This report assesses the U.S. election outlook in the wake of the shocking July 13 assassination attempt on former President Trump. It analyzes the state of the presidential and congressional races, and it outlines several market-relevant risks and opportunities.

ALPINEMACRO
A Unique Mind On The Markets

GEOPOLITICAL STRATEGY

July 17, 2024

United States: An Increasingly Wild Election Season

- Donald Trump is the favorite to win the presidency, though the race will remain closely contested even after the assassination attempt on July 13.
- Should Trump win, he will likely govern more moderately than his campaign rhetoric indicates, contrary to conventional wisdom.
- Should investors worry about social and political instability?
- Industries with bipartisan political backing that could gain under all election scenarios include national security-relevant sectors like aerospace & defense, industrials, and IT/high tech.

In This Report

One of our key risks for the year is the "Great Trump Panic of 2024,".[1] The"moral panic"around Trump's candidacy, means this election cycle will continue to be marked by political and social instability.[2] The July 13 assassination attempt on President Trump's life comes in this context, and further amplifies the country's deep political polarization.

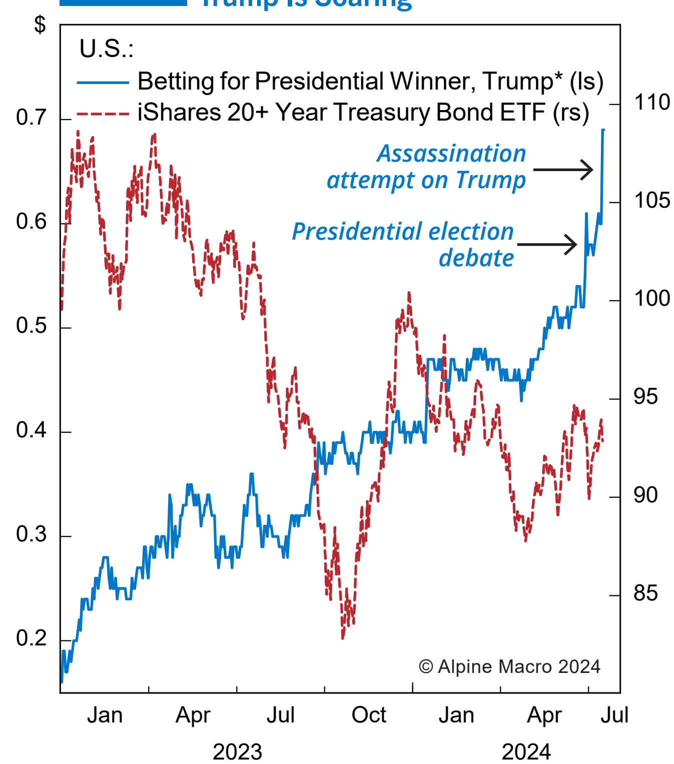
The Presidential Race

Trump is the favorite to win. Prior to June 27, we thought Joe Biden had a structural advantage due to incumbency and better Democratic turnout

1 Alpine Macro *Geopolitical Strategy* "United States: The Great Trump Panic of 2024" (Jan 1, 2024).

2 Moral panics are socially widespread, intense concerns within a society about a threat that is often highly exaggerated. The overreaction to the threat can leave lasting and negative impacts on norms and institutions.

Chart 1 Betting Markets Expectations: Trump Is Soaring



*Source: PredictIt

ALPINEMACRO 2024 INVESTMENT CONFERENCE

NEW YORK | MONDAY, SEPTEMBER 16th **USD $1,995 - REGISTER NOW**

237 Park Avenue, New York, NY 10017

Tipping Point In Financial Markets: A Melt-up or Meltdown?

Agenda

08:10 - 08:30 **Opening Remarks : The Shifting Macro Landscape: Opportunities & Risks**
Chen Zhao, Chief Global Strategist

08:30 - 9:30 **Emerging Mega Trends: How Should Investors Be Prepared?**
Ruchir Sharma, Chairman of Rockefeller International and Founder and Chief Investment Officer of Breakout Capital

09:30 - 10:30 **Inflation, Disinflation and Fed Policy: Are We on the Right Path?**
Mike Dooley, Professor Emeritus at University of California, Santa Cruz and Chief Economist at Figure Technologies

10:30 - 10:45 Coffee Break

10:45 - 11:45 **Fireside Chat: Bull Bear Debate**
Francois Trahan, Founding Partner of The Macro Institute Versus
Jim Paulsen, Author of the Paulsen Perspectives research newsletter on Substack

11:45 - 12:30 **The Long and Shorts of U.S. Equities**
Gina Martin Adams, Bloomberg Intelligence Global Director of Portfolio Strategy, Chief Equity Strategist

12:30 - 14:15 **Luncheon Speaker: Biden Vs Trump: How The World Will Be Changed**
Greg Valliere, Chief U.S. Policy Strategist AGF Investments

14:15 - 15:00 **How Is AI Reshaping the Money Management Business?**
Gareth Shepherd, Co-Head of Voya Machine Intelligence (VMI) & Portfolio Manager, Voya Investment Management

15:00 - 15:15 Coffee Break

15:15 - 16:30 **Commodity Panel: Secular Trend, Energy and Prospect of ESG**
Tavi Costa, Partner/Macro Strategist at Crescat Capital
Lenka Martinek, Managing Partner, Sustainable Market Strategies, Nordis Capital
Adam Rozencwajg, Managing Partner, Goehring & Rozencwajg

16:30 - 17:30 **Cocktails & Networking**

Guest Speakers + Alpine Macro Strategists


Ruchir Sharma


Greg Valliere


Mike Dooley


Gareth Shepherd


Francois Trahan


Tavi Costa


Jim Paulsen

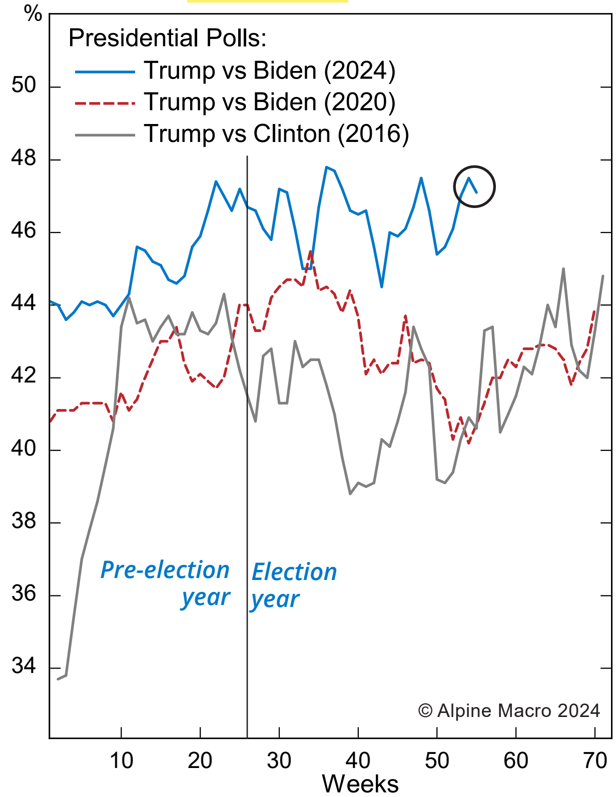

Lenka Martinek


Gina Martin Adams


Adam Rozencwajg

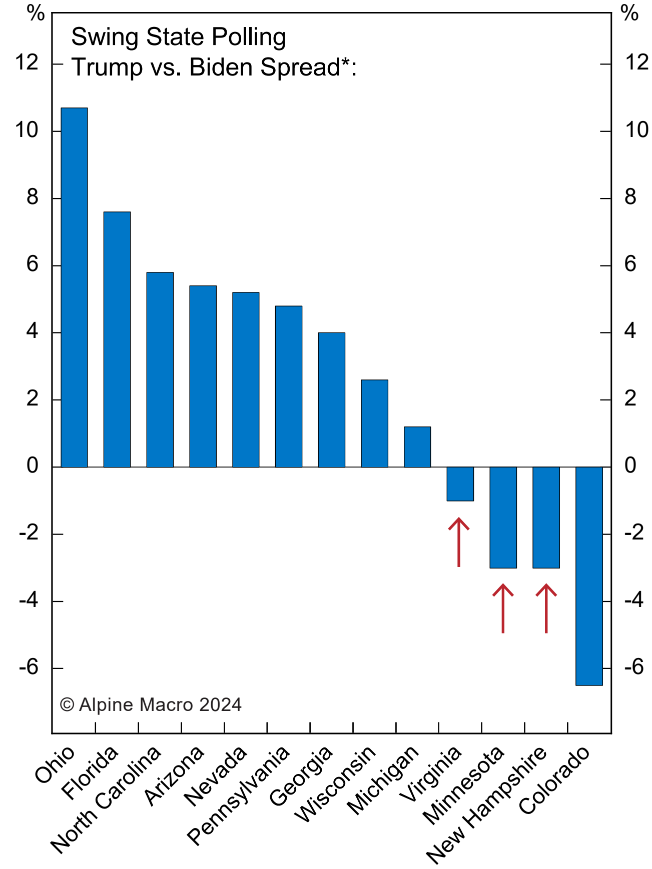
Conference Details & Registration: conference.alpinemacro.com | conference@alpinemacro.com | +1 (514) 558-1414

Chart 2 Trump Outperforms Vs. His 2016, 2020 Polling



Source: RealClearPolitics

Chart 3 More States "In-Play" For Trump?



*Aggregate polling; most states still underpolled (2-4 polls max in last 2 months)
Source: RealClearPolitics

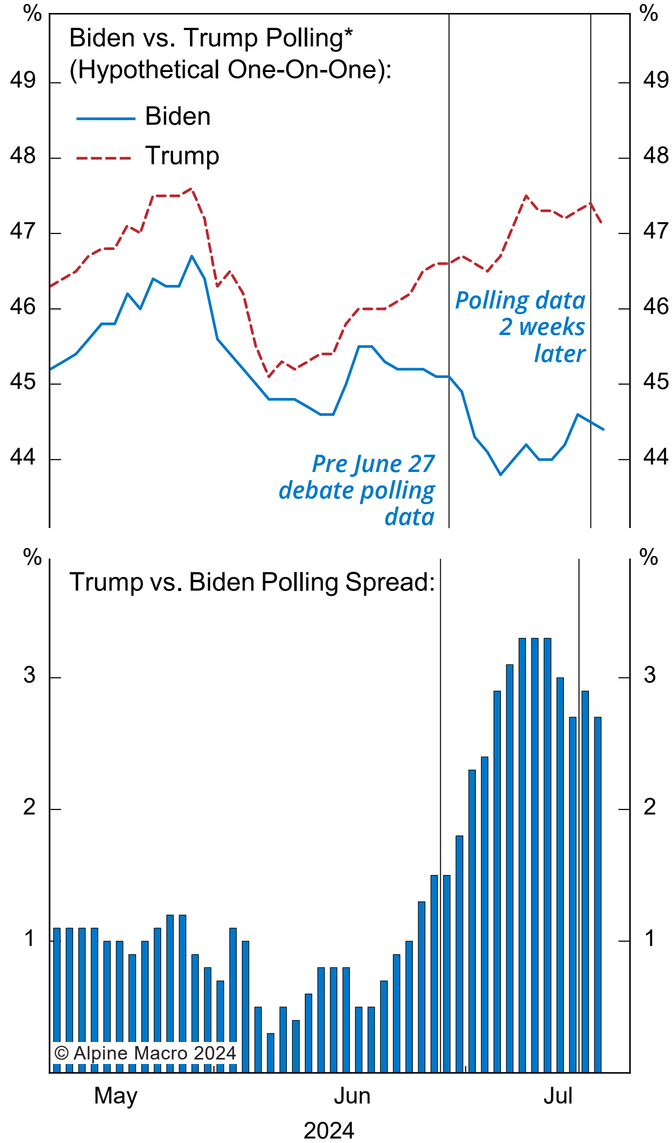
operations. That shifted after Biden's disastrous debate performance. The July 13 assassination attempt against Trump further solidifies him as the front-runner. Trump's candidacy is also bolstered by recent legal rulings weakening or dismissing some of the indictments against him. **Chart 1** shows prediction markets reacting to these events, and bond markets selling off after June 27 on fears of a fiscally expansive Trump presidency. We think the bond market reactions may misread how Trump would govern (more on that later).

While polling remains unreliable/ premature at this point, this is now clearly Trump's election to lose, given the surprising events over the last month.

National polling shows Trump outperforming his 2020 and 2016 polling, reenforcing this possibility (**Chart 2**). Trump is also leading in swing state polling (more critical to election outcomes than national polls), and states like Virginia, Minnesota, and New Hampshire are becoming competitive, risking Democrats' chances there (**Chart 3**).

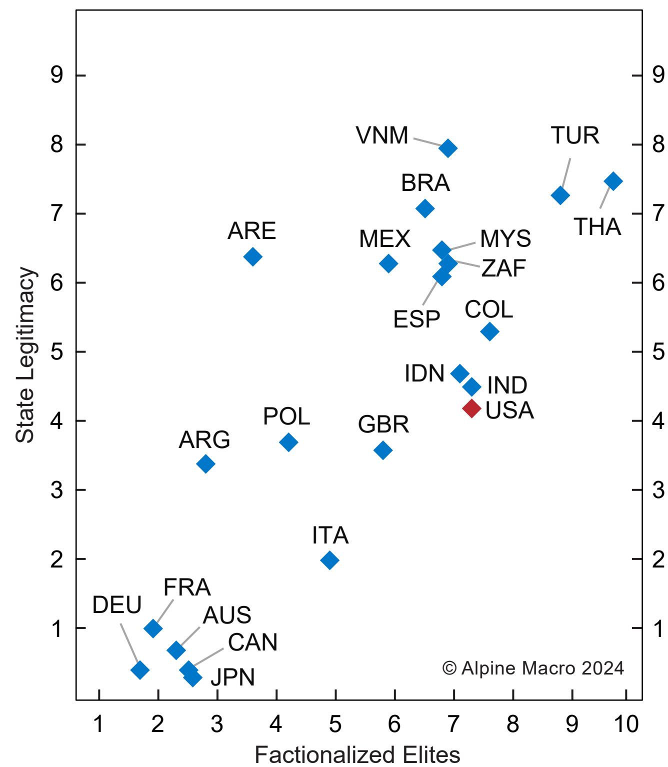
Trump stands to further gain in polls due to sympathy from the assassination attempt and his brave reaction to it, plus significant media exposure from the Republican National Convention and from finally making his VP pick, Ohio Senator J.D. Vance.

Chart 4 Trump's Polling Lead Is Only Marginally Up, June 27-July 12



*Polling before Trump assassination attempt
Source: RealClearPolitics

Chart 5 United States: Political Polarization Is High For A Developed Market



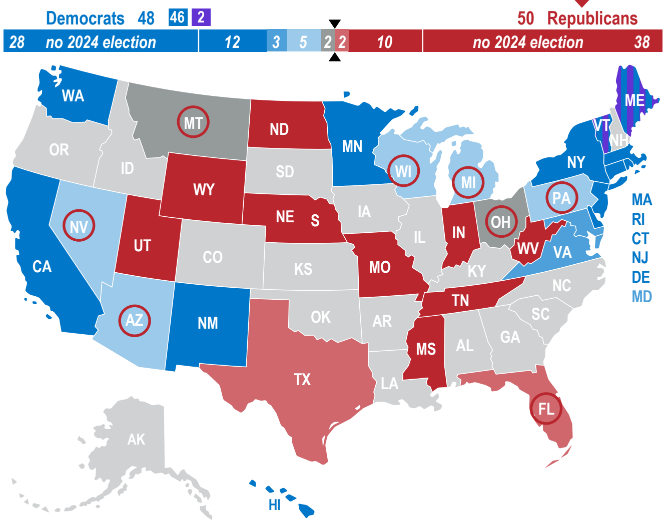
Source: Funds of Peace, 2023

Could Trump still lose to Biden? Yes. As of this writing, there is a single poll conducted after the assassination attempt on Trump, and it shows Trump essentially tied with Biden. One poll means little and it is too early to tell what other polls will show. However, this is consistent with polling data behavior from Biden's poor June 27 debate underperformance to last Friday . That data shows Biden's numbers declining by about 1.5 percentage points in that time frame, widening the Trump vs. Biden spread to 3 points (**Chart 4**).

This is a small decline, a margin-of-error shift, that highlights the U.S.'s deep political polarization, with institutions seen as illegitimate and elites deeply factionalized, resembling an emerging market more than a developed one (**Chart 5**). In such polities, voters choose candidates based on partisan considerations. Most U.S. voters are already decided, voting for their party regardless of Trump's and Biden's attributes. Therefore, we expect the election to remain close, decided by a handful of states and votes, as in 2016 and 2020.

Thus, we think Biden still has a pathway to victory. That assumes that Biden remains the Democratic

Map 1 Republicans Favored To Win The Senate

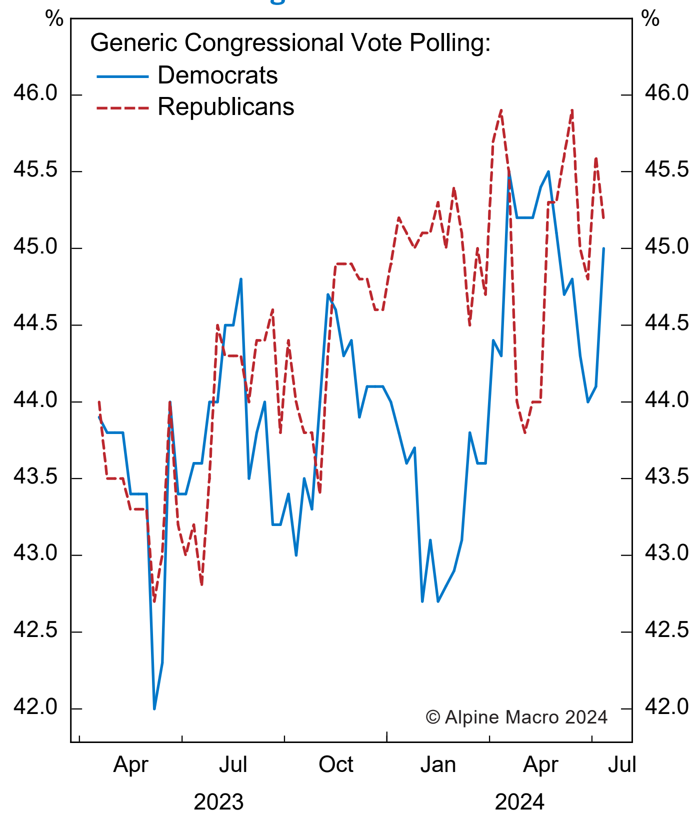


Source: 270towin.com, 2024 consensus forecast view
*Red circles on the map denote states where we think that the party controlling the Senate seat is at least somewhat vulnerable (and, except for Florida, all are Democratic seats)

nominee, which given how events have trended recently, is a close call, roughly 50-50. Biden's candidacy is seen as an embarrassment and a credibility issue for Democrats, and many senior Democrats fear that Biden will drag down the entire party ticket in November.

If Biden drops out, potential replacements include Vice President Kamala Harris (the front-runner), several governors and cabinet members. Any replacement would reset the race, requiring a reassessment then -- though Trump would likely remain the front-runner. The Democrats' window for replacing Biden is however short: until after the Democratic National Convention in mid-August. Afterwards, Democrats might just as well be better off running with Biden.

Chart 6 The House Is In-Play And The Polling Is Tight



Source: RealClearPolitics

Who Will Control Congress?

Control of Congress is as crucial as the presidency for the policymaking outlook post-2024. The next Congress might be split again. Republicans are likely to gain a thin majority in the Senate, needing to flip two seats for control. Map 1 shows a likely win in West Virginia and potential flips in the highlighted states. Democrats are defending far more seats this cycle, and this favors Republicans.

The House of Representatives remains a toss-up. Historically, Republicans need a large spread over Democrats, usually at least 5 points, to secure a majority (Chart 6).

Table 1 Expected Policies And Potential Market Impacts

*Most likely outcome**

Policy Areas	Trump & Split Congress** (35%)	Republican Sweep (30%)	Biden & Split Congress** (25%)	Democratic Sweep (10%)
Fiscal Outlook				
Fiscal, Taxation				
Fiscal, Spending				
Industrial Policies				
Immigration				
Energy Policy, Fossil Energy				
Energy Policy: Green				
Regulation				
Trade: Tariffs				
Trade: Export & Investment Controls				
Geopolitics, China				
Geopolitics, Russia-Ukraine				
Geopolitics, Mideast				
U.s. Domestic Unrest				

Green: Market positive; **Gray**: Market neutral or uncertain; **Red**: Market negative
* Low confidence in the call for now, many deep uncertainties remain before the elections
**Assumes the opposition party controls at least one (if not both) chambers of the legislature
Note: Scenario probabilities do not account for the "Presidential coat-tails" effect; Impacts are discussed in a one-year timeframe

Presidential victories often help the winning party down-ballot. If Trump wins by a significant margin, it could aid Republicans in the House. However, the election is expected to be close, with Democrats refocusing efforts on winning at least one chamber of Congress to hedge against concerns about Biden's viability. This keeps House control in play.

Election Outcome Scenarios

We estimate Trump has about a 65% chance of winning, roughly in line with the current consensus. For future policymaking however, control of both the Presidency and of Congress are critical to assess.

We think the most likely outcome is a Trump presidency with a split Congress (35%). We think the emerging consensus of a Republican sweep (30%), is less likely, given the polarization levels we described. There is still a solid chance that Biden (or a replacement candidate) wins with a split Congress (25%). The possibility of a Democratic sweep—a Democratic Presidency and Congress—is now quite low, though still plausible (10%).

Some Policy Implications

How will the next administration govern? **Table 1** summarizes our views on how different policy issues may impact markets under various scenarios. While it is early and much is uncertain (e.g., we won't have the Democrats' policy agenda until the mid-August Democratic National Convention), we can tentatively assess whether policies might be market-friendly, market-neutral, or market-negative.

Three key points to highlight:

The Fiscal Outlook: Contrary to conventional wisdom, we do not believe a Trump administration will be more inflationary than a Democratic one. First, Trump and his senior staff are aware that inflation could harm their popularity and political capital, as has been the case with the Biden administration, and will craft policies to avoid inflationary risks. Second, it's unclear that a second Biden administration would be any less fiscally expansive and inflationary, given its preferences for higher social and entitlements spending, and increased minimum wages. That said, we do not expect fiscal consolidation under any electoral outcome, given lack of political appetite for austerity, and the absence of a fiscal crisis. Fiscal spending will remain elevated, especially under a Republican or Democratic sweep scenarios.

Industrial Policies Are A Go: Both Democrats and Republicans very strongly favor reindustrialization. There are stark differences regarding green energy, but there are also many commonalities that could provide political tailwinds for specific assets. Point being, the policy drive for reindustrialization is real, and will be sustained no matter the election outcome.

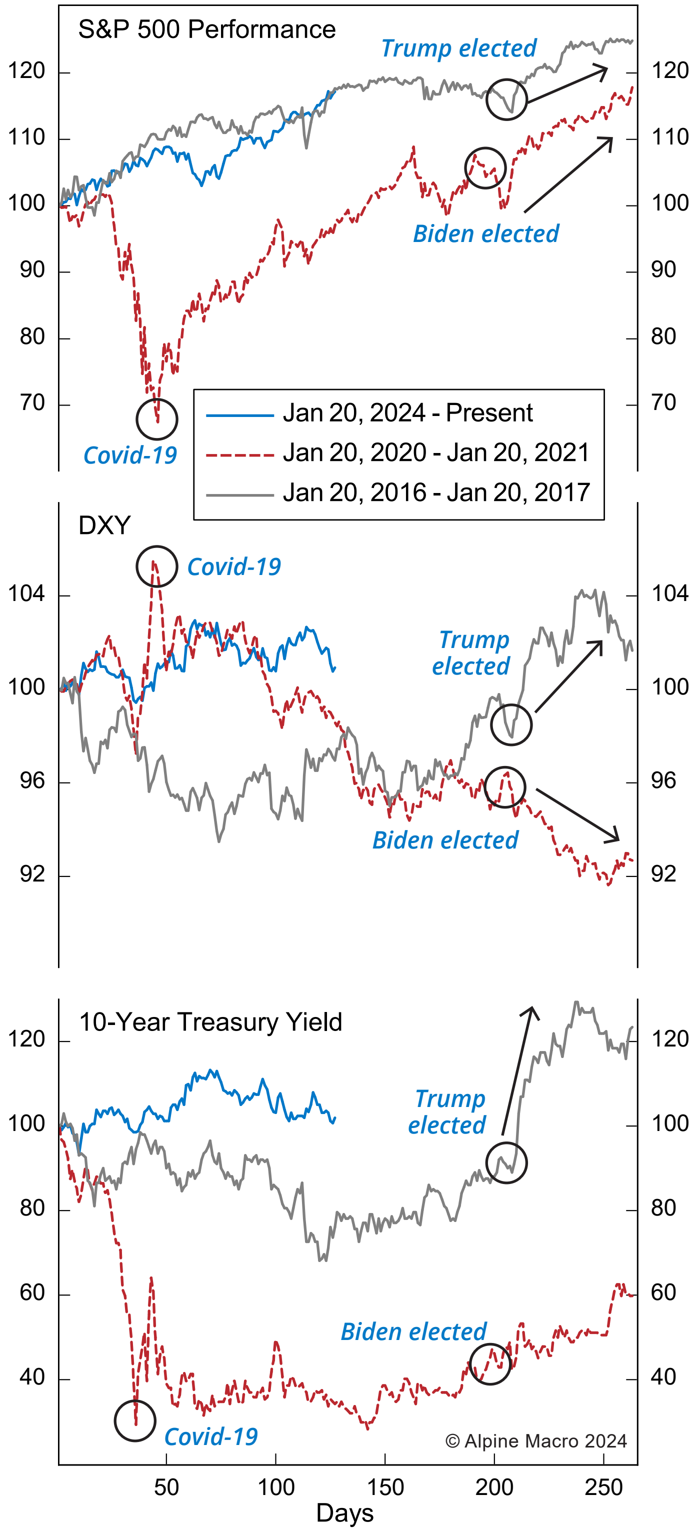
U.S.-China Relations: Policies toward China will remain hawkish and intensify, regardless of the election outcome. This will lead to deeper partial (not full) decoupling, especially in tech, advanced manufacturing, alternative energy, and possibly biotech and finance. Trump may impose tariffs but likely less than he claims on the campaign trail. The difference between Trump and Biden on China is one of means, not ends. An off-ramp in U.S.-China economic tensions is more likely under Trump due to his transactional approach to policymaking. Our out-of-consensus view is that Trump is more moderate than he sounds, partly due to his transactional approach to policymaking.

Geopolitical Implications

Clients are increasingly worried about the geopolitical landscape next year. However, our view is that one should be more concerned about geopolitics this year. President Biden's evident frailties signal weakness abroad, making it more likely for other powers to challenge the U.S. before or around the election. This is particularly relevant in relation to Iran, Russia and Venezuela, which may seek to front-run a potential change in the White House. Such geopolitical challenges could make for a tenser background around the election.

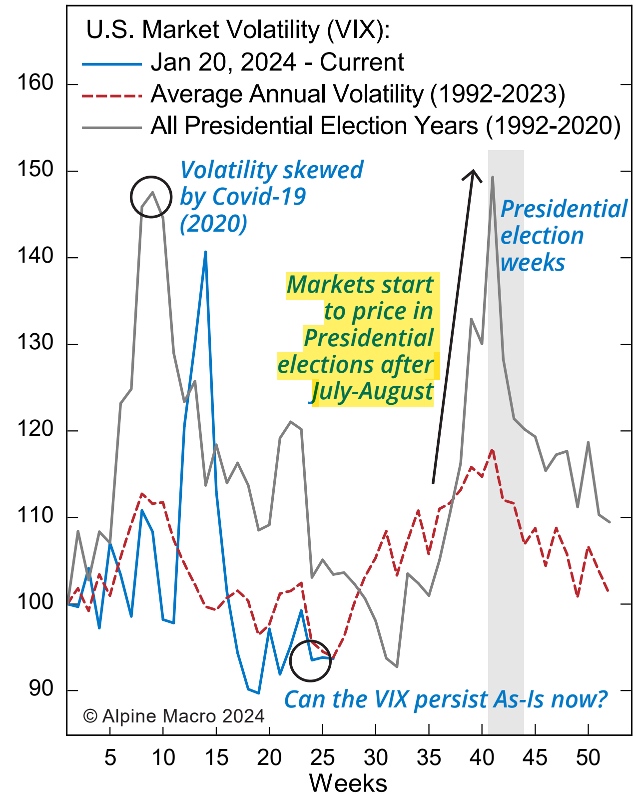
As for next year, it's too soon to tell, but we generally think that Trump will continue Biden's policies to support Ukraine (which is counterintuitive), and that either Trump or a Democratic president will start at the same time to get Ukraine to settle in some truce with Russia (also counter-consensus). The U.S. will not abandon NATO, regardless of who wins in November. The Middle East will remain highly volatile, with escalation there being the baseline over the next 6-9 months, more so if Trump appears on course or does win.

Chart 7 Markets Often Price-In Elections In/ Near November



Note: All series are rebased to 100 at Jan 20 of election years

Chart 8 Election-Year Volatility Is Usually Higher



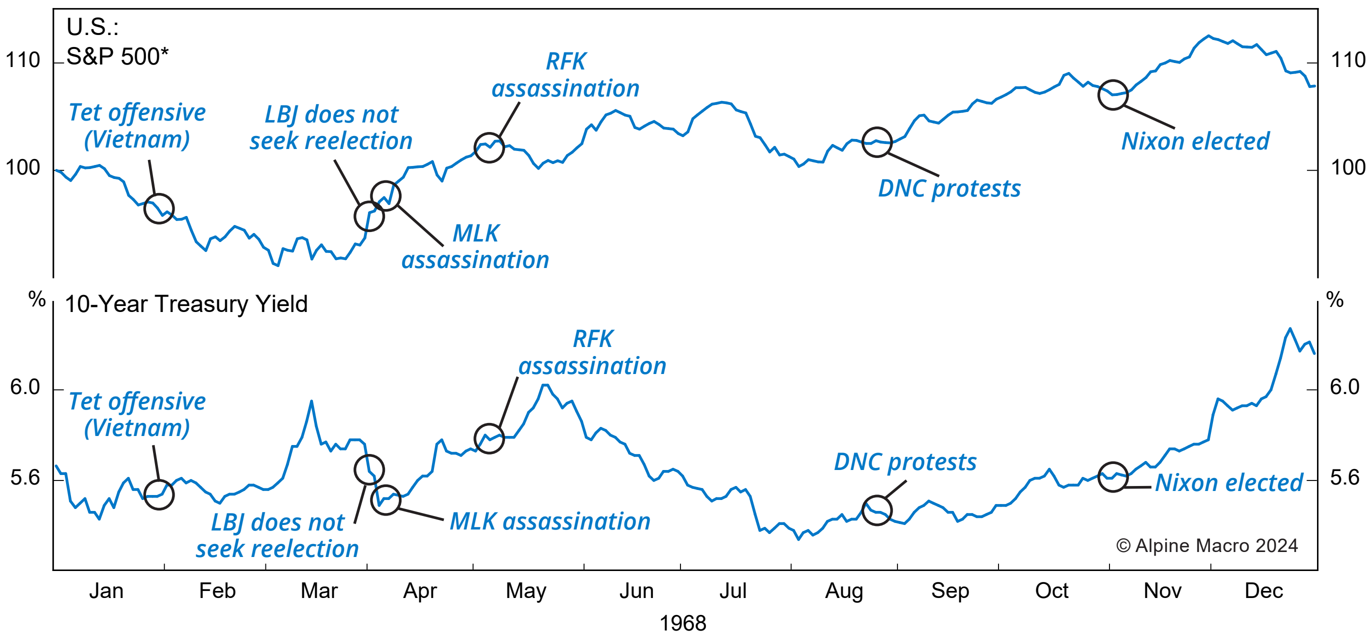
Note: Presidential election years are calculated from Jan 20 of the election year to Jan 20 of the next year, using Jan 20 Presidential inauguration date as year-markers, with values indexed to 100 on Jan 20.

Market Implications

A few observations about how various economic variables and asset classes may react to the election:

Markets Reacting Too Soon: This year markets are pricing in the elections earlier than usual, which is typically in, or after August. Markets may be reacting prematurely to headline risks, especially given high political volatility. Historical data from 2016 and 2020 shows that markets (equities, USD, and 10-year Treasuries) typically price in political developments close to election dates (**Chart 7**). For example, bond yields spiked after Trump's 2016 victory, which was unexpected, and only priced-in last minute.

Chart 9 In 1968, Markets Shrugged-Off Massive Political Shocks. Will 2024 Be Different?



*Series rebased to Jan 1968 = 100

Equity volatility often increases in the latter half of the year, more pronounced during election years. A caveat is that this is based on a small sample size, including the 2008 and 2000 sell-offs (**Chart 8**). With the VIX currently at relatively low levels, the question is whether it could spike due to political or policy risks.

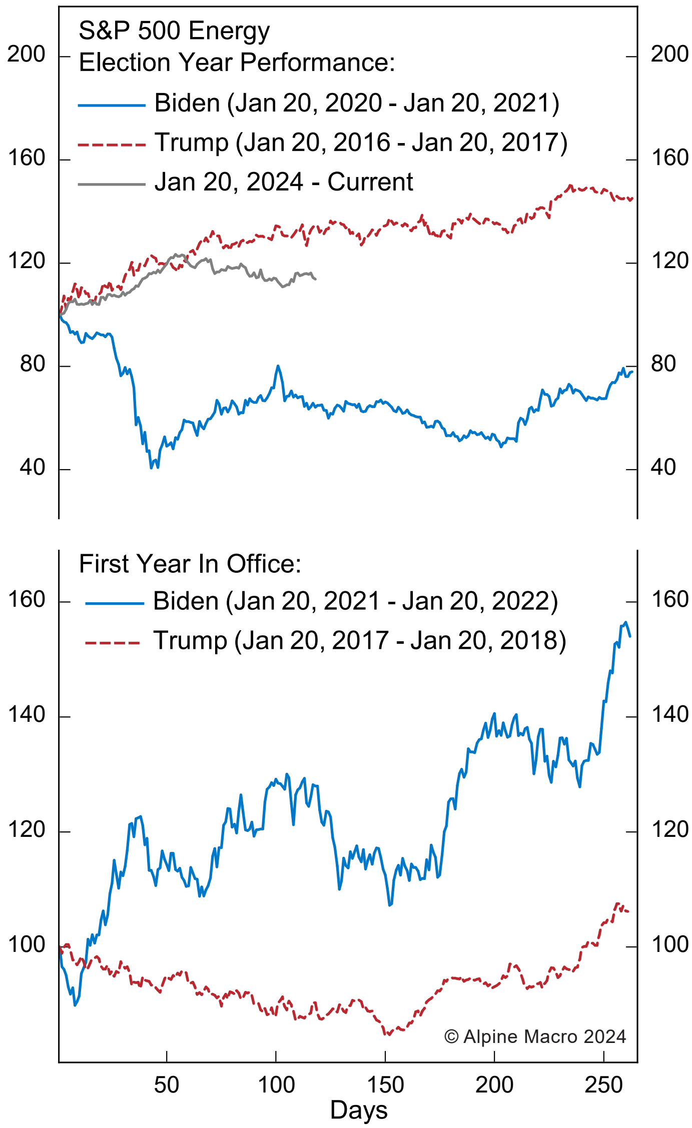
Will Political Unrest Impact Markets? Historically, heated U.S. electoral seasons and social instability do not lead to market selloffs. For example, markets ignored political and social unrest in 1968, the most politically volatile election year in the 20th century (**Chart 9**). However, we think "this time is different," and there is a high risk this year that political instability will matter to markets, especially as the elections draw near. This is a qualitative argument that due to current polarization, recent events (e.g., the assassination attempt on Trump), and fears of a contested election, markets could be negatively impacted. A risk worth watching.

Bond Markets: The recent selloff in the long end of the yield curve anticipating a Trump victory may be an overreaction. If, in line with our expectation, Trump governs from the center, is politically constrained, and avoids massive fiscal expansion due to fears of inflation and Treasury market volatility, then investors are overpricing the risk of a fiscally expansionary Trump presidency. However, if Trump fully implements his stated agenda, it would significantly move treasury markets.[3]

National Security Sectors: Industries such as Industrials, Aerospace & Defense, and IT will benefit from political tailwinds regardless of the election

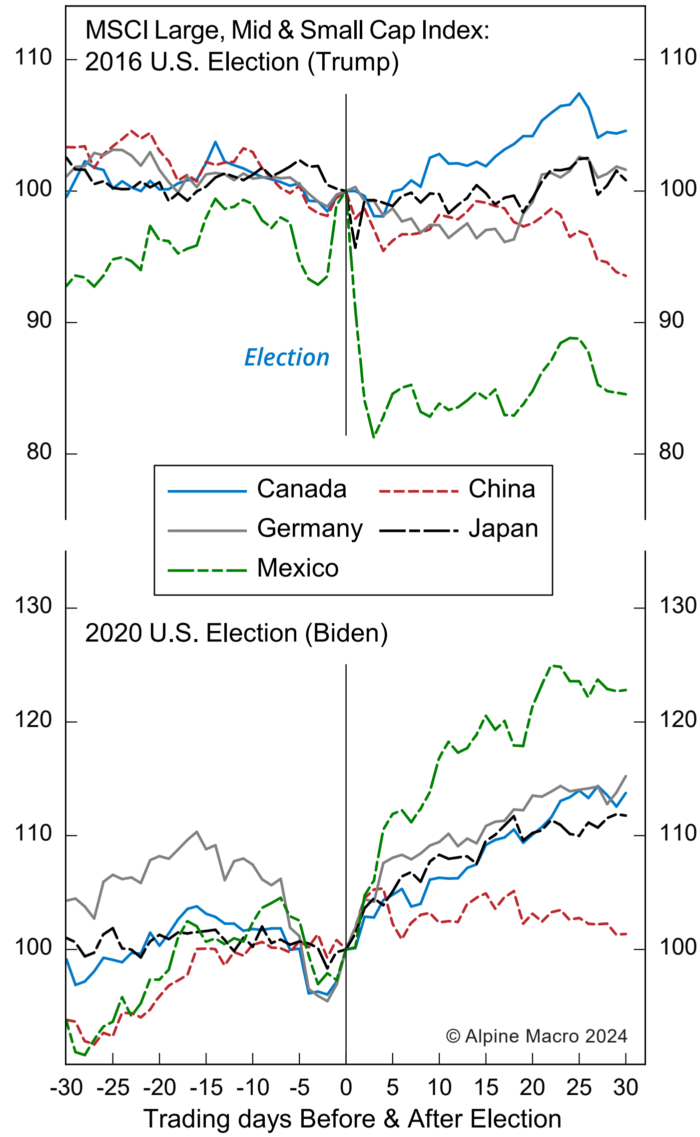
3 Alpine Macro *U.S. Bond Strategy* "Trump And The Yield Curve" (July 11, 2024).

Chart 10 S&P Energy Sector: Trump And Biden



Note: All series are rebased to 100 at Jan 20 of respective years

Chart 11 International Equities & The Last 2 U.S. Presidential Elections

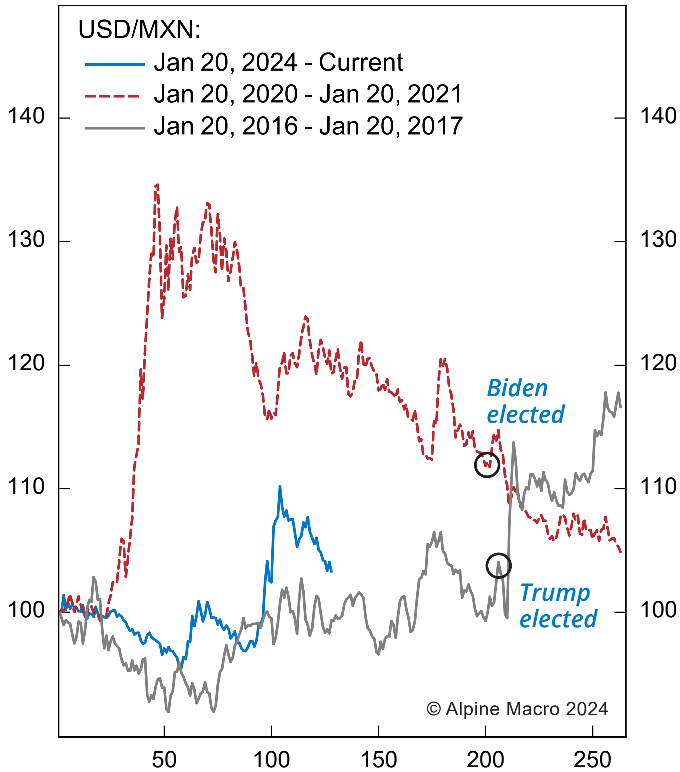


Note: All series are rebased to 100 on election day

outcome. These sectors are favored politically by both parties and are seen as crucial for re-industrialization, and for national security.

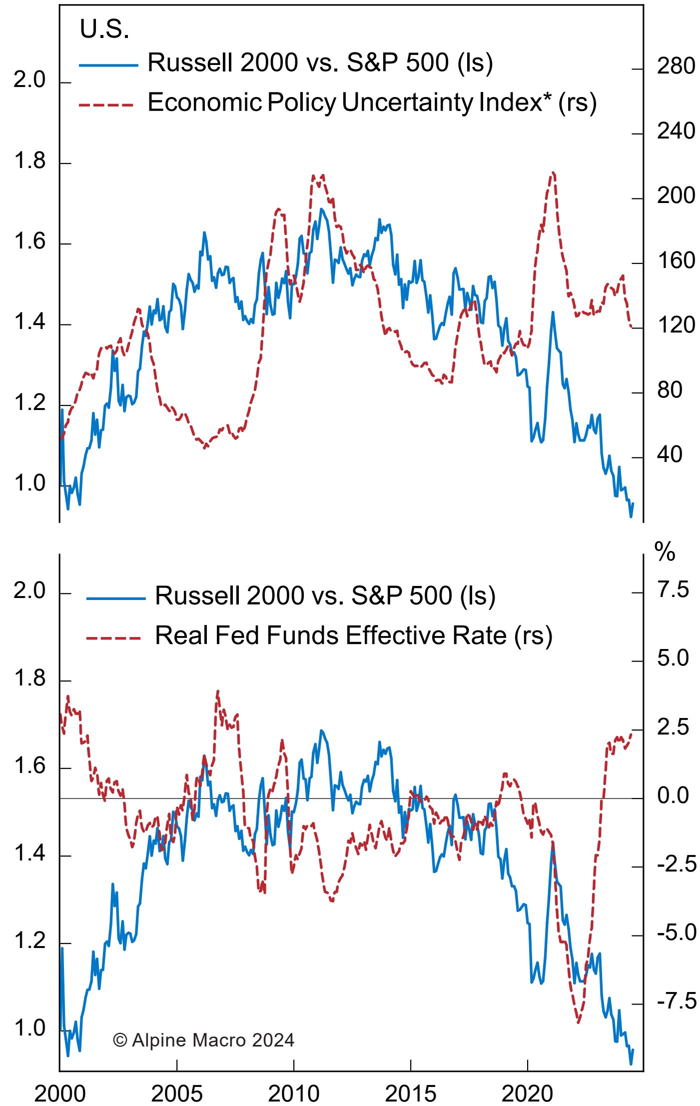
Policy-Sensitive Industries: Sectors such as energy, healthcare, and financials are highly sensitive to political risks. For example, fossil energy could outperform this year, if Trump leads in the polls and wins, due to expectations of expanded production and regulatory rollbacks. However, energy may underperform next year under Trump, as it did in 2017, due to increased production leading to cheaper energy prices (**Chart 10**). Alternative energy will perform poorly if Trump wins and may not appreciate significantly if Biden is re-elected, as Biden's policies are priced in. We remain bearish on alternative energy for political and geopolitical reasons, even if Biden wins.

Chart 12 Will The Mexican Peso Behave Like In 2016 Or 2020?



Note: Both series are rebased to 100 at Jan 20 of election years

Chart 13 Small Caps, Regulations, Interest Rates



*Shown as 1-year moving average

International Assets: International equities from countries with consistent trade surpluses with the U.S. may face headwinds if Trump wins, as he would likely focus tariffs on those countries. Mexico would also face additional challenges due to migration issues, causing tensions with a Trump administration.

Around Election Day, equities from countries with strong U.S. trade ties could react. Mexico's equity market notably sold off on Trump's 2016 victory, while other countries' markets gained when Biden won. A Trump victory would likely lead to a short-term sell-off in these equities due to fears of a protectionist administration (**Chart 11**). The Mexican peso and equities are currently overvalued, as noted by our *Chief EM & China Strategist Yan Wang.*[4] Combined with Mexico's domestic political risks, this could lead to a significant sell-off, similar to how the peso sold off when Trump won in 2016 (**Chart 12**).

Small Caps Could Benefit From A Trump Victory: A key area to monitor is regulatory policy. If Trump

4 Alpine Macro *Emerging Markets & China Strategy* "Post-Elections: Back To Basics" (June 11, 2024).

wins, he is expected to push for broad deregulation to boost GDP growth, which would benefit equities overall. Immediately after the 2016 elections, markets responded positively to such expectations. Trump's tenure did see significant deregulation efforts, (though also higher tariffs). Many industries (e.g. financials) tend to benefit from deregulation, and small caps are a particular example. Data shows a correlation between lower regulatory uncertainty and the relative performance of the Russell 2000, while small caps are also highly responsive to lower real interest rates (**Chart 13**). A deregulatory thrust could provide additive political tailwinds to the view of our *Chief Equity Strategist*, Nick Giorgi, that small caps are an increasingly attractive opportunity.[5]

Dan Alamariu
Chief Geopolitical Strategist

5 Alpine Macro *Equity Strategy* "How To Make Money In Small Caps" (June 26, 2024).

Table 2 Calendar of Election Related Events

Selected Events	July	August	September	October	November	December	Jan. 2025
Republican National Convention	**July 15 - 18**						
Biden Early Nomination	Jul. 21 - Aug. 7						
Democratic National Convention		**Aug. 19 - 22**					
Vice Presidential Debate		TBD					
Second Presidential Debate			**Sep. 10**				
Trump Sentencing In N.Y Legal Case			**Sep. 18**				
Early Voting Begins*				Sep. 20 - Nov. 5			
Election Day					**Nov. 5**		
Electoral Votes Certification						Dec. 10	
Electoral College Voting						**Dec. 16**	
Congressional Receipt of Electoral Votes						Dec. 23	
Congressional Certification							**Jan. 6**
Inauguration Day							**Jan. 20**

Italics: Tentative/ expected dates, these events could be rescheduled or canceled
Bold: Events most likely to be market-relevant, result in volatility
Green: Events unlikely to cause political or social unrest
Red: Events that could cause political or social unrest, or move markets
*Voting by mail and in-person starts before Election Day in many cases, and each has its own rules

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