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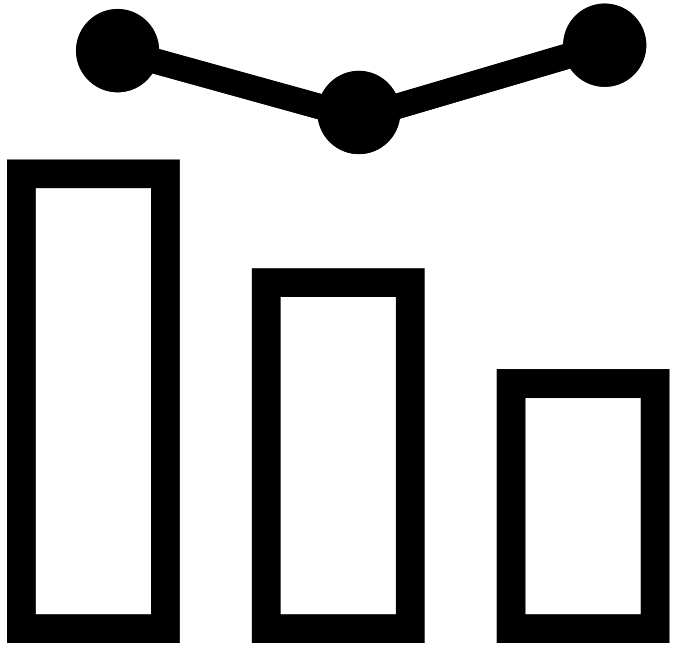

Market: trends & themes

March 2024

US: Countdown to the presidential election

With 'Super Tuesday' and other primaries largely behind us, the cards for November's US presidential election would appear to have been shuffled. In other words, it now seems clear which candidates will be competing against each other. But is that really the case, and what does it mean for investors?

'Oh no, not again…'

With Nikki Haley's declaration in the Republican primaries, the inevitable seems to have become even more inevitable, namely that the same two old men who ran for the US presidency in 2020 will take each other on once again. In 2017, Donald Trump was the oldest new incoming president at 70 years of age. In 2021, that record was comfortably beaten by Joe Biden, who was 78 at the time. The main difference from four years ago seems to be that both candidates are now four years older. For the Economist magazine, this was reason to consider who has the best chance of surviving another four years as president. In short, the conclusion was that both candidates have a roughly 75% chance of leaving the White House alive in 2029. Another but perhaps even more important question is what shape they will be in by then. Cognitive competences, such as memory capacity, decline at an accelerated rate in old age, say from the age of 70-75. This was the main reason why also in the Economist, former British Foreign Secretary (and neurologist) David Owen recently called for a 70-year age limit for incoming presidents, a rule that is often used for top business figures. American voters apparently

wholeheartedly agree with Owen's argument. In a recent poll, almost 60% of the respondents indicated that both candidates were too old, and moreover 30% indicated that one of them was too old (mostly Biden).

Even if Trump and Biden are now virtually assured of the candidacy for their respective parties, and even if we assume that both candidates will stay on at least until the election date of 5 November, the widely shared discontent among Americans about both candidates will mean that the outcome of the elections will continue to be uncertain. This discontent was expressed during the primaries by the significant minority of about a quarter of Republicans supporting Nikki Haley, even though she had no chance of beating Trump. Among Democrats, Biden must be particularly concerned about 'blank' voters, who used this approach to express their dissatisfaction with Biden and/or his policies and, for example, represented 10-30% of the Democratic votes in states such as Michigan, Minnesota and Hawaii.

Is there room for 'a third way'?

Discontent within both parties makes it difficult to predict the outcome of November's election, also because it leaves room for a potential third-party candidate not tied to either major party. Historically however, an independent presidential candidate has never posed a real threat to established parties. Yet such a candidate could be decisive for the result, even with only a few per cent of the vote. For example, Al Gore, the Democratic presidential candidate in 2000, will still be having nightmares about Ralph Nader. In 1992, Ross Perot garnered nearly 20% of the vote, but experts still disagree on whether that cost George Bush Sr. the election victory against Bill Clinton.

Several third candidates have also come forward this year. For example, Jill Stein, who kept Hillary Clinton out of the White House in 2016 with her few per cent of the vote, is again campaigning for the Greens. But the main contender to become the 'Ross Perot' of 2024 would seem to be Robert F. Kennedy Junior. RFK Jr. (indeed, the son of Robert F. Kennedy and the nephew of John F. Kennedy) initially registered as a Democratic candidate, but now appears to be more popular among some Republican voters as an independent candidate (and with many somewhat unconventional views).

Election 2024: once again, far too close to call?

The discontent among many US voters regarding both Trump and Biden and the potential space this has created for a third independent candidate would not matter as much if the Republican or Democratic candidate had already been clearly ahead in the polls, but this is not the case. In the most recent polls, Trump has a slight lead over Biden, but the differences are so small and the election is still so far away that this doesn't say much about the final result. Probably, at least until the party conventions in the summer (July for the Republicans and August for the Democrats), none of the candidates will succeed in building a convincing lead, but even more likely (as in 2020) it will remain unclear who will be the winner until election day, or even after that.

What makes the result even more unpredictable is that it is not the candidate with the most votes (the winner of the popular vote) who becomes president, but the candidate with the most electors behind them. As a result, the outcome is likely to be decisive in only a handful of states. In 2020, Georgia and Arizona were the states that remained too close to call for the longest time. These states will again be on the short list of swing states in 2024, but this time a few states in the Midwest (particularly Wisconsin, Pennsylvania and Michigan) could also play a decisive role.

Trump or Biden: What is the difference for investors?

Assuming that the battle will continue to be between Trump and Biden, the question for investors ultimately is whether it matters much which of these two will be president. To answer to this question, it is in any case helpful that both candidates are by no means unknown. In fact, it is the first time since 1912 that a sitting president and a former president have faced each other (by the way, when neither of them won and Woodrow Wilson took the win for the Democrats). So there are some things to be deduced from their first terms as president. But one disadvantage is that the Republican candidate in any case does not yet have a coherent economic plan for a possible new term in office. The Democratic candidate's plans so far have been limited to his 2025 budget proposal, which he had already summarised in some one-liners in his recent State of the Union address,

in which Biden presented himself economically as a typical tax-and-spend Democrat, with higher spending, especially on social security, to be funded with higher taxes for corporations and the "ultra-rich." For the Republican Trump, based in part on his first-term experience, the economic focus seems to be more on lower taxes, deregulation and a smaller government. There would thus appear to be a real choice for Americans in this respect, but the reality is that the scope for fiscal stimulus is anyway limited for both candidates. The reality is that the US budget deficit has increased under both Trump and Biden. In the period from early 2017 to the start of the corona virus pandemic in the spring of 2020, the US budget deficit rose from 3% of GDP to about 5%, mainly thanks to President Trump's tax cuts. The budget deficit subsequently soared completely out of control in a single year to over 18% of GDP, largely due to measures to cope with the corona virus crisis.

After the effects of the corona pandemic subsided, the budget deficit 'normalised' to approximately 4% of GDP in the first 18 months of the Biden administration. The deficit then rose again in the past 18 months, from 4% in June 2022 to 6.5% of GDP at year-end 2023. This is at least partly due to the active budgetary policy of the Biden administration, in particular the large-scale infrastructure and other investments within the framework of the Inflation Reduction Act, arguably a somewhat misleading term for what was above all a package of fiscal stimulus measures.

All in all, rising budget deficits under both Trump and Biden have contributed to US government debt now standing at more than 120% of GDP. Before the outbreak of the credit crisis in 2008, this percentage was still around 65% of GDP. Especially with the recent increase in interest rates, it will become increasingly difficult for the US government to meet its debt payment obligations in the future. Whoever enters the White House on 20 January 2025, there is almost no chance of a significantly less generous fiscal policy than that pursued by both Trump and Biden in their first terms, unless they dare to follow President Reagan's optimistic reasoning that "the budget deficit is now large enough to take care of itself". Reagan assumed that government debt would more or less disappear as a result of inflation, for example thanks to continued high economic growth and/or inflation. It should be noted that, in 1981, Reagan had a significantly better starting position than today's presidential candidates, with government debt at 40% of GDP (which had risen to 60% by the time he left the White House in 1989).

The trend towards deglobalisation will not disappear any time soon

Another issue affecting the economy and potentially relevant to investors on which Trump and Biden are trying to differentiate themselves is deglobalisation, especially in relations with China. In fact, this is a somewhat similar story to fiscal policy: based on the experience of their respective terms in office, the differences between the two candidates are less pronounced than they might initially appear to be Trump's "America First" policy, and more specifically his anti-China rhetoric, is likely to have helped reduce the US's contribution to global trade during the second half of his term in office. However, if we disregard the disruptive effects of the corona virus pandemic on global trade in 2020 and 2021, we see that international trade to and from the US has also contracted during the second half of Biden's government term.

Neither presidential candidate has so far shown a strong change of heart about the US's role in international trade. In his recent State of the Union address and on other occasions, Biden has repeatedly stated that "Made in America" and "Buy American" are and will remain important cornerstones of his economic policy. In a clear attempt to outflank him on the right, Trump has announced his intention to impose a 10% tariff on all imported goods and services. The reality of this proposal is questionable, but most economists agree that it would be at the expense of economic growth and lead to higher inflation (and interest rates), thus making a stagflation scenario more likely.

Immigration as an election theme

A third issue that will undoubtedly receive much attention in the election campaign is immigration. The US economy has always benefited substantially from the influx of immigrants, and immigrants have made a significant contribution to the strong growth of the US economy in recent years as well. Labour supply in the US has increased by about 4% since the end of 2019, largely due to increased immigration. This has not led to problems on the demand side of the US labour market; on the contrary, if we ignore the corona virus in 2020-2021, unemployment in the US has remained at an unchanged low level of 3.5-4% compared to the end of 2019.

Both Trump and Biden have indicated that they want to put a brake on (especially illegal) immigration, but here too, Trump's intention to deport illegal immigrants goes significantly further than Biden. From an economic perspective, this would not seem to be a particularly good idea. Migrants without permanent residency are estimated to make up about 5% of the US workforce, and especially with the current tightness in the labour market, they will be sorely missed. As with Trump's proposed tariffs on imports, immigration restrictions are expected to have negative consequences in the form of both lower economic growth and higher inflation.

Trump or Biden: place your bets?

Based on the experience of recent years and what is so far known about the presidential candidates' plans, the differences seem, at least from an economic perspective, less significant than one might expect at first glance. As in many other areas, Donald Trump seems the more outspoken, if not extreme, candidate on the economic front, but he has not (at least not yet) presented a comprehensive economic policy plan. This means it is difficult for investors to gauge how a possible second term of a Trump administration would work, although the same applies to some extent to Biden.

In any case, it is currently difficult for investors to prepare themselves for the election result in November. Based on recent polls, the probability of a win for Biden or Trump looks to be around 50%, similar to red or black at a roulette table, with a small chance of a win for someone else. It should be noted that even if you were to already know who will win the election, this would not necessarily help you to make good investment decisions. For example, one of the much-vaunted predictions in 2020 was that a Biden election victory would be beneficial for clean energy investments. This did not turn out to be the case: anyone who had invested in a basket of clean energy shares after Biden's election victory has since lost some 40% of their initial capital, while the oil price has roughly doubled in the same period.

2024 a repeat of 2020, or 2000…?

To make things even more confusing for investors: on 5 November, not only will a new president be elected, there will also be an election of a new House of Representatives and a new Senate. Currently, the Republicans have a small (and dwindling) majority in the House of Representatives, and Democrats have a minimal majority in the Senate, but according to current polls, this situation could be reversed after November 5. At any rate, it would now seem that it is more likely that we will have a 'divided' government rather than a 'unified' government in which one party provides the president and has a majority in both houses of Congress. So neither party will probably be able to make a clear mark on economic policy, as was the case during the first two years of both Trump and Biden's administrations, for example. An advantage of a divided government is that extreme policy measures are less likely, but the disadvantage is that uncertainty regarding policy and for example government shutdownswill increase.

All in all, the starting position for this year's election is in many ways similar to that of 2020, not only because the two leading candidates are now known as Trump and Biden, as was the case then. For stock investors at least, this may not be so bad, as the US stock market increased by more than 10% a year on average under both Trump and Biden. However, if we include the valuation of US equities in the comparison, another election year may be more relevant: 2000. Not only was the election campaign at the time at least as exciting as it was in 2020 (and expected to be in 2024), but US tech and other stocks were also expensive, not to say overvalued, at the time. This did not benefit investors. As early as spring 2000, stock prices were already highly volatile, but the S&P 500 index almost halved in value in the two years after the autumn of that year. How much was this the fault of President George Bush Jr., and would things have been different had the Supreme Court declared Al Gore rather than Bush as the winner? Not very much, in our view. Even 'the most powerful person in the world' is not that important ...

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