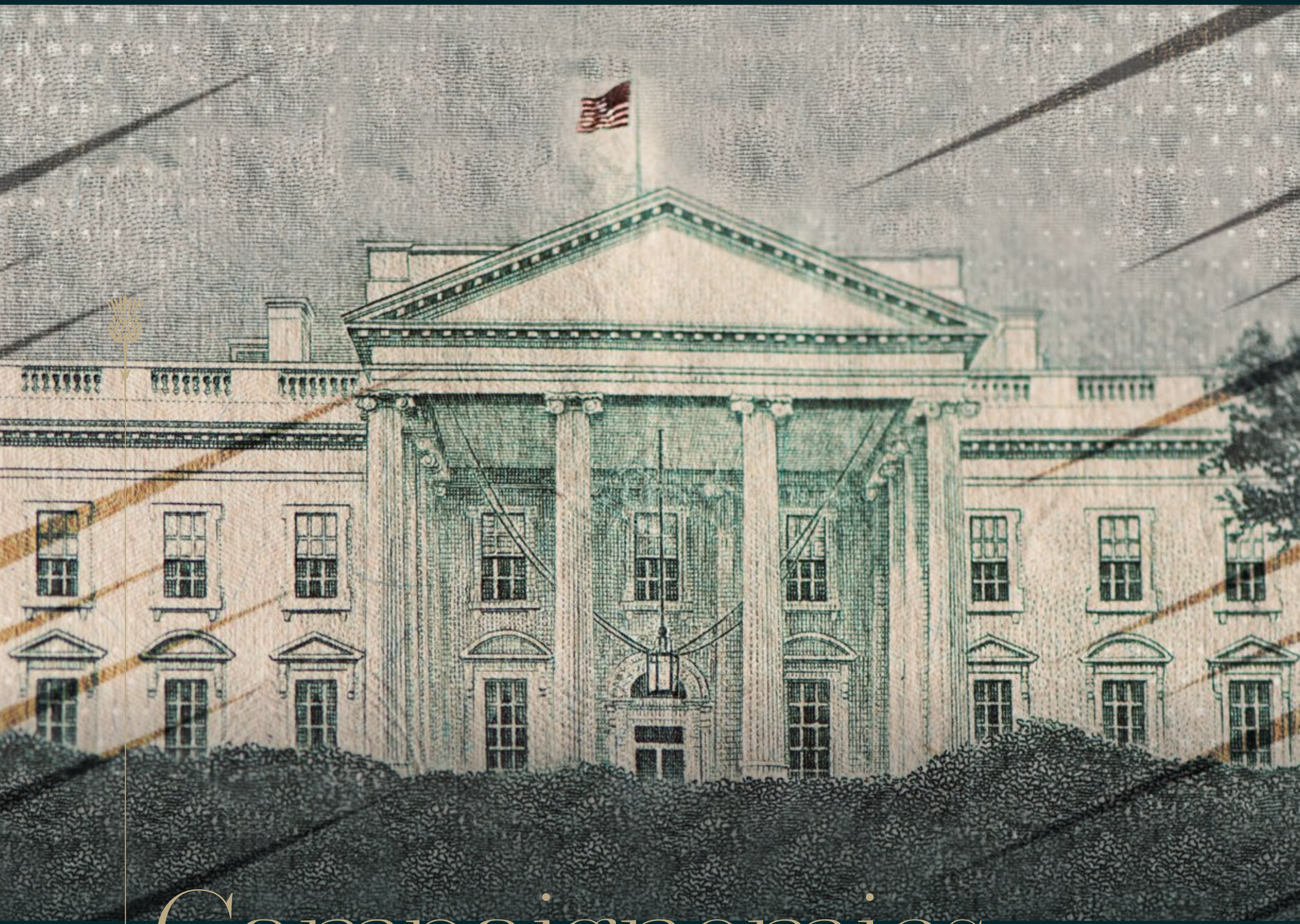
ROCKEFELLER
GLOBAL FAMILY OFFICE

CIO MONTHLY PERSPECTIVE

OCTOBER 2024



Campaignomics

The election's financial impact

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Market Watch

Equity Market Indices[1]	8/30/24 Price	9/30/24 Price	MTD Change	YTD Change
MSCI All Country World	834	852	2.17%	17.16%
S&P 500	5648	5762	2.02%	20.81%
MSCI EAFE	2453	2469	0.62%	10.40%
Russell 2000®[2]	2218	2230	0.56%	10.01%
NASDAQ	17714	18189	2.68%	21.17%
TOPIX	2713	2646	-2.46%	11.81%
KOSPI	2674	2593	-3.03%	-2.34%
Emerging Markets	1100	1171	6.45%	14.37%
Fixed Income				
2-Year U.S. Treasury Note	3.92%	3.64%	-28	-61
10-Year U.S. Treasury Note	3.90%	3.78%	-12	-10
BBG U.S. Agg Corp Spread	0.93%	0.89%	-4	-10
BBG U.S. HY Corp Spread	3.05%	2.95	-10	-28
Currencies				
Chinese Renminbi (CNY/$)	7.09	7.02	-1.02%	-1.15%
Brazilian Real (Real)	5.61	5.45	-2.80%	12.20%
British Pound ($/GBP)	1.31	1.34	-1.85%	-4.81%
Euro ($/Euro)	1.10	1.11	-0.77%	-0.86%
Japanese Yen (Yen/$)	146.17	143.63	-1.74%	1.84%
Korean Won (KRW/$)	1337.80	1314.70	-1.73%	2.07%
U.S. Dollar Index (DXY)	101.70	100.78	-0.90%	-0.55%
Commodities				
Gold	2503	2635	5.24%	27.71%
Oil	73.55	68.17	-7.31%	-4.86%
Natural Gas, Henry Hub	2.13	2.92	37.42%	16.27%
Copper (cents/lb)	415	455	9.84%	17.03%
CRB Index	277	285	2.86%	8.00%
Baltic Dry Index	1814	2084	14.88%	-0.48%

Source: Bloomberg

INTRODUCTION

September's reputation as the cruelest month for market returns was no match for the policy "bazookas" unleashed by the U.S. and China, the world's two largest economies.

The Fed surprised most economists and strategists by cutting the fed funds rate by 50 bps rather than the traditional 25 bps. Fed Chair Powell also took pains to stress that economic growth is expected to remain "solid" – the word was used 12 times during his post-Fed meeting press conference. Markets reacted enthusiastically as the Fed's dovish policy stance is expected to boost the odds of an economic soft landing.

A week after the Fed delivered the news, China unveiled a package of monetary and fiscal stimuli designed to boost confidence and consumption going into the October Golden Week holidays. To prop up the country's beaten down equity market, China's central bank planned to provide financing to institutional investors – securities, funds, and insurance companies – to invest in stocks. President Xi Jinping also held an off-schedule Politburo meeting which concluded with several policy "guarantees," including a commitment to stop the decline in China's beleaguered property market.

These major policy moves have provided financial markets with strong tailwinds, and the seasonally stronger period of the year is just around the corner. However, with equities and gold hitting new all-time highs and optimism abounding on economic growth, the Treasury market is still pricing in 75 bps of additional rate cuts before year end, which is more aggressive than the Fed's planned 50 bps of additional easing by year end. It appears that investors want to have their cake and eat it, too – healthy economic and earnings growth as well as a generous easing policy.

Notwithstanding the escalating tension in the Middle East and Ukraine-Russia conflicts, risks which investors have chosen to downplay unless crude oil prices are driven sustainably higher, the next market catalysts are the earnings reporting season starting in mid-October and the U.S. general election. Anecdotal data indicates that institutional investors appear to be positioning for a split government with Vice President Kamala Harris being promoted to the nation's top job next January and the Grand Old Party (GOP) regaining control of the Senate. Such a scenario will likely have a minimal impact on the market as significant changes in policies are unlikely in a divided government. However, with polls in the battleground states coming in within the margin of error, the Presidential race remains too close to call.

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The Progressive "Blue"-Print

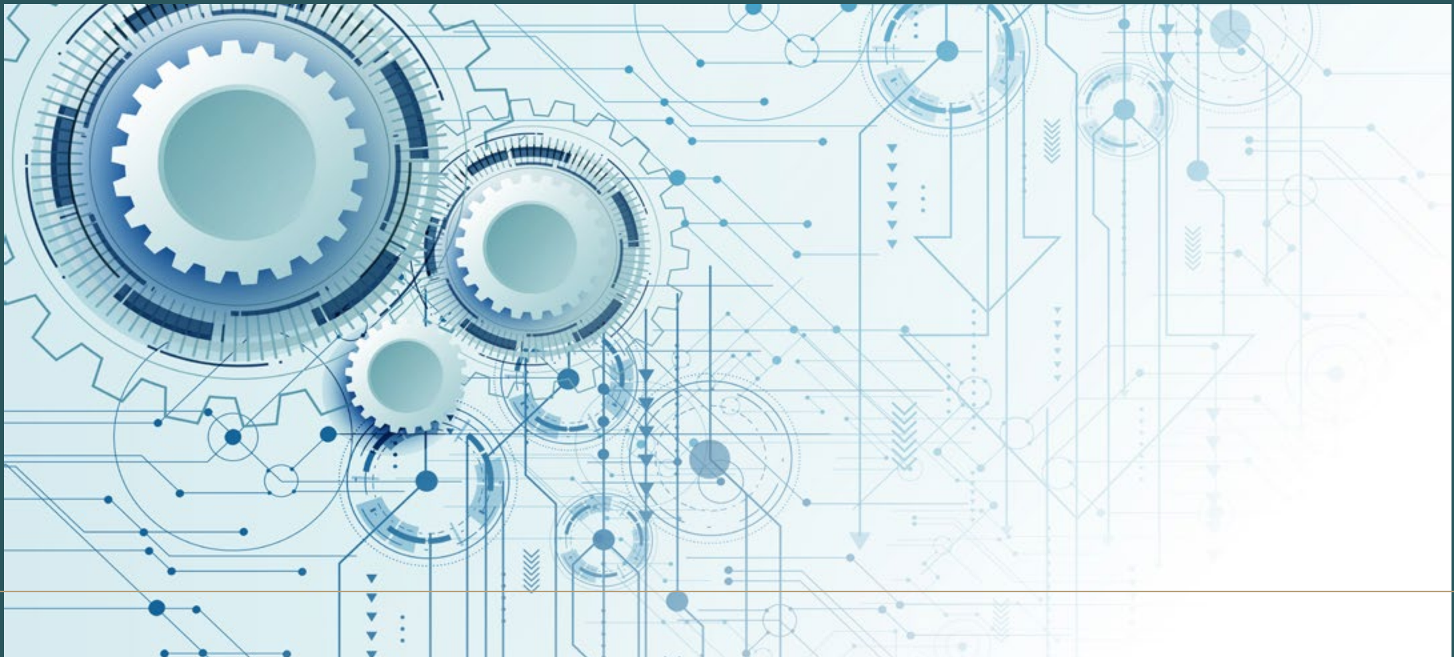
In August 1971, President Nixon surprised the nation by imposing temporary wage and price freezes to battle inflation. While the program was successful in controlling inflation in the short run and in helping Nixon get re-elected in 1972, it morphed into a bureaucratic nightmare that lasted 32 months and eventually ended with even higher inflation.

"History does not repeat itself but it rhymes" is a qoute often attributed to Mark Twain. Vice President Kamala Harris' proposed price gouging ban has echoes of Nixon's wage and price controls. While her supporters were quick to point out that over three dozen states already have versions of anti-price gouging laws, some viewed her initial emphasis on the price gouging ban as a reflection of strong progressive values that tend to favor more government control and redistribution. Harris has distanced herself from her stances during her time in the Senate and 2020 primary campaign, but some investors are still concerned.

For example, some are concerned that the Harris campaign has adopted most of the White House's proposed tax hikes such as sunsetting the Trump tax cuts to let the highest marginal income tax rate return to 39.6% and raising the corporate income tax rate from 21% to 28%. The most controversial proposal is to tax *unrealized* gains for the wealthiest Americans.

To ameliorate this concern, the Harris campaign has made adjustments to broaden her appeal by breaking ranks with Biden on capital gains taxes and proposing a smaller increase for those earning $1 million or more – from 20% to 28% instead of the White House's proposed 39.6%. She introduced a start-up-friendly $50,000 tax deduction for newly formed businesses, which is ten times the current tax break. Harris also took a similar approach to the Trump campaign and promised to repeal income taxes on tips.

If Harris wins the election, the best scenario for less restrictive tax policies is a split government, such as a Republican Senate majority. In this scenario, the highest marginal income tax rate for individuals may still revert to 39.6%, but the corporate income tax rate will likely stay at 21%. A potential positive for freer trade proponents is that a Harris administration will likely not impose the across-the-board tariffs that Trump has advocated.



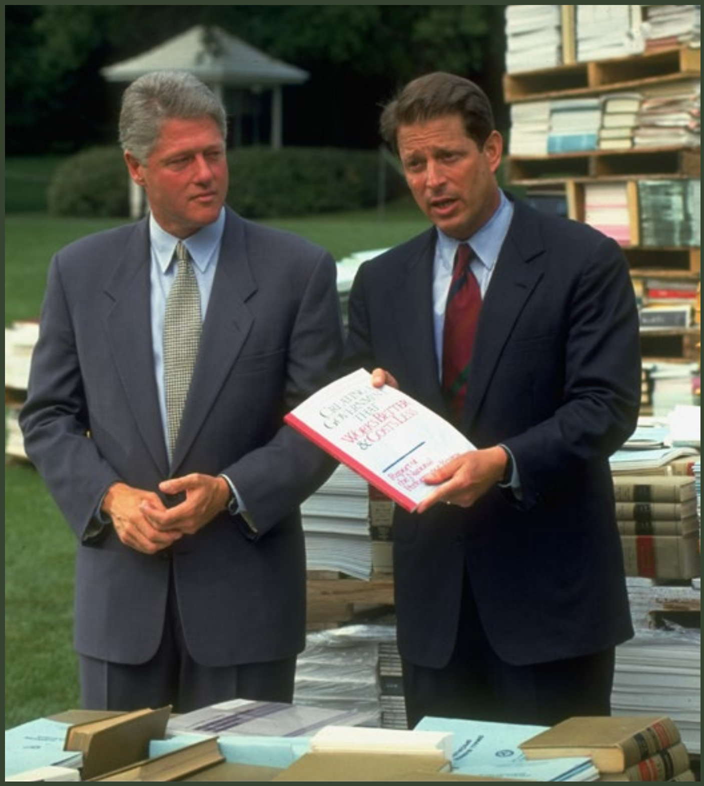
Elon the Efficient?

There is not much uncertainty about Trump's policy agenda, which is outlined on his campaign website. With regard to taxation, Trump proposed to permanently keep the current 37% top individual income tax rate, which is set to revert back to 39.6% in 2026. He also promised to repeal income taxes on tips and social security income. Eliminating taxes on social security income might endear Trump to many senior citizens, however, according to the Tax Foundation, without reforms to the Social Security system, this move would increase the U.S. government's budget deficit by about $1.6 trillion over 10 years and accelerate the projected insolvency timelines of the Social Security and Medicare trust funds – from 2035 to 2033 for Social Security, and 2036 to 2030 for Medicare.

One concern that many investors and the U.S. allies share is Trump's insistence on higher tariffs to encourage more domestic production, which will likely increase capital spending but push inflation higher.

In early September, Trump doubled down on his "America First" agenda by proposing to cut the corporate income tax rate to 15% for companies that make their products in the U.S. To pay for his tax cuts, Trump has introduced the idea of a Government Efficiency Commission tasked with conducting financial and performance audits of the federal government. It is reminiscent of the Clinton Administration's National Partnership for Reinventing Government (NPR) headed by Vice President Al Gore from 1993 to 1998. The NPR wound up eliminating 250,000 positions and consolidating over 800 agencies.

Elon Musk, known for his forward-thinking vision and maniacal quest for efficiency, has agreed to head this proposed efficiency commission. While Musk may be too mercurial for such a role, it should not be difficult to identify areas of improvement in the government's bureaucracy. For example, one low-hanging fruit is to minimize improper payments, which amounted to $230 billion in 2023 – a material 3.8% of the federal government's $6.13 trillion spending – according to the Government Accountability Office (GAO). However, government efficiency will remain an oxymoron unless an "efficiency czar" can manage to overcome entrenched interests and institutional barriers.



Pres. Bill Clinton (L) & VP Al Gore presenting VP's Report of Natl. Performance Review (aka reinventing govt.), framed by piled govt. regulations bks., at WH.

Assessing the Campaignomics

Assessing the economic and market impacts of each candidate's policies is fraught with assumptions and biases. However, as a general rule of thumb, investors tend to view deregulation and tax cuts favorably and frown upon tariffs and more restrictive immigration.

David Rosenberg, a seasoned independent economist and investment strategist, recently modeled the impact of each candidate's known policies relative to the status quo. Regarding Harris' proposals, Rosenberg's conclusion is that a rise in the corporate income tax rate will result in lower capital spending and hiring, while higher personal income tax rates would blunt the positive impact of enhanced tax credits. For what it's worth, his model projected the Harris economic plan generating a cumulative GDP loss of 1.5% ($430 billion in today's money) over the next four years relative to the baseline, with the negative impact front-loaded in the first two years.

Rosenberg's model of Trump's economic plan as of late July generated a 1 to 1.5% increase to annual GDP growth in the next two years alongside a 0.5% drop in the unemployment rate. However, across-the-board tariffs could push inflation to as high as 6% on a one-off basis before sliding back to trend 18 months after implementation.

The subjectivity of these modeling exercises is shown by Goldman Sachs economists' starkly different conclusions, which were noted by Harris at the presidential debate. Goldman's economists believed that Trump's higher tariffs and tighter immigration policy would outweigh the positive fiscal impulse to reduce GDP growth by as much as 0.5% in the second half of 2025. On the other hand, they argued that Harris' new spending and expanded middle-income tax credits would offset the negative impact of higher taxes to result in a slight positive impact on GDP growth in 2025 and 2026.

A Referendum on Deglobalization

To the chagrin of many investors who have been taught for years to dismiss tariffs as counterproductive, more countries are now imposing new tariffs to deal with the influx of cheap Chinese exports.

The situation could become more complicated should Trump return to the White House as he has threatened to impose tariffs on our allies, which could elicit counter measures that include not only retaliatory tariffs but also currency devaluation. It will accelerate the pace of reshoring to bolster domestic or intra-trading bloc manufacturing. As Dan Clifton, Head of Policy Research at Strategas Research, observed, this presidential election is akin to a referendum on the speed of deglobalization.

That said, the deglobalization trend is inevitable as long as one of the largest economies in the world adheres to a mercantilist economic model that hollows out manufacturing in other countries.

UNITED STATES - CIRCA 1888: Eagle with fasces over the candidates surrounded by Horseshoes that say "Public Office" & "Publish Trust".

Scenario Analysis

The November election will likely be a market moving event with four possible outcomes: a blue sweep, a split government with Harris as President, a split government with Trump as President, or a red sweep.

A blue sweep may be taken by the market as stock negative and bond positive due to higher taxes and potentially more regulation. With other conditions remaining the same, raising the corporate income tax rate from 21% to 28% would lead to a 9% reduction in earnings. Businesses may adopt a more cautious attitude on hiring and capital spending due to a lack of regulatory relief and lower projected cash flows. In the absence of new fiscal stimulus, the economy is likely to slow further, which would bring interest rates lower.

Some sectors – such as the renewable energy ecosystem from electric vehicles to utilities with lower-carbon-generation infrastructure – will likely benefit from a more progressive agenda. International equities may finally outperform the U.S. on prospects of a weaker greenback (due to lower interest rates in the U.S.) and avoidance of new tariffs.

A red sweep may be viewed by the market as stock positive and bond negative. Trump is believed to be more business-friendly and obsessed about equity performance. Bond yields are likely to move higher on the fear of more tariff-induced inflation.

At the industry level, defense-related stocks, which tended to be favored during past Republican administrations, may wind up underperforming in Trump's second term due to his promises to end wars and cut government waste. Natural gas related stocks will likely outperform as Trump's pro-drilling policy will result in more production and export. International stocks may continue their underperformance versus the U.S. due to a potentially stronger greenback and more protectionist measures.

The split government outcomes will not have as much of an impact on financial markets. A Harris administration with a GOP-controlled Senate will be viewed as largely status quo, though the top marginal individual income tax rate will likely revert to 39.6% in 2026. A Democratic House majority with a Trump presidency will make it more difficult for Trump to make the 37% top marginal income tax rate permanent but cannot stop him from implementing regulatory reforms and higher tariffs.

As discussed in my last report, Sea of Liquidity, a split government has higher odds of a renewed debt ceiling impasse starting in January 2025. It could lead to a sharp liquidity injection into the market with the Treasury working down the balance in the Treasury General Account, followed by a subsequent liquidity drainage.

Lastly, in the case of a hung election – a 269 to 269 Electoral College tie – market volatility may temporarily spike due to prolonged uncertainty.

After the election's results are settled, the market's attention will shift to other catalysts such as the state of the economy and earnings expectations for 2025, among other topics. However, for financial planners, potential changes in our tax codes could drive a flurry of activity before year-end 2024. For example, a blue sweep may create some year-end equity selling pressure as investors with an annual income greater than $1 million realize some capital gains to avoid potentially higher tax liabilities in 2025. In short, in an era of fiscal dominance, more of our investment and planning activity will be affected by the government's actions.

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