

# VIEWPOINT

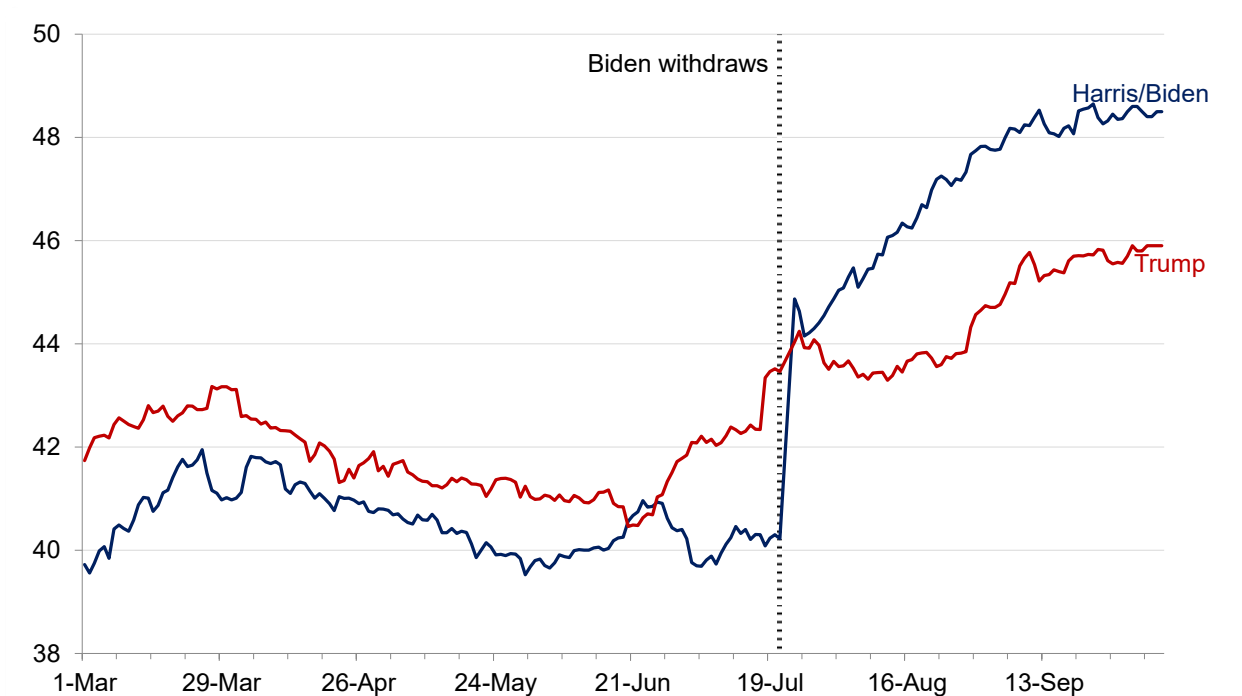
Observations and Insights



## Election daze

The United States election is less than a month away and, while it may be the case that most national polls are tilting in favour of the current Vice President receiving a promotion ([FiveThirtyEight](#)<sup>1</sup> shows that Kamala Harris is ahead of former President Donald Trump by three percentage points in terms of the popular vote and is [currently assigning](#) a 55% probability of winning the presidency), recent history has shown us that pre-election polling does not necessarily guarantee future performance.

### US Presidential Election national poll average support (percent)



Source: Guardian Capital based on data from [FiveThirtyEight.com](#) to October 8, 2024

Moreover, seven of 20 Presidential elections in the post-WWII era have been won by a candidate that received less than 50% of the popular vote, and the race remains tight in some key states (for example, Arizona, Georgia, North Carolina and Pennsylvania and their cumulative 62 Electoral Votes are narrow “toss-ups” as per poll-based forecasts from [FiveThirtyEight](#)<sup>2</sup>).

<sup>1</sup> 538 Election Polls, Politics, and Analysis – ABC News, *Latest Polls, 2024 Recent Polling Average Updates*, October 11, 2024, <https://projects.fivethirtyeight.com/polls/president-general/2024/national/>

<sup>2</sup> 538 Election Polls, Politics, and Analysis – ABC News, *Who’s favored to win each state?* October 11, 2024, <https://projects.fivethirtyeight.com/2024-election-forecast/#state-probabilities>

## VIEWPOINT

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With that in mind, it is worth taking a look at the potential outcomes of the November 5<sup>th</sup> election and what they could mean for the economic outlook and prospects for financial markets.

### Taking the next step up?

If Vice President Harris wins the election on November 5, she will become the US' first female commander-in-chief and just the second sitting Vice President since 1836 to get elected to sit in the big chair in the Oval Office — Ronald Reagan's Vice President George H.W. Bush won in 1988, but Richard Nixon lost in 1960 (to John F. Kennedy), Hubert Humphrey lost in 1968 (to Nixon), and Al Gore lost in 2000 (to George W. Bush).

Importantly, though, while Harris is leading in polls and [betting markets](#)<sup>3</sup> alike, it remains the fact that the current Administration is not exactly riding a wave of popularity at the moment.

As per the Gallup poll data compiled by [The American Presidency Project](#)<sup>4</sup>, more Americans disapprove (58%) of President Biden than approve (39%) — and this includes a modest uptick since Biden opted to withdraw from seeking re-election on July 21.

Looking at the available data since 1941, when the incumbent Party had a negative net approval rating at this point ahead of the election, it did not retain the Presidency — Lyndon Johnson was disliked, on net, a month before the election in 1968 (-9 percentage points), as were Jimmy Carter in 1980 (-18ppt), Bush Sr. in 1992 (-18ppt), and Trump in 2020 (-6ppt); the lowest approval at this pre-Election juncture was the Administration of Bush Jr. (-42ppt net approval in 2008) as the US was mired in the depths of the Financial Crisis.

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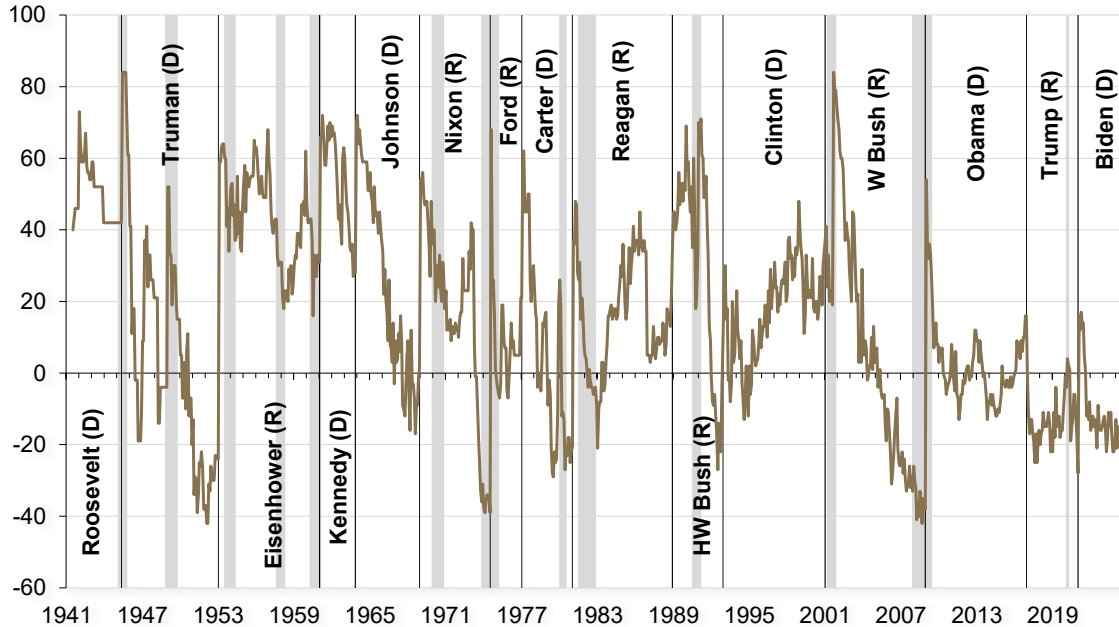
<sup>3</sup> Predictit, Markets, Details, Presidency, *Who will win the 2024 US presidential election?*, October 11, 2024, <https://www.predictit.org/markets/detail/7456/Who-will-win-the-2024-US-presidential-election>

<sup>4</sup> The American Presidency Project, Statistics, *Presidential Job Approval--All Data*, September 3, 2024, <https://www.presidency.ucsb.edu/statistics/data/presidential-job-approval-all-data>

## VIEWPOINT

### Net approval rating of US Presidents

(net percent; “approve” less “disapprove”)



Parentheses denote President’s Party affiliation: (R)=Republican, (D)=Democrat; shaded regions represent periods of US recession; source: Guardian Capital based on data from *The American Presidency Project* to September 15, 2024

Concerning policy, the general expectation would be largely more of the same, as seen throughout the Biden Administration, should the Vice President win, with a few notable proposals also put on the table during the campaign.

The main “highlights” of the relatively progressive agenda are higher taxes on the wealthy (including raising the top individual income tax rate from 37.0% to 39.6%; raising the tax rate on long-term capital gains from 28% to 33%; a new tax on unrealized capital gains on those with a net worth in excess of \$100 million) and corporations (raising the corporate tax rate from 21% to 28%; raising the tax rate on multinationals foreign earnings from 10.5% to 21.0%), tax breaks for low-income households (restore the earned income tax credit and child tax credit; extending the *Tax Cuts and Jobs Act* (TCJA) for those earning under \$400,000) and small businesses (raising the deduction for start-up expenses from \$5,000 to \$50,000) and efforts to addressing high costs of housing (in the form of tax credits for homebuyers and builders) and health care (extending the enhanced subsidies on premiums under the *Affordable Care Act* or “ACA”).

Harris has also walked back from earlier proposals, such as banning fracking and her support while vying for the candidacy in 2020 for the “Green New Deal” has been reoriented to a focus on continuing the initiatives of the Biden Administration’s *Inflation Reduction Act* (IRA) that includes financial incentives for renewable energy projects.

Analysis by the nonpartisan [Committee for a Responsible Federal Budget](https://www.crfb.org/papers/fiscal-impact-harris-and-trump-campaign-plans)<sup>5</sup> suggests that Harris’ proposed fiscal plans would increase the national debt by \$3.5 trillion over the next 10 years, while

<sup>5</sup> Committee for a Responsible Federal Budget – U.S. Budget Watch 2024, *The Fiscal Impact of the Harris and Trump Campaign Plans*, October 7, 2024, <https://www.crfb.org/papers/fiscal-impact-harris-and-trump-campaign-plans>

## VIEWPOINT

the [Penn-Wharton Model](#)<sup>6</sup> points to a cumulative net increase in deficits of \$2 trillion over that span and weigh on economic activity versus the current baseline over that period (this forecasted drag is echoed by the estimates of the [Tax Foundation](#)<sup>7</sup>).

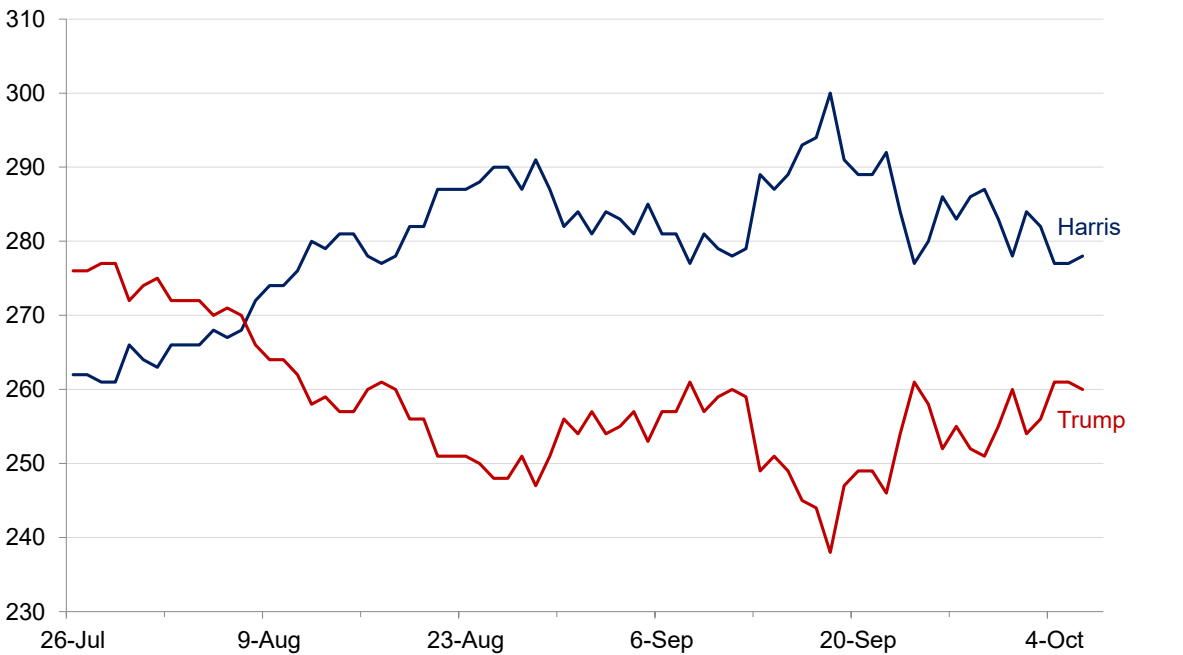
### Return of the 45<sup>th</sup>?

It may well be the case that the odds are not currently on the side of the former President, however, the nature of the Electoral College and its role in determining the winner of the election means that it would be foolhardy to dismiss the prospect of another term of Donald Trump.

As it stands, [FiveThirtyEight's](#)<sup>8</sup> forecast puts the Electoral College gap at just 18 votes right now and the mapping from [Real Clear Politics](#)<sup>9</sup> and [270toWin](#)<sup>10</sup> emphasizes how little it would take to flip the outcome — the former puts the candidates in a dead heat with 104 votes listed as “toss-ups” while the latter points to 94 votes up for grabs.

### Forecast Electoral College votes

(number)



Source: Guardian Capital based on data from FiveThirtyEight.com to October 8, 2024

<sup>6</sup> Penn Wharton University of Pennsylvania Budget Model's *Guide to the 2024 Presidential Candidates' Policy Proposals*, October 11, 2024, <https://budgetmodel.wharton.upenn.edu/2024-presidential-election>

<sup>7</sup> William McBride, Erica York, Garrett Watson, and Alex Muresianu, Tax Foundation, *Kamala Harris Tax Plan Ideas: Details and Analysis*, September 10, 2024, <https://taxfoundation.org/research/all/federal/kamala-harris-tax-plan-2024/>

<sup>8</sup> 538 Election Polls, Politics, and Analysis – ABC News, *Who is favored to win the 2024 Presidential Election?* October 11, 2024, <https://projects.fivethirtyeight.com/2024-election-forecast/>

<sup>9</sup> Real Clear Polling, *Trump vs. Harris National Multi-Candidate 2024 RCP Electoral College Map*, October 11, 2024, <https://www.realclearpolling.com/maps/president/2024/toss-up/electoral-college>

<sup>10</sup> 270toWin, *2024 Electoral Map Based on Polls*, October 11, 2024, <https://www.270towin.com/maps/harris-trump-2024-map-based-on-polls>

## VIEWPOINT

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While Trump's campaign has not released fully detailed plans, comments indicate that his second Presidency would likely focus on cutting taxes (an extension of the tax cuts under the TCJA; exempt overtime pay from income taxes; lower the corporate tax rate to 15% for manufacturers), further deregulation (with a particular emphasis on the Energy sector) and greater protectionism via an "America First" approach to foreign policy that would include a wave of additional tariffs (such as a universal baseline tariff of at least 10% on all imports and raising current tariffs on Chinese-produced goods to 60%), and increased spending on military.

The [Committee for a Responsible Federal Budget](#)<sup>11</sup> estimates that Trump's slate of proposals would increase the federal debt by \$7.5 trillion over the next decade while the [Penn-Wharton Model](#)<sup>12</sup> projects an increase in primary deficits totalling \$4.1 trillion — and, while the added fiscal boost could provide a relatively bigger add to domestic growth than under Harris' plan, it is noted that the prospect of a new trade war could offset any economic positives that could result from tax reform (for example, the [Tax Foundation](#)<sup>13</sup> estimates that incorporating the impact of potential retaliatory tariffs would leave the impact of the broader plans as an overall net negative).

### **You can't go your own way**

While the Presidency gets the bulk of the attention, the degree to which the President can govern via Executive Order is limited, especially with respect to spending and tax measures. Therefore, it is important to recognize that the ability of a President to achieve their policy goals is dependent on having a Congress that is willing to cooperate. For example, Presidents Obama, Trump and Biden were able to push through major legislation in their first terms (the ACA, the TCJA, and the IRA, respectively) thanks to the fact that their Parties also held both the Senate and the House for the first two years of their tenure, while more significant action was comparatively stymied thereafter under a split Congress.

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<sup>11</sup> Committee for a Responsible Federal Budget – U.S. Budget, *The Fiscal Impact of the Harris and Trump Campaign Plans*, October 7, 2024, <https://www.crfb.org/papers/fiscal-impact-harris-and-trump-campaign-plans>

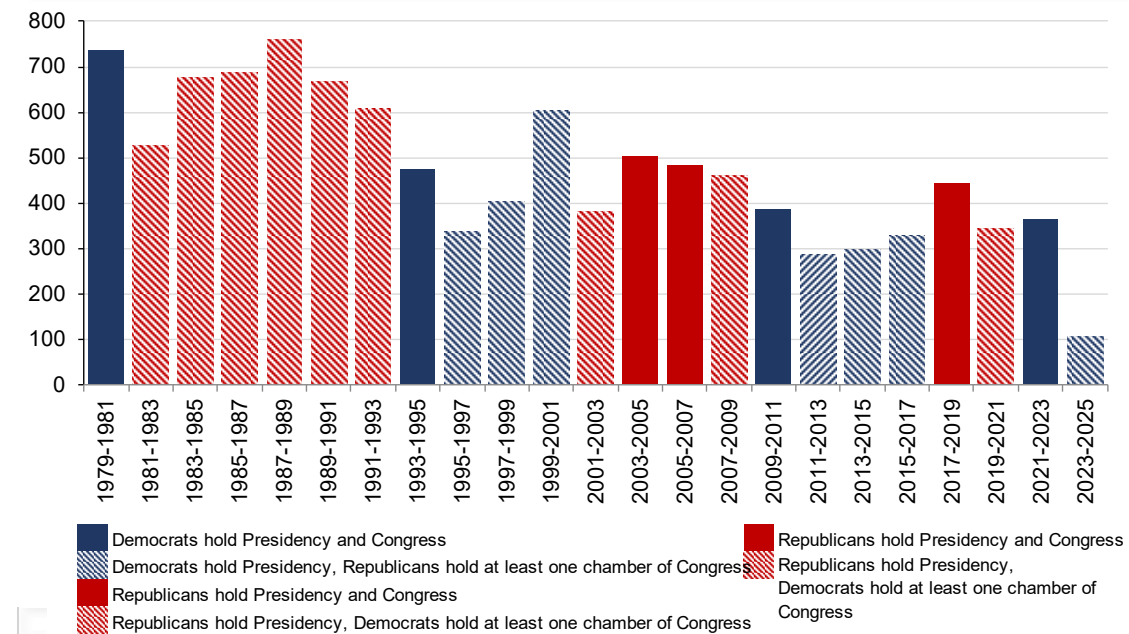
<sup>12</sup> Penn Wharton University of Pennsylvania Budget Model's *Guide*, October 11, 2024, <https://budgetmodel.wharton.upenn.edu/2024-presidential-election>

<sup>13</sup> Erica York, Tax Foundation, *Donald Trump Tax Plan Ideas: Details and Analysis*, September 10, 2024, <https://taxfoundation.org/research/all/federal/donald-trump-tax-plan-2024/>

# VIEWPOINT

## Enacted legislation by US Congress makeup

(number of bills enacted)



Source: Guardian Capital based on data from govtrack.us<sup>14</sup> to October 8, 2024

As it currently stands, Congress is split with the Democrats currently holding a majority in the Senate (they hold 51 of 100 seats) while the Republicans hold the House (with 220 of 435 seats).

In the upcoming election, there are 33 Senate seats on the ballot (23 currently held by Democrats and 11 held by Republicans) and all 435 seats in the House.

The polling for the Senate elections currently points to the Republicans gaining control in the upper chamber, with the consensus as per both [270toWin<sup>15</sup>](#) and [RealClearPolitics<sup>16</sup>](#) indicating that Republicans will likely gain the seats required to give them the majority.

The House, however, appears to be up for grabs with the balance of power (218 are required for a majority) looking to come down to the outcomes of a number of “toss-ups” as per the [various<sup>17</sup> polling<sup>18</sup>](#) aggregators.

## Marking to market

From a market perspective, a return of the former president could be viewed as constructive over the near term for risk assets. Trump’s tax policies and push toward further deregulation are decidedly pro-business (though, the possibility that the Executive Office would be opposed by at least one chamber of Congress could constrain new material measures), but the projected fiscal

<sup>14</sup> Govtrack.us, *We’re tracking the U.S. Congress to make our government more open and accessible*, October 11, 2024, <https://www.govtrack.us/>

<sup>15</sup> 270toWin, *2024 Senate Election Interactive Map*, September 25, 2024, <https://www.270towin.com/2024-senate-election/>

<sup>16</sup> Real Clear Polling, *Battle for the Senate 2024*, October 11, 2024, <https://www.realclearpolling.com/maps/senate/2024/toss-up>

<sup>17</sup> 270toWin, *2024 House Election Interactive Map*, October 8, 2024, <https://www.270towin.com/2024-house-election/>

<sup>18</sup> Real Clear Polling, *Battle for the House 2024*, October 11, 2024, <https://www.realclearpolling.com/maps/house/2024/toss-up>

## VIEWPOINT

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deterioration in the absence of central bank bond buying this go-around combined with the inflationary impact of tariffs and generally expansionary fiscal policy could provide a headwind for bonds.

A second term for Trump would likely mean a renewed inimical approach to China and further strains on US foreign relations elsewhere, which could result in a return to the more volatile market backdrop that prevailed throughout Trump's first term in Office; pandemic notwithstanding.

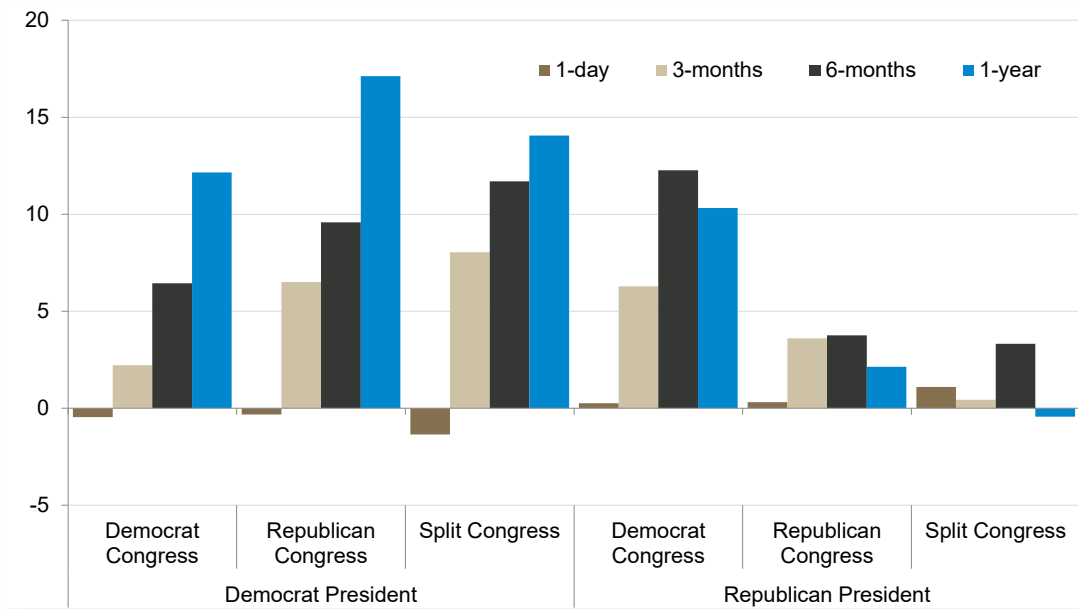
A Harris win, especially if it is met with a Democrat sweep of Congress, could get a cool initial reception from financial markets and spur a move into safe havens — an increase in corporate taxes would create an unambiguous drag on corporate profits, while concerns over imminent changes to capital gains taxation could spur some selling ahead of the transfer of power.

That said, an assumed general maintenance of the status quo removes a degree of uncertainty that comes with a regime change (even one with a former President) and could be welcomed by markets, as too would the anticipation of a comparably more genial approach to foreign policy and a more focused approach to managing the Office of President which could serve to ease business uncertainties and support capital investment.

Of course, any knee-jerk reaction to a Harris victory could be muted in the event of a split Congress, which would limit the ability for anything significant on the policy agenda to fully materialize over the next two years — note that the combination of a Democratic president with a split Congress has yielded among the best post-election market performance historically over the ensuing three and six months, while a Democrat president with a fully Republican Congress has been the best after a year (a Republican president with a Republican or split Congress has fared less well).

## VIEWPOINT

### S&P 500 post-Election\* historical performance by the composition of the US federal government (percent change)



\*Data include both general & midterm elections from 1928 to 2022; source: Guardian Capital based on data from Bloomberg

As was the case four years ago, there could be some turmoil should Election Day end without a clear and decisive victory (or a willingness for a candidate to accept the results). Such an environment (which is increasingly likely, as it will potentially take added time to count up all absentee/mail-in ballots that are increasingly prevalent) will create an environment of heightened uncertainty for the market to deal with until the dust settles.

The bottom line is that the US election is a risk event with no clear-cut outcome on the table, as of yet. That means that market participants are likely to tread carefully over the coming month as all eyes fixate on the American political horseraces, with a preference for placing bets once the election's finish line has been breached.

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## VIEWPOINT

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