

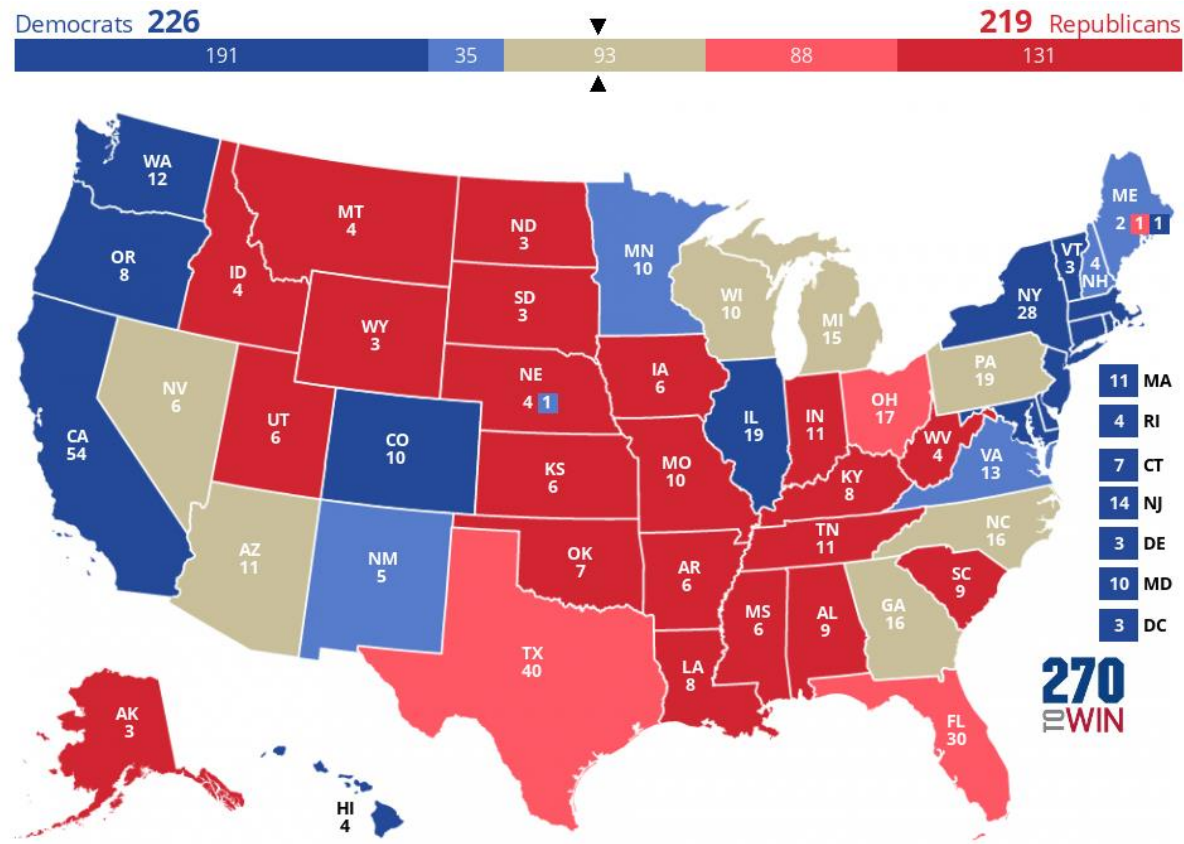
U.S. Elections And Financial Markets: Myths And Misconceptions

Francois Trahan

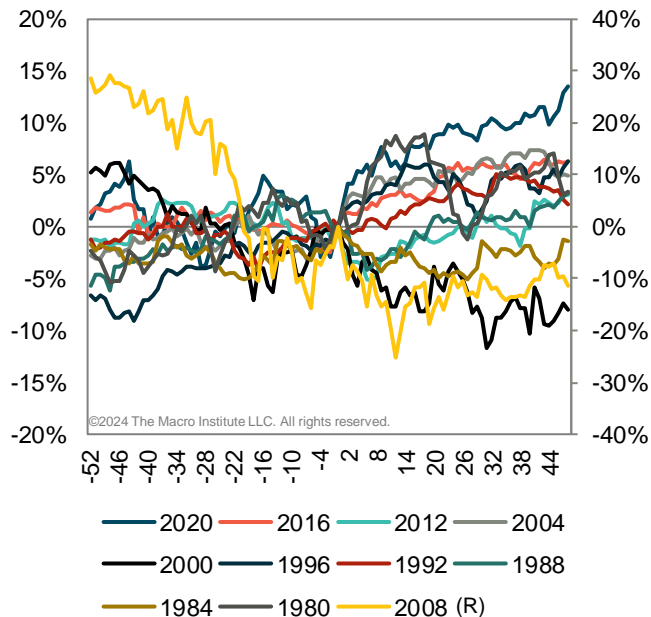
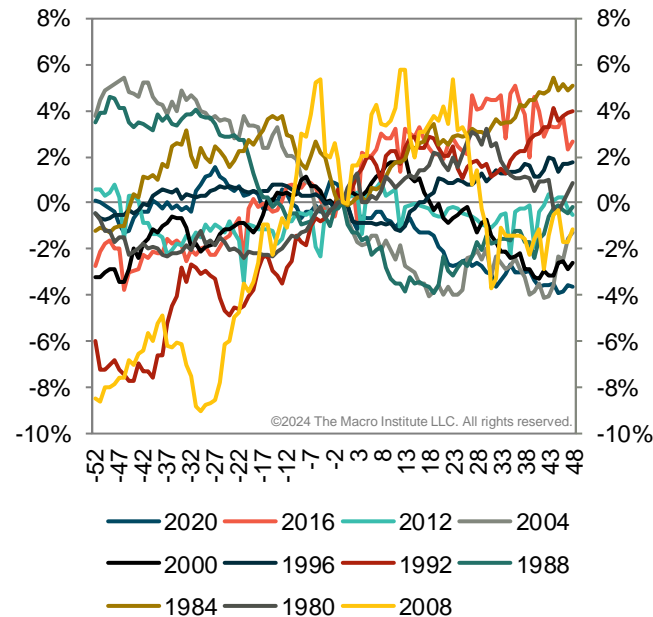
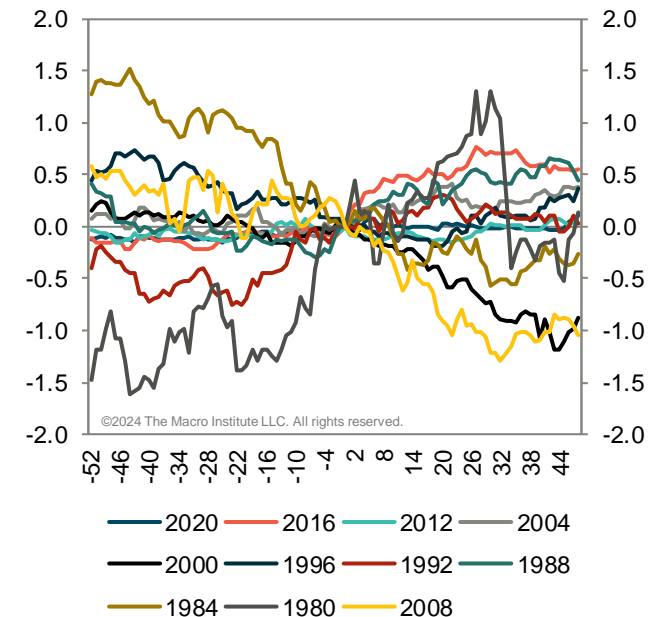
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November 2024

The One Thing That Is Certain Is ... Uncertainty!

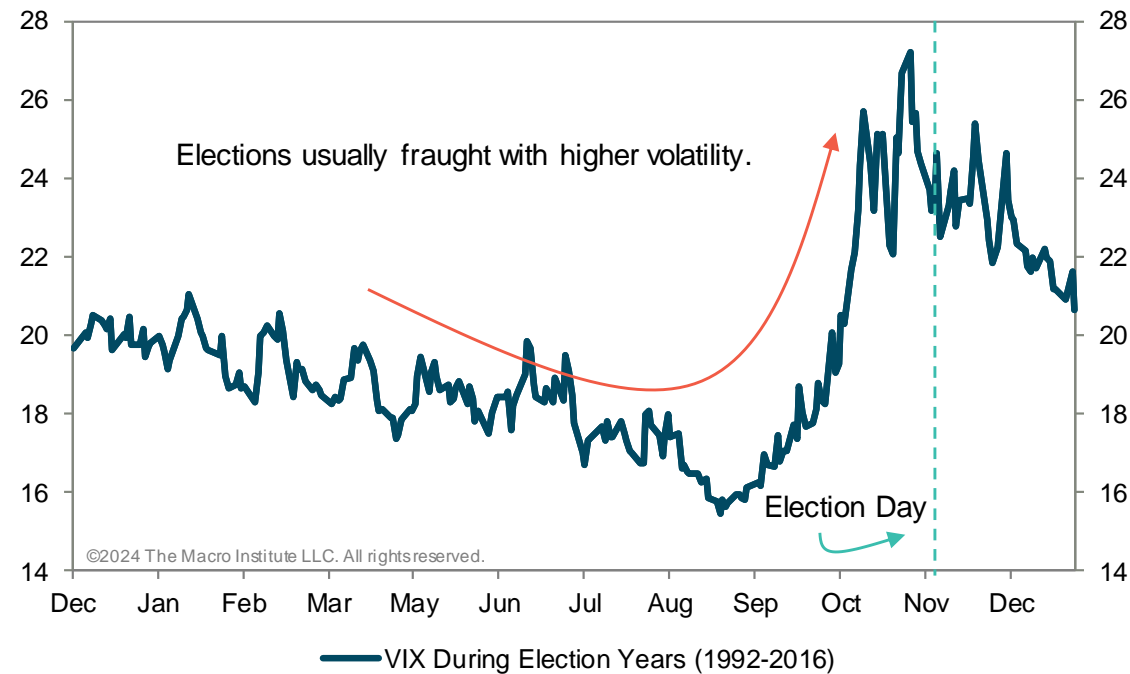


No Consistent Election Pattern In Financial Markets Across Time

S&P 500

U.S. Dollar

Interest Rates


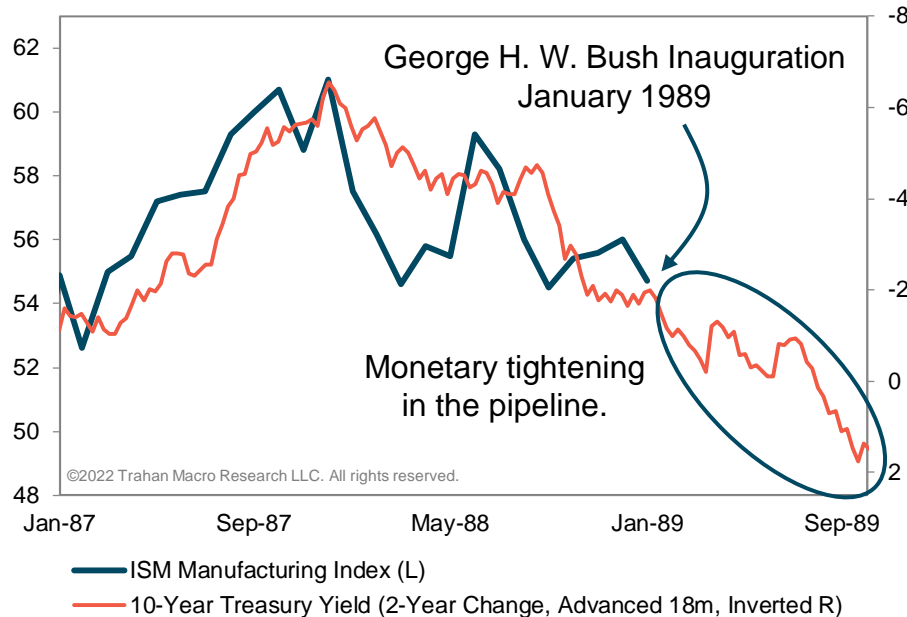
Heightened Volatility Is The One Mainstay Of U.S. Elections

Market Volatility Usually Higher Around Elections

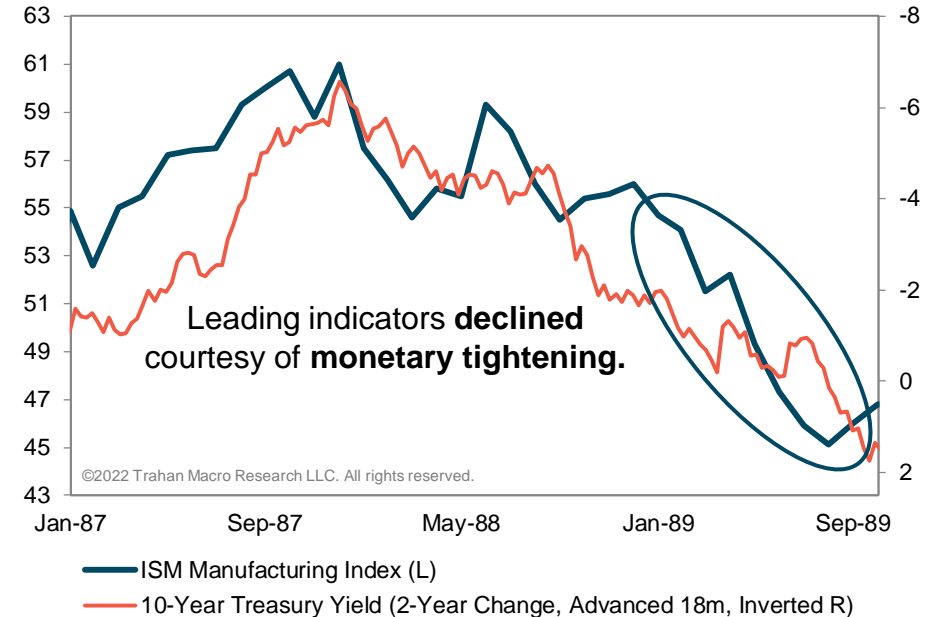


Presidential Inaugurations Vs The State Of Monetary Policy

Bush Inherited An Economy With Tightening

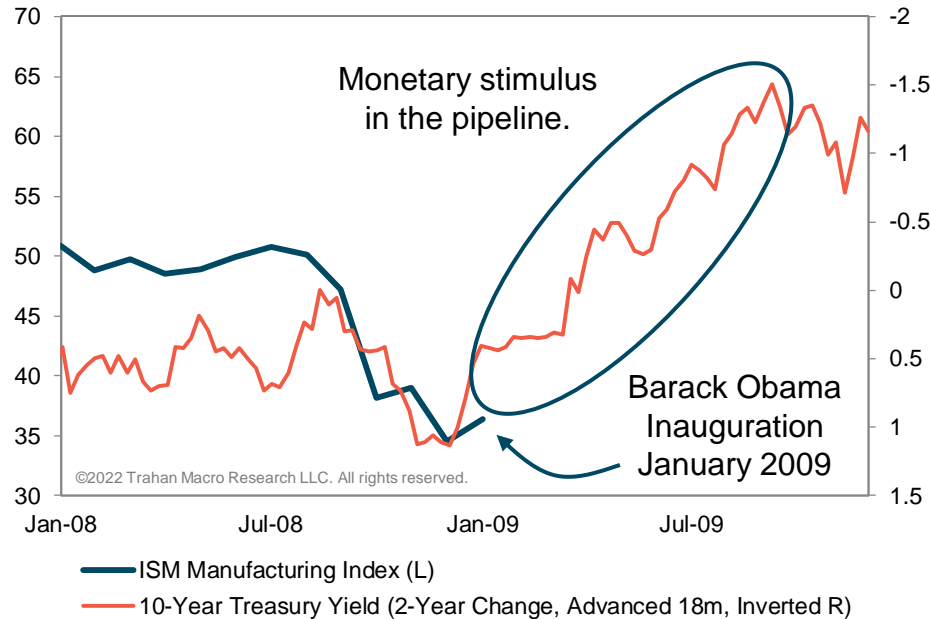


PMIs Declined In 1989 Due To Tightening

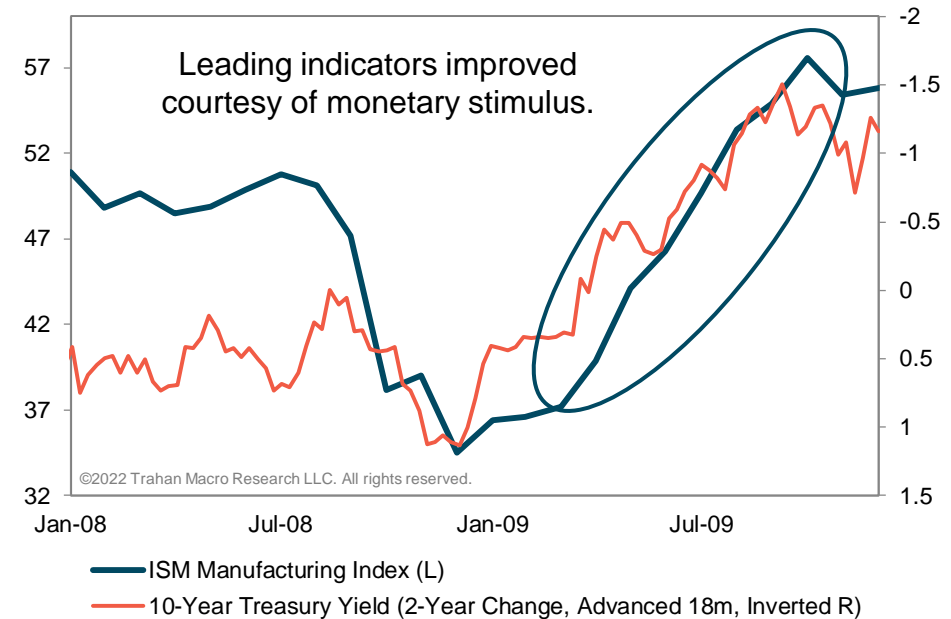


Presidential Inaugurations Vs The State Of Monetary Policy

Obama Inherited An Economy With Stimulus

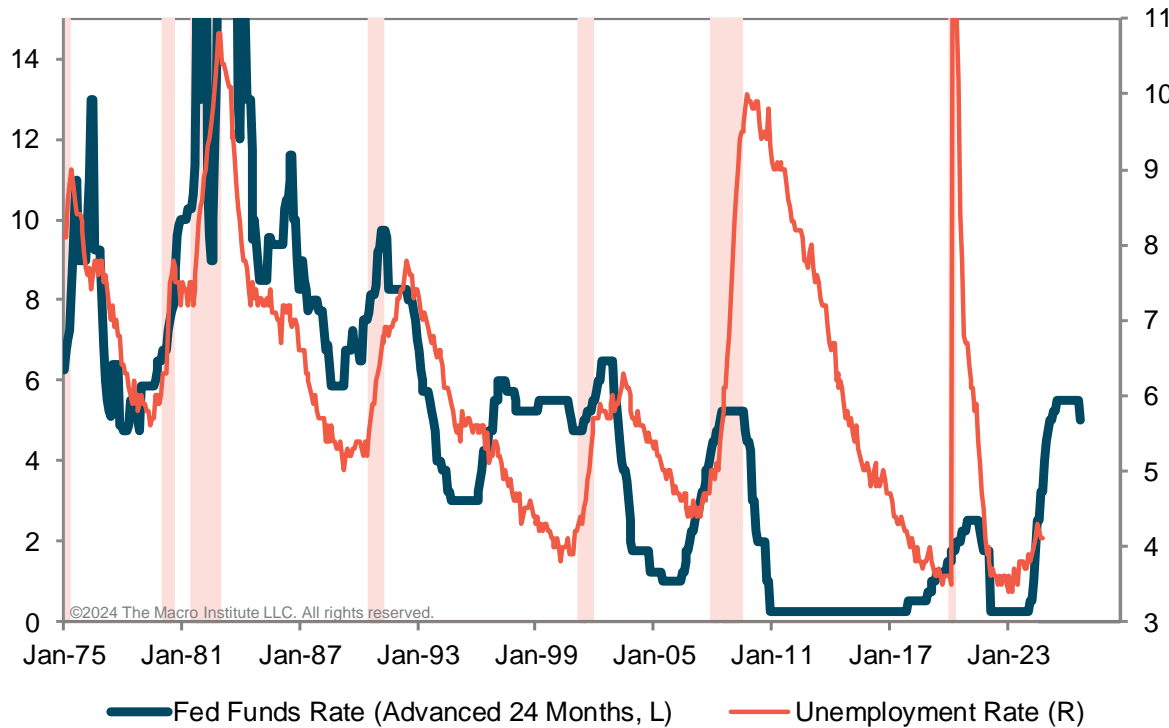


PMIs Rallied In 2009 Thanks To Stimulus

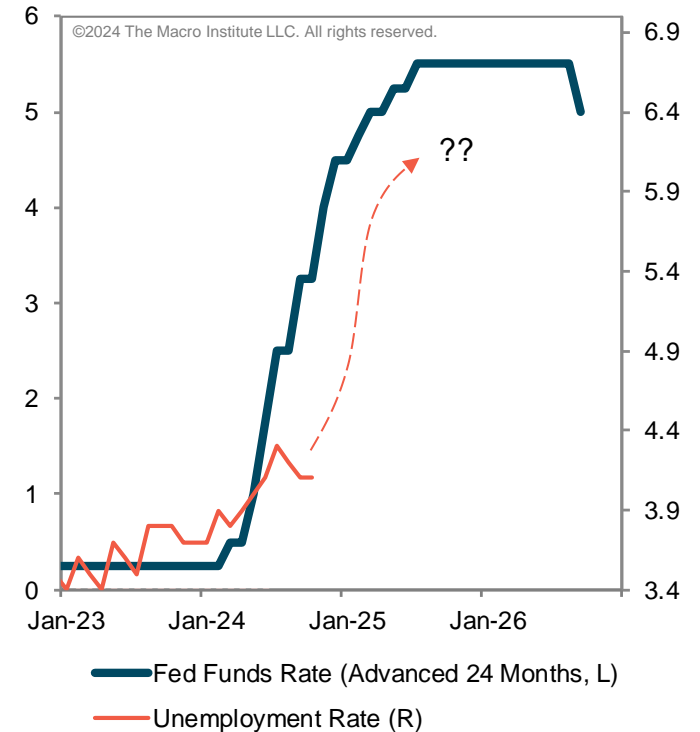


Incoming President Will Have To Contend With Tightening In The Pipeline

Trends In Employment Follow Rates With A Long Lag

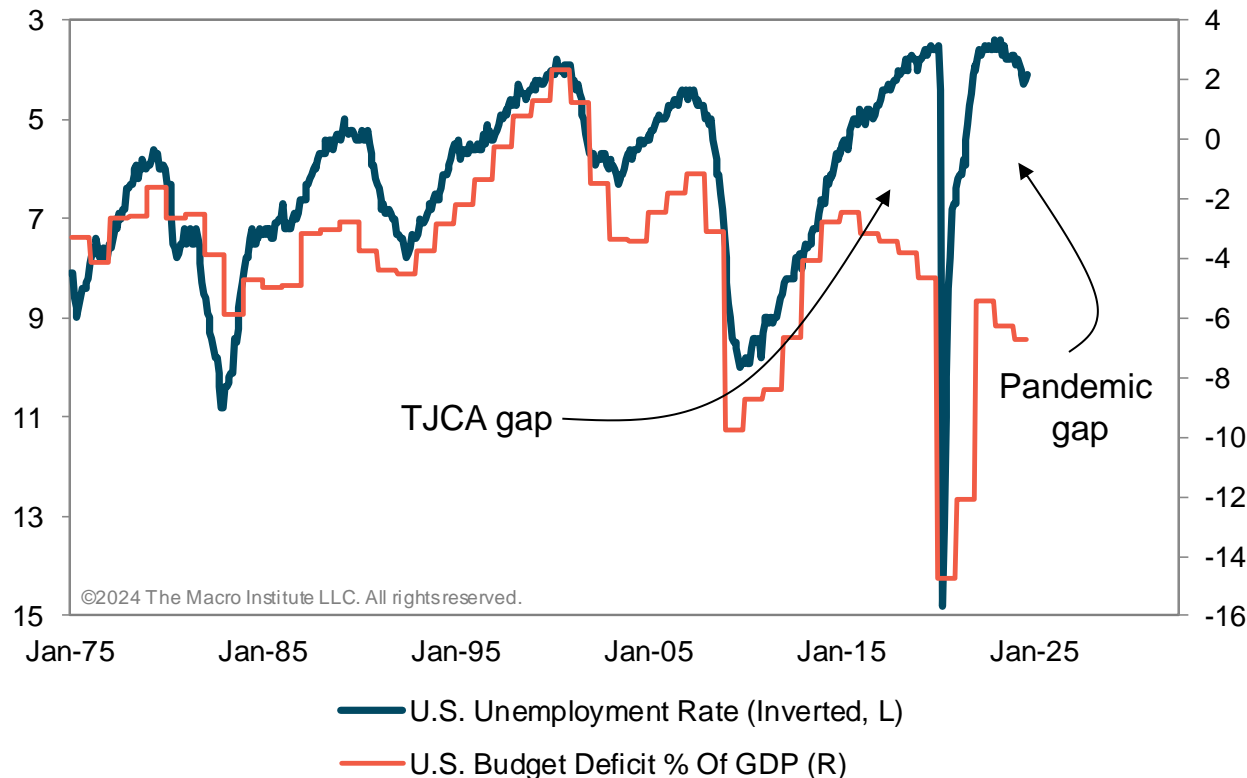


Unemployment Set To Rise Further?



The Dire State Of U.S. Public Finance Could Alter The Fiscal Playbook

An Increasingly Wide “Structural” Federal Deficit

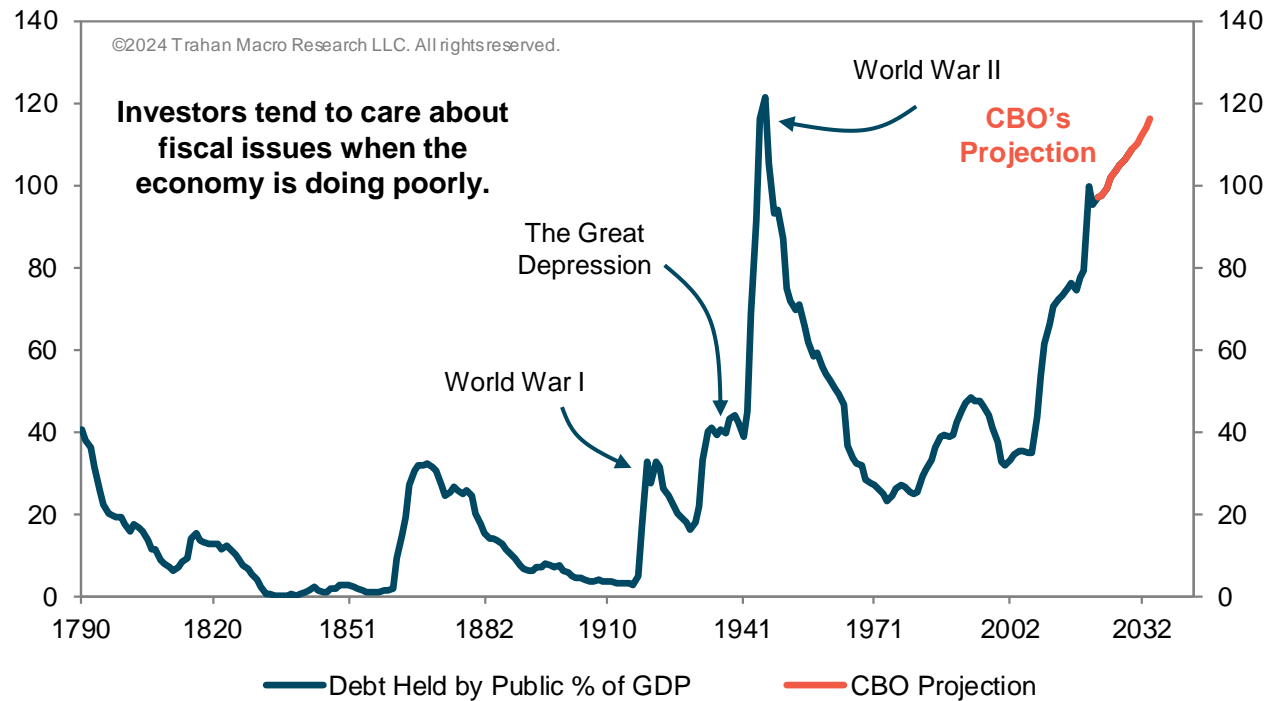


YC Un-Inversion Dates	Deficit % Of GDP
1989	-2.75%
2000	+2.34%
2007	-1.12%
2019	-4.62%
Current	-6.73%

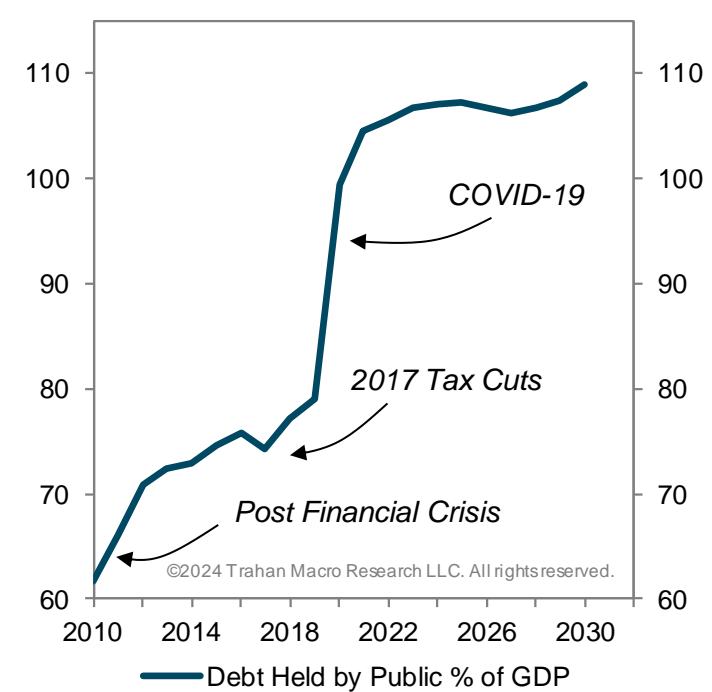
Will the next downturn widen the deficit even further?

U.S. Deficit/Debt Levels Approaching Historic Thresholds

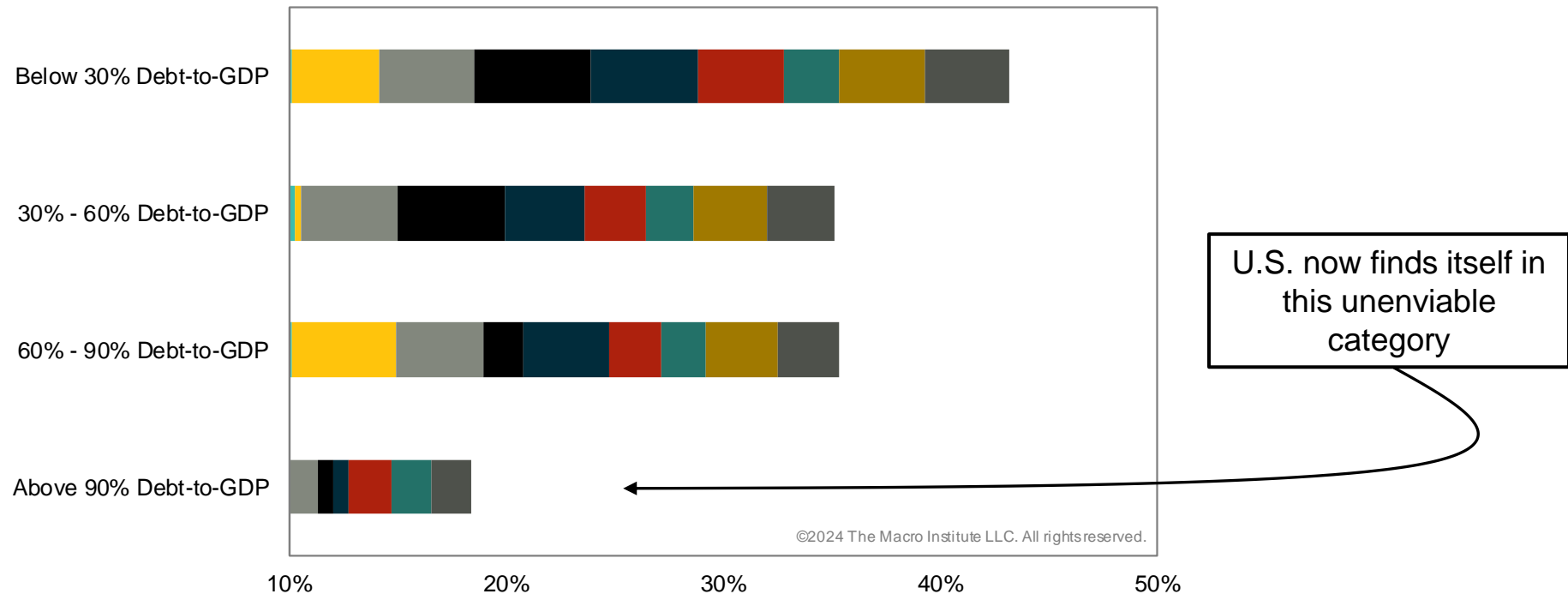
Debt Approaching Levels From The Height Of WWII



Debt Surpassed Projections



“Structurally” Speaking: The Higher The Debt, The Slower The Growth!



Countries included: Canada, Finland, France, Greece, Ireland, Italy, Japan, Netherlands, UK, USA; 1790-2009

“Our main finding is that across both advanced countries and emerging markets, high Debt-to-GDP levels (90 percent and above) are associated with notably lower growth outcomes.”

- *Growth in a Time of Debt*, American Economic Review: Papers & Proceedings 100 (May 2010)

All Economic Policy Proposals Would Worsen The Fiscal Situation

The Proposed Harris Plan

Policy Proposals	Harris Plan (Billions)
Extend TCJA (<\$400K Income)	-\$3,000
Child & Earned Income Tax Credits	-\$1,400
ACA Premium Subsidies	-\$550
Affordable Housing Support	-\$250
Exempt Tips From Tax	-\$200
Improve Border Security	-\$100
Small Business Support	-\$150
Pre-K & Child Care Funding	-\$700
Paid Family & Medical Leave	-\$350
Quality Education Support	-\$350
Long-Term Care Funding	-\$200
Revenue & Spending Reductions	+\$4,250

Source: Committee for a Responsible Federal Budget

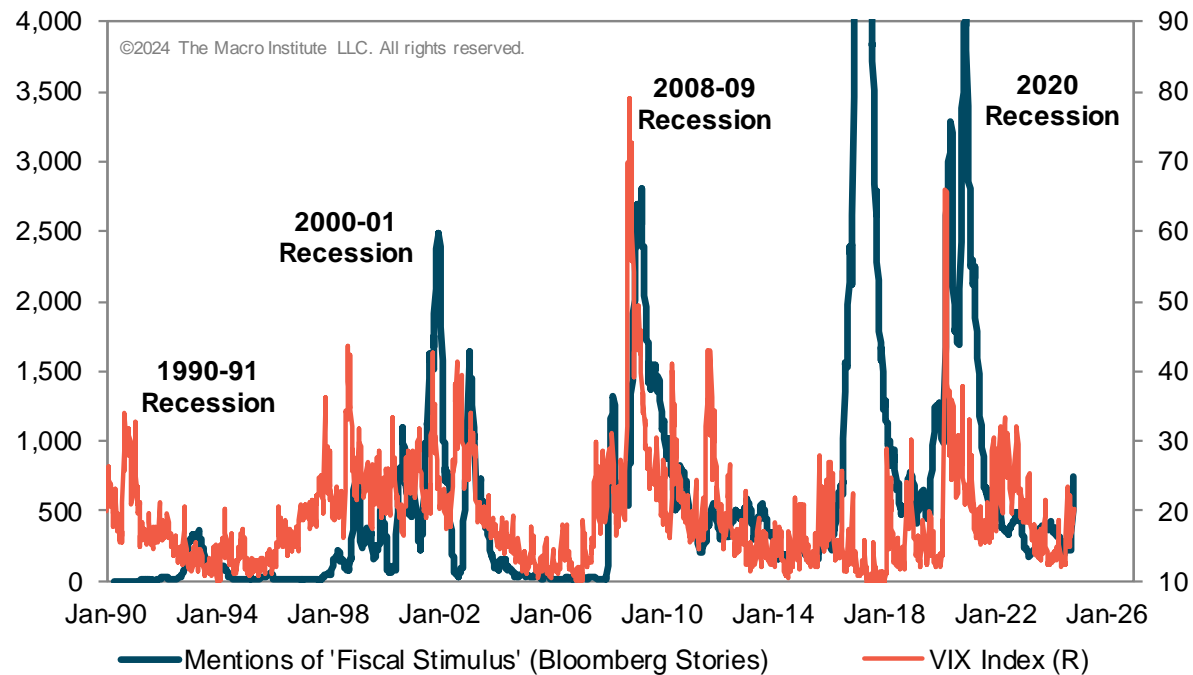
The Proposed Trump Plan

Policy Proposals	Trump Plan (Billions)
Extend TCJA	-\$5,350
Exempt Overtime Income From Tax	-\$2,000
Exempt Social Security From Tax	-\$1,300
Lower Corporate Tax Rate To 15%	-\$200
Exempt Tips From Tax	-\$300
Strengthen Military	-\$400
Secure Border And Deportations	-\$350
Housing Reforms	-\$150
Boost Support For Health Care	-\$150
Revenue & Spending Reductions	+\$3,700

(Billions)	Harris Plan	Trump Plan
Estimated Budget Impact	-\$3,500	-\$7,500

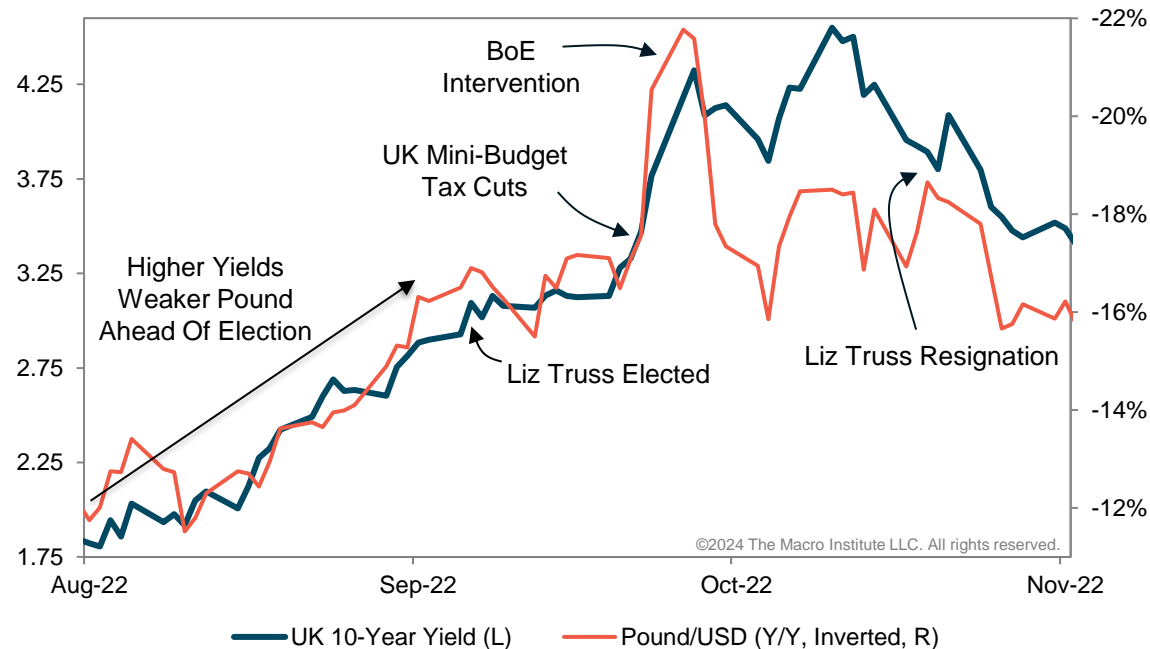
The D.C. Reflex Is To Stimulate When Growth Prospects Slow

Higher Market Volatility Usually Revives Interest In Stimulus



Could The Bond Vigilantes Impact The U.S. Fiscal Outlook?

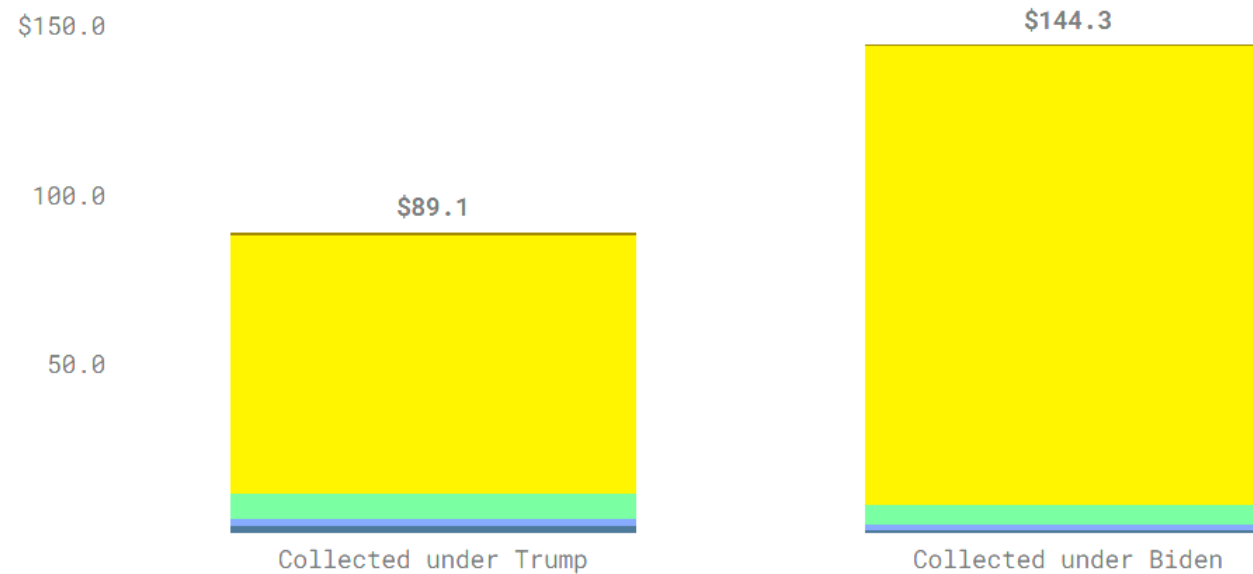
U.S. Policy Makers Should Heed Lessons From U.K.'s 2022 Experience



The Biden Administration Continued Collecting Trump's Trade War Tariffs

Total Duties Assessed From Trade War Tariffs (Billions)

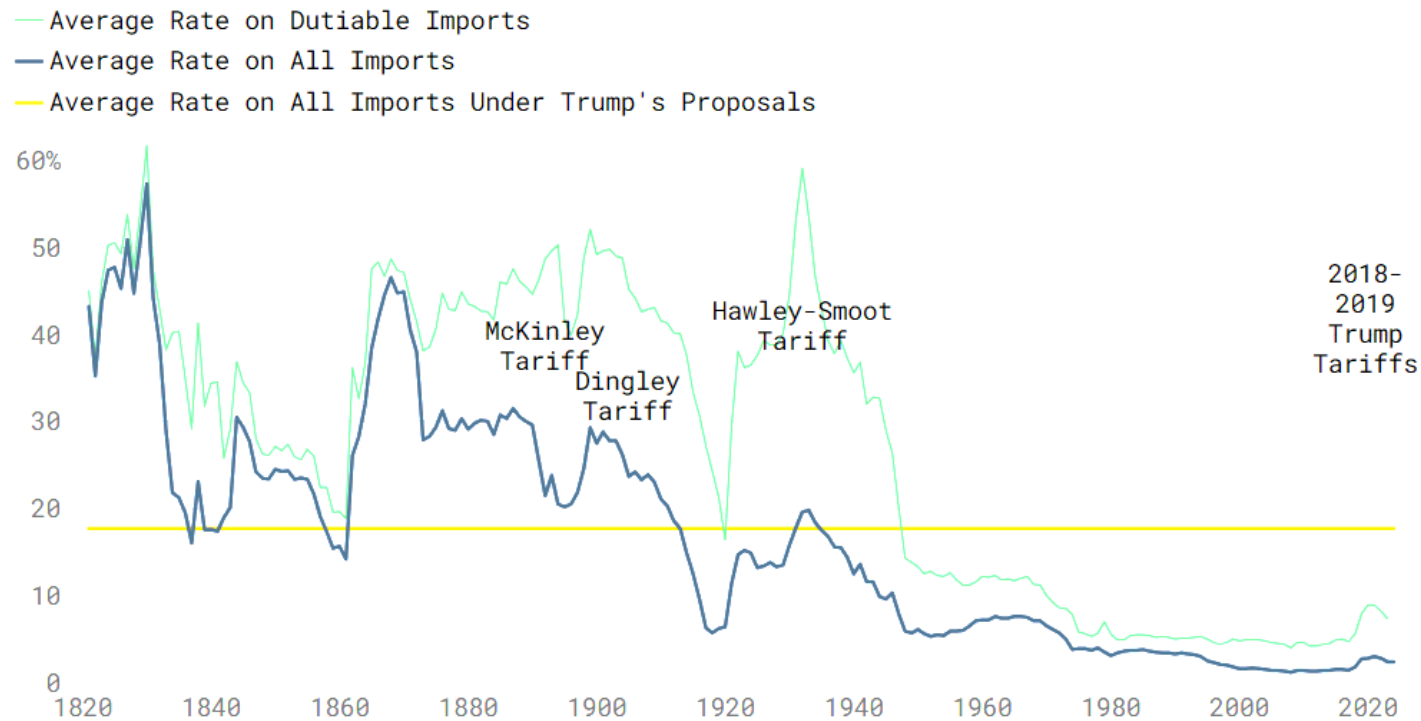
■ Sec 201 Washing Machines ■ Sec 201 Solar ■ Sec 232 Aluminum ■ Sec232 Steel ■ Sec 301 China ■ Sec 301 EU



Source: Tax Foundation

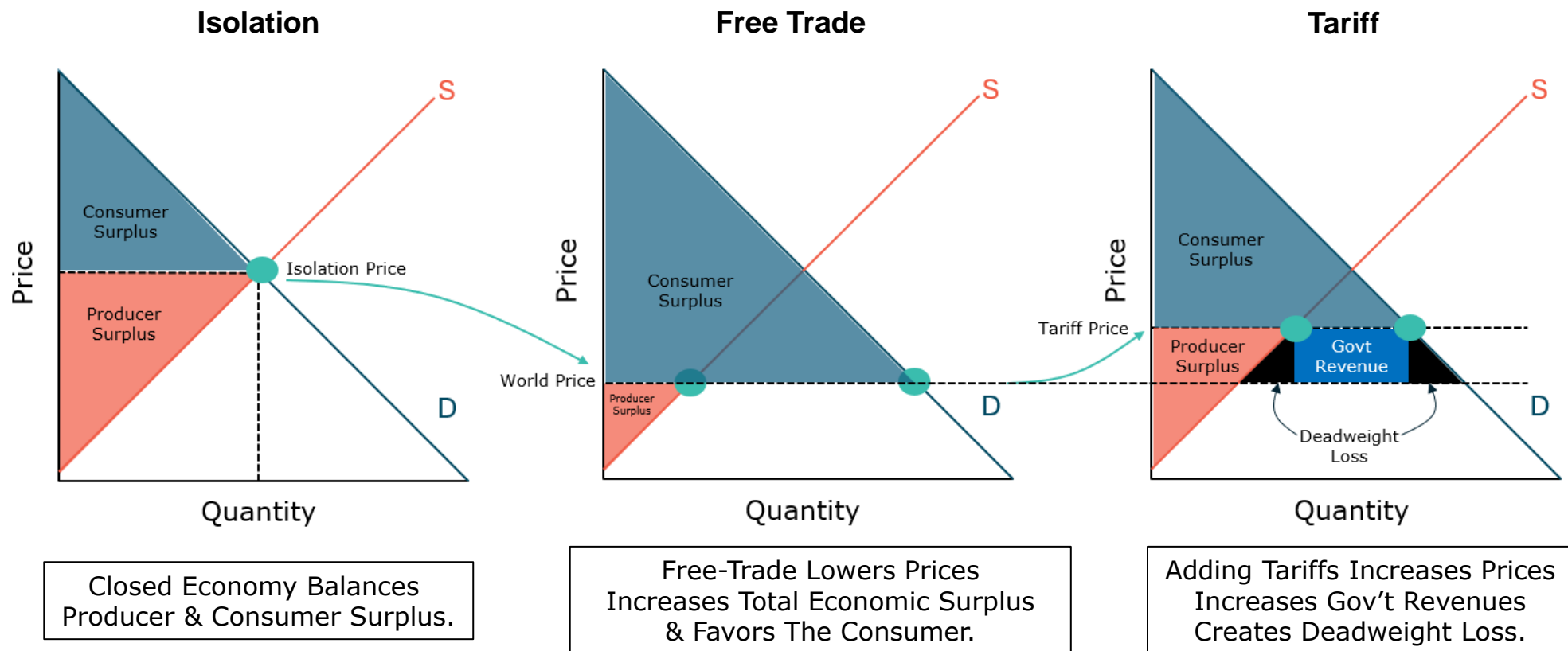
Tariffs Largely Considered An Outdated Concept

The U.S. Has Not Had Significant Tariffs Since The 1940s



Source: Tax Foundation

Cost Of Trade Tariffs Usually Disproportionately Borne By Consumers



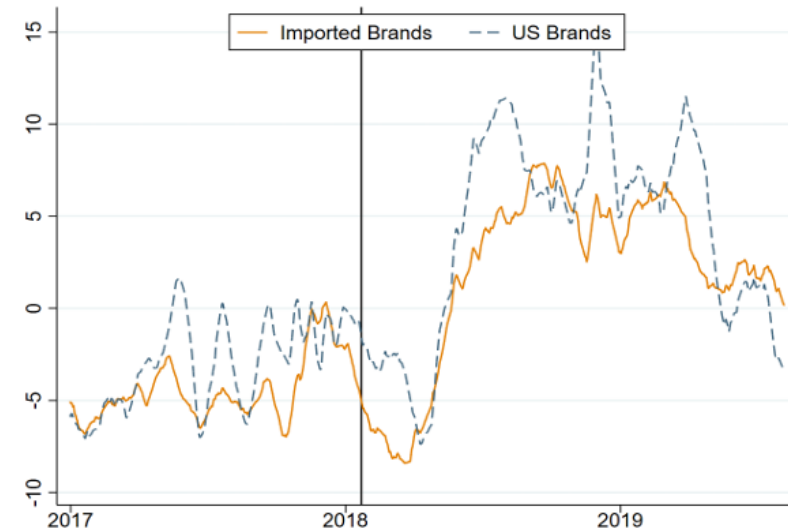
Normal: The 2018 Trade Tariffs Led To Higher Inflation

Washing Machine Prices Spiked From Tariffs



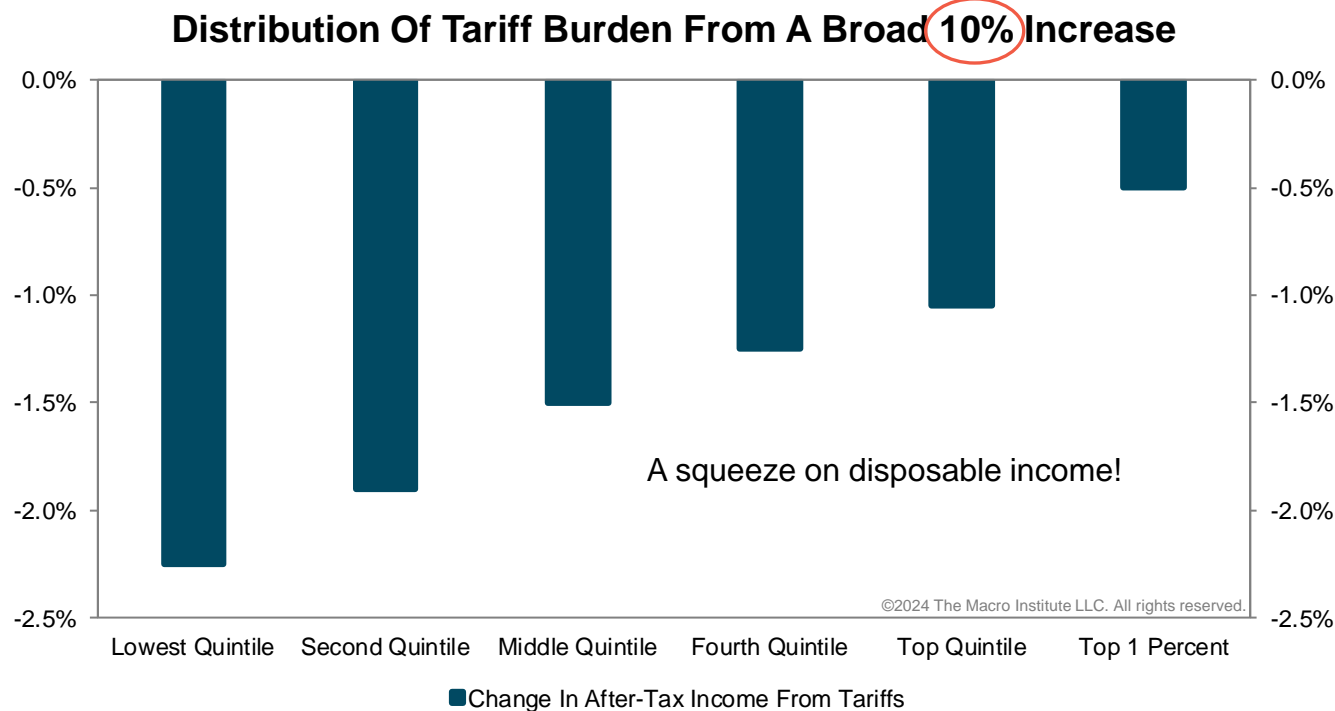
Source: Cavallo, Alberto, *Tariff Passthrough At The Border And At The Store: Evidence From US Trade Policy*, 2019.

Both Imported & U.S. Brands Got More Expensive



Source: Cavallo, Alberto, *Tariff Passthrough At The Border And At The Store: Evidence From US Trade Policy*, 2019.

Lower-Income Households Usually Bear The Biggest Burden From Tariffs

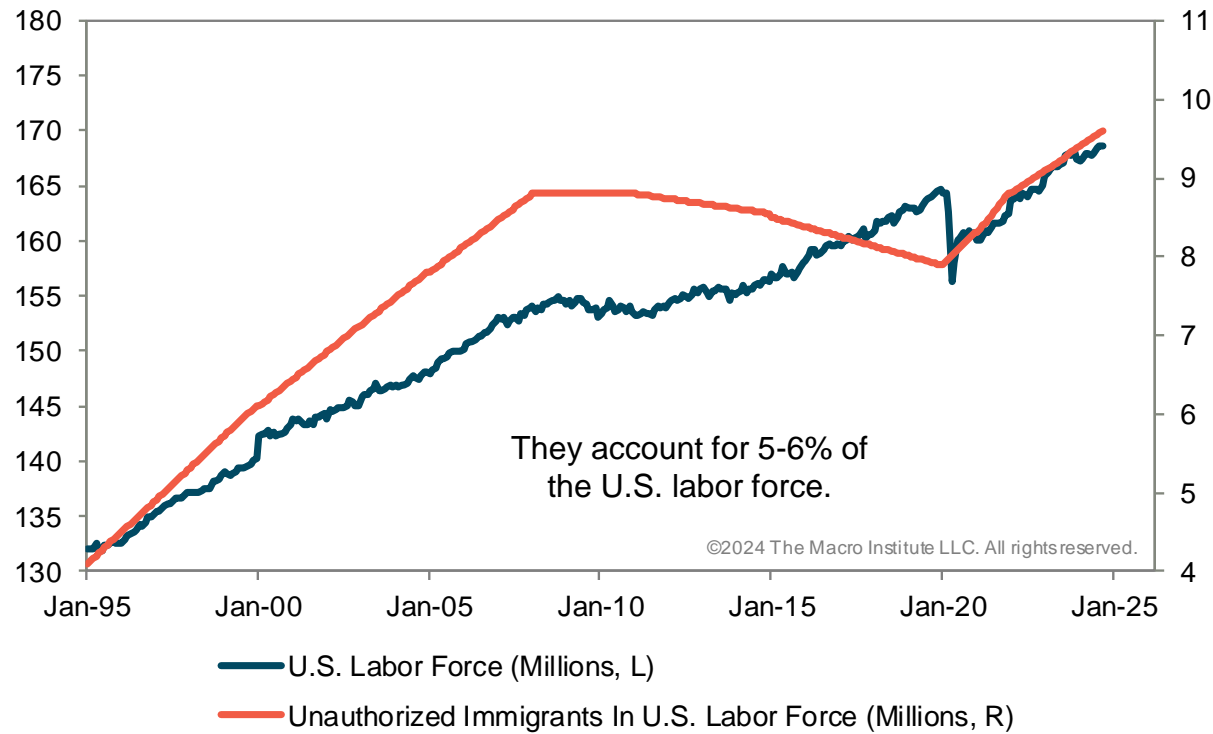


Source: Council of Economic Advisers

Half of what is currently being proposed.

Immigration Policy Could Also Alter The Traditional Election Playbook

Unauthorized Workers Number Almost 10 Million In The U.S.

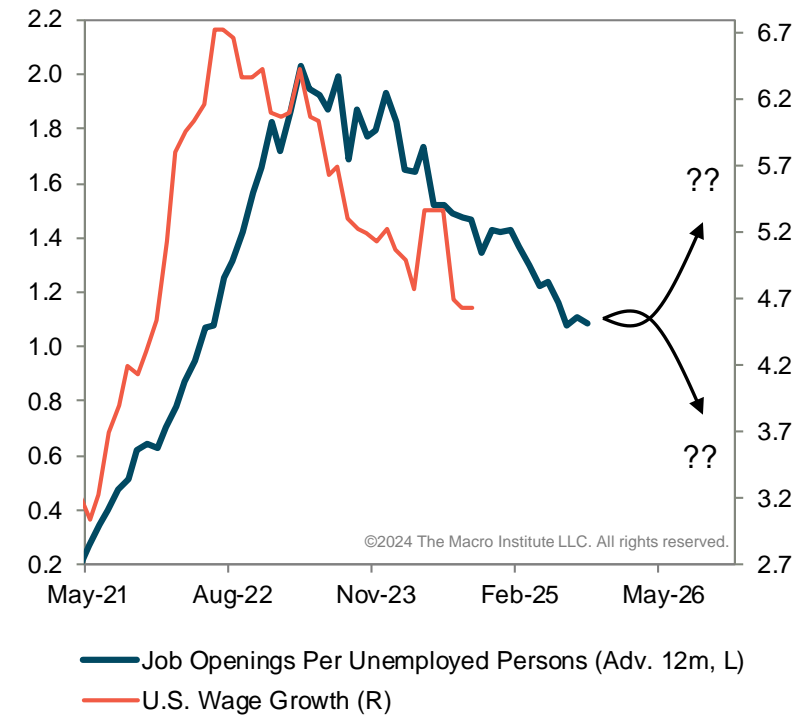


Inflation Trends Largely At The Mercy Of Labor Market Dynamics

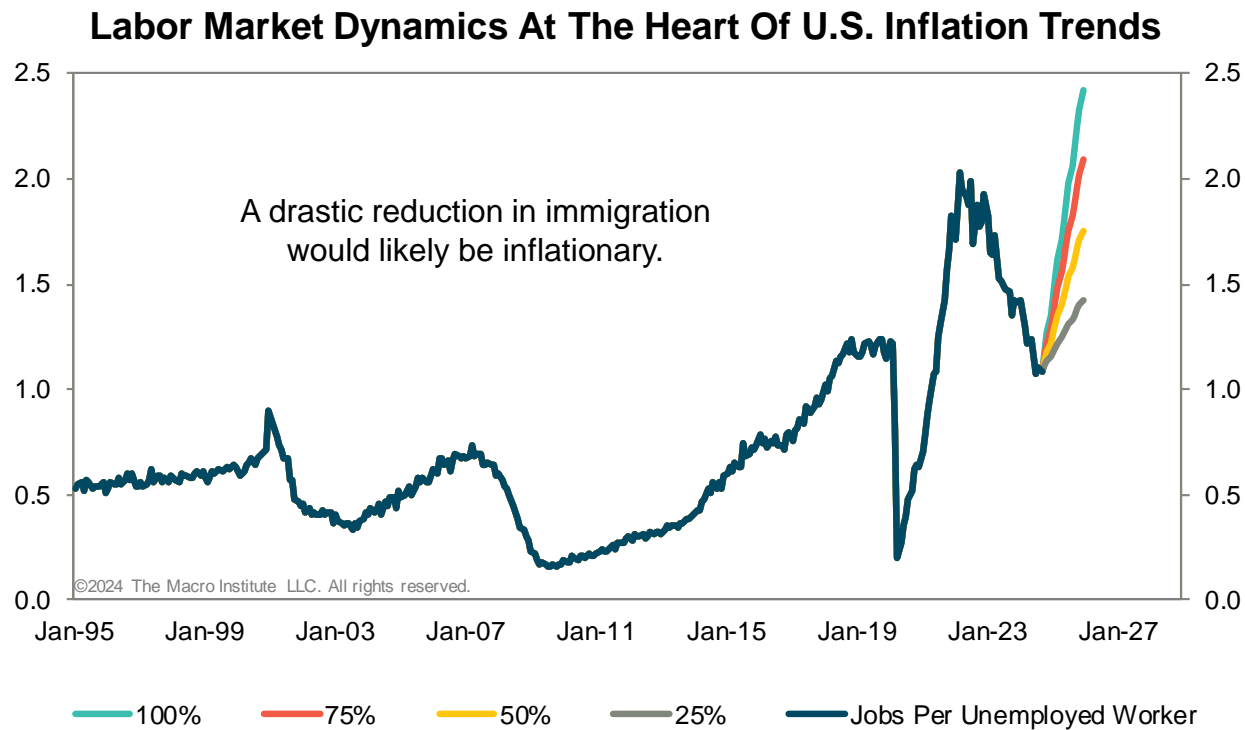
Looser Labor Markets Have Led To Slower Inflation Overall



Immigration Policy Uncertainty?!?

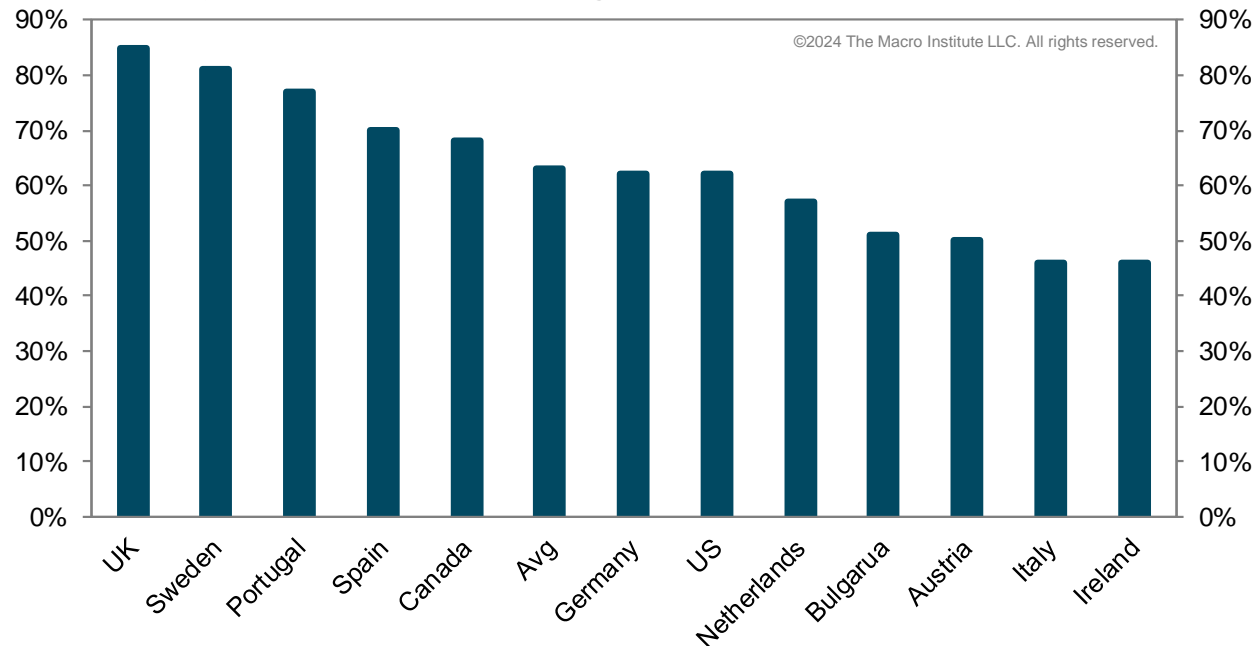


A Change In Immigration Policy Would Likely Alter The Dynamics Of U.S. Labor Markets



It's Unlikely Either Candidate Would Enact Their Full Agenda

Only 60% Of U.S. Campaign Promises Are Actually Kept



Source: ISSP Survey (2006)

■ Percent Of Campaign Pledges Kept

For any additional questions:
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