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MARKETING DOCUMENT

2024 US Elections: A New Start

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Key Points

- With US President Joe Biden withdrawing from the 2024 race for the White House, the US Democratic Party is seeking a new start to its so far disappointing presidential campaign.
- Our work suggests that the presumed nomination of current US Vice President Kamala Harris has staunched the outflow of Democratic party support following June's poor debate performance.
- However, relative to the pre-debate standing of current President Joe Biden, initial polling suggests that former President Donald Trump has increased his lead nationally since mid-June versus Vice President Harris.
- Investors who were buffeted in July by market re-pricing of the prospect of a second presidential term for Donald Trump should prepare for more volatility moving into August as candidate Kamala Harris builds momentum.
- As highlighted in our June report, US fiscal challenges are getting overlooked in the 2024 US presidential campaigns and will constrain the eventual winner of the coming election. We are seeing the beginnings of this realisation being priced in to markets.
- Having capitalised on the expected strong returns in equity and credit in the run-up to the election through early July, entering the autumn, investors should turn their focus to managing risk and pivoting to active sector, stock and currency selection moving into 2025 as the prospective winner becomes clear. Gold and inflation-linked bonds should offer attractive protection against potential volatility around the transition into 2025.

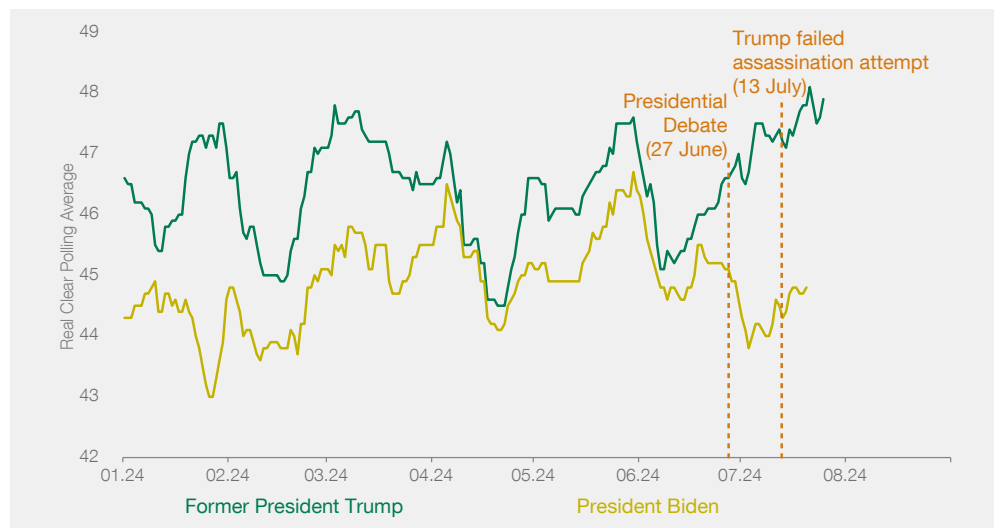
2024 US Elections: A New Start

BIDEN WITHDRAWS FROM THE 2024 RACE FOR US PRESIDENT

US President Joe Biden announced on 21 July that he would suspend his campaign for a second term in office following a tumultuous three weeks following his ill-fated debate performance against former President Donald Trump.

Despite his poor debate performance and growing concerns about cognitive decline in President Biden, the current president was already seeing polling moving against him going into the June debate. This was then aggravated by the assassination attempt on the former president, which pushed Trump’s polling averages to the high water mark for this race. Interestingly, at the time of his suspension of his campaign, polling averages for then candidate-Biden were rebounding, closing in on the levels seen prior to the fateful June debate.

FORMER PRESIDENT TRUMP’S POLLING AVERAGES REACHED A NEW HIGH WATER MARK FOR THE 2024 CAMPAIGN IN JULY



Sources: Real Clear Polling, Bloomberg Financial L.P. and UBP.

US VICE PRESIDENT KAMALA HARRIS, THE PRESUMPTIVE DEMOCRATIC NOMINEE FOR US PRESIDENT

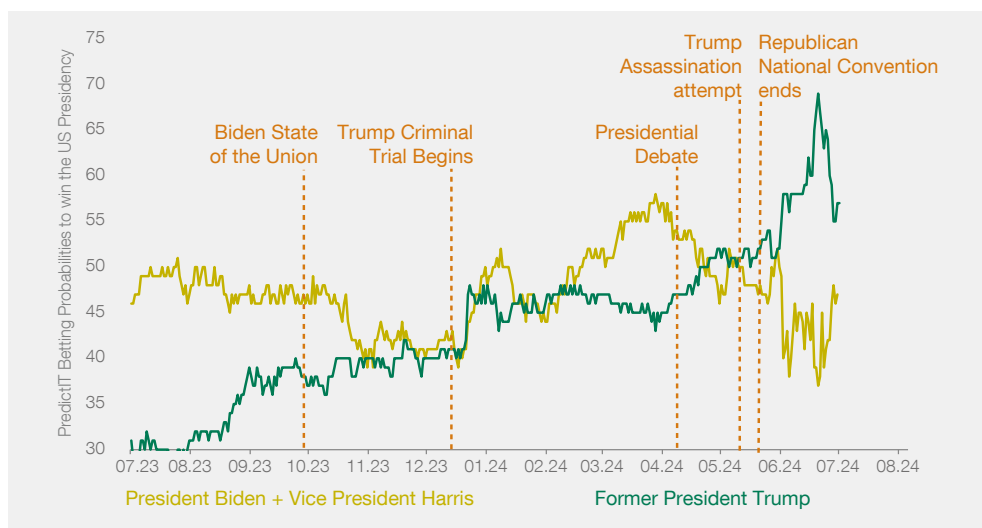
With Biden’s withdrawal, Democratic party support has coalesced around current Vice President Kamala Harris. Clarity on the presumptive nominee for the Democratic Party has staunched the outflow of support that has been under way since May according to the PredictIT betting markets.

Indeed, Vice President Harris’s odds of winning the White House have started at 40–45%, not meaningfully different from where the current president’s odds sat prior to the June 2024 debate.

While encouraging for the Democratic Party, former President Trump’s odds were on something of a rollercoaster ride in July. Though support has surged on the back of the June debate, and then again following the assassination attempt, the Republican Party standard bearer has seen no traditional “convention bump” in his odds of winning following the conclusion of the Republican National Convention on 19 July.

Instead, betting markets put the likelihood of a Trump win in November at 57%, still above the levels seen prior to the June debate, but well below the nearly 70% probability reached in the aftermath of the assassination attempt. Indeed, this stands in contrast to the attempted assassination of former President Ronald Reagan in 1981, who enjoyed a boost in his approval ratings that lasted nearly six months.

VP HARRIS STAUNCHED THE OUTFLOW OF SUPPORT, WHILE TRUMP HAS CEDED MOST OF HIS POST-DEBATE GAINS



Sources: PredictIT, Bloomberg Financial L.P. and UBP.

A NEW BEGINNING: WHO MIGHT WIN THE 2024 US PRESIDENTIAL ELECTION?

Having walked through the chaos that has characterised July polling, it is useful for investors to step back and look at where the race sits compared with before the events since late-June in order to assess the relative standings as the 2024 US presidential election begins a new chapter.

National polls continue to suggest a tight race, with Vice President Harris trailing former President Trump by 1.7% (on 27 July) according to RealClear Polling’s polling average.

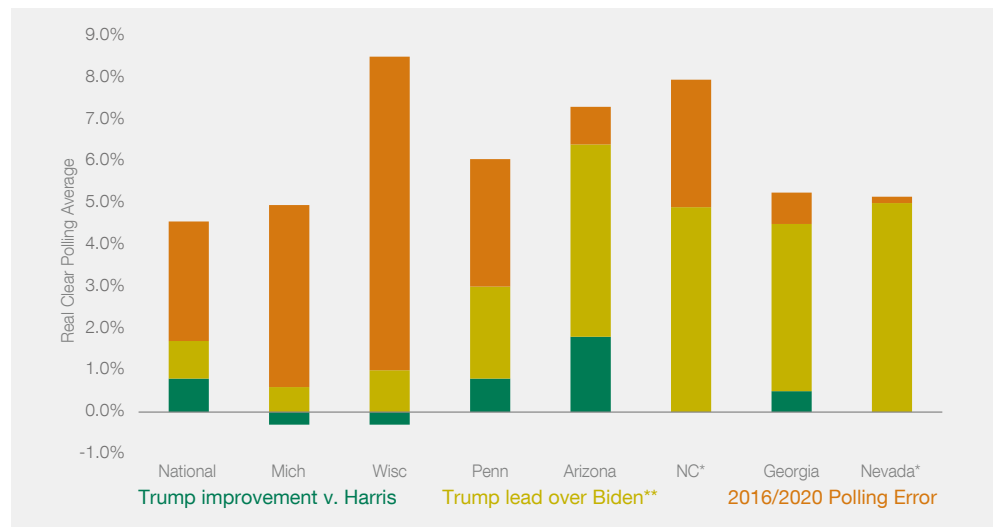
This is an improvement upon the final Trump vs. Biden polls on 19 July where the former president led the current president by 3.1%. However, Trump’s lead over Harris is larger than the less than 1% he commanded over Biden a week before the June debate, suggesting the Trump campaign has seen a net benefit from the turmoil of July. This means that Vice President Harris has ground to make up in order to take the White House.

As highlighted in our June report, looking at national polls understates the importance of a handful of states in deciding recent elections; recall that in the 2016 election, fewer than 80,000 votes (out of a total of 136 million cast nationally) in three states elected Donald Trump over Hilary Clinton. Similarly, in the 2020 election only 44,000 votes (out of a total of 158 million cast nationally) in seven states determined the outcome of Biden vs. Trump.

In 2024, pundits suggest that once again a small minority of US “battleground” states will determine the outcome of the US election. These battleground states include three industrial Midwest states – Michigan, Wisconsin and Pennsylvania – and four “Sunbelt” states – Arizona, Nevada, Georgia, and North Carolina.

Looking at the admittedly still-limited polling that has emerged since the withdrawal of President Biden, according to RealClear Polling, the Trump vs. Harris race has tightened modestly in Michigan and Wisconsin, while widening in favour of the former president in Pennsylvania, Arizona, and Georgia. As at late-July, insufficient polling is available in North Carolina and Nevada to assess the impact of Harris’s entry into the race.

EARLY TRUMP VS. HARRIS POLLING SUGGEST MODEST GAINS IN A RACE AGAINST THE CURRENT VICE PRESIDENT



Sources: RealClear Polling and UBP.
 * Insufficient Trump v. Harris polling available
 Data through 27 July 2024

Incorporating the significant polling error seen in both the 2016 Trump victory and his 2020 defeat beyond the narrowness by which both elections were decided (for more details, please see *The 2024 US Elections Come into Focus*, June 2024), the possibility continues to exist that the former president’s lead across all battleground states is much larger than headline polling might suggest and, more importantly, outside the margin of error.

Looking at the prospects for Vice President Harris to take the US Presidency in November, assuming she can secure the states that President Biden handily won in 2020, she will need to win in at least three of the seven battleground states. With just over three months until election day and less than fifty days until early voting begins in Pennsylvania, the Democratic nominee will likely need to focus her campaign to secure at least three of these battleground states.

Having been polling strongly in Michigan and Wisconsin under the Biden flag and improving since she became the Democratic standard bearer, both states are likely targets of an abbreviated Harris campaign. Moreover, with Pennsylvania polling meaningfully tighter than the battleground states in the Sunbelt, the Vice President could turn to current Pennsylvania Governor Josh Shapiro to bolster her campaign, so that she can focus her efforts on the industrial Midwest battleground states.

Recognising this, candidate Trump has, unsurprisingly, been out campaigning in Pennsylvania, the site of the failed assassination attempt in mid-July, in an effort to mobilise his supporters who drove the Pennsylvania polling error in favour of Trump in 2016 and 2020.

HARRIS VS. TRUMP: HOW MIGHT IT DIFFER FROM TRUMP VS. BIDEN?

The high water mark for President Biden's short-lived campaign for a second term in the White House was the 7 March State of the Union address in which he outlined his platform for another term. The speech, typically laden with political bluster, nonetheless took a populist focus with a proposal to raise corporate taxes and increase taxes on the wealthy, while pressing divisive American social issues including reproductive rights and foreign policy issues, including the US commitment to Ukraine, while also treading carefully on the Israel-Hamas conflict which is dividing its base.

While the speech allowed Biden to close the gap on the former president in spring, by mid-June, these policy pronouncements left the sitting president trailing behind and losing momentum going into the failed June debate.

Therefore, in the next hundred days, the Harris campaign will need to carve out a handful of policies to not only distinguish her campaign from the Republican platform, but also to enhance and improve the Biden platform and messaging from March.

With the Biden administration under pressure for being insensitive about the impact high inflation has had on middle-class families, the Harris campaign will likely look to emphasise the reallocation of burdens that will be required as outlined in our June 2024 report.

Recall, the Biden State of the Union speech outlined not only the expiration of the Trump tax cuts of 2017, but an increase in taxes on corporates and high-net-worth individuals. Look for the Harris campaign to add detail to a reallocation of these new tax proceeds with focuses such as middle-class tax credits, affordable housing programmes, and student loan relief as outlets for the proceeds from increased taxes.

A strategy to secure key industrial Midwest battleground states will probably see a more distinct policy divide both socially and geopolitically.

Israel's war with Hamas has been contentious within the Democratic party. With a large Middle Eastern population, districts in Michigan have expressed displeasure with the Biden administration's policies since October 2023. Candidate Harris appears to have begun to abandon President Biden's caution on the issue, calling on Israeli Prime Minister Benjamin Netanyahu to "end the war".

Socially, Democrats performed better than expected in the November 2022 mid-term elections on the back of a reproductive rights focus following the June 2022 decision by the Republican-appointed majority on the US Supreme Court overturning the landmark Roe vs. Wade case. Having championed the cause within the Biden administration, a higher profile for this issue is likely in a Harris campaign.

Interestingly, the Biden administration's flagship legislation, the Inflation Reduction Act, may require some nuance from candidate Harris given the importance of Pennsylvania, which is the second-largest producer of shale gas in the United States.

Looking across the aisle, with former President Trump's selection of Ohio Senator J.D. Vance as his vice-presidential running mate, the Republican campaign has made it clear that a second Trump term will not be seeking to compromise on Trump's foundational policy anchors as he did in his first term by turning to Republican stalwart, now-former Vice President Mike Pence, as his running mate.

Instead, one area where a Trump-Vance campaign may differ from the 2017 Trump administration will be in terms of fiscal policy.

Senator Vance's vote against the June measure that raised the US debt ceiling (preventing a US default) highlights his pursuit of fundamental reform of the US budgeting process.

Similarly, other members of the campaign have suggested freezing non-defence spending as an offset to the tax cut and spending proposals of a potential new administration, which will probably test the market's willingness to continue funding America's deficits at current interest rates.

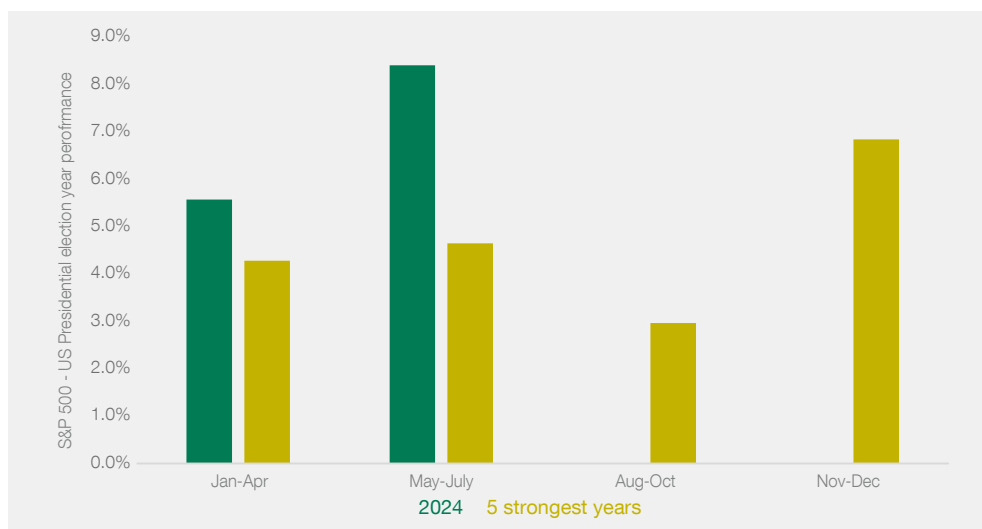
Moreover, while the deglobalisation movement spurred by Trump's 2018 tariffs on China has gained momentum, a second Trump term may slow progress as the United States-Mexico-Canada free-trade agreement approaches its renegotiation window in 2026. With the immigration issue a priority among voters and with even the Biden administration acknowledging that China is redeploying manufacturing capacity to Mexico to skirt around American tariffs, the renewed focus on organised labour in the Republican party and bringing jobs back to America's industrial Midwest will look to speak to the voters that will be critical to a Harris campaign for president.

INVESTING IN THE RUN-UP TO THE NOVEMBER ELECTION AND BEYOND

As outlined in our June report, *2024 US Elections Come into View*, we expected summer would continue to offer investors attractive risk-reward opportunities in equities and credit. However, we also warned that investors would need to prepare portfolios for the more uncertain and riskier backdrop that may emerge in 2025.

The expected strong summer period, consistent with the run-up to previous US presidential elections, has unfolded as predicted, leaving investors with the strongest presidential election year performance through July since World War II.

2024 HAS SEEN THE STRONGEST PRESIDENTIAL ELECTION YEAR EQUITY PERFORMANCE SINCE WWII



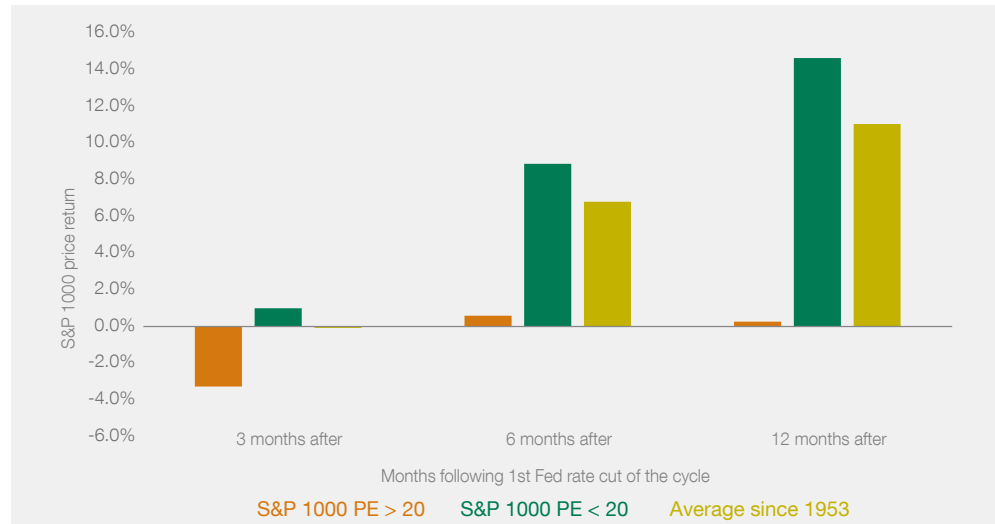
Sources: Standard & Poor's, Bloomberg Financial L.P. and UBP.

However, since WWII, five of the sixteen post-WWII presidential election years have seen negative returns in the run-up to the election from July to October. Indeed, two of those years were among the strongest five presidential election years (1996 and 2020), highlighting the penchant for post-election rallies in equities.

Thus, seasonality likely warrants investors take a more cautious stance, as the tailwinds of the first half of the year begin to ease. However, beyond this, while investors are increasingly encouraged that the US Federal Reserve looks set to cut rates as early as September, investors should be cautious given the market performance year-to-date.

While historically Fed rate cuts have translated into average returns of 11% for US equity investors over the following 12 months, when valuations are in excess of 20x earnings as they are today, average investor returns in the following 12 months fall to only 0.3%, with two years (1987 and 2001) seeing -15% returns over the following year.

FED RATE CUTS AMID ELEVATED VALUATIONS HAVE HISTORICALLY NOT BEEN HELPFUL FOR EQUITY MARKET RETURNS



Sources: Prof. Robert Shiller, Yale University, Standard & Poor's, and UBP.

Therefore, with the expected summer rally unfolding as anticipated, investors should pivot strategies to focus on risk management moving into a more seasonally challenging phase of the presidential election year and a more uncertain policy and debt sustainability landscape moving into 2025.

As outlined in our 2024 Investment Outlook (*Back to the Future*, November 2023), we anticipate that fiscal uncertainty with a new presidential administration would bring about both economic and geopolitical costs which would favour gold. Indeed, having outpaced both bonds and non-US equities over every time horizon over the past 30 years, we believe gold presents an attractive anchor for real, inflation-adjusted wealth preservation in the years ahead.

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