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U.S. PRESIDENTIAL ELECTION MODEL CORRECTLY PREDICTED TRUMP WIN

RETROSPECTIVE

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Retrospective: U.S. Presidential Election Model Correctly Predicted Trump Win

- GeoQuant's U.S. presidential election model correctly forecast Donald Trump's victory on 5 November 2024 given consistent "change" signals in our data.
- These change signals – including structural and near-term trends in Mass Support and Socio-Economic Risks – also led to large Republican gains in Congress, overriding our expectation of divided government.
- The decisive victory has muted the risk of contestation and anti-government political violence, but incidents of social unrest remain likely.
- Trump's victory – coupled with strong Republican gains in Congress – will lead to a unified government, that likely extends tax cuts, enacts massive tariffs, and keeps longer-term U.S. Treasury (UST) yields high.
- We simulate how changes in U.S. Political Risk will affect UST and gold markets, finding gold spot prices could ultimately move above $3000 under a Trump administration (at current level of interest rate, CPI, and UST 10-year yields).
- That said, under similar conditions, 10-year yields could hit highs not seen since 2007, with historically negative (though recently more ambiguous) implications for gold price.

GeoQuant's Retrospective series provides a look at key historical events and how our data fared in predicting those events. Since 1 July 2016, GeoQuant has correctly predicted 77% of the most salient policy, political, and electoral events. Our global election model – which employs machine-learning methods to forecast the probability of government change based on GeoQuant daily political risk scores – is 82% accurate since 2013. Here we evaluate our predictions for the 2024 U.S. presidential and legislative elections.

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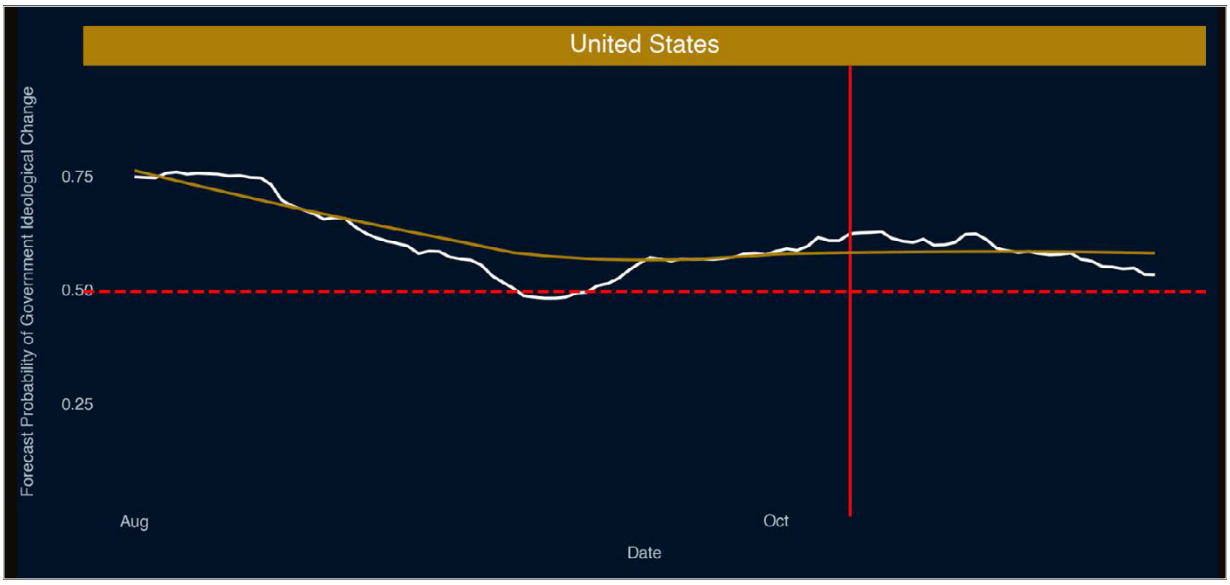
Presidential Election

Our U.S. presidential election model locked-in on 5 October forecasting a 53.7% probability of government/ideological change, indicating that the incumbent Democratic Party would lose the presidency (Figure 1). Before 21 July – when incumbent President Joe Biden dropped out of the race in favor of Vice President Kamala Harris – the model forecast a 75% chance of government change, a very strong "change" signal driven primarily by structurally high levels of Socio-economic Polarization and Mass Support Risks. The gap closed under Harris' candidacy and even temporarily moved to a forecast of incumbent continuity after the Trump-Harris debate. But the trend line quickly inflected back toward change (above the red-dotted line) thereafter. That shiftback toward change was driven by rises in daily Pulse scores on Mass Support, Socio-Economic and Macroeconomic Policy Risks (Figure 2).

While the forecast ended in statistical "toss-up" territory, it correctly forecast that Trump was more likely to win, in large part because Harris was ultimately unable to overcome the structural drivers of incumbent change captured by the model.

FIGURE 1.



Source: GeoQuant

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FIGURE 2.

Source: GeoQuant

Legislative Election (House of Representatives)

Our U.S. legislative election model – which focused on the House of Representatives rather than the Senate – also forecast change (63%), which we interpreted as alternation in the House to Democratic control. While control of the House remains up in the air, Republicans currently stand likely to hold onto that chamber by a (nother) narrow margin, while taking more definitive control of the Senate from the Democrats. In retrospect, the legislative model overestimated the role of Institutional (especially Rule of Law) Risks – ostensibly a headwind for continued GOP control of the House – and underestimated the role of Mass Support and Socio-Economic Risks, which were negative for the incumbent Democrats in the presidential model. In other words, voters punished the Democrats far more for adverse socio-economic conditions (e.g.,inflation) than they did Republicans for adverse institutional conditions (e.g.,democratic backsliding). As such, our forecast of divided government is unlikely to be correct, while the scope of Trump's presidential victory was larger than our model anticipated.

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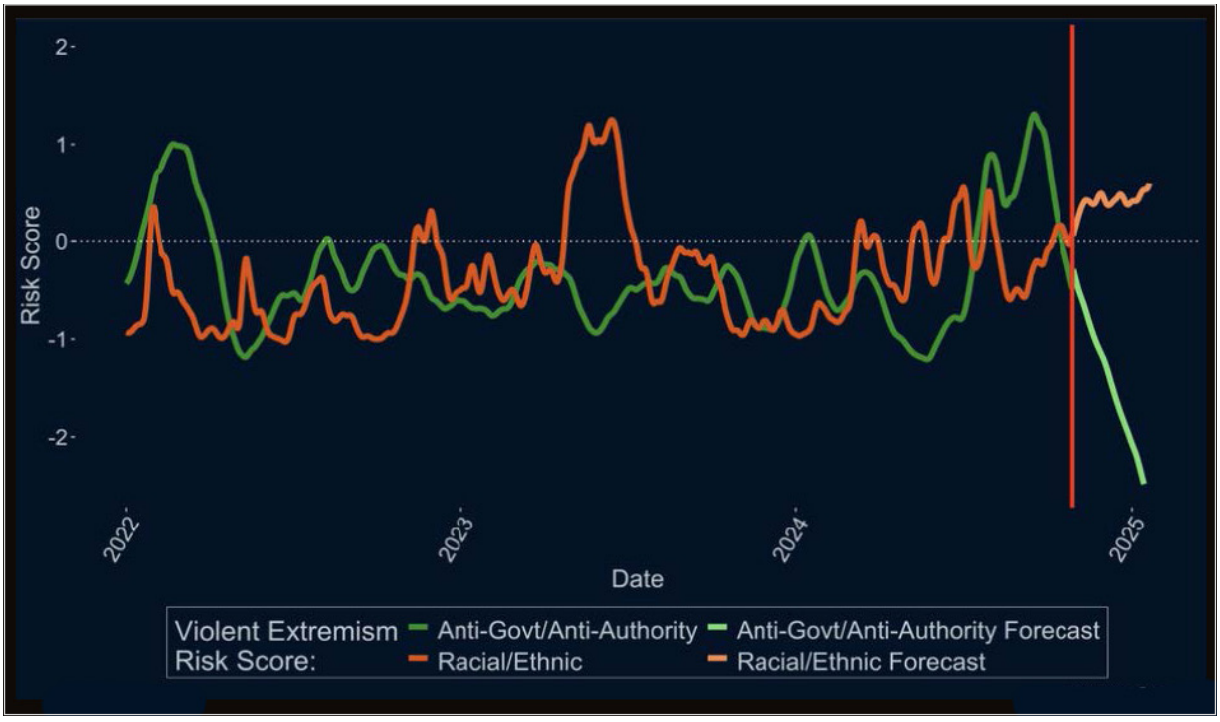
Political Violence

Last week, we forecast that the risk of an anti-government insurrection was lower in 2024 than in 2020-21. This is likely to prove correct as Trump won the presidency in swing states by large enough margins to preclude an expected contestation of the results, greatly reducing the high risk of post-election violence. That said, the spike in hate crimes and violent rhetoric surrounding the election looks set to persist thereafter, reflecting our analysis that racial/ethnic violence is likely to grow between now and the inauguration as Trump's win creates a permissive environment for racial/ethnic conflict (as it did in 2016).

FIGURE 3.



Source: GeoQuant

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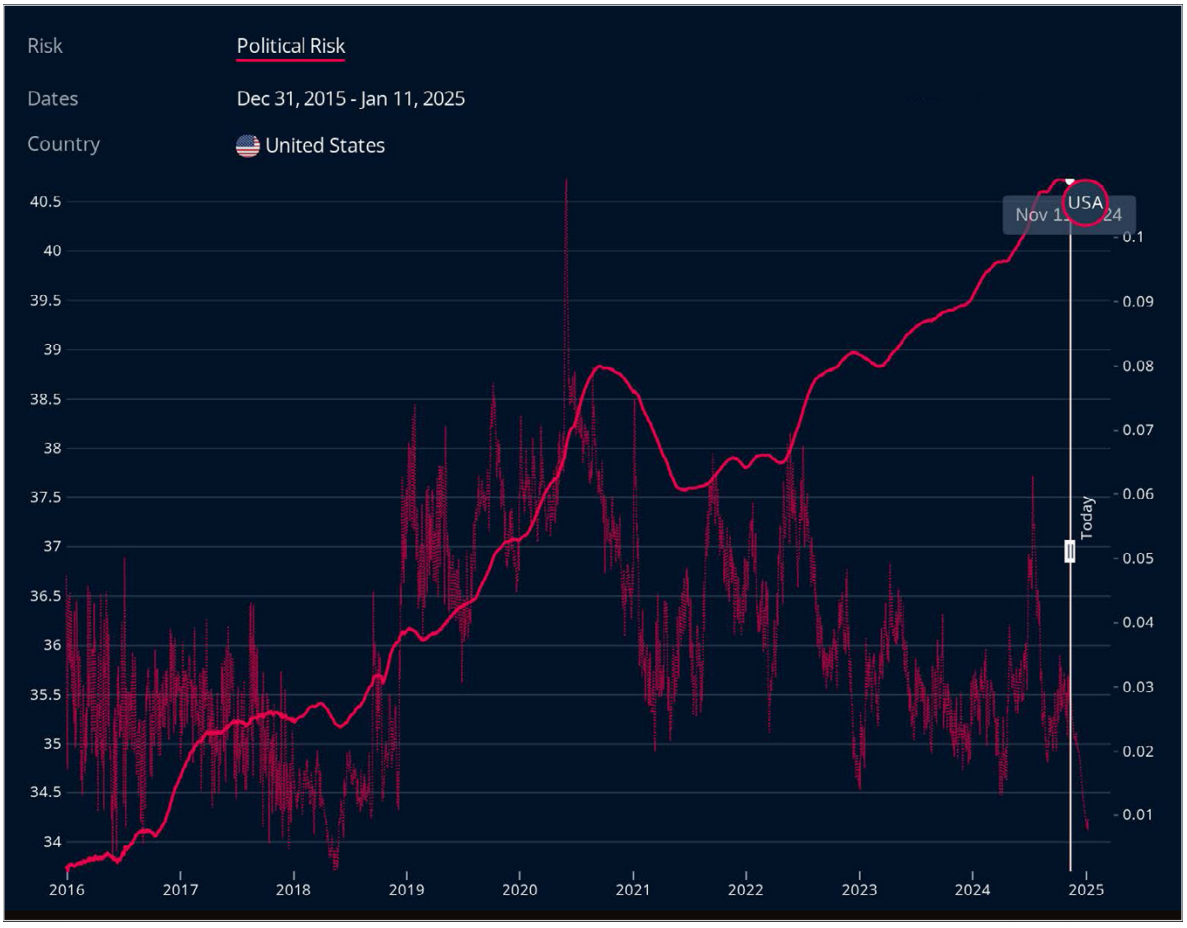
U.S. Political Risk and Market Impacts:

As previously analyzed, our election models' "change" forecasts were driven by a wide range of increasing Risk indicators, all of which drove topline U.S. Political Risk (along with a number of "**Trump trades**") higher. With the election over, higher U.S. Political Risk will continue to impact markets. Since 2016, higher Political Risk is strongly associated with a higher gold price and longer-term U.S. Treasury yields, further evidence of the "**EM-ification**" of U.S. politics. U.S. Political Risk is also strongly correlated with the (very risk acceptant) S&P500 and less so with the ostensibly "safe haven" U.S. dollar.

FIGURE 4.



Source: GeoQuant

In the immediate aftermath of the election, Risk remains elevated (Figure 4). **As expected** equities are hitting record highs due to post-election relief and (more atypical) expectations of extensive de-regulation and tax cuts under Trump. (The lower growth fallout from migrant deportations and higher tariffs are discounted for now.) The U.S. dollar has moved largely with shifting interest rate expectations: higher due to Trump's inflationary agenda of immigration restrictions, tariffs, and tax cuts; lower with last week's Fed rate cut and Chairman Powell's **insistence** he would not step down if Trump asked. Here we explore how further increases in Political Risk under Trump would impact gold price and 10-year Treasury yields and thus the USD.

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Gold

To provide a more precise estimate of how higher U.S. Political Risk would influence gold price, we employ Monte Carlo simulation methods. Simulations provide a tool to quantify the impact of different political changes and stress-test how markets are likely to change in response to these events. We use a series of models featured over the summer, which showed higher Political Risk s strongly associated with a higher gold price and longer-term U.S. Treasury yields, even when controlling for interest rates.

The simulation analysis compares three different changes to U.S. Political Risk against current levels as a benchmark (40.7 as of 10 November). The benchmark case shows the expected price of gold based on current Political Risk levels – as well as current interest rates, CPI, and UST 10-year yields. The subsequent cases examine one, two, and three standard deviation increases in Political Risk (note that Risk increased by three standard deviations during the first Trump administration).

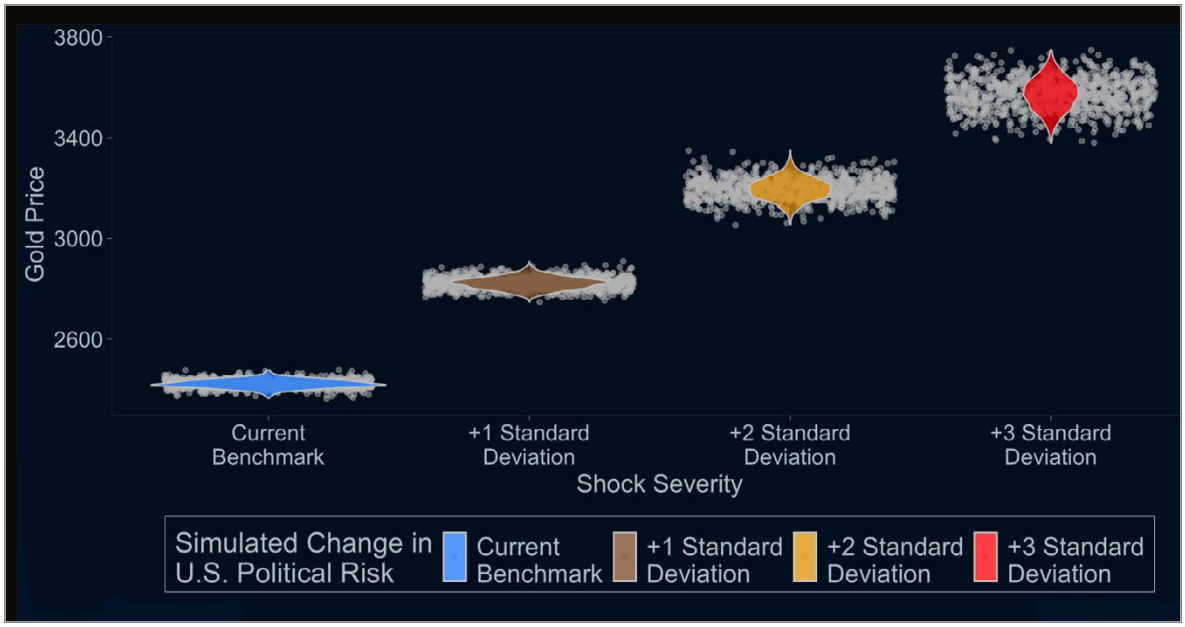
For each case, we run a series of 1000 simulations of predicted gold price. Each dot in Figure 5 represents the predicted gold price associated with each simulation; the violin plots show the overall distribution. The spread from each simulation provides an estimate of how certain we can be this change will affect gold in this manner. A concentrated distribution of simulated outputs conveys high inferential confidence; larger spreads convey lower confidence.

While the benchmark case predicts gold prices should be $2422 per ounce, as of 8 November, gold was $2691 implying last week's sell-off may still correct further.

The simulations show an increase in Political Risk is consistently associated with higher gold price. The benchmark case predicts gold prices should be $2422 per ounce. As of 8 November, gold was $2691, suggesting last week's sell-off may still correct further if Political Risk remains more-or-less constant.

If Political Risk increases one standard deviation, then gold is forecast to rise to $2823 per ounce (with 95% of simulations falling within plus or minus $47 of this value). A three standard deviation increase predicts an unprecedented $3572 per ounce, but with slightly lower confidence (with 95% of simulations falling within plus or minus $125 of this value).

FIGURE 5.



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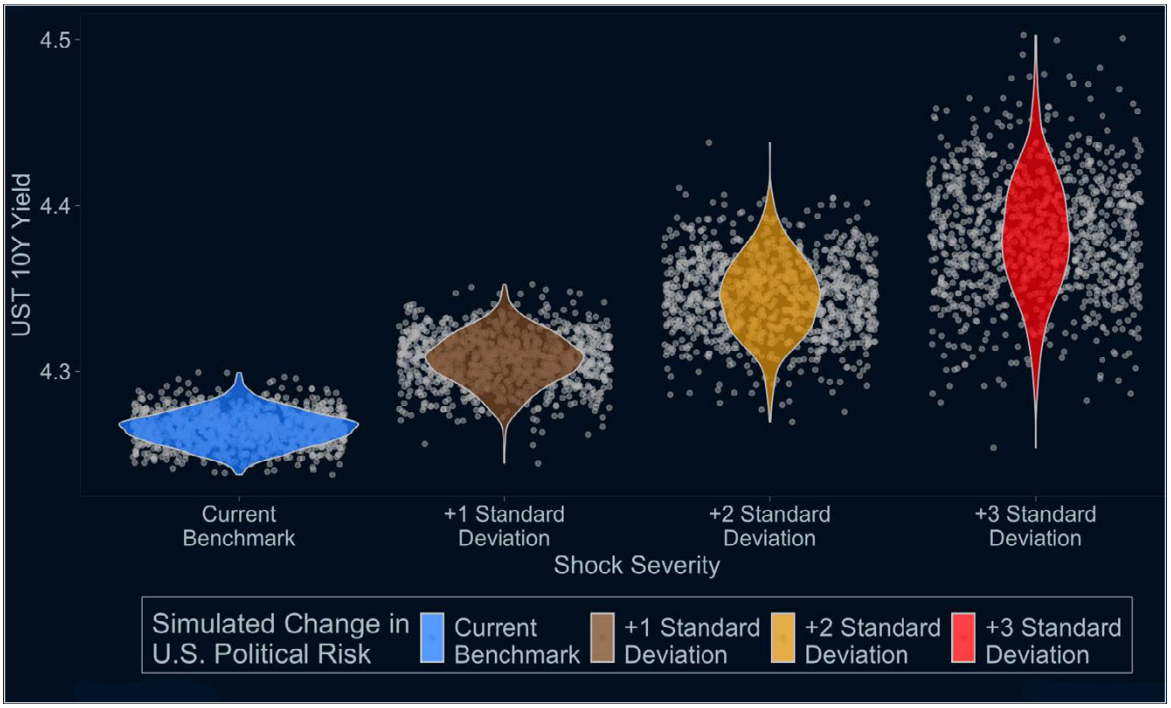
UST 10-year Yields

We conduct a similar series of simulations to estimate 10-year yields. Current benchmark levels are predicted to be 4.27%; in reality, the 10-year yield was 4.34% on 8 November. Keeping interest rates and CPI constant, increases in Political Risk will boost yields: a one standard deviation move predicts 4.31%, 2 standard deviation predicts 4.35%, and 3 standard deviation predicts 4.38%. There is less movement in Treasury yields than in gold price as interest rates play a larger role relative to Political Risk. Historically, higher yields reduce the price of gold, yet the coterminous rise of both in recent years suggests higher U.S. Political Risk could continue to put upward pressure on both, weakening their structurally negative relationship.

FIGURE 6.



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About GeoQuant

GeoQuant is an innovative AI-driven data and technology company, acquired by Fitch and now part of BMI, that is transforming the way the world's leading organizations are quantifying, integrating, and navigating political risk.

By fusing PhD-level political and computer science, GeoQuant generates high-frequency, quantitative measures of risk that are systematic, back-testable, and predictive.

The result is real-time updates for over 40 political risk indicators in more than 140 countries, and analytics that enable you to foresee risk trends and make proactive moves.

GeoQuant data, modelling and advisory services have been used to successfully inform the asset, risk and sovereign ESG strategies of leading institutional partners.

About BMI

In an uncertain macroeconomic environment, BMI's systematic, independent and data-driven market insights, analysis and forecasts enable you to recognize and assess risks and opportunities across 200+ markets and 20+ industries.

For over 40 years, we have provided impartial and transparent analytics, data and research across themes, countries and sectors, with deep insight into emerging markets. Our detailed intelligence is frequent, consistent and systematic, enabling you to easily make comparisons and interrogate data to support your strategic plans and investment decisions.

Learn more at **fitchsolutions.com/bmi**

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