26 July 2024

Trump or Harris: who will win the 2024 US election?

In many respects, you might rub your eyes at what is happening in the American election campaign - but you have to admit: It's not boring. An initial change in the assessment of the election chances was necessary after Biden revealed considerable concentration deficits in a TV debate and Trump was able to present himself as an almost youthful and vital man against Biden. From this point onwards at the latest, it was clear that the odds had (further) shifted in Trump's favor and that there was a very high probability that Trump would be elected for a second term as US president. This trend intensified even further after Trump survived the assassination attempt on his life with a scratch on his ear and made for almost iconic photos with his instinctive reaction immediately after the shooting. By this point at the latest, the election seemed decided.

As Biden was unable to dispel the rumors about his health in the days that followed, there was increasing discussion as to whether it would not be better for the Democrats to change horses again shortly before the election and back a different candidate.

The final turning point in this development was the television images of the US President barely being able to descend the stairs of Air Force One, suffering from a COVID infection. After the President had retired to his home in Rehoboth Beach, the decision was probably made within the family to remain in office until the election, but to no longer stand as a candidate.

This triggered mixed feelings among the Democrats: on the one hand, relief that they could now back a candidate who had a better chance of winning the election; on the other hand, concern that the candidate selection could end in chaos. This is exactly what had already happened in 1968 and should be avoided at all costs. The natural candidate in this situation (and this was already clear beforehand) is, of course, US Vice President Kamala Harris. Nevertheless, a vote is necessary and, according to reports from the Washington Post and CNN, this is now set to begin virtually on August 1. Potential candidates therefore only have until the end of July to submit their candidacy.

The US electoral system

In the USA, candidates are not elected at party conventions, but technically in primaries. The party conventions are then a purely formal act and the delegates are bound by instructions. However, it is mainly politically strongly (and often extremely) motivated citizens who take part in the primaries. It is therefore very difficult to select mainstream candidates in this way. This probably also explains why the two major parties in the USA have for many years presented voters with candidates who, on balance, generate little enthusiasm. Even now, 47 percent of voters said in polls that they had little or no sympathy for either Biden or Trump as candidates. Perhaps even more surprisingly, 14 percent of Democratic voters would like to replace Biden with another candidate, while 12 percent of Republican voters would like to replace Trump with another candidate. So there can be no question of enthusiasm or approval for the candidates, even if the television images of cheering supporters repeatedly suggest otherwise.

In order to remedy or at least limit this systemic error of the primaries as far as possible, the parties are again working with more or less major "tricks". For example, in order to favor the election of Biden as the Democratic

candidate (and to prevent external, even less mainstream-oriented candidates), the first primaries were held in the states where Biden would do best, in order to influence the mood for the next states.

Thanks to the skillful management of the Democrats, it can be assumed that Harris will be no-mined in any case, so that a duel between Harris and Trump can now be assumed with reasonable certainty. This is not good news for the Trump campaign. What was thought to be a certain victory has turned into another nail-biter for Trump - and his reactions are correspondingly annoyed and irritated. The problem from our point of view is to express probabilities at this stage as to how such an election could turn out. Because there are two major uncertainties. The first uncertainty is that there are currently hardly any reliable polls at individual state level about a duel between Trump and Harris. The second uncertainty lies in the peculiarity of the American electoral system, where sometimes a few tens of thousands of votes in two or three individual states can make the difference between victory and defeat.

If there were a majority voting system in the USA, as in Germany, Harris would have a certain chance of winning the election. Very recent polls show Trump (46 percent) only just ahead of Harris (45 percent), although the number of undecideds is still very high. Harris scores points with her age (compared to Harris, Trump is an old man), her history (from immigrant child to Attorney General of California and then Vice President), her likeable appearance, her quick wit, her good sense of humor, her expertise and her clear position on women's rights, civil rights, police violence and climate change. However, she is lacking in content when it comes to the economy, finance, geopolitics, defense and trade. She also occasionally gets tangled up in endless and clichéd word salad sentences. In addition, Harris can certainly be counted among the often unappreciated Democratic establishment; her contacts with billionaire supporters of the Democrats may help her financially - but this does not necessarily enhance her image.

But even if Harris were to win more votes than Trump in the end (which would be our current prognosis in a mishap-free election campaign), this does not necessarily mean that Harris will win the election. This is due to the many peculiarities of the US electoral system, which ultimately depends on which states you win in. Because whoever wins in a state wins all the votes of the electors sent by that state. Most federal states are relatively clearly

allocated to either the Democrats or the Republicans. In these states, it is completely irrelevant whether the winner receives a few percentage points more or less. By contrast, the swing states of Michigan, Pennsylvania, Wisconsin, Arizona, Georgia, Nevada and North Carolina will be particularly exciting, as the polls indicate an extremely close race here. Whoever wins here will probably also win the US elections in the end.

US presidential election: Election polls in the swing states as of 7/21/2024

source: Projects 538
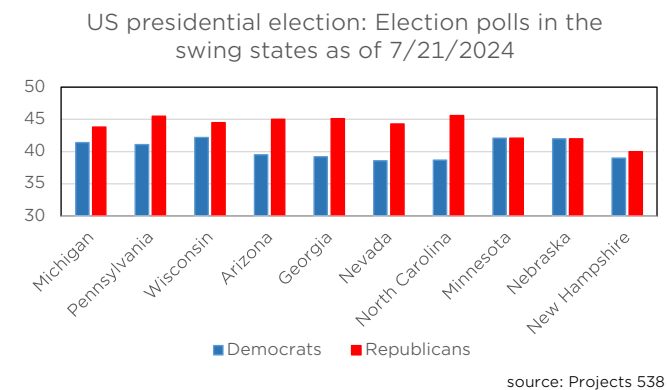
The question arises as to whether the change from Biden to Harris could have changed the situation in these particular swing states. This question cannot be answered seriously at this point, but there are some interesting details that should not go unmentioned. Ultimately, the efforts of Harris and Trump must focus on winning over the undecided and unregistered Democratic and Republican voters in the swing states.

If we now look at which issues are of central importance to independent voters, these include inflation, corruption, drug crime, homelessness, concerns about democracy, affordable housing, gun violence and injustices in the justice system. At least on some of these issues, Harris could perhaps appear more authentic and score better than Biden due to her appearance, her biography and also her experience. This could even swing the pendulum in Harris' favor. But for that to happen, the election campaign would have to follow an almost perfect script from now on, and it probably won't. If we were forced to make a prediction, it would currently look like this: It will remain exciting until the end, but in the end Trump will win, albeit narrowly.
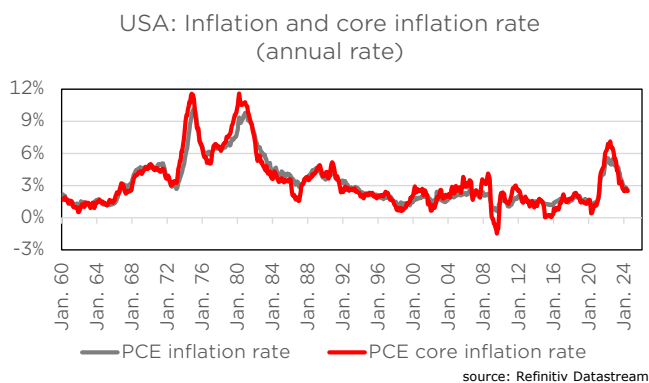
Of "objective" truths and "subjective" perceptions

As in every election campaign, economic issues play an important role in the current debate. The slogan "It's the economy, stupid!", with which Bill Clinton won the 1992 US presidential election due to the poor economic situation at the time, is unforgotten. But how good or bad is

the US economy today? A look at the facts shows that the USA is in an almost enviable situation compared to many other economies. The economic slump in the wake of the Corona pandemic was very quickly overcome thanks to expansive monetary and fiscal policy measures. The US economy contracted by 2.2 percent in 2020 (in Germany, real gross domestic product fell by 4.2 percent, in the Eurozone as a whole by as much as 6.2 percent), but has been on a growth trajectory since 2021. In 2021, real US GDP grew by 5.8 percent, in 2022 by 1.9 percent and in 2023 by 2.5 percent. Growth of 2.5 percent is also realistic this year. At the same time, unemployment is very low, with a recent unemployment rate of 4.1 percent, compared to an average of 6.1 percent since 1970. Even if everyone interprets these figures differently, it can be stated relatively objectively that the economic situation in the USA is good.

Surveys show that inflation is the biggest issue for voters. According to a YouGov survey from June 2024, this is the most important issue for 64 percent of all US voters surveyed, although it is less important for Democratic voters (47 percent) than for Republican voters (82 percent). Particularly in the swing states that are important for the election, a large majority believe that inflation has moved in the wrong direction in recent months. However, a look at the available statistics shows a different picture: the PCE inflation rate, which the US Federal Reserve uses to guide its interest rate decisions, has fallen from a high of 5.6 percent in February 2022 to 2.6 percent recently. The core inflation rate, which excludes energy and food prices, also fell from 7.1 percent to 2.6 percent. This means that the central bank has come very close to its goal of price stability (which is considered to be achieved at an inflation rate of 2.0 percent). Subjective feelings and objective facts are therefore diametrically opposed here. This is of course bad news for Kamala Harris and very good news for Donald Trump, who knows how to deal with alternative facts par excellence. This (mis)assessment by many Americans can perhaps be explained by the fact that the term "inflation" is confused with the term "price level". After all, a falling inflation rate also leads to a further rise in the price level - at least as long as it is not negative.

USA: Inflation and core inflation rate (annual rate)

PCE inflation rate — PCE core inflation rate

source: Refinitiv Datastream

However, the discrepancy between sentiment and facts is not only evident when it comes to inflation. A relatively recent survey also shows that a majority of respondents believe that their own investments and retirement provisions have developed in the wrong direction over the past year. In view of the sharp rise in stock prices, stable real estate prices and significantly higher interest rates on savings, this is difficult to understand. It is also consistent with the observation that the majority of respondents in surveys rate the state of the US economy as poor, while conversely the economic situation in their own state is viewed positively. We are also familiar with this picture from many sentiment surveys in Germany: while consumers and companies often assess the general situation negatively, the opposite is often true for their own situation. This generally observed tendency towards pessimism could be linked to the fact that negative news is disseminated much more frequently in the media than positive news. According to studies, this is because negative headlines attract more attention and therefore "sell" better.

But perhaps there is also another explanation for the public's supposedly "incorrect" assessment of inflation. In economics, inflation is defined as the percentage change in the price level compared to the previous year. However, most people do not compare today's price level with that of 12 months ago, but perhaps rather with the price level before the pandemic. If we look at the rates of change over the last four years, we can see that these have risen to just under 17 percent for the PCE price index and 18.5 percent for the core rate, which is as high as it was at the beginning of the 1990s.

USA: inflation and core inflation rate
(four-year rate)

PCE inflation rate   PCE core inflation rate

source: Refinitiv Datastream
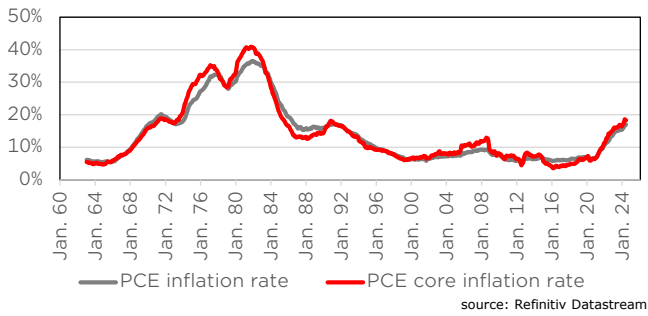
Although wages have also risen by around 20 percent overall in the last four years, there are considerable differences between the individual wage groups: Higher earners with a high level of education have been able to achieve significantly higher income growth than lower earners with a low level of education. Fewer people belong to the first group than to the second, and the first group tends to vote Democratic, the second Republican. From today's perspective, this speaks very strongly in favor of an election victory for Donald Trump and against Kamala Harris. This is because the important issues for the Democrats, which are likely to be at the heart of the election campaign for Kamala Harris and with which she could score points against Trump - climate change, abortion, gun violence - tend to be of little interest to Republican voters. As mentioned, their focus is primarily on the issues of immigration and illegal immigration.

Expected Presidential Election Results and Best Candidate for Economy and Personal Finances

	Expected Winner of Election		Best Candidate for Economy			Best Candidate for Personal Finances		
	Biden	Trump	Biden	Trump	No Difference	Biden	Trump	No Difference
All	44	48	35	40	20	32	39	23
Party								
Democrat	78	21	75	3	22	71	4	25
Independent	41	53	26	45	28	21	44	34
Republican	14	85	3	89	8	3	86	11
Age								
18-34	47	51	34	34	31	28	35	36
35-44	42	57	31	40	29	29	39	31
45-54	46	50	36	44	19	33	45	21
55-64	45	49	36	47	16	33	46	19
65 or older	51	45	45	40	15	41	38	20
Education								
High school or less	36	60	20	59	20	18	59	21
Some college	39	56	30	50	18	27	49	22
College degree	49	48	39	38	23	36	38	25
Advanced degree	54	42	47	32	21	42	31	27
Income								
Bottom 20%	40	50	31	40	21	29	37	26
Second 20%	43	49	32	40	22	32	39	23
Middle 20%	51	45	39	39	20	37	39	21
Fourth 20%	45	50	36	45	18	32	44	21
Top 20%	49	47	42	35	21	33	37	27
Top 10%	54	44	47	33	19	34	36	29

Data collected between April 21 and July 17, 2024; "don't know" responses omitted

source: Uni Michigan Consumer Sentiment, Presidential Election Expectations, 22 July 2024

Possible economic consequences of the election outcome

Even if Kamala Harris and former President Donald Trump were to pursue different economic policies if elected, the economic impact is likely to be limited. In the case of Ms. Harris, it is not yet entirely clear what her economic policy priorities would be if she were to become president. We therefore currently assume that she would pursue similar goals to Joe Biden.

As far as fiscal policy is concerned, it can be assumed that neither would be inclined towards austerity. Trump stands for the unrestricted retention of the low income and corporate taxes that he pushed through in 2017. If the Republicans win the election, corporate taxes could be lowered even further (15 percent instead of the current 21 percent is being discussed). Harris only wants to maintain the lower tax rate up to an annual income of 400,000 US dollars and otherwise increase income and corporate taxes. Her focus is clearly on distribution policy, meaning that Trump's economic policy could lead to more growth at first glance.

However, Trump's ideas on trade and immigration policy could offset the fiscal policy advantage over Harris. Higher tariffs (10 percent on all imported goods, 60 percent on goods from China) will make the prices of the goods affected more expensive. Even if existing tariffs are likely to be maintained under the Democrats, additional tariffs on friendly countries are unlikely. However, the protectionist trade policy towards China is also likely to be tightened. Even if the Democrats' tone here sounds somewhat more conciliatory, there are no major differences in terms of content between them and the Republicans on China. Nevertheless, the risk of a new trade war is significantly higher under Trump than under Harris. A slightly higher inflation rate under Trump, leading to a more restrictive or less expansive monetary policy and therefore slightly less economic growth in the US, would be the plausible consequence. From an economic perspective, the biggest losers of a Trump presidency would be those economies whose growth is heavily influenced by trade with the USA: including Germany, the Eurozone and China.

How are the capital markets reacting?

The biggest difference between Harris and Trump could be in regulatory policy. While hardly any changes are to be expected under a Democratic presidency, this could be different under Trump. During his first term in office, deregulation measures were introduced in the energy, healthcare, technology and finance sectors in particular and these sectors could now once again be in the spotlight. Recently, this has already led to shares in companies from the "old economy" and shares in smaller companies attracting more interest. After all, these were the winners after Trump won the 2016 presidential election -

at least for a short time. Could this so-called "Trump trade" make a comeback? Let's take a look at the performance of various asset classes for a short period after the first Trump election (from November 6, 2016 to December 31, 2016) and once for the entire period between the 2016 election and the 2020 election (November 6, 2016 to November 3, 2020).

In the almost two months following the election of Donald Trump, performance was roughly in line with what could be expected from his political program: The supposed deregulation winners, namely shares from the financial and energy sectors, but also small caps such as the Russell 2000 Index, performed particularly well. By contrast, the losers included the technology, healthcare and utilities sectors. Chinese equities and US government bond prices also performed negatively. All as expected. A completely different picture emerges, however, if you look at the entire four years between the two election dates. Then the development of the first two months is almost completely turned on its head. Energy and financial stocks performed comparatively weakly, while technology and healthcare stocks led the way. Even Chinese equities and US government bond prices performed positively. Our conclusion: It may be possible to make money on the stock market in the short term simply on the basis of election programs and the economic developments that can be derived from them. To be successful

as an investor in the long term, it takes more than just paying attention to politics. After all, political stock markets still have short legs.

Capital market development 6.11.2016-31.12.2016		Capital market development 6.11.2016-3.11.2020	
FINANCIALS	16,5%	INFO TECHNOLOGY	148,9%
RUSSELL 2000	13,6%	NASDAQ 100	134,8%
COMM. SVS	12,8%	NASDAQ COMP	114,9%
DAX	9,5%	CONSUMER DISC	91,6%
EURO STOXX 50	8,8%	S&P 500	57,5%
ENERGY	8,6%	HEALTH CARE	55,0%
STOXX EUROPE 50	8,1%	DOW JONES 30	49,9%
DOW JONES 30	7,8%	China CSI 300	41,7%
INDUSTRIALS	7,0%	MATERIALS	40,6%
MATERIALS	5,4%	RUSSELL 2000	35,1%
S&P 500	4,6%	INDUSTRIALS	34,8%
US $ TO EURO	4,5%	UTILITIES	31,9%
NASDAQ COMP	3,7%	COMM. SVS	27,4%
CONSUMER DISC	3,5%	FINANCIALS	24,4%
NASDAQ 100	1,2%	CONSUMER STAPLES	22,1%
INFO TECHNOLOGY	1,0%	US 10 YEAR GOVT	20,6%
HEALTH CARE	0,9%	DAX	15,3%
UTILITIES	-1,0%	EURO STOXX 50	2,5%
CONSUMER STAPLES	-1,6%	STOXX EUROPE 50	1,3%
China CSI 300	-1,8%	US $ TO EURO	-6,2%
US 10 YEAR GOVT	-4,1%	ENERGY	-56,3%

Market data

	As of 26.07.2024 10:17	Change versus				
Stock marktes		19.07.2024 -1 week	25.06.2024 -1 month	25.04.2024 -3 months	25.07.2023 -1 year	29.12.2023 YTD
Dow Jones	39935	-0,9%	2,1%	4,9%	12,7%	6,0%
S&P 500	5477	-0,5%	0,1%	8,5%	19,9%	14,8%
Nasdaq	17182	-3,1%	-3,0%	10,1%	21,5%	14,5%
DAX	18311	0,8%	0,7%	2,2%	12,9%	9,3%
MDAX	24997	-1,4%	-1,8%	-4,0%	-11,7%	-7,9%
TecDAX	3301	0,5%	-0,2%	1,1%	1,2%	-1,1%
EuroStoxx 50	4839	0,2%	-2,0%	-2,0%	10,2%	7,0%
Stoxx 50	4432	0,4%	-2,5%	1,3%	10,5%	8,3%
SMI (Swiss Market Index)	12086	-0,7%	0,0%	7,3%	7,6%	8,5%
Nikkei 225	37667	-6,0%	-3,8%	0,1%	15,3%	12,6%
Brasilien BOVESPA	125954	-1,3%	3,0%	1,0%	3,2%	-6,1%
Indien BSE 30	81188	0,7%	4,0%	9,2%	22,4%	12,4%
China CSI 300	3409	-3,7%	-1,4%	-3,4%	-12,9%	-0,6%
MSCI Welt	3491	-1,8%	-0,8%	5,6%	14,6%	10,1%
MSCI Emerging Markets	1074	-1,4%	-1,0%	4,4%	4,0%	4,9%
Bond markets						
Bund-Future	132,64	54	13	286	-85	-458
Bobl-Future	116,83	20	9	44	89	-245
Schatz-Future	105,88	13	12	71	88	-67
3 Monats Euribor	3,70	4	4	-21	-1	-18
3M Euribor Future, Dec 2024	3,18	-8	-10	-13	-9	88
3 Monats $ Libor	5,54	0	-6	-5	-8	-5
Fed Funds Future, Dec 2024	4,79	-4	-18	-26	56	95
10 year US Treasuries	4,26	2	2	-45	36	39
10 year Bunds	2,45	4	7	-15	5	45
10 year JGB	1,07	5	8	20	62	44
10 year Swiss Government	0,55	-4	-6	-24	-40	-15
US Treas 10Y Performance	596,39	-0,1%	0,2%	4,7%	1,0%	-0,8%
Bund 10Y Performance	557,37	0,5%	0,4%	2,6%	2,9%	-1,4%
REX Performance Index	445,85	0,0%	0,4%	1,6%	2,7%	-0,5%
IBOXX AA, €	3,28	-6	-14	-25	-35	21
IBOXX BBB, €	3,80	-6	-19	-31	-69	4
ML US High Yield	7,80	-1	-19	-51	-63	1
Commodities						
MG Base Metal Index	397,31	-3,7%	-7,2%	-10,2%	0,7%	1,6%
Crude oil Brent	82,38	-2,0%	-3,8%	-6,0%	-1,6%	6,0%
Gold	2370,02	-1,5%	2,0%	1,5%	20,8%	14,7%
Silver	27,92	-4,5%	-3,9%	2,2%	13,1%	15,1%
Aluminium	2214,70	-3,5%	-9,5%	-12,7%	0,8%	-5,6%
Copper	9003,52	-1,9%	-4,4%	-7,6%	4,2%	6,4%
Iron ore	107,14	-1,2%	0,6%	-2,3%	-5,0%	-21,4%
Freight rates Baltic Dry Index	1834	-3,6%	-4,8%	5,2%	90,6%	-12,4%
Currencies						
EUR/ USD	1,0848	-0,4%	1,3%	1,2%	-1,8%	-1,8%
EUR/ GBP	0,8430	0,0%	-0,2%	-1,7%	-1,9%	-2,7%
EUR/ JPY	167,11	-2,6%	-2,2%	0,2%	7,0%	6,9%
EUR/ CHF	0,9582	-1,1%	0,1%	-2,1%	-0,2%	3,5%
USD/ CNY	7,2510	-0,3%	-0,2%	0,1%	1,6%	2,1%
USD/ JPY	153,95	-2,3%	-3,6%	-1,1%	9,3%	9,1%
USD/ GBP	0,78	0,4%	-1,5%	-2,9%	-0,1%	-0,9%

Source: Refinitiv Datastream

Carsten Klude
+49 40 3282-2572
cklude@mmwarburg.com

Dr. Rebekka Haller
+49 40 3282-2452
rhaller@mmwarburg.com

Martin Hasse
+49 40 3282-2411
mhasse@mmwarburg.com

Dr. Christian Jasperneite
+49 40 3282-2439
cjasperneite@mmwarburg.com

Simon Landt
+49 40 3282-2401
mlandt@mmwarburg.com