



Harris or Trump? It doesn't matter!

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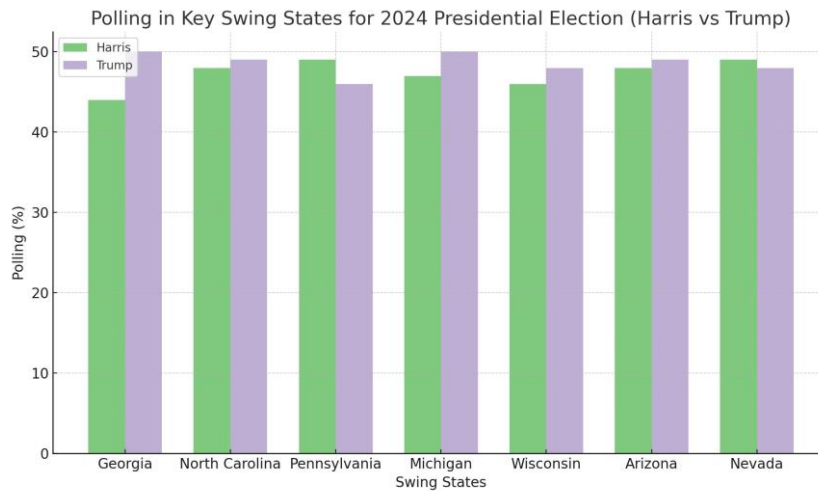
A flip of the coin

One of the titans in the financial world - Blackrock CEO Larry Fink - recently used the phrase that became one of the trademarks of [professional wrestler and now Hollywood star The Rock](#): "It doesn't matter!" The WWF pro yelled it at every opportunity to indicate the irrelevance of what others did or thought; The Rock won everywhere and always. The boss of the world's largest asset manager [believes it doesn't matter much](#) who wins the US election: "I'm tired of hearing this is the biggest election in your lifetime. The reality is over time, it doesn't matter."



Fink's words are certainly not representative of the mood in business and in financial markets. With a few weeks to go until the ballot, for virtually all investors and companies, the US election ranks high if not at the top of the list of uncertain, fundamental factors that could have a major impact on the outlook for the economy and financial markets. Let's get straight to the point: those who make it appear as though they are sure of the election result are far too overconfident.

In all likelihood, the outcome hinges on the results in seven so-called *swing states*; the other states are already fairly securely in either the Democrat or the Republican camp. And the polls in those seven all-important states - Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania and Wisconsin - are all so close that the lead of one candidate or another falls within the statistical margin of error in virtually all predictions.



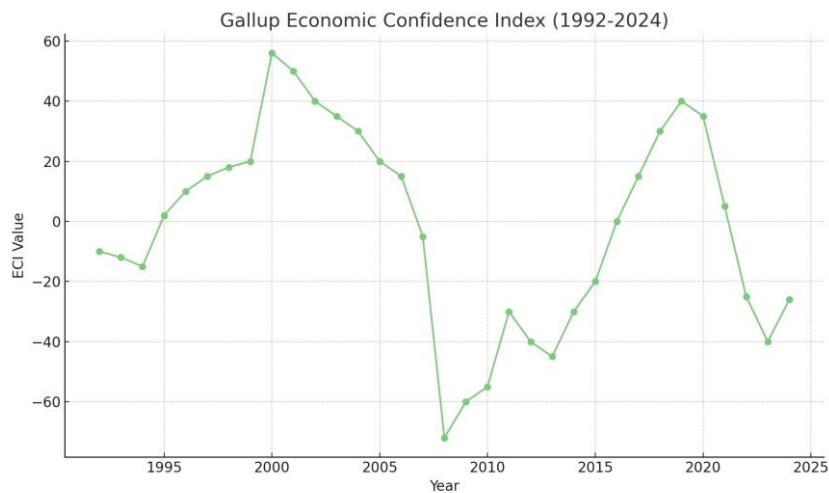
Sources: Quinnipiac University Polls, 270toWin, ECR Research

Earlier reports have regularly delved deeper into the electoral process. To avoid repeating ourselves, this time we want to touch on only the crucial points as well as on issues that were previously underexposed or that have recently changed fundamentally.

Two millstones around Harris's neck

The combination of a growing economy and a strong stock market - and the US has long had fairly strong growth, while shares are around record highs - usually predicts a favourable outcome for incumbents in an election year. In theory, this is even more true for Americans than for Europeans because shareholding is far more widespread in America than it is in Europe. However, a big problem for Kamala Harris and the Democrats is that more than five in 10 Americans feel they are worse off economically now than they were four years ago (incidentally, Democrat voters are considerably more positive, with 72% stating their situation has improved).

[Economic confidence is also fairly low](#): Gallup's *Economic Confidence Index* (ECI) measures confidence on a scale of -100 to 100. This index currently stands at -26, which is one of the worst scores in an election year since 1992 when Gallup first published the ECI. This pessimism has everything to do with the high inflation of recent years. Although it has since declined sharply, price levels are still far higher than before the corona pandemic and the Ukraine war.



Sources: Gallup, ECR Research

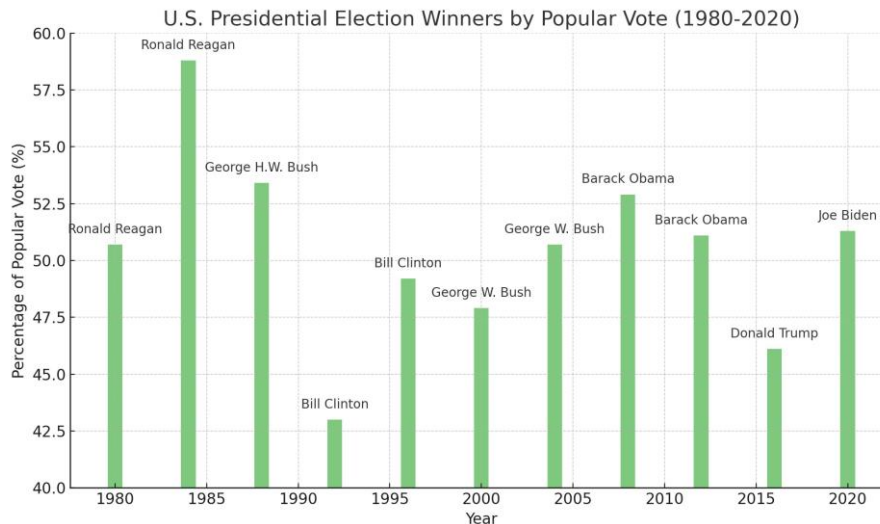
So even though wage increases have been significant and the economy is running at full capacity, most voters consider Trump to be better for the economy than Harris. This is also apparent in another recent Reuters/Ipsos poll, in which the Republican candidate beats his Democrat opponent by 8 percentage points: 46% to 38%.

Of the non-economic issues, immigration/border policy ranks as by far the number one [problem facing America](#) today. And it just so happens that voters believe Trump is by far [the best candidate to address the problem](#), with a 12 percentage-point gap in Harvard research and a 13 percentage-point lead in the aforementioned [Reuters/Ipsos survey](#). In other words, if voters are guided primarily by what they cite in polls as being the most important issues for the country, then things are looking up for Trump.

45% could be enough

The main focus is usually on the national polls (especially in non-US media), but as mentioned earlier, it mostly revolves around seven specific states. Moreover, even if Harris were to get more votes nationwide than Trump, this is certainly not a guarantee that she will win the White House. This is because Americans elect their president via the electoral college system rather than directly, and because sparsely populated, generally more conservative states carry a relatively heavier electoral weight.

So, in practice, this means Harris will probably only win the presidency once she has secured at least 52% of the vote. In contrast, Trump became president in 2016 with only 46.1% of the national vote because he won the right states. There is even a possible scenario where he could win with an even lower percentage - around 45%. In this scenario, Trump loses big states such as California, New York, and Illinois by significant margins, while making up for this with other electoral heavyweights such as Florida and Texas. In this case, he would also secure almost all the crucial swing states.



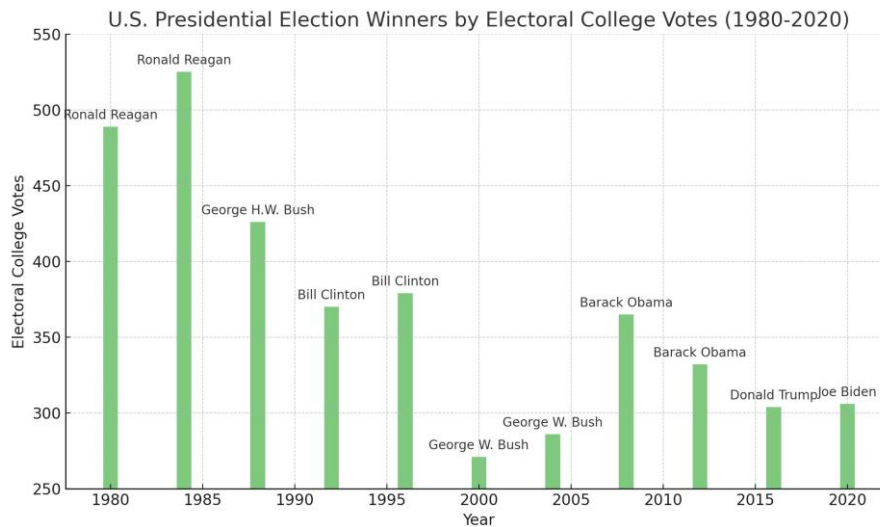
Sources: Federal Election Commission (FEC), U.S. National Archives, ECR Research

Small mistakes with big consequences

The fact that the polls are close does not necessarily mean that the final result is guaranteed to be a nail-biter. Even a [small polling error may be enough](#) to expect a result that will produce nail-biting scenes, while the number of electoral votes (270 required) ultimately reflects a fairly resounding victory for the winner. For example, [The Economist's model](#) currently shows a near 50/50 chance of one of the two candidates securing at least 306 electoral votes - the number Biden won in 2020, while Trump secured it in 2016.

Even though there is still over a week and a half to go until the official election date, voting is already in full swing. Especially since/ due to the corona crisis, many states offer residents the opportunity to turn in their ballots earlier than the first Tuesday in November. Earlier this week, [19 million Americans](#) had already done so. In other words, any damaging revelations or other dramatic events that could affect voting behaviour will no longer have any impact on a considerable number of votes.

What is striking in this context is that a relatively large number of Republican voters have already cast their votes, despite the fact that it was previously Trump who tried to cast doubt on the reliability of early voting.



Sources: Federal Election Commission (FEC), U.S. National Archives, ECR Research

Trump Trifecta in the making?

Besides the White House, control in the House of Representatives and the Senate is also at stake (plus numerous other public offices). The outcome of congressional elections is at least as important as that of the presidential race. Indeed, in many crucial policy areas, Congress determines the scope within which the president can act (e.g. in decisions to appoint judges to the Supreme Court, the setting of the budget and in the introduction or abolishment of taxes).

The two most likely scenarios for the election at this point are as follows: a completely Republican-dominated Washington (with the White House and both houses of Congress being in GOP hands) and, secondly, the White House for Harris and Congress for the Republicans.

The blunt-force strategy

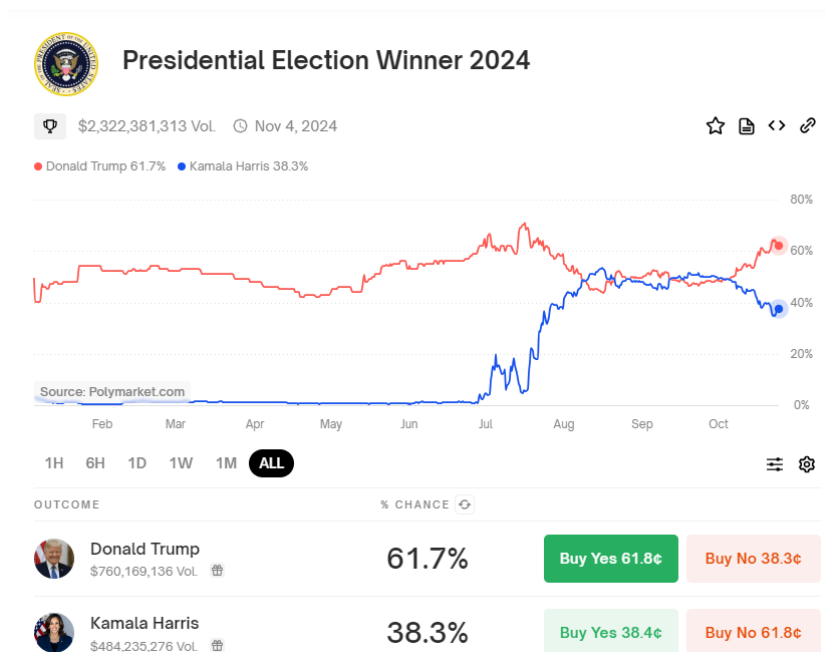
Many so-called mainstream media and [commentators still cannot get](#) over the fact that a man like Donald Trump is still so popular among a large part of the American population. In this regard, Nate Silver recently made what we consider to be [a very apt comparison](#) to the typical American plaintiff's attorney. These lawyers also do not advertise their sympathetic and empathetic qualities. Instead, they brand themselves as aggressive pit bulls who achieve the best possible result for their clients. Or, as Silver described it, "fun-loving Trump is a secondary brand. The main brand is he's an asshole. But he's your asshole. [He's on your side](#). Like those plaintiffs' attorneys, he's somewhat cleverly owning his abrasiveness and unpopularity. Sure, he'll take slings and arrows from the (BIASED!!!!!!) mainstream media. That's because they're elites who are not on your side. Trump fights - for you!"



By extension, some are surprised at the increasingly harsh, dark and crude approach Trump is adopting in his campaign rhetoric. It would be logical to reason that Trump has already won his die-hard support base, allowing him to focus on the people in the middle who are still unsure whether to vote for Harris or Trump. But this group of undecided voters is far smaller than the group of Americans who are alienated from politics because they feel that Washington always lets them down and that the political system has failed them. Those people cannot be moved to vote with a moderate story. Instead, they should be given the impression that someone is willing to turn the whole system upside down.

The new phenomenon

According to virtually all polls and analysts, Trump has gained reasonable momentum in recent weeks. If the betting markets are to be believed, however, the Republican candidate is really riding the campaign waves towards the electoral finish line. We have cited the most well-known prediction platforms in previous reports: Kalshi, Polymarket and PredictIt. These prediction markets are certainly useful to get an idea of momentum in elections, and Polymarket in particular has been in the spotlight in recent weeks, as Trump currently has a nearly 64% chance of winning, according to those active on this platform. Not surprisingly, the Republican camp - from Elon Musk to Trump himself - has recently been enthusing about Polymarket. Trump recently said, "they have a new phenomenon. Now, they call them the betting polls. I don't know - people are gambling on them. I can't imagine that's a proper thing to do, but perhaps they are. But one of them just came out. I guess the big one, we're 63 to 33, something like that." Musk found the platform "more accurate than polls, as actual money is on the line."

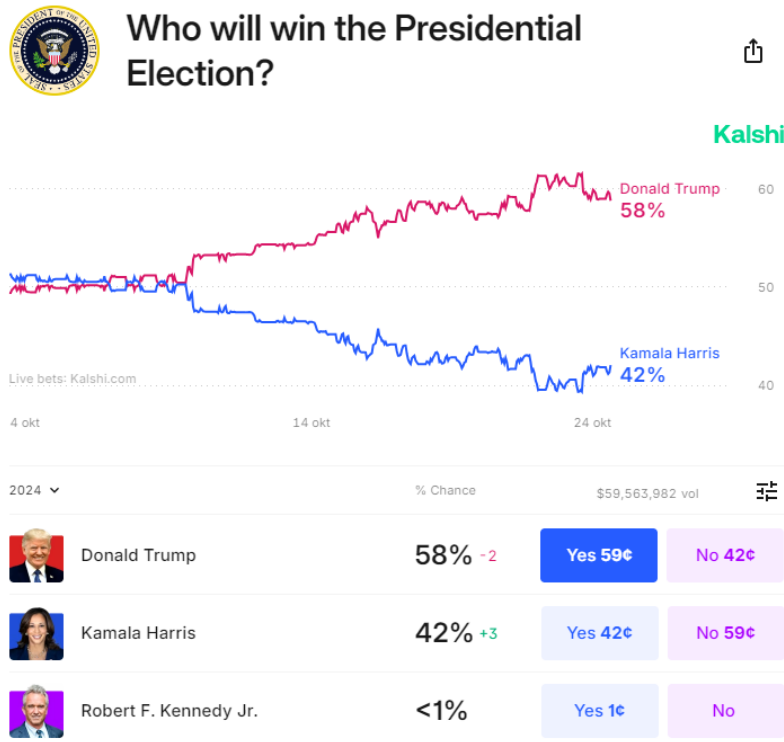




In addition to Polymarket, the other two, Kalshi and PredictIt, are often cited in the media and in reports by investment banks, for example. This is why it is important to keep in mind the limitations and special characteristics of these three betting markets when interpreting their data.

Regulation and restrictions for each platform

- » **PredictIt** operates under strict regulations from US authorities. Only Americans are allowed to be active on this platform. Also, there is a trading limit of up to \$850 per participant per contract and there is a limit of 5,000 traders for each event. As a result, this market may not fully reflect true sentiment or information as larger players are limited in their influence.
- » **Kalshi** has recently won a court case allowing it to legally offer election-related betting in the US. Kalshi operates under the supervision of the CFTC, and this platform is also exclusively for Americans. A maximum of \$25,000 per trader per bet basically applies, but exceptions are possible for certain types of participants, such as so-called *Eligible Contract Participants* (ECPs). These ECPs may have significantly higher limits depending on their economic need to hedge risks. For qualified ECPs, the limit can go up to \$100 million in the event of a [verified economic need](#) for risk management. These limits are primarily intended for professional traders and institutions with specific hedging needs.





- » **Polymarket** is a crypto-based platform, has no limits in place on individual bets and is not under US regulation. Americans are officially not allowed to be active on Polymarket, although Americans can easily work around the ban via a VPN connection, for example. If this is discovered, however, they will run the risk of their accounts being closed and losing their money.

Market manipulation and the influence of major players

As for Polymarket - which is currently featuring prominently in many analyses of the imminent election - there are concerns about market manipulation because of its uncontrolled betting. This allows a few large players, such as [the anonymous bettor](#) "Fred9999," to significantly influence the market by placing massive bets on one outcome. In these cases, the betting market no longer necessarily reflects actual election dynamics. Fred9999 began to be noticed as this user bet millions of dollars on Trump multiple times, significantly increasing the odds of a Trump victory on Polymarket. Fred9999 is probably one of several accounts managed by the same person or entity, as four accounts - including Fred9999 - share similar characteristics and are funded through the same cryptocurrency exchange. According to Bloomberg, Fred and related accounts had taken \$43 million dollars' worth of pro-Trump and other pro-Republican positions last month.

A quick response to news and sentiment

All three platforms respond more quickly to events and changes in election dynamics than traditional polls. Because real money is at stake, they can sometimes get a more accurate sense of the direction of the election. However, they are also prone to fluctuations triggered by temporary hypes or strategic betting, such as when a few major players adjust their bets to influence public perceptions.

A distorted view

In addition, it seems wise, especially with Polymarket, to keep in mind that the nationality of the participants is not known with certainty. If the rules are largely observed and the vast majority of Polymarket bettors are not American, then it is probably a good idea to have some scepticism about the reliability of the platform's odds. Moreover, the platform's users are certainly not a cross-section of the average politically-minded and/or investment-minded person, as trading can only occur with stable coin USDC. Consequently, users are more likely than average to be male and, [as the New Yorker describes it](#), *extremely online*. This is why we assume that Trump supporters are overrepresented among Polymarket users and that their preferences seep into the positions taken.

So, when interpreting the odds presented by betting markets, the influence of regulations, the impact of market-distorting *whales* and possible manipulation by strategic players are factors to be taken into account. Another important factor is that the political preferences of traders are possibly more likely than average to be Republican and are - intentionally or unintentionally - factored into the



positions taken. This can make the odds displayed on these platforms less reliable than they initially seem.

Taxes and tariffs

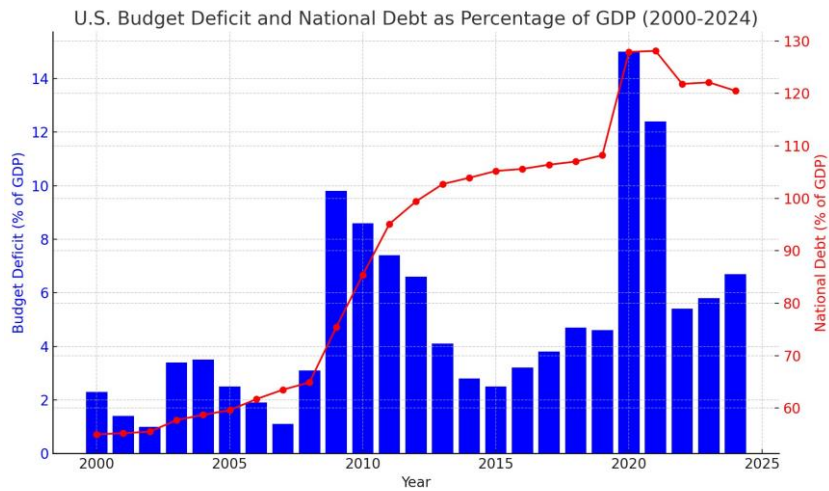
Given the analysis above, we would first like to reiterate that it is impossible to predict the election outcome with a great degree of certainty, and that the best bet of investors and entrepreneurs is to think in scenarios. The betting markets probably exaggerate Trump's odds. That said, bettors on [traditional betting sites](#) are also clear in their assessment that the Republicans have the best odds. However, partly on the basis of analysis of [the predictions of the most prominent election experts](#), we are also inclined to label the two most likely scenarios as Trump scenarios: one including an all-Republican Congress and the other with at least one of the two houses in Democrat hands (probably the House of Representatives).

Whatever the political colour of Washington from January onwards, we wish to focus the remainder of this report on two issues that the new president and Congress are bound to have on their plate in 2025, and which are crucial for financial markets:

- » The expiring tax cuts of the 2017 *Tax Cuts and Jobs Act* (TCJA).
- » The 'truce' in the steel tariff war with the EU, which will expire in March.

THE political battle of 2025?

The TCJA brought sweeping tax cuts in 2017, including lower income tax rates and a reduction in the corporate tax rate from 35% to 21%. Most individual tax cuts will expire at the end of 2025, unless Congress extends them. If Trump is backed by a Republican Congress, he is likely to push for an extension of these tax cuts and will probably even try to lower the corporate tax rate further, possibly to 15%. This would boost economic growth and corporate earnings expectations in the short term, which is favourable for stock markets. However, the extension would increase the federal debt by an estimated \$4.6 trillion over 10 years, which could put pressure on bond markets and drive interest rates higher, which would act as a brake on the economy.



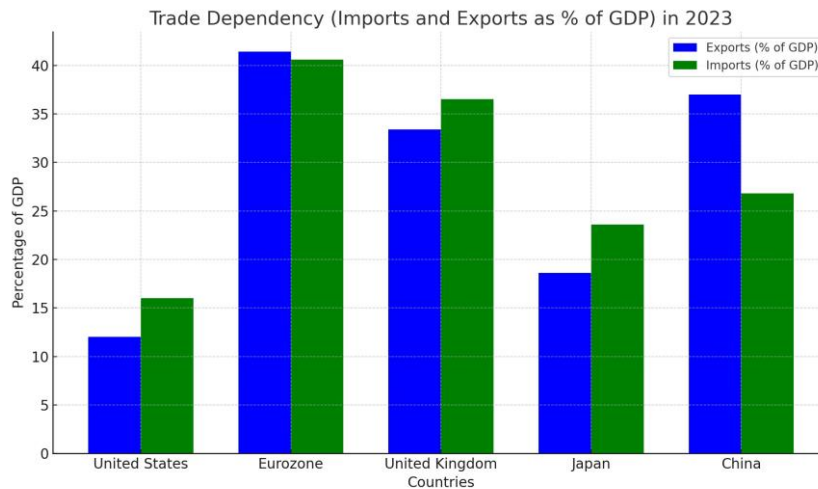
Sources: St. Louis Fed (GFDEGDQ1885), Congressional Budget Office (CBO), ECR Research

If Trump faces a (partially) Democrat Congress, the tax cuts could expire in the most far-reaching scenario. This would increase taxes for the middle class and possibly reduce consumer spending. This would slow economic growth and, in all likelihood, it would negatively impact stock markets.

Democrats might opt for this route if they believe they can convince voters that the failure to reach an agreement is Trump's fault, with the aim of pulling off a colossal victory in the 2026 midterms. We believe that such a strategy has very little chance of success and that, after a bitter, prolonged battle - which may continue into December 2025 - Democrats and Republicans will strike a deal on a partial extension of the tax cuts. However, we certainly do not expect a further reduction in the corporate tax rate. In this scenario, it is to be expected that, at any rate, the wealthy will face slightly higher taxes.

The risk of a resurgent trade war

The temporary steel tariff exemptions between the US and EU are set to expire in March 2025. If Trump reimposes tariff hikes without reaching a new agreement, this could lead to disruption of global supply chains (via the actual tariffs and the ignition of a trade war involving multiple products and sectors) and to higher costs for manufacturers dependent on imports. Another trade war would slow global economic growth and cause significant volatility in stock markets. That said, the pain would probably be felt more keenly in Europe and other economies that rely more on international trade than America.



Sources: Observatory of Economic Complexity, World Bank, Eurostat, ONS, ECR Research

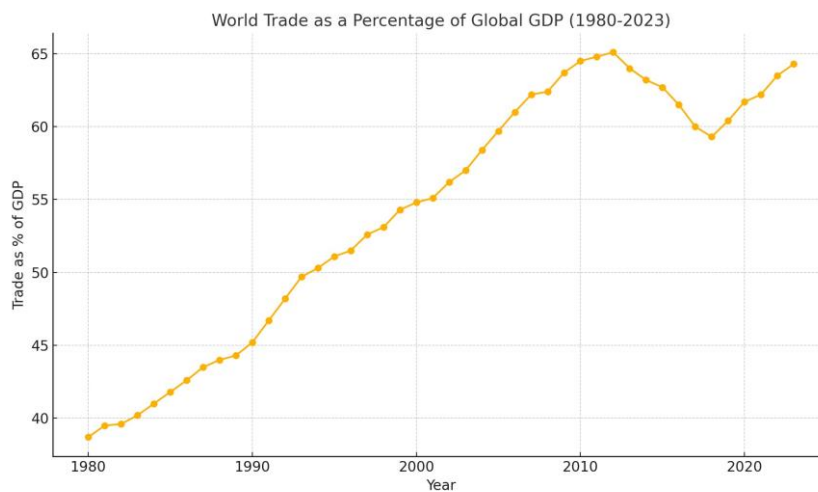
Escalation towards an all-out trade war seems less likely with a (partially) Democrat Congress. Democrats tend towards a more multilateral approach to trade and, rather than imposing unilateral tariffs, they are generally committed to reinforcing international trade agreements. Although the Biden administration maintained certain Trump tariffs, Democrats are more likely to pursue dialogue and co-operation with trade partners in the event of a divided Congress, so as to avoid conflict and form a unified bloc against China. US-EU relations would therefore be less strained in this case, which would benefit multinationals operating in both regions.

Incidentally, it is often argued that the president has a great deal of freedom in setting trade policy and that Congress plays a subordinate role. The US president indeed has considerable power in this area, but Congress has partially delegated this power and can therefore reclaim some or all of it. Moreover, Congress must be involved anyway where it concerns long-term changes or the introduction of new laws.

- » **Presidential power in trade policy:** One of the most important instruments available to the president is the power to impose tariffs or trade restrictions on his own initiative. This falls under the *Trade Expansion Act* and sections such as 232 (national security) and 301 (unfair trade practices). Under Trump, these powers were frequently used to impose tariffs, especially against China, without direct congressional approval.
- » **Role of Congress:** Although the president has a great deal of discretion in taking trade measures, Congress can influence the broader direction of trade policy by approving or blocking trade agreements, granting *fast-track* authority (allowing Congress to vote on treaties more quickly without amendments), or limiting the budget for certain measures. For example, a Democrat Congress would be less likely to support aggressive tariffs or a protectionist trade agenda, while a Republican Congress would probably offer less resistance.



- » **The President's limitations:** Although, during his first term, Trump was able to implement trade policy without much interference, he sometimes met with opposition from Congress, especially when his policies began to cause economic damage. Congress members from sectors affected by the trade war - such as agriculture - expressed concerns about the negative impact of tariffs and sometimes threatened to pass legislation to curb them. Moreover, Congress may pass new laws making it more difficult for the president to unilaterally impose trade tariffs, which is more likely to occur under a divided or all-Democrat Congress.



Sources: World Bank, OECD National Accounts, ECR Research

In summary, the president has significant power over trade policy, but Congress can influence or curtail this power, especially when the economic consequences become apparent. A fully Republican Congress would give Trump more leeway for protectionist policies, while a partially Democrat Congress would probably be committed to limiting such measures.

Rebels and Trump Trade

We wish to leave you with a few comments to conclude this GPA:

- » We should be wary of drawing conclusions about the policies of, say, a Democrat Congress. This is because the majorities in the new Congress will probably also be very small and the votes of - in this example - Democrat members of Congress are never guaranteed. Some Democrats are more similar to Republicans in their economic views and may consequently obstruct proposals they consider to be too leftist/progressive and choose to vote with the Republicans. Democrat Senators Manchin and Sinnema, for instance, have regularly thwarted their party's plans in recent years. They were in this position because the Democrats hold only a marginal majority in the Senate.



- » As we have pointed out in recent other reports, it is apparent that the markets are currently pricing in a Trump victory via a strong dollar, lower bond prices, higher interest rates and [weaker share prices for European exporters](#), among other factors. This means that we will probably see relatively minor market fluctuations if Trump wins, as this result is already priced in. Should Kamala Harris win, we will likely see significant volatility in stock, bond and currency markets.

[The Rock regularly shouted](#) "It doesn't matter what your name is!" However, given all of the above, we beg to differ with Larry Fink's slightly more humbly expressed but similar view; the name of the next president will certainly matter to the outlook for the US and global economies.

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