

What the US election outcome could spell for financial markets

BBH Market Strategists Win Thin and Elias Haddad note what a Donald Trump or Kamala Harris presidency could mean for US financial markets, as well as trade, fiscal, and industrial policies.

The US election remains too close to call ahead of the November 5 vote, but analysis of “Trumpenomics” vs “Kamalanomics” is well underway. A divided Congress is the most likely scenario in our view. The political gridlock will make it hard for the next president to implement major fiscal changes, meaning fiscal policy will remain a drag to growth in the next few years.

Trumpenomics bottom line: fiscal and trade policies under a Trump presidency are inflationary. This could force the Federal Reserve (“the Fed”) to keep the policy rate restrictive for longer, underpinning a firmer USD and Treasury yields. Nonetheless, Trump’s ambiguous currency policy is a major headwind for the dollar.

Kamalanomics bottom line: fiscal and trade policies under a Harris presidency are less likely to complicate the Fed’s price stability mandate, supporting a neutral outlook for USD and Treasury yields.

A deeper dive

We look at each candidate’s economic platforms and how those set the stage for potential financial market moves.



Trump - Bring business back to the US

Trump’s description of his economic agenda is to “bring business back to our country”. He plans to do so via tax cuts, more tariffs, and looser regulatory policies.

Extend and expand tax cuts: US think tank The Brookings Institution estimates that extending the 2017 tax cuts¹ will cost an extra USD\$3.8 trillion over the next ten years. Elsewhere, the Congressional Budget Office (CBO) estimates that extending the 2017 tax cuts would cost USD\$4.6 trillion over the next ten years. Trump is also pushing new tax cuts, such as exempting tips from taxation. The Committee for a Responsible Federal Budget estimates that doing so would cost USD\$100 to USD\$200 billion over the next ten years.



Harris - Building up the middle class

According to Harris, a defining goal of her presidency is “building up the middle class.”

Tax credits, subsidies, home-buyer support and lower healthcare costs:

Harris has begun to unveil [her economic platform](#) which includes:

- Expanding the Child Tax Credit;
- Expanding the Earned Income Tax Credit;
- Extending the enhanced Affordable Care Act subsidies;
- Providing down payment support for qualified first-time homebuyers; and
- Lowering prescription drug costs.

It’s not yet clear how these new spending measures would be funded, but judging from her recent statements they would likely resemble President Joe Biden’s [2025 budget proposal](#).

The [Penn Wharton Budget Model](#) estimates that the Harris Campaign’s tax and spending proposals would increase primary deficits (deficit less interest payments on the debt) by \$1.2 trillion over the 2025-2034 budget window. Meanwhile, the [Committee for a Responsible Federal Budget](#) projects Harris’s policies would raise primary budget deficits by between \$1.7 and \$2.0 trillion over the next decade.

¹ <https://www.investopedia.com/taxes/trumps-tax-reform-plan-explained/#:~:text=Key%20Takeaways,families%20will%20expire%20in%202025.>

Trade/tariffs: Trump has floated plans for a 10% tariff on all imported goods. He has also proposed an even higher tariff rate of 60% on Chinese imports. The US imports about USD\$3 trillion of goods each year, so a 10% tariff would yield roughly USD\$300 billion in revenue. This is certainly not enough to cover Trump's proposed tax cuts.

In fact, studies show that tariffs are mostly passed on to consumers. Estimates for the average annual cost to households from the 10% across the board tariffs range between USD\$1500 and USD\$1700. From a macro perspective, most estimate that these tariffs would shave 0.5-0.7 percentage points off growth while adding 0.7-1.1 percentage points to inflation. However, most estimates don't factor retaliatory tariffs by the main trading partners, which would likely lead to a greater drag on growth.

Trade/tariffs: The [Biden-Harris Administration 2024 trade policy agenda](#) emphasizes a continued commitment "to a fair and open global trading system" and calls for "using trade as a force for good." Moreover, the Administration aims for a trade relationship approach with China that is "holistic and pragmatic" instead of an across-the-board adoption of tariffs.

Of note, the Biden administration has kept most of the Trump administration's tariffs in place. In fact, Biden announced tariff hikes in May 2024 on an additional \$18 billion of Chinese goods, including semiconductors and electric vehicles that generated an additional \$3.6 billion of tariff revenues.

Trade/tariffs state of play

Section 232 of the Trade Expansion Act of 1962 allows the President to bypass Congress and impose tariffs if certain imports threaten to impair US national security.

Regulatory: Trump plans to loosen environmental regulations on the energy sector; he has also said he would loosen regulation and oversight of tech companies. A President can amend regulations by Executive Order without congressional approval.

According to a [New York Times analysis](#) from January 2021 that was based on research from Harvard Law School, Columbia Law School, and other sources, nearly 100 environmental rules were reversed during the Trump years².

Regulatory: Harris wants to cap prescription drug prices. She also plans to direct the Federal Trade Commission (FTC) and other agencies to investigate and penalize corporations for unfair price-fixing.

Monetary policy: Trump believes the president should have influence in setting monetary policy. Specifically, at a press conference on August 8³, he said "I feel the president should have at least have (a) say in there, yeah, I feel that strongly." This follows reports earlier this year that a team of Trump's allies were drafting plans to erode the Fed's independence if Trump were to win the election. Trump walked that back on August 19 and said "I think it's fine for a president to talk. It doesn't mean that they have to listen."⁴

Trump recently said that he would not replace Fed Chair Jay Powell before his term ended. Of note, Trump appointed Chris Waller and Michelle Bowman to the board during his term.

Since Powell's replacement as Chair would be chosen from the existing Board of Governors it remains virtually impossible for a sitting president to influence monetary policy under the current Fed structure.

Monetary policy: Harris believes in maintaining the independence of the Fed. On August 10, she told reporters that she could not disagree "more strongly" with Trump's view on Fed independence and that she would "never interfere in the decisions that the Fed makes."⁵

Monetary policy state of play

Changes to the Fed's mandate or structure require congressional approval. The Fed Board of Governors explicitly states that "Elected officials and members of the Administration are not allowed to serve on the Board."

Presidents can only impact Fed policy indirectly by their appointments to the Board of Governors and as Fed Chair. In that regard, Fed Chair Jay Powell's term ends May 2026.

It's worth noting that if he is replaced as Chair, Powell would remain on the Board of Governors until January 2028. Kugler's term on the board ends January 2026. These two will be the only opportunities for the next president to appoint new Governors.

Dollar policy: Judging from recent comments, Trump would like to weaken the dollar. A weaker dollar would increase the costs of imports and, like tariffs, are likely to be passed on to the consumers. A weaker dollar could also lead foreign investors to demand higher returns to hold dollar denominated assets due to increased currency risks, which raises costs for the Treasury. In a July interview with Bloomberg Businessweek⁶, he emphasized "we have a big currency problem because the depth of the currency now in terms of strong dollar/weak yen, weak yuan, is massive." Trump's running mate JD Vance added "devaluing' of course is a scary word, but what it really means is American exports become cheaper, and that's important."

Trump's former US Trade Representative Robert Lighthizer is thought to be one of the top picks to become Treasury Secretary. In his 2023 book "No Trade Is Free," Lighthizer wrote that it is "clear" that the dollar is "well overvalued" and that the US could make a number of moves to correct that.

Dollar policy: Harris has not opined on the dollar. However, we expect her pick for Treasury Secretary to take the same stance as Larry Summers, Timothy Geithner, and others right up to Yellen now did in following Robert Rubin's lead in their stance that a strong dollar is in the best interests of the US.

² These include rules on air pollution and emissions, drilling and extracting, water pollution, toxic substances, and safety. The bulk of these rollbacks sought to weaken Obama-era policies.

³ <https://www.politico.com/news/2024/08/08/trump-fed-powell-bank-2024-elections-00173299>

⁴ <https://www.bloomberg.com/news/articles/2024-08-19/trump-defends-fed-criticism-weighs-providing-aid-to-home-buyers?sref=eeg6exxf>

⁵ <https://www.reuters.com/world/us/harris-says-fed-is-independent-she-would-never-interfere-its-decisions-2024-08-10/>

⁶ <https://www.bloomberg.com/features/2024-trump-interview-transcript/>

Dollar policy state of play

Exchange rate policy is run by the Treasury Department. However, with market-determined exchange rates, Fed monetary policy is a major driver for the dollar.

A weaker dollar would increase the costs of imports and, like tariffs, are likely to be passed on to the consumers.

Past US administrations and effects on financial markets

Since major currencies began to float against each other in 1973, shortly after the collapse of the Bretton Woods System, the dollar benefitted the most under a Republican president, a Republican Senate, and a Democratic House. The dollar performed poorly when Democrats or Republicans held a trifecta⁷ (see **tables 1 and 2**).

Table 1

US Administrations					
Periods	President - Party Affiliation	Senate	House of Representatives	S&P 500 (%)	USD* (%)
Jan 1973 - Jan 1975	Gerald Ford - Republican	Democrats	Democrats	-21	2
Jan 1975 - Jan 1977		Democrats	Democrats	29	6
Jan 1977 - Jan 1979	Jimmy Carter - Democrat	Democrats	Democrats	0	-3
Jan 1979 - Jan 1981		Democrats	Democrats	25	4
Jan 1981 - Jan 1983	Ronald Reagan - Republican	Republicans	Democrats	6	16
Jan 1983 - Jan 1985		Republicans	Democrats	14	16
Jan 1985 - Jan 1987		Republicans	Democrats	27	-2
Jan 1987 - Jan 1989		Democrats	Democrats	9	1
Jan 1989 - Jan 1991	George H.W. Bush - Republican	Democrats	Democrats	13	7
Jan 1991 - Jan 1993		Democrats	Democrats	19	7
Jan 1993 - Jan 1995	Bill Clinton - Democrat	Democrats	Democrats	6	6
Jan 1995 - Jan 1997		Republicans	Republicans	30	3
Jan 1997 - Jan 1999		Republicans	Republicans	31	7
Jan 1999 - Jan 2001		Republicans	Republicans	3	4
Jan 2001 - Jan 2003	George W. Bush - Republican	Republicans	Republicans	-15	1
Jan 2003 - Jan 2005		Republicans	Republicans	17	-7
Jan 2005 - Jan 2007		Republicans	Republicans	11	-1
Jan 2007 - Jan 2009		Democrats	Democrats	-17	1
Jan 2009 - Jan 2011	Barack Obama - Democrat	Democrats	Democrats	19	-5
Jan 2011 - Jan 2013		Democrats	Republicans	10	0
Jan 2013 - Jan 2015		Democrats	Republicans	21	7
Jan 2015 - Jan 2017		Republicans	Republicans	7	8
Jan 2017 - Jan 2019	Donald Trump - Republican	Republicans	Republicans	8	-1
Jan 2019 - Jan 2021		Republicans	Democrats	24	-2
Jan 2021 - Jan 2023	Joe Biden - Democrat	Democrats	Democrats	3	5
Jan 2023 - to date		Democrats	Republicans	28	1

Note: Bold denotes period when Party in the White House and Congress are the same. * Fed trade-weighted nominal broad dollar index.

Past performance does not guarantee future results.

⁷ "Trifecta" refers to the US Presidency and a majority in both houses of Congress.

Table 2

Average annualised return return:	S&P 500 (%)	USD* (%)
When Democrats have White House and Congress	11	1
When Democrats have White House and Senate. House is Republican.	20	3
When Democrats have White House and House. Senate is Republican.	n/a	n/a
When Democrats have White House but Congress is Republican.	18	6
When Republican have White House and Congress	5	-2
When Republican have White House and Senate. House is Democrat.	18	7
When Republicans have White House and House. Senate is Democrat.	n/a	n/a
When Republicans have White House but Congress is Democrat	5	4

* Fed trade-weighted nominal broad dollar index.

Past performance does not guarantee future results.

For the S&P 500, the highest returning partisan control combination has been a Democratic President/ Democratic Senate/Republican House. The S&P 500 performed equally well under a Democratic President/ Republican Congress or Republican President/ Republican Senate/Democratic House mix.

The races are on

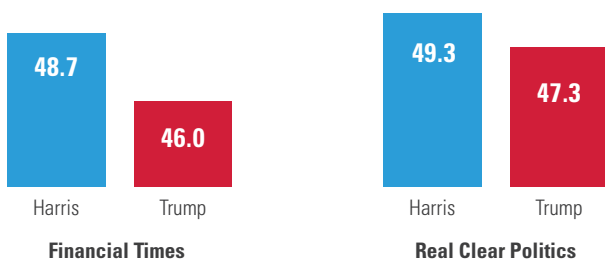
Presidential race

It takes 270 electoral college votes to win the presidential election. In 2020, President Joe Biden won with 306 votes versus 232 for Trump. Biden also secured a majority of the popular vote with 51.3% versus 46.8% for Trump.

Up until Biden announced he would leave the race on July 21, national polling average favored Trump to win in 2024 by a margin of about 3 percentage points. But polling momentum has shifted against Trump since Harris was tapped as the official Democratic presidential nominee. National polling average currently show Harris leading Trump by between 1 and 3 percentage points (**chart 1**)⁸.

Chart 1

Trump vs. Harris National Polling Averages (%)



Last updated September 19.

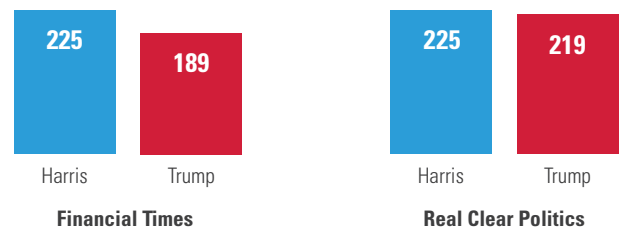
⁸ Data as of September 13, 2024

⁹ The battleground states include the "Sun Belt" states of Arizona, Nevada, Georgia, and North Carolina and the "Blue Wall" states of Pennsylvania, Michigan, and Wisconsin.

Regardless, the path to 270 electoral college votes is shaping-up to be a nail-biter. Polls show Harris has slightly more states either solidly in her corner or leaning in her direction compared to Trump (**Chart 2**). Meanwhile, both candidates have narrow leads in the seven key battleground states⁹ that total 93 electoral votes (**Chart 3**).

Chart 2

Trump vs. Harris Electoral College Votes Estimate* 270 to Win



* Include states that are either solid or leaning towards Harris or Trump. Last updated September 19.

Chart 3

Battleground States <i>(As of September 19)</i>	Electoral College Votes	Average Poll Margin (pct pts)	
		Financial Times	Real Clear Politics
Pennsylvania	19	Harris +0.3	Harris +0.6
North Carolina	16	Trump +1.4	Trump +0.4
Georgia	16	Trump +1.0	Trump +0.7
Michigan	15	Harris +1.4	Harris +1.0
Arizona	11	Trump +1.3	Trump +1.3
Wisconsin	10	Harris +0.9	Harris +1.1
Nevada	6	Harris +0.6	Harris +0.5
Total	93		

Senate race

It takes 51 seats or 50 seats plus the vice presidency to control the Senate. Democrats currently have majority control of the Senate with 51 seats versus 49 seats for Republicans. In the upcoming election, Republicans are considered to have a fundamental advantage as Democrats are defending 23 of the 34 seats up for 2024.

Republicans can take control of the Senate with a net gain of two seats or with a net gain of one seat and winning the 2024 presidential election. According to the website racetothewh.com, Republicans have a 62.3% chance of winning a majority in the Senate while Democrats have a 37.7% chance.

House race

It takes 218 seats to control the House of Representatives. Republicans currently have majority control of the House with 220 seats versus 212 seats for Democrats. According to the website [racetothewh.com](https://www.racetothewh.com), Democrats have a 60.8% chance of winning a majority in the House while Republicans have a 39.2% chance.

America's escalating fiscal burden

Regardless of the election outcome, the US public debt trajectory will not improve. Under current policies, the Congressional Budget Office (CBO) projects the federal debt to balloon from currently 97% of GDP to a record high of 122% of GDP in 2034.

The most effective way of bringing down high public-debt ratios is by running primary budget surpluses. Unfortunately, the policies of both presidential candidates and government division make the prospect of a sustained debt adjustment very unlikely.

For now, investors remain largely unfazed by the chronic US fiscal imbalance. Foreign holdings of US Treasuries surged to an all-time high of \$7.1 trillion in June and the compensation investors require for holding long-dated Treasuries (the term premium) has stayed broadly negative throughout the year.

Indeed, the risk of sovereign stress in the US is low. As the IMF points out, US public debt is manageable underpinned in large part by the strength of institutions, the depth of the investor pool, and the role of the US dollar in the international system.¹⁰

¹⁰ Pg11 https://www.bbh.com/content/dam/bbh/external/www/investor-services/insights/fxq2-2024/2024-6340807034-IS-FXQ2-PUB_accessible.pdf

Contacts



Win Thin
Managing Director
win.thin@bbh.com
+1.212.493.8867



Elias Haddad
Vice President
elias.haddad@bbh.com
+44.207.614.2123

For the latest insights visit:

**EXCHANGE
THOUGHTS**

[BBH.com/exchangethoughts](https://bbh.com/exchangethoughts)

**ON
THE
REGS**
a BBH blog

[BBH.com/ontheregs](https://bbh.com/ontheregs)

**Mind
on the
Markets**
a BBH blog

[BBH.com/mindonthemarkets](https://bbh.com/mindonthemarkets)

LinkedIn®

Brown Brothers Harriman

 **BROWN BROTHERS HARRIMAN**

NEW YORK BEIJING BOSTON CHARLOTTE CHICAGO DUBLIN GRAND CAYMAN HONG KONG HOUSTON

JERSEY CITY KRAKÓW LONDON LUXEMBOURG NASHVILLE PHILADELPHIA TOKYO WILMINGTON ZÜRICH [WWW.BBH.COM](https://www.bbh.com)

Brown Brothers Harriman & Co. ("BBH") may be used to reference the company as a whole and/or its various subsidiaries generally. This material and any products or services may be issued or provided in multiple jurisdictions by duly authorized and regulated subsidiaries. This material is for general information and reference purposes only and does not constitute legal, tax or investment advice and is not intended as an offer to sell, or a solicitation to buy securities, services or investment products. Any reference to tax matters is not intended to be used, and may not be used, for purposes of avoiding penalties under the US Internal Revenue Code, or other applicable tax regimes, or for promotion, marketing or recommendation to third parties. All information has been obtained from sources believed to be reliable, but accuracy is not guaranteed, and reliance should not be placed on the information presented. This material may not be reproduced, copied or transmitted, or any of the content disclosed to third parties, without the permission of BBH. Pursuant to information regarding the provision of applicable services or products by BBH, please note the following: Brown Brothers Harriman Fund Administration Services (Ireland) Limited and Brown Brothers Harriman Trustee Services (Ireland) Limited are regulated by the Central Bank of Ireland, Brown Brothers Harriman Investor Services Limited is authorized and regulated by the Financial Conduct Authority, Brown Brothers Harriman (Luxembourg) S.C.A is regulated by the Commission de Surveillance du Secteur Financier, and Brown Brothers Harriman (Hong Kong) Limited is regulated by the Securities & Futures Commission in Hong Kong. All trademarks and service marks included are the property of BBH or their respective owners. © Brown Brothers Harriman & Co. 2024. All rights reserved. IS-10188-2024-09-17 2024-7277672329