

Trump versus Harris: The impact for markets

- Trump plans more tax cuts while Harris wants to raise them
- Deficit will rise in both cases, pressuring the national debt and dollar
- Energy sector would become greener under Harris than Trump

It's a contest between vastly different candidates whose outcome will impact the US economy, international trade, geopolitics and immigration. The presidential election is as much about personalities as it is about policies, and will have meaningful implications for global markets, says strategist Mike Mullaney.

Former President Donald Trump faces serving Vice-President Kamala Harris in the contest on 5 November which would see the first female president of the US if Harris wins. Voters will also elect members of the US House of Representatives and Senate, which are expected to remain split between the Republican and Democratic parties.

In the keenly awaited presidential election, Trump is promising tax cuts for corporations and individuals but tariffs for foreign companies, along with mass deportations of immigrants and an overhaul of government departments.

“Fiscal responsibility is far down the list of key topics for voters, as the economy tends to rule the day when ballots are filled out

Harris is focusing on the middle class, spending on housing and expanding health care, while increasing taxes on corporations and the ultra-wealthy. Both candidates seem set to increase the already mounting budget deficit.

However, fiscal responsibility is far down the list of key topics for voters, as the economy tends to rule the day when ballots are filled out, says Mullaney, Director of Global Markets Research at Boston Partners, Robeco's sister company focused on fundamental value investing.

The most bifurcated election

“The outcome of this election is perhaps the most bifurcated of all the recent US elections, given Trump's history and proposed policies, and Harris's platform that has been cobbled together hurriedly with her ascension to the top of the ticket,” Mullaney says.

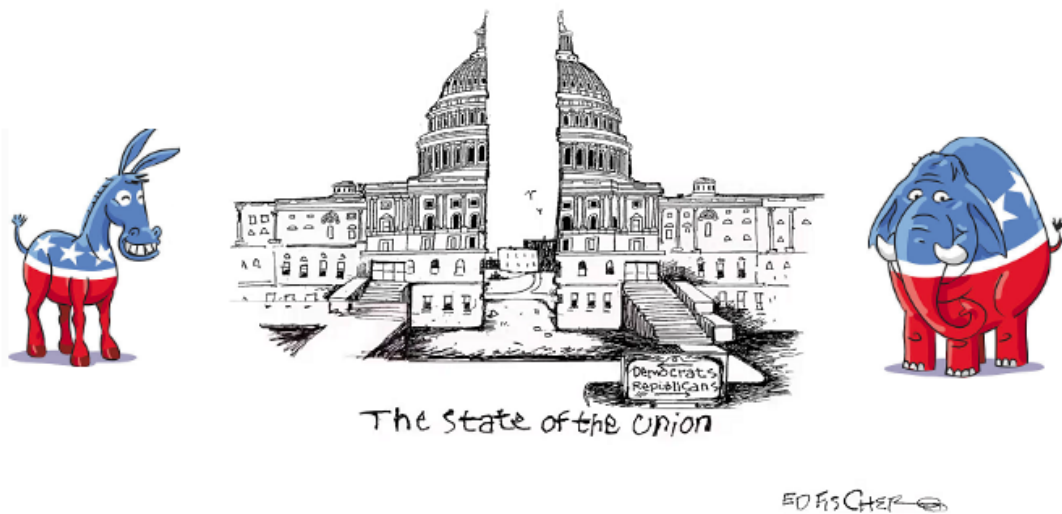
“Another important factor in this election is the implied ‘flipping’ of Congress, as it appears likely that the House of Representatives (currently Republican) will change hands to Democratic control, while the US Senate (currently Democratic) is expected to fall under Republican control.”

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Mike Mullaney
Director of Global Markets Research,
Boston Partners



"No matter how the election results come in, it's certain that there will be lasting effects for both US and global markets."

Focus on taxes

The tax issue, and its effect on the US deficit and national debt, will once again take center stage. "Trump is going to cut taxes for corporations from 21% down to 15%, and he's promised to extend the tax cuts for individuals from his prior presidency as well," Mullaney says. "On the campaign trail, he suggests a new, hypothetical tax break weekly."

"It's likely that the stock market is going to go up initially if Trump gets in, and go down initially if Harris gets in. The reason it would go up initially under Trump is driven by his corporate tax rate cut proposals and deregulation promises for several industries. I'd also expect his election to favor domestic businesses at first, given the tariff expectations."

"Harris is going to increase taxes and it's easy to see how the math works under her plans. Goldman Sachs estimates that the impact of her tax policies on the earnings per share of the S&P 500 is minus 8%. So, the S&P 500 will need to reprice based upon whether she can get those tax raises through Congress, and of course there's no guarantee that she can."

Taxes versus tariffs

Perhaps most importantly, it's essential to remember that both are going to continue deficit spending in the US. Increasing the budget deficit is problematic for both candidates since it raises the gigantic US national debt – which underpins the largest sovereign bond market in the world – the interest payments on which are now as much as the US spends on defense.

"They are both going to increase the deficit because they will spend more than they take in, though this would be smaller under Harris," Mullaney says. "The key issue is how they will gain revenues. While Harris wants to raise taxes, Trump is going to impose tariffs, and tariffs generally don't work."

"Tariffs historically have caused an increase in inflation, because corporations typically pass on the higher costs to consumers. So, I don't see the revenue generation that Trump thinks he's going to get from tariffs coming through, and I don't see all those tariffs going through Congress anyway."

"It means that Trump's initiatives would increase the deficit by twice as much as Harris's, and fiscal austerity is not a term either one of these candidates have used."

Gigantic debt repayments

The US national debt is now USD 35.7 trillion – more than 100% of GDP – and 17% of all tax receipts now go on interest payments, a figure that is projected to rise to 22% in the coming years. “That is a number that you usually see in emerging markets, not with the US,” Mullaney says.

“In the last two years, the 10-year Treasury yield has breached 4.5%, and that has caused trouble for the S&P 500. The index had to re-rate, and investors lost money. This is a key level that we are watching for the 10-year Treasury.”

“If the US did not have the dollar as a reserve currency, the dollar would be under distinct duress right now. If you look at both the budget deficit – and the US also carries a significant trade deficit – then eventually, someone has to address it.”

However, this is not a core focus for Trump in 2024, but rather one that will likely be addressed by his running mate, and suggested 2028 Republican Presidential Candidate, JD Vance, Mullaney says.



Donald Trump

Will the bond vigilantes show up?

The impact on the deficit means Harris’s policies would be more beneficial over the long term for Treasury markets, amid the need to avoid the ‘bond vigilantes’ – investors who protest against repeated bond issues by selling Treasuries rather than buying them. This lowers their price and raises yields, making future issues more expensive.

“I don’t know when the bond vigilantes show up, but they’re bound to do so at some point – there’s no question about that,” Mullaney warns. “The deficit is not sustainable – that’s the bottom line.”

“Spending the same amount of capital on interest payments as you do on the military is usually something that happens in emerging markets, not in developed markets, and particularly not in the US. So, it’s a pretty precarious time.”

Energy at a crossroads

The candidates significantly differ on where they stand on energy, in a classic battle of backing fossil fuels (or not, for Harris) – which will benefit the oil and gas sector – versus renewables.

“Trump will be better for the energy sector, but it will be carbon energy,” Mullaney says. “He’s going to increase fracking, increase drilling, increase LNG output, increase pipeline transmission – increase everything fossil-related.”

“He’s not necessarily going to pull back on renewable energy, but he thinks that to be energy independent, you’ve got to do it with carbon. You can’t do it by going green. You could also see nuclear coming back.”



Kamala Harris

“Conversely, Harris’s policies are geared toward green energy, and toward affordability of housing for the average American. One of the reasons why she will increase the budget deficit is because she’s going to give lots of grants to people buying houses, and to builders for building lower-priced houses.”

Health care and industrials

Another battleground is health care. The US is the only Western nation that does not have universal health care, President Obama’s Obamacare being the closest it has come to it.

"Trump has said he's going to unwind Obamacare, but he has not come forth with a definitive solution on what the next alternative is," Mullaney says. "Harris wants to increase the amount of coverage for more people and move toward universal health care. The question there is how to pay for that when you're in a deficit situation."

"Health care gets picked on a lot, whether it's by a Republican or a Democrat. The biggest hit came from President Joe Biden because he forced pharmaceutical companies to cut their prices. Now Harris will stay on that bandwagon – she'll try to maintain limits on pricing on pharmaceuticals."

"Democrats would also be better for industrials, but it's not just the old school industrials, it's more the green-related industries and home builders."

Globalization versus isolationism

They also differ significantly on foreign policy. "Trump is an isolationist – he's pretty straightforward in that regard," Mullaney says. "I can't see globalization reigniting under him. Some people say the US has become very polarized, but that is not just a solo US phenomenon as it's happening around the world."

"You see it in Germany and France, where there are extremists on both sides who are pulling the centrists away from the center. The Democrats have some extremely progressive people on their side that are causing some commotion among the conservatives, and it's causing a movement away from centrists as far as policy is concerned."

"Harris wants to mend ties that have been broken historically by administrations, including Trump. I don't know if the threat by Trump to pull the US out of NATO is a bargaining chip to get foreign countries to pump in more money, as he successfully made that threat in 2016, and we then saw an increase on countries contributions to the military."

“Isolationism generally means lower growth, while globalization caused a significant increase in global growth generically”

"So it could be a ploy, but pulling out on NATO would be absolutely disastrous. The same thing goes with the threat of pulling out of NAFTA (the North American Free Trade Agreement, with Canada and Mexico) – that would also be disastrous."

Bricks in the wall

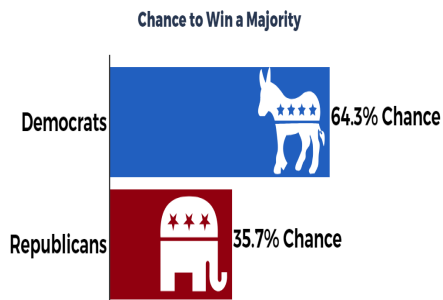
And what about the infamous wall on the border with Mexico to stop the millions in illegal immigration? "Overall, Trump wants Mexico to be more diligent about the immigration situation, but for him to slam them economically is probably not the right way to get things done from a long-term basis," Mullaney says.

"Isolationism generally means lower growth, while globalization caused a significant increase in global growth generically. Some people complain that it was binary, that it had favored the rich and not the poor, but generically, globalization has lifted more boats than it has sunk, over the years. Globalization also led to deflation, and isolationism would lead to inflation."

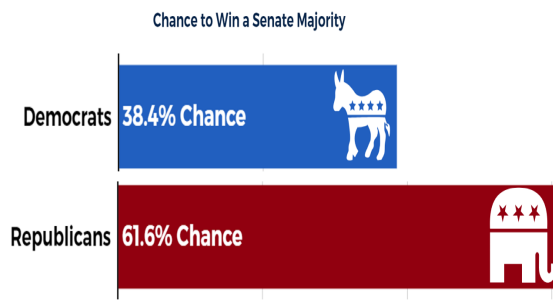
Flipping Congress

Americans are also electing the US Congress, which is currently split. Previous studies have shown that the best outcomes for financial markets are when no party controls both Congress and the White House, and when Congress itself is split.

House Election Forecast



Senate Election Forecast



Source: Race to the WH

“The data going back to 1945 shows that a Democratic president with a split Congress has led to a 13.6% rise on average for the S&P 500,” Mullaney says. “A divided Congress is better for markets in general than having a sweep of one party in control of both houses, regardless of who the president is.”

“The reason for this is mostly due to a variety of checks and balances in power/control through the government, as there is a diversified approach to passing new legislation, rather than expediting legislation through the alignment of party values across the Presidency, House and Senate.”

“A Republican sweep, historically, has actually done relatively well for the markets. The worst outcome has been a Republican president with a Democratic Congress, because that means that president gets nothing done; it’s a stalemate for four years.”

Implications of a split Congress

“The projections right now are that we’re going to have a flip of both chambers of Congress. Currently the Senate is controlled by the Democrats and the House of Representatives is controlled by the Republicans, and the polls say that this is going to reverse.”

“When push comes to shove, the Senate has a greater ability to get things done than the House of Representatives, as they have key votes on more key issues. If Trump gets in, then even if it’s still a split Congress, if he has a republican Senate in his back pocket, then he is more likely to get things done, but not to the level if he had a unified Congress.”

“Most importantly, over the history of presidential terms, we’ve seen mostly positive results, with 13 of the last 16 presidencies accompanied by annualized market returns of over 10%, no matter if the White House occupant was Republican or Democrat.”

Historical market performance under various political scenarios

Scenario	Detail	Years	Avg. S&P 500 Change
Unified Government	Democratic President and Congress	22	9.8%
	Republican President and Congress	8	12.9%
Unified Congress	Democratic President, Republican Congress	10	13.0%
	Republican President, Democratic Congress	22	4.9%
Split Congress	Democratic President, House and Senate split between parties	4	13.6%
	Republican President, House and Senate split between parties	10	5.2%

SOURCE: CFRA



It's still all about the economy

So, who's going to become the next leader of the free world? Will we see the return of President Trump, or is America ready for its first female commander-in-chief, and also the first president of both black and Asian heritage?

"It is definitely about personalities, because there are many people who are just not going to vote for Trump no matter who the other side is," says Mullaney. "That's definitely an issue here. But after that, the number one issue for voters is the economy. And when we say the economy, we mean inflation, not GDP."

"The economy is doing great, but inflation on a cumulative basis is a significant problem, and Harris hasn't done a great job of explaining exactly what she would do about it, except for potentially introducing price controls here and there... which generally don't work. She needed to get a better handle on whether inflation is coming down, but the cumulative effect of inflation has already done its damage."

"Someone recently asked her whether there was anything she would have done differently over the last four years, to which she replied, 'nothing comes to mind'. She should have said something about trying to take alternative action to curb inflation, which would be innocuous, and isn't something negative about her boss, Joe Biden. But she didn't."

"All but one of the 46 US presidents in the past 235 years have been white men, the sole exception being Barack Obama from 2009 to 2017"

Enter the Fed

The race was given extra spice when the US Federal Reserve – which is officially independent of politics and the US government – cut the core interest rate by 50 basis points on 18 September. This was a major boost to President Biden, who dropped out of the race in August, and then Harris, who took his place as the presidential candidate.

"Trump has said he thought the rate cut was political, and he does have a point," Mullaney says, noting the less-than-friendly relationship between Fed Chairman Jerome Powell and Trump. "We haven't had any kind of Fed action in the six months prior to an election since 2000, and Powell has made a 50 basis point cut within six weeks of the election."

"On top of this, financial conditions are already very loose in the US. Historically, the Fed has only started interest rate reduction when financial conditions were very tight. So it's a rarity that you see a 50 basis point cut with these financial conditions."

Madame President?

And the first female president? All but one of the 46 US presidents in the past 235 years have been white men, the sole exception being Barack Obama from 2009 to 2017. Trump was the first president from outside mainstream politics, and has particular appeal to the Make America Great Again (MAGA) movement of predominantly white, working class men.

"I think the vast majority of Americans are ready for a woman as president, but I don't think the MAGA crowd is ready, and they represent about 30 million votes. It's a big chunk," Mullaney says. "One issue that favors Harris is the highly charged issue of abortion. Trump has said that access to abortion should be done on a state-by-state basis, but the fear is that if he wins the election, he will ban abortions universally across the US. That will be a strength for Harris among women voters."

Don't forget the 'undecided'

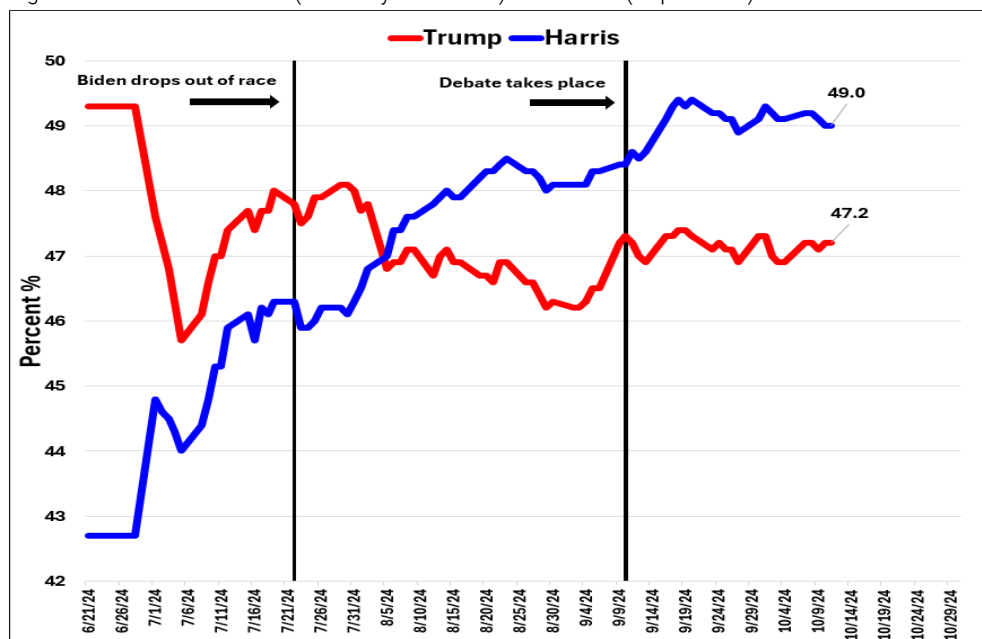
Undecided voters may also turn into the deciding factor, particularly in the swing states which may determine the outcome. In the UK experience in 2019, people would not admit to pollsters that they supported Boris Johnson and the Conservatives – but then did so in the privacy of the polling booth.

“For the Republicans, many people have not stated that they're voting for Donald Trump because they don't want backlash from people, but when they get into the voting booth, they're actually going to vote for him,” Mullaney says. “A lot of that goes back to the tax issue. People hate paying taxes no matter what country you're in, and Trump's tax proposals are going to make people wealthier, at least initially. Their paychecks are going to be bigger. Wealthy individuals are still going to benefit tremendously from Trump's tax proposals.”

Remember, remember, the fifth of November

The current polling (at 18 October) suggests that Harris has a slight lead, with 49.3% of the vote compared to 47.7% for Trump. Under the US system, however, that doesn't necessarily translate into victory, since Trump won in 2016 because he won more seats than Hillary Clinton in the Electoral College, even though he marginally lost the popular vote.

Presidential candidates must gain a majority of 270 seats in the 538-seat College, which means winning the largest states like California (currently Democrat) and Texas (Republican) are essential.



Source: RealClearPolitics, Bloomberg

Key states to watch

The key states to watch on election night according to Mullaney are Pennsylvania, Michigan, North Carolina, Georgia, Wisconsin, Nevada and Arizona. And there may be no need to stay up for the result.

“Given the tight race, it seems unlikely we will have an outcome on the evening of the election,” Mullaney says. “The longer the uncertainty continues, markets will exhibit increased volatility.”

“In both prior Trump elections, the market has generally behaved better once a winner was obvious. The sooner this election is resolved and the market knows who will take residence in the White House, the better for investors.”

The world awaits America's choice.

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This document has not been registered with the Monetary Authority of Singapore ("MAS"). Accordingly, this document may not be circulated or distributed directly or indirectly to persons in Singapore other than (i) to an institutional investor under Section 304 of the SFA, (ii) to a relevant person pursuant to Section 305(1), or any person pursuant to Section 305(2), and in accordance with the conditions specified in Section 305, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. The contents of this document have not been reviewed by the MAS. Any decision to participate in the Fund should be made only after reviewing the sections regarding investment considerations, conflicts of interest, risk factors and the relevant Singapore selling restrictions (as described in the section entitled "Important information for Singapore Investors") contained in the prospectus. Investors should consult their professional adviser if you are in doubt about the stringent restrictions applicable to the use of this document, regulatory status of the Fund, applicable regulatory protection, associated risks and suitability of the Fund to your objectives. Investors should note that only the Sub-Funds listed in the appendix to the section entitled "Important information for Singapore Investors" of the prospectus ("Sub-Funds") are available to Singapore investors. The Sub-Funds are notified as restricted foreign schemes under the Securities and Futures Act, Chapter 289 of Singapore ("SFA") and invoke the exemptions from compliance with prospectus registration requirements pursuant to the exemptions under Section 304 and Section 305 of the SFA. The Sub-Funds are not authorized or recognized by the MAS and shares in the Sub-Funds are not allowed to be offered to the retail public in Singapore. The prospectus of the Fund is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply. The Sub-Funds may only be promoted exclusively to persons who are sufficiently experienced and sophisticated to understand the risks involved in investing in such schemes, and who satisfy certain other criteria provided under Section 304, Section 305 or any other applicable provision of the SFA and the subsidiary legislation enacted thereunder. You should consider carefully whether the investment is suitable for you. Robeco Singapore Private Limited holds a capital markets services license for fund management issued by the MAS and is subject to certain clientele restrictions under such license.

Additional information for investors with residence or seat in Spain

Robeco Institutional Asset Management B.V., Sucursal en España with identification number W0032687F and having its registered office in Madrid at Calle Serrano 47-14º, is registered with the Spanish Commercial Registry in Madrid, in volume 19.957, page 190, section 8, sheet M-351927 and with the National Securities Market Commission (CNMV) in the Official Register of branches of European investment services companies, under number 24. The investment funds or SICAV mentioned in this document are regulated by the corresponding authorities of their country of origin and are registered in the Special Registry of the CNMV of Foreign Collective Investment Institutions marketed in Spain.

Additional information for investors with residence or seat in South Africa

Robeco Institutional Asset Management B.V. is registered and regulated by the Financial Sector Conduct Authority in South Africa.

Additional information for investors with residence or seat in Switzerland

The Fund(s) are domiciled in Luxembourg. This document is exclusively distributed in Switzerland to qualified investors as defined in the Swiss Collective Investment Schemes Act (CISA). This material is distributed by Robeco Switzerland Ltd, postal address: Josefstrasse 218, 8005 Zurich. ACOLIN Fund Services AG, postal address: Leutschenbachstrasse 50, 8050 Zürich, acts as the Swiss representative of the Fund(s). UBS Switzerland AG, Bahnhofstrasse 45, 8001 Zurich, postal address: Europastrasse 2, P.O. Box, CH-8152 Opfikon, acts as the Swiss paying agent. The prospectus, the Key Information Documents (PRIIP), the articles of association, the annual and semi-annual reports of the Fund(s), as well as the list of the purchases and sales which the Fund(s) has undertaken during the financial year, may be obtained, on simple request and free of charge, at the office of the Swiss representative ACOLIN Fund Services AG. The prospectuses are also available via the website.

Additional information for investors with residence or seat in Taiwan

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. This document has been distributed by Robeco Hong Kong Limited ("Robeco"). Robeco is regulated by the Securities and Futures Commission in Hong Kong.

Additional information for investors with residence or seat in Thailand

The Prospectus has not been approved by the Securities and Exchange Commission which takes no responsibility for its contents. No offer to the public to purchase the Shares will be made in Thailand and the Prospectus is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Additional information for investors with residence or seat in the United Arab Emirates

Some Funds referred to in this marketing material have been registered with the UAE Securities and Commodities Authority ("the Authority"). Details of all Registered Funds can be found on the Authority's website. The Authority assumes no liability for the accuracy of the information set out in this material/document, nor for the failure of any persons engaged in the investment Fund in performing their duties and responsibilities.

Additional information for investors with residence or seat in the United Kingdom

Robeco Institutional Asset Management B.V (FRN: 977582) is authorized and regulated by the Financial Conduct Authority.

Additional information for investors with residence or seat in Uruguay

The sale of the Fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The Fund must not be offered or sold to the public in Uruguay, except under circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The Fund is not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay. The Fund corresponds to investment funds that are not investment funds regulated by Uruguayan law 16,774 dated 27 September 1996, as amended.