

United States: (Still) Trump's Election To Lose

- We continue to think that Trump has a slight edge in the presidential race, while expecting split control of Congress¹.
- Watch for potential social unrest and legal challenges in the event of contested presidential results.
- If Trump wins, equities will likely see a short-term boost, while bond yields would trend higher.
- Overall, we believe markets misjudge how either Trump or Harris might govern: Trump would likely be more moderate than expected, as could Harris.

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Trump Leads

With less than two weeks to go until November 5, Donald Trump has a narrow advantage, and is slightly favored to win. Control of Congress will most likely flip, with Republicans taking the Senate, and Democrats, the House of Representatives.

Since President Joe Biden's disastrous debate performance on June 27, we have consistently argued this is Trump's race to lose². Despite polling seeing Harris in the lead, we have always seen Trump as the narrow favorite.

Polling and the forecasters have now caught up with our view, and the consensus has shifted towards Trump being the slight favorite. Chart 1 shows how

¹ "Split" control of Congress assumes the opposition party has a majority in at least one chamber of Congress.

² Alpine Macro *Geopolitical Strategy* "United States: An Increasingly Wild Election Season" (July 17, 2024) & "United States: Fade Any Harris Trades" (August 15, 2024).

Chart 1 Forecasts See Trump Edging Up

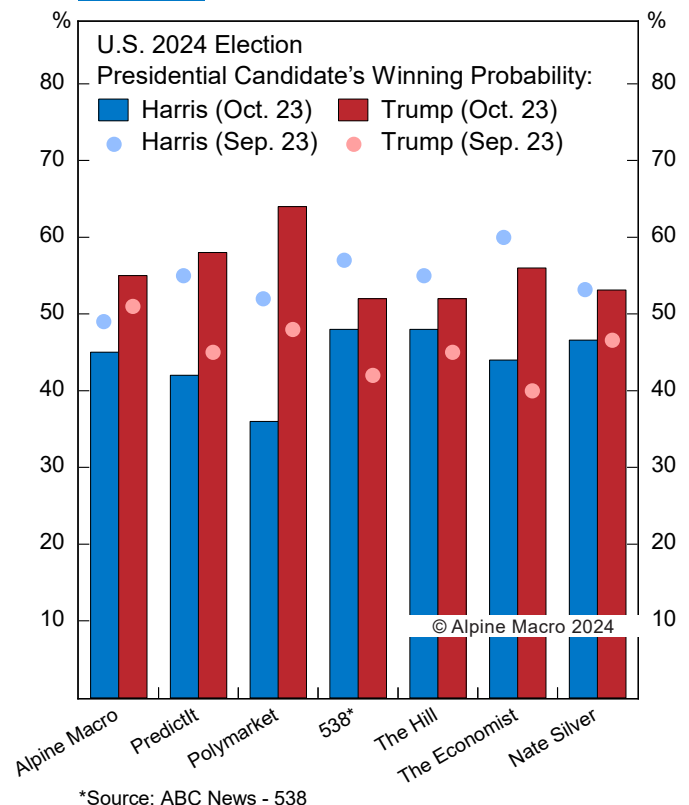


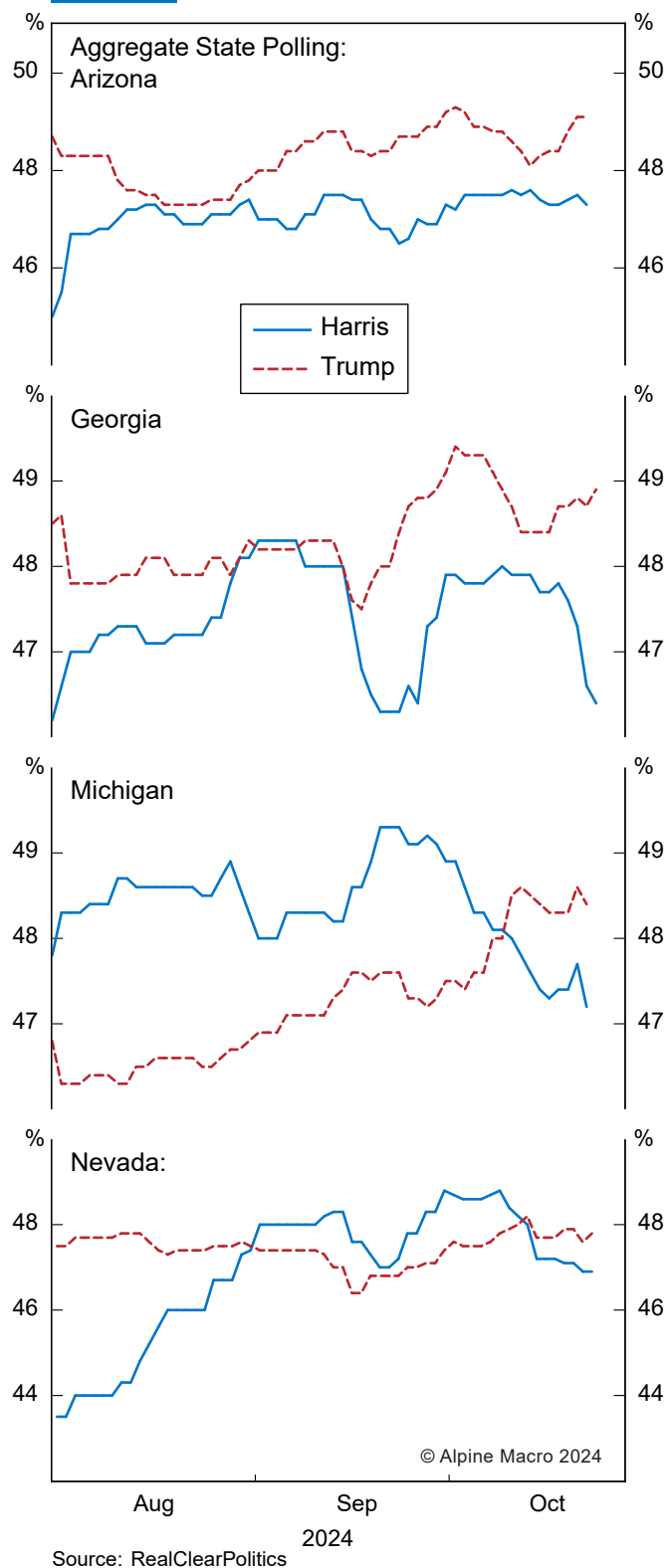
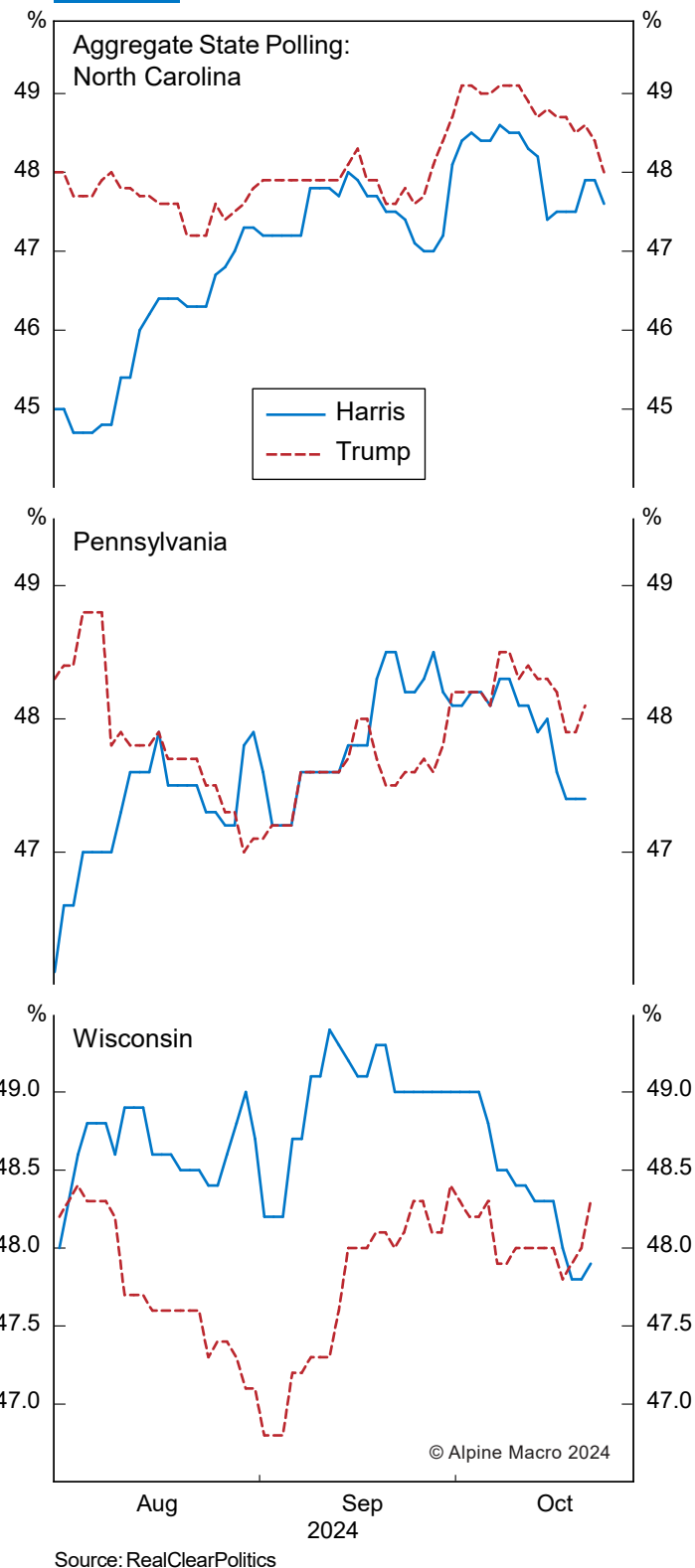
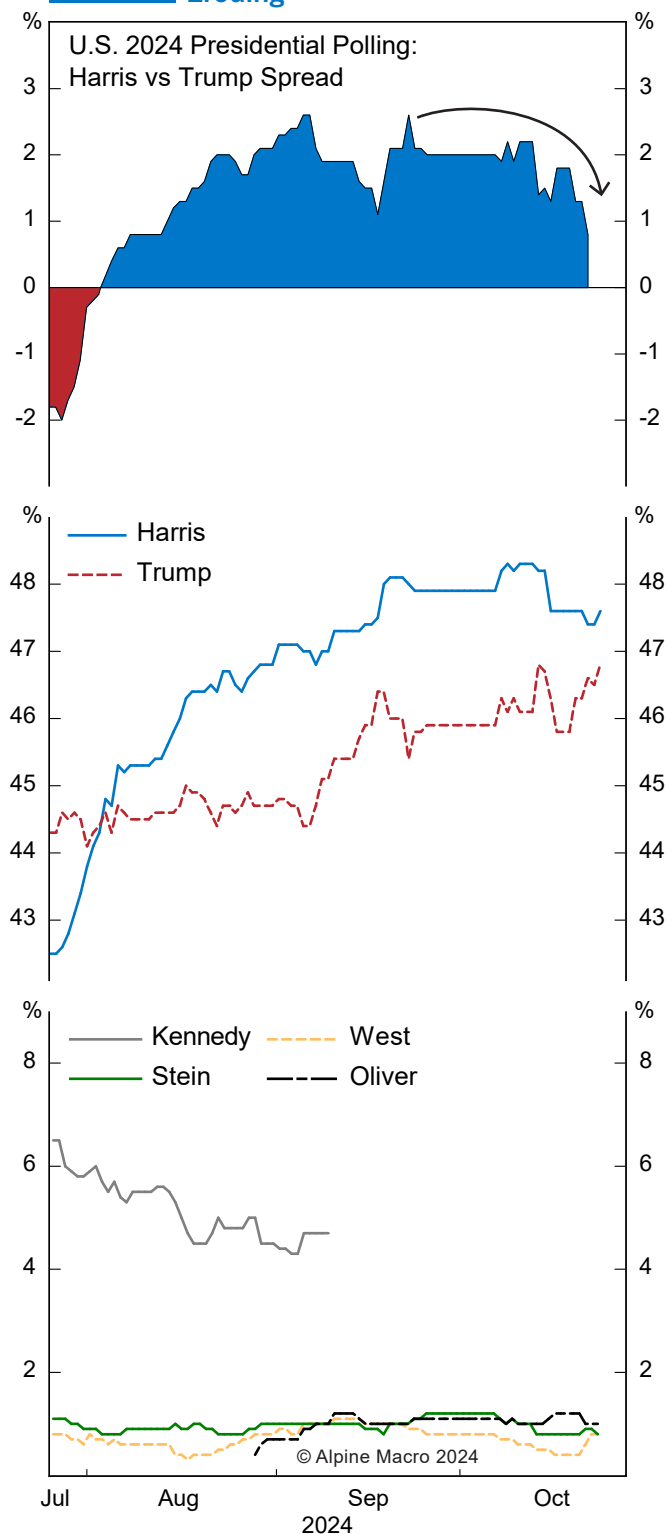
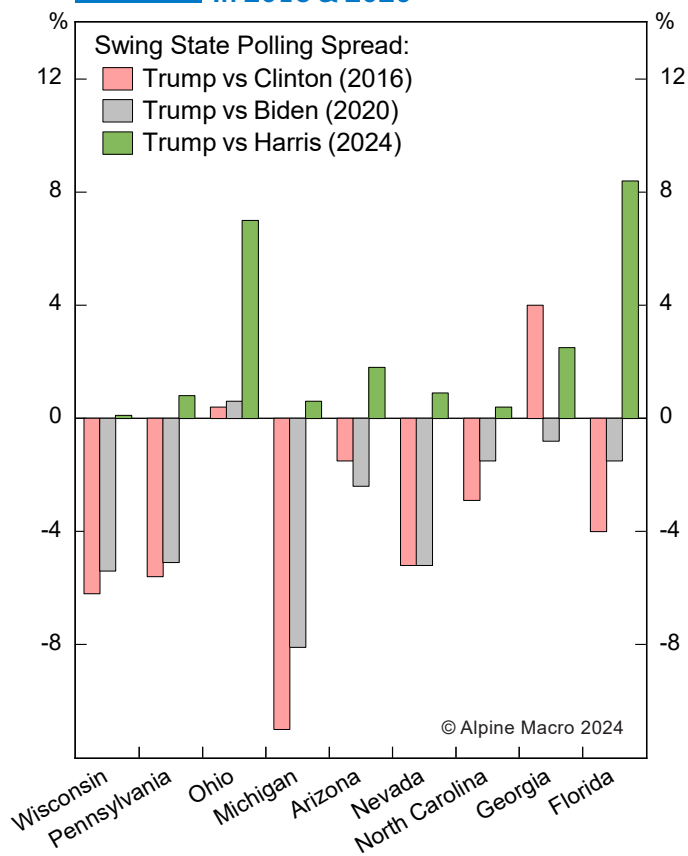
Chart 2 Swing State Polls: Trump Ahead**Chart 3** Swing State Polls: Trump Ahead

Chart 4 Harris' National Polling Lead Is Eroding**Chart 5** Trump Is Outperforming Himself Vs In 2016 & 2020

forecasts have evolved over the last month. Some prediction markets, like Polymarket, even give Trump a higher chance than we think is justified. As we have written, we are skeptical of prediction markets' ability to forecast elections³, as they just tend to reflect/overreact to the latest headline news.

More significantly, polling shows momentum favoring Trump. He now leads in most swing state polls, a very notable shift since Harris entered the race (Charts 2 & 3). On a national level, Harris' lead over Trump has also eroded (Chart 4).

3 Alpine Macro Geopolitical Strategy U.S. Election Monitor "The Harris-Walz Trade Stalls Out" (October 16, 2024).



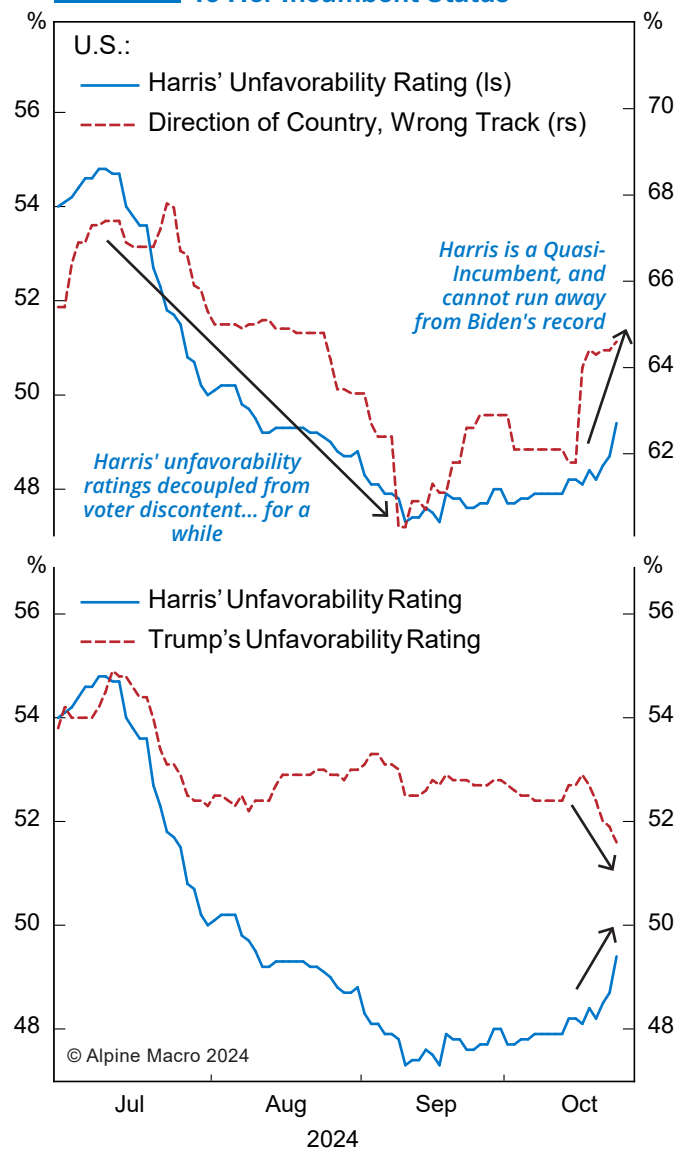
We continue to assign Trump a 55% chance of winning, a slim edge over Harris. It is not a strong probability (e.g. 70%+) reflecting a low confidence call. In a deeply and evenly divided country with two highly polarizing candidates, the race has stayed tight and is likely to remain so.

Here is why we have viewed, and continue to view, Trump as the structural favorite:

- Trump's liabilities are already "priced in," and he's a known quantity, unlike Harris, who has more downside potential.
- Trump is outperforming his 2016 and 2020 numbers both in national and swing state polls ([Chart 5](#)), suggesting stronger support levels this time.
- Voters prefer Trump and Republican policies on key issues like the economy, immigration, and crime. Harris has struggled to present a compelling case on these issues, with her past left-wing positions proving to be a liability.
- Harris hasn't made a persuasive argument to centrist swing-state voters, who may dislike Trump, but see her ticket as too far left.
- Harris is an incumbent, and fundamentally tied to the Biden administration's popularity. While she benefited from a "sugar rush" in favorability when she first entered the race, her unfavorability increased as voters see the direction of the country negatively ([Chart 6](#)).

Despite positive trends for Trump, Harris remains competitive. Four reasons why the race remains close, and Trump could still lose:

Chart 6 Harris' Unfavorability Rising, Tied To Her Incumbent Status

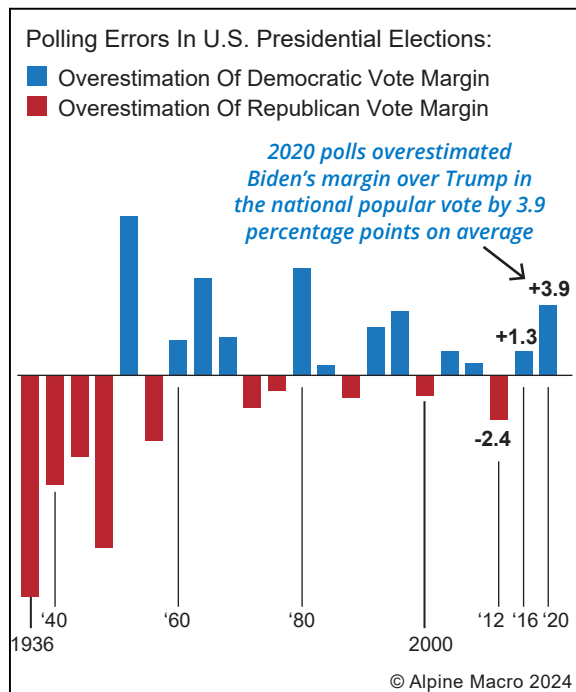


Source: RealClearPolitics

- First, **polling accuracy remains uncertain** — Trump's support might be overestimated. Since 1980, polls have tended to overestimate Democrats ([Chart 7](#)), but not always. Also, pollsters may have accurately adjusted their models after 2020 and 2022 to better capture Republican voters — which could mean Trump's momentum is overstated.



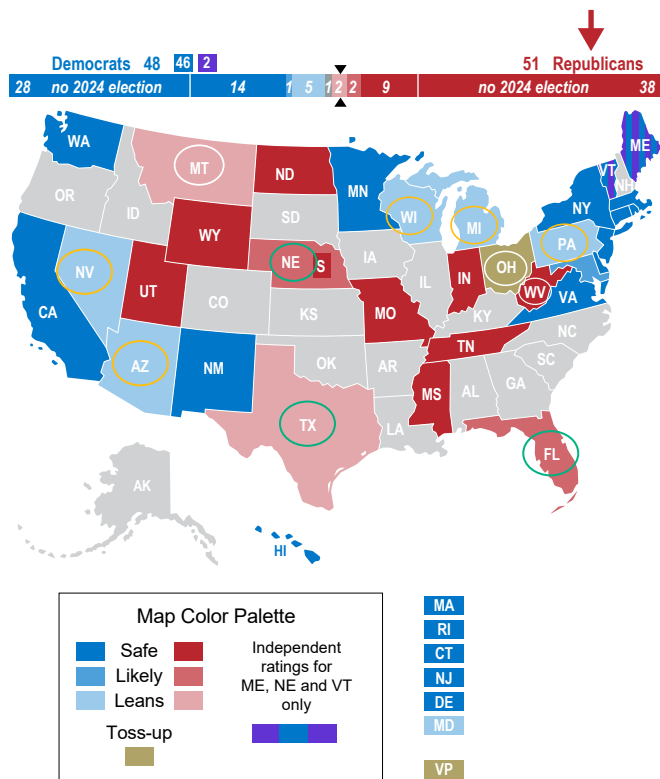
Chart 7 Most Recent Polling Errors
Overestimated Democratic Support



Note: Bars represent average signed error, which is the difference between the actual margin separating the candidates in the general election and the average margin in the polls. A negative error means that the Republican candidate's margin was overstated and a positive error means the Democratic candidate's margin was overstated
Source: American Association for Public Opinion Research (AAPOR) Task Force on 2020 Pre-Election Polling: An Evaluation of the 2020 General Election Polls; Pew Research Center

- Second, **voter turnout is unpredictable**. While more Republicans are voting early and by mail this year, comparisons to 2020 voting patterns are flawed (e.g., no pandemic, Democrats could vote in stronger numbers on election day). Democrats also have a superior voter outreach program, more funding, and more ads planned for the final stretch, which could benefit Harris.
- In an election where high-propensity voters show up in disproportionate numbers, that should favor Harris. If lower-propensity voters (e.g., working class, non-college educated) turn out,

Map 1 The Senate: Republicans Are Favored To Win A Majority



Note: **Yellow** circles denote states where the party controlling the Senate seat is at least somewhat vulnerable. **White** circles show seats that Republicans are somewhat favored (OH, MT) or extremely likely (West Virginia) to win. **Green** circles show states where Republicans are somewhat vulnerable (TX, FL); source: 270tow-in.com, 2024 consensus forecast view, as of Oct. 22, 2024

Trump would be favored. The thing is, we don't know how this will play out.

- Lastly, **Harris' strongest messaging is on abortion, which may boost female voter turnout, a potential problem for Republicans** even in states like Florida. However, her campaign has been marred by tone-deaf messaging for other demographics, which might hinder Democratic turnout.

Bottom line: The momentum is now clearly with Trump, but there remains sufficient time for that

to fizzle and for the Harris campaign to pull ahead and win.

Control Of Congress Is Likely To Flip

We think the race for Congress remains tight, but overall, control is likely to flip.

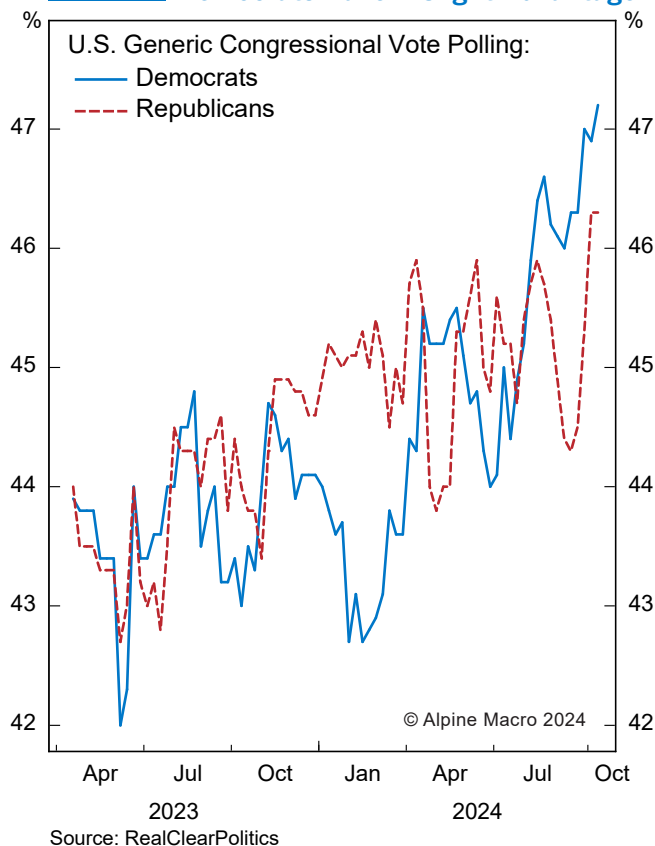
Republicans are expected to gain a thin Senate majority. Currently, Republicans hold 49 seats, and Democrats hold 51. Republicans are guaranteed to win in West Virginia and likely Montana, with a chance to pick up other seats, like Ohio. However, they risk losing Texas, while incumbents in Florida and Nebraska face strong challenges (Map 1). Still, we expect Republicans to hold onto their vulnerable seats and secure a narrow majority.

Conversely, Democrats are likely to take the House, flipping the Republicans' slim majority. Generic ballot polling indicates a close race (Chart 8), but Democrats should gain Republican seats in blue states (e.g., CA, NY), especially as many voters are frustrated with the ineffective Republican House majority.

Coattail effects, where the winning presidential candidate boosts down-ballot candidates, will likely be limited this time. Harris is less popular than many Democratic candidates, especially in competitive Senate races, while Trump is way more popular than many Republican candidates. As a result, Harris won't significantly help down-ballot Democrats, and Trump may struggle to drag some unpopular Republicans across the finish line.

We expect the next president will govern with at least one chamber controlled by the opposition, if

Chart 8 Race For The House Is Tight, Democrats Have A Slight Advantage



not both. A split Congress, which we estimate has a 75% likelihood (Chart 9), would result in policy gridlock and moderation, with neither party able to push through radical legislation.

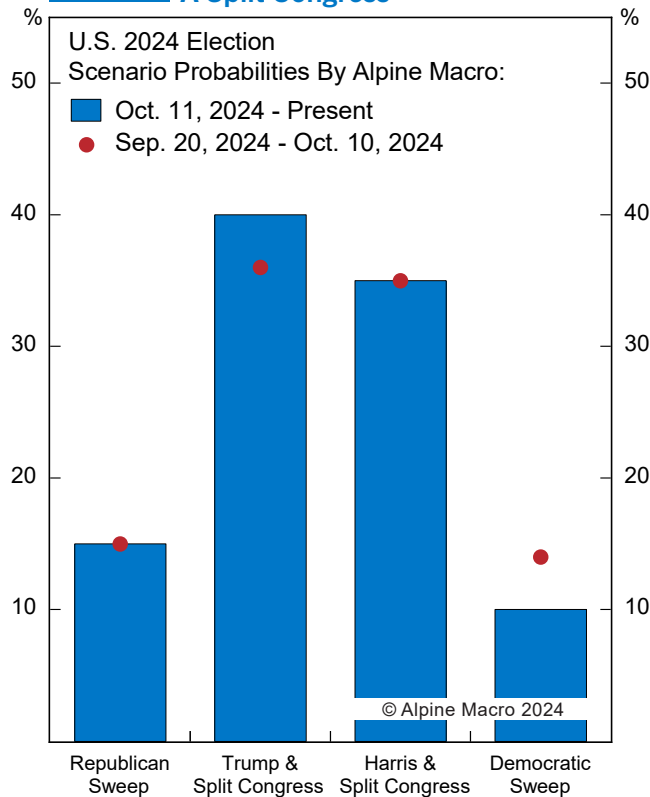
What To Watch For During Election Night (Or Weeks)

Many swing states, including Michigan, Georgia, Pennsylvania, and possibly Wisconsin, are unlikely to have results on election night. If they do, it could signal a landslide, which we don't expect.

However, key states reporting that night could be highly relevant to the overall outcome. Here's what to watch:



Chart 9 Split Congress Scenarios Most Likely, 75% Chance Of Trump Or Harris With A Split Congress

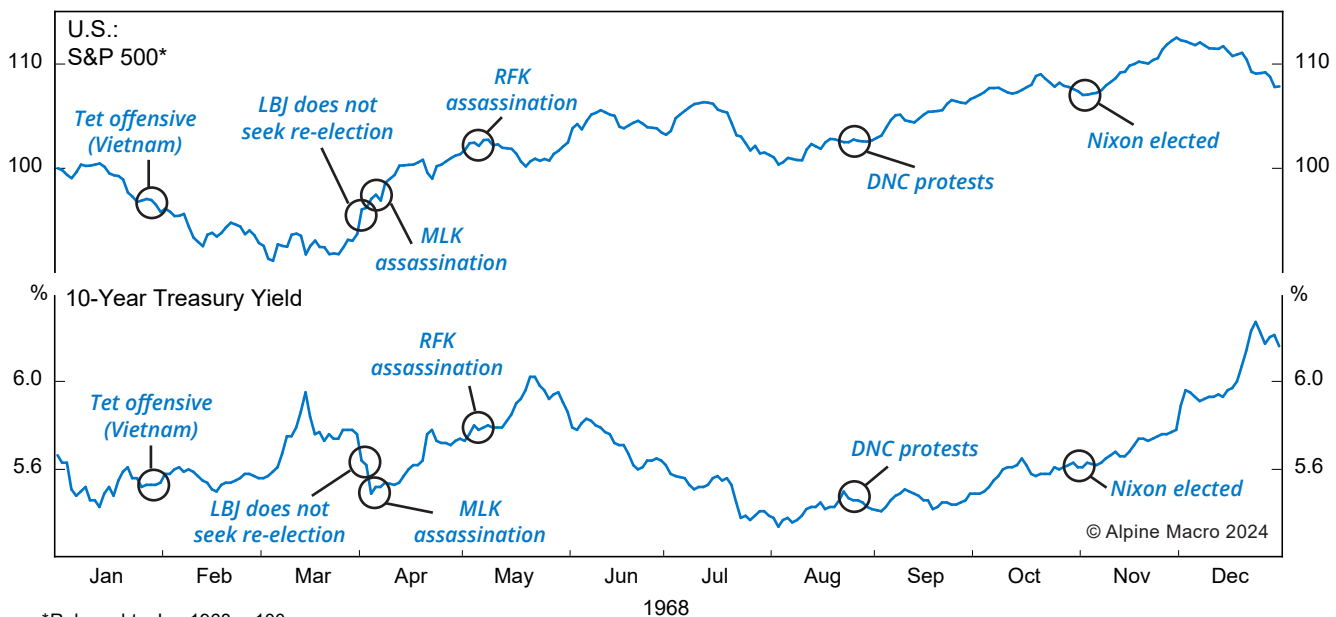


Note: Split Congress assumes that the opposition party has a majority in at least one chamber of Congress, and possibly both

- Florida will likely report its results on election day. Republicans are favored but not by much. Similarly, Democrats are favored in Virginia, but are at least somewhat vulnerable. **If Trump loses Florida or Harris loses Virginia, their paths to victory narrow materially.** Margins and turnout in these states may also be signposts for national trends.
- **North Carolina could surprise with a Democratic win.** A Harris victory here would considerably ease her path to the presidency.
- **The Ohio Senate race could decide control of the Senate,** with a likely Republican majority if Sherrod Brown (D) loses his re-election race.

If the election is as close as expected, results won't be known on November 5. Without recounts or legal challenges, results should be clear a few days to a week later.

Chart 10 In 1968, Markets Shrugged Off Political Shocks. Will 2024 Be Different?



*Rebased to Jan 1968 = 100

Post-Election Political Blues?

If the results are close, recounts and legal challenges are likely. While concerns exist about Trump and Republicans rejecting a loss, we believe either party could contest the outcome given current political polarization. Democrats are just as likely to legally challenge a close outcome and/or to protest.

This doesn’t imply civil war or mass organized violence (such fears are alarmist). The U.S. isn’t predisposed to such unrest, but uncertainty and social unrest are plausible. Historically, political disputes haven't triggered prolonged market volatility. For instance, the contested 2000 election led to brief market declines in the few days after the election day, but not to sustained market downturns⁴.

Even in 1968, a year marked by mass protests, riots, and assassinations, markets remained steady (Chart 10). Historically, U.S. markets are resilient to domestic political turmoil, and though the data does

not support this case, we qualitatively argue that this year could be different, and political volatility could become market volatility – a risk to monitor.

Table 1 shows the key dates after the election when key decisions to the votes’ outcomes will be made, which could concern markets.

Additionally, post-election geopolitical risks could loom. Between the election and the presidential inauguration (Jan. 20, 2025), nations like Iran, Israel, North Korea, and U.S. rivals like Russia or China could exploit the lame-duck Biden administration. We are especially concerned about potential escalation in the Middle East or Ukraine during this period.

Market Implications

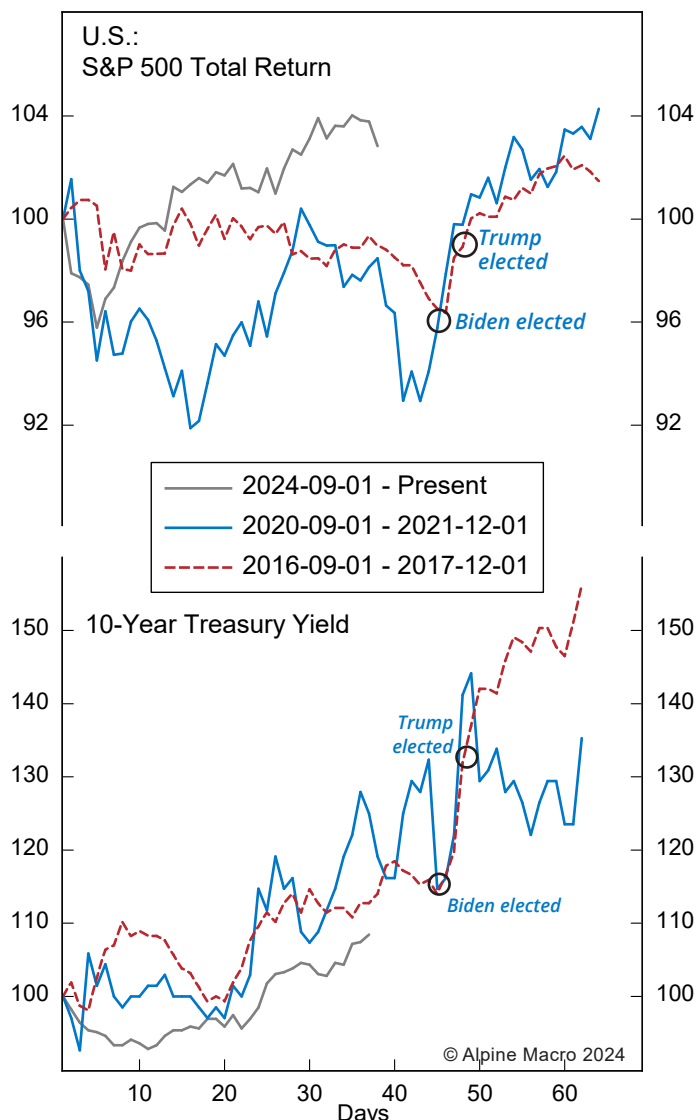
Once the election results are known, we expect equities to react positively to a Trump victory, anticipating deregulation and lower taxes. A Harris win would likely lead to a more muted or risk-off

Table 1 Election Timeline: Political Risks May Increase Around And After The Election Date

Selected Events	September 2024	October	November	December	January 2025
Early Voting*	Sep. 20-Nov. 4				
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

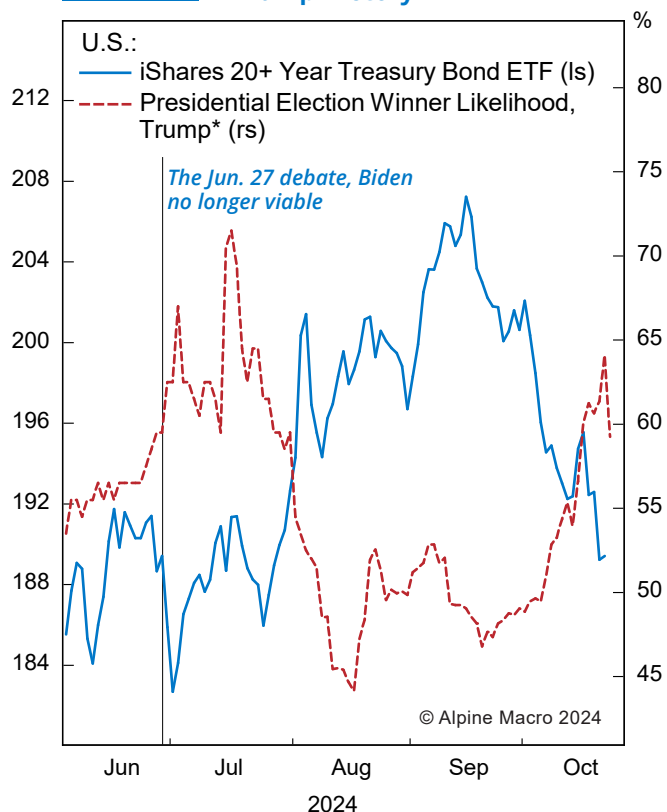
Bold: Events most likely to be market-relevant and result in volatility
Green: Events unlikely to cause political or social unrest
Red: Events that could cause political or social unrest
*Voting by mail and in-person starts before Election Day and each state has its own rules

4 The 2000 election also took place during the dot-com bubble, and the political impact of the election on markets was minor, to the extent that it can be isolated.

Chart 11 How Equities And Govt. Bonds Reacted Around The 2016 & 2020 Elections

response. Market movements after the 2016 and 2020 elections are only somewhat indicative. Bond yields would likely increase if Trump were to win (Chart 11).

When it comes to U.S. Treasuries, markets fear that under a Trump administration there would be higher tariffs, and larger fiscal deficits. Since Biden dropped out of the presidential race (July 21), the

Chart 12 Bond Markets Are Concerned About A Trump Victory

*Source: Polymarket

TLT long-term Treasury ETF has generally moved inversely to how prediction markets (e.g. Polymarket) have assessed the likelihood of a Trump victory (Chart 12).

Foreign equities may sell off if Trump wins, as Mexican equities did in 2016, fearing broad tariffs, particularly for countries with consistent trade goods surpluses with the U.S. (Chart 13).

As we previously wrote⁵, we believe markets aren't accurately pricing in Trump or Harris. Short-term market reactions to election results will likely differ significantly from how markets will behave in 2025.

5 Alpine Macro Geopolitical Strategy "Notes From The Road" (September 26, 2024).



To start with Trump, we take the counter-consensus view that many of the fears around drastically higher tariffs, or of a Trump administration materially increasing the budget deficit are exaggerated.

His tariff rhetoric is likely far more dramatic than his policies. For example, tariffs on China will be lower than the discussed 60%, and will be phased in over time with significant loopholes.

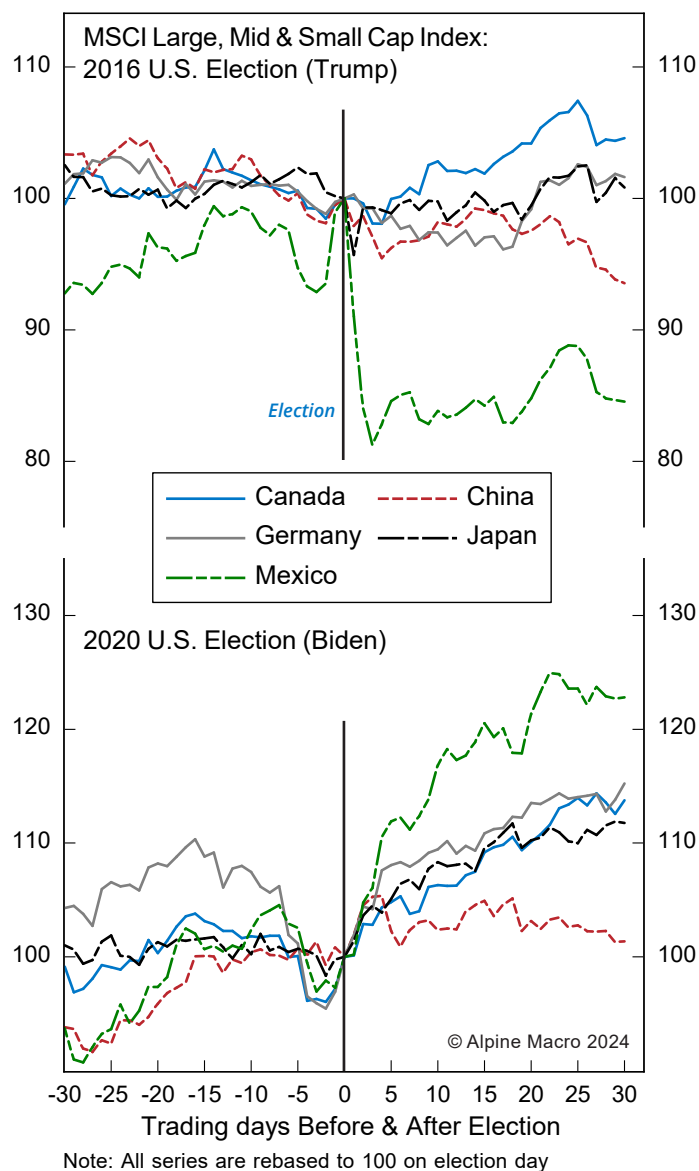
A key reason a Trump administration will avoid stoking inflation is Trump's need to win the 2026 midterms to avoid being a lame-duck president in his final two years — he cannot afford to upset voters beforehand. This same logic applies to why Trump is unlikely to push for large, unfunded corporate tax cuts or significantly increase the budget deficit; anything that risks inflation or destabilizing the economy will likely be watered down and delayed. Further, Trump and his economic team will prioritize financial market stability, as Trump always aims to boost markets.

Scott Bessent, a key Trump adviser and a potential candidate for Treasury Secretary, has made similar points on tariffs, arguing that tariffs would be slowly phased-in and also used as leverage to try to get other countries to open their markets.

Trump will likely structure tariffs to avoid passing costs to consumers, as was the case with the S. 301 tariffs on intermediate goods in 2018. This isn't ideal for corporations, but it's less severe than if Trump were to follow through on his current campaign promises regarding tariffs.

Additionally, the U.S. cannot easily shift imports away from China. U.S.-China trade levels remain

Chart 13 International Equities & The Last 2 U.S. Presidential Elections



high, and placing massive tariffs all at once would be highly disruptive. That said, tit-for-tat trade tensions will likely resume, with Trump imposing some tariffs and China responding in kind. Yet, there is also a possibility for a Phase II trade deal. While trade tensions will rise, they are likely to be much less severe than currently feared and should be manageable for the U.S. economy and markets.



Similarly, we doubt Harris will pursue her proposal to tax unrealized capital gains, which appears to be campaign rhetoric. She is reportedly reassuring businesses that this initiative is unlikely to move forward, even if Democrats control Congress.

While we are most concerned about more serious fiscal slippage under a Democratic sweep scenario (Harris Presidency with Democratic control of Congress), we think that a Harris and split Congress scenario would lead to more moderate policies: then Harris may govern in a more centrist way, both due to legislative constraints, as well as concerns about the 2026 midterm elections and electability.

We will analyze how each candidate might govern once the election results are known. While the current presidential race is exciting and may cause short-term market movements, assessing policies and politics for market implications becomes far more practical and concrete once we know the President, the makeup of Congress (including key lawmakers and committee chairs), the Cabinet, and how the new administration will prioritize its policy preferences.

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