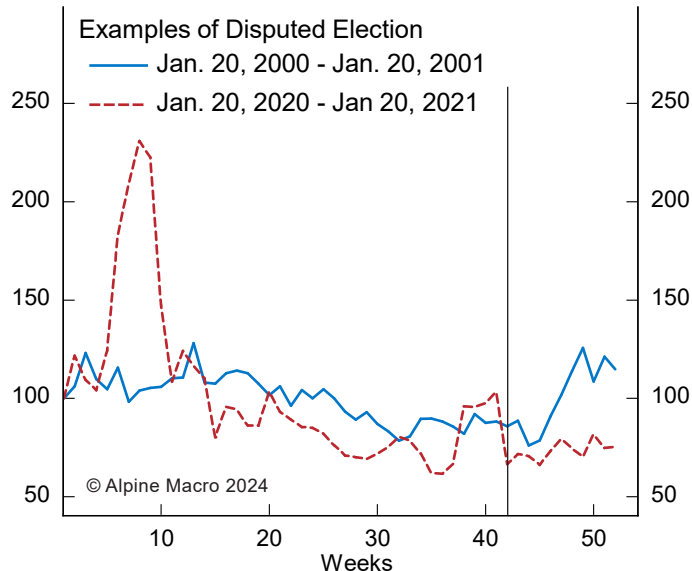
chances, especially if Democratic turnout proves strong in swing states.

In the Senate, Republicans remain favored to win a majority, though some of their candidates appear vulnerable (e.g., FL, NE, TX). The conventional view that Senate Republicans will take West Virginia and Montana, securing a 51-49 majority, remains our baseline.

Thus, we have adjusted our probabilities, now assigning higher chances to either a Republican (25%) or a Democratic (15%) sweep, though we still see a Trump or Harris presidency with a split Congress as the most likely two outcomes, jointly accounting for 60% (Chart 5).

Chart 6 Equity Market Volatility Around Elections**Chart 7 Bond Market Volatility Around Elections**

Note: Presidential election years are calculated from Jan 20 of the election year to Jan 20 of the next year, using the Jan 20 Presidential inauguration date as year-markers, with values rebased to 100 on Jan 20



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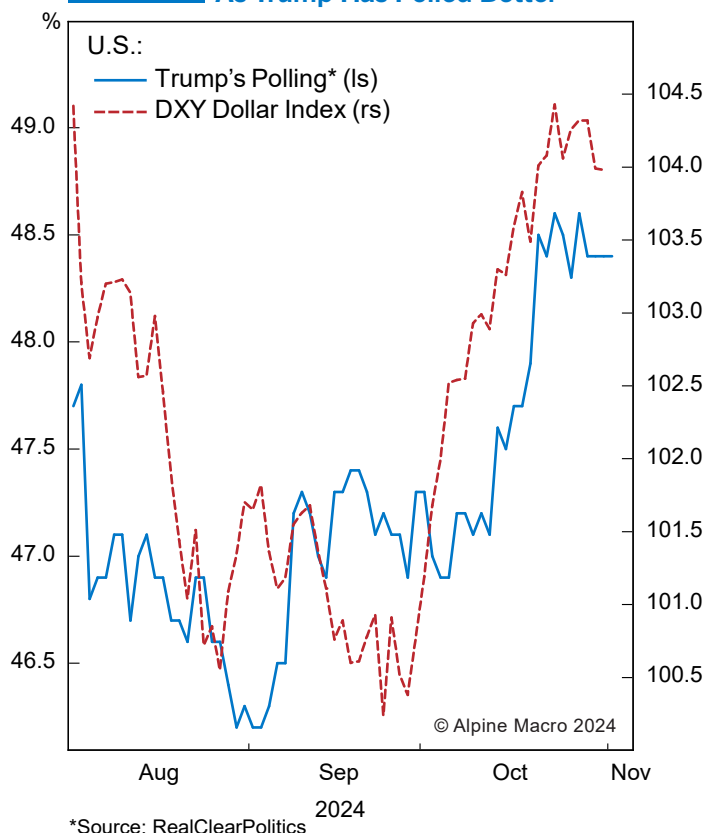
The Election And Markets

There is a strong chance we may not know the election results by November 6 if the race is close and depends on swing states that count mail-in ballots late (e.g., PA, WI). We will cover any outcome late next week, in our first post-election report.

We anticipate that the losing party, whichever it may be, will contest a close outcome, likely leading to headline risk, vote recounts/audits, legal challenges, and potentially to political uncertainty and social unrest. Although such unrest historically doesn't affect markets, this year it could be different.



Chart 8 The USD Appreciated Since September As Trump Has Polled Better



Yet, unless political volatility leads to market volatility, the latter should decrease after the election, as it historically has. **Charts 6 & 7** show that the VIX and MOVE volatility indices decline after most elections. That said, in disputed elections that isn't always the case – the bottom panels in the two charts show volatility gauges during the 2000 election did not decline, though in that instance it is hard to isolate away the effect of the elections, from economic and financial factors.

To some extent, a Trump victory is already being priced in as **Chart 8** shows with relation to the USD. Equity investors also will likely further positively price in deregulation and lower taxes, if Trump were to win.

Bond markets may react negatively to a Trump victory as bond investors fear Trump could expand the fiscal deficit. **Our counter-consensus view is that a Trump administration would be less likely to do so than expected, and would prioritize market stability and controlling inflation over Trump's stated preferences of aggressive tax cuts and tariffs.**

On the other hand, **the risk of higher fiscal deficits might be underestimated in a Democratic sweep scenario, with Harris winning and Democrats controlling Congress.** Such a sweep could be seen by Democrats as vindication and a strong mandate, emboldening the progressive tendencies of the party. In this case, both revenue-raising measures and spending would increase, and the delta between the two may further widen. Even if the fiscal deficits would not materially increase, investors may react negatively to higher taxes, and question the impact of greater spending on growth. The recent example of the U.K. budget after Labour's strong electoral win this summer, serves as an example of this possibility.

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