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Navigating Uncertainty: What the November Election means for the Economy

Amid a backdrop of booming artificial intelligence, the S&P 500 Index has reached an all-time high, gaining more than 20% year-to-date. Despite the market's buoyancy, uncertainty persists about whether the upcoming U.S. presidential election on November 5 could disrupt this optimism and affect both domestic and global economies.

On the Republican side, Donald Trump, known for his protectionist policies during his 2017-2021 presidency, remains committed to shielding U.S. industries from foreign competition. His latest proposal for a 10% to 20% tariff on all imports, with certain Chinese goods facing rates as high as 60%, has triggered concerns within the business community. Should Trump win in November, his continued focus on tariffs could further strain global trade relations, amplifying tensions in international markets.

Meanwhile, inflation in the U.S. slowed for the sixth consecutive month in September, easing to 2.4%[1] , according to the U.S. Labor Department. This decline sets the stage for potential future interest rate cuts. Currently, the Federal Funds rate stands at 4.75-5.00%, with futures contracts indicating a potential reduction to the 2.50-3.75% range by mid-2025[2] . However, Trump's hardline stance on tariffs and immigration could reignite inflationary pressures,

Highlights

- **The election may lead to increased tariffs under Trump, straining global trade and inflation**
- **Harris's proposed tax increases and fiscal spending may impact U.S. GDP growth**
- **Investors should prioritise long-term growth opportunities, given the unpredictable nature of election outcomes**

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complicating the interest rate trajectory. While these policies might not have a significant effect on the fiscal deficit under a divided government, heightened tariffs and import restrictions may introduce economic volatility in the near term.

On the Democratic side, Kamala Harris represents a different but equally complex set of policies. Harris has proposed higher personal and corporate taxes, alongside increased fiscal spending on social programs and benefits. If the Democrats secure control of both Congress and the White House, these higher taxes could be implemented, though we believe the impact on the fiscal deficit would be modest if there is a divided government.

As the market speculates on how the election outcome will shape U.S. economic growth, the differences between the candidates may prove less significant from a GDP perspective, especially if a divided government emerges. We expect a Harris presidency to offer a slight positive impact on GDP, driven by new spending initiatives despite the prospect of higher taxes. Conversely, a Trump victory could result in a mild hit to GDP by 2025, primarily due to the long-term effects of escalating tariffs on global trade.

However, it's crucial to remember that elections are inherently unpredictable, and polling data can often be misleading. The 2020 election, for instance, was decided by fewer than 100,000 votes across a handful of swing-state counties, and a similarly narrow margin could determine the outcome this year. Moreover, the influence of last-minute endorsements and financial backing—such as Elon Musk's support for Trump—underscores how quickly voter sentiment can shift, making predictions challenging.

Given these uncertainties, we do not take a view or investment position based on headline polls ahead of the actual election. Instead, we believe the focus should remain on identifying long-term growth opportunities that can withstand political changes. While a divided government appears to be the most likely outcome, which could help limit any major negative impacts on GDP, we should still brace for potential short-term volatility around the election period.

Source: [1] U.S. Bureau of Labor Statistics,10 Oct 2024, [2] Reuters, 11 Oct 2024

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