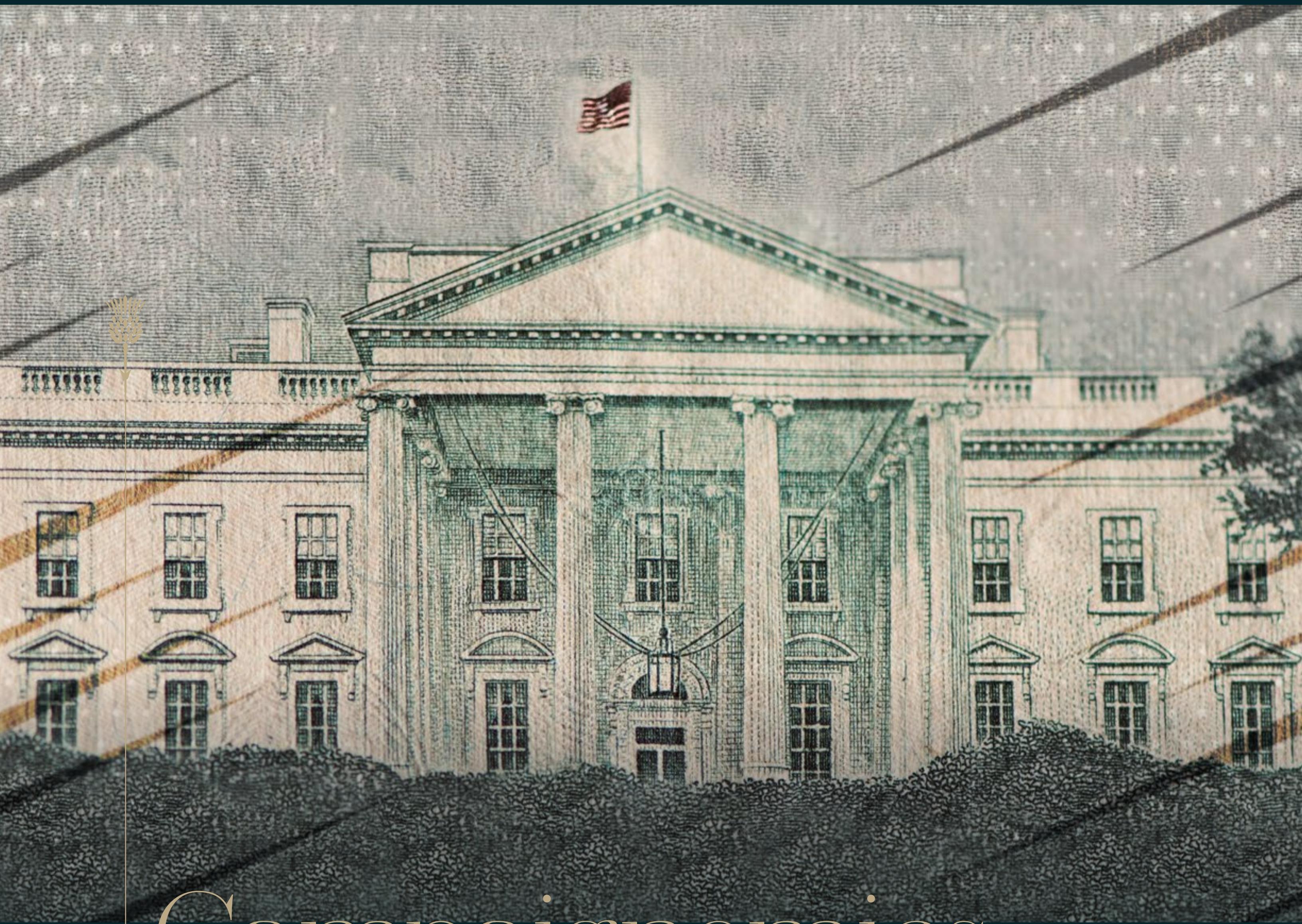
ROCKEFELLER
GLOBAL FAMILY OFFICE

CIO MONTHLY PERSPECTIVE

OCTOBER 2024



Campaignomics

The election's financial impact

estd 1882

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 Nixon Shock

It was 2:29 pm on Friday the 13th in August 1971, when Marine One took off from the White House lawn carrying President Richard Nixon, Chief of Staff H.R. Haldeman, and the administration's economic brain trust – Treasury Secretary John Connally, Fed Chairman Arthur Burns, Director of the Office of Management and Budget George Shultz, and Chairman of the Council of Economic Advisors Paul McCracken. An hour earlier, another helicopter had left the Andrews Air Force Base with Paul Volcker, then Undersecretary of the Treasury for International Monetary Affairs, and several other officials – Peter Peterson, Herb Stein, William Safire, and John Ehrlichman. The previous afternoon, these officials were told by H.R. Haldeman to join President Nixon for a weekend retreat at Camp David and were to keep the meeting in strict confidence.

Paul Volcker sensed that the international monetary system established in July 1944 at Bretton Woods was about to be torn apart. The Bretton Woods system fixed 43 other countries' currencies to the U.S. dollar, which was pegged to gold at $35 per ounce. This fixed exchange rate system fostered post-WWII global commerce as it eliminated uncertainty from currency fluctuations and avoided the practice of boosting exports via currency devaluation. Countries settled their trade balances in dollars, which were supposedly convertible to gold through Washington's "gold window." The U.S. was responsible for managing the supply of the dollar and maintaining its gold convertibility, which appeared secure as roughly three-quarters of the world's official gold reserve was held by America.

By the late 1960s, the Bretton Woods system needed a major overhaul as the U.S. dollars accumulated overseas were roughly four times the $11 billion of official gold reserves held by the U.S. government. Foreign governments became increasingly concerned of America's deteriorating balance of payments and fiscal discipline. Should foreign holders of the greenback, mostly European and Japanese central banks, request to convert their dollars to gold, the U.S. would not be able to honor all the requests and the potential resulting run on gold could collapse the Bretton Woods system and wreak havoc on the Western economy.

Realizing the importance of the currency exchange system to the West's collective security, on the day Nixon was inaugurated in January 1969, Henry Kissinger, the newly minted National Security Advisor, directed the creation of an inter-agency working group to make international monetary policy recommendations to the National Security Council (NSC). With Volcker chairing the working group, it became known as the Volcker Group.

The Volcker Group considered various policy options and trade-offs – ending the dollar's convertibility to gold, devaluing the dollar, creating a new global reserve asset – but Nixon was noncommittal as he was more interested in foreign policy. However, by early 1971, Nixon realized that the dire economic situation was starting to imperil his re-election prospects.

The recession of 1970 had lifted the unemployment rate from 3.4% in early 1969 to a cycle high of 6.1%, but inflation remained stubbornly elevated at 5.6% at year end 1970. Various congressional members' agitations for wage and price freezes, as well as ending the dollar's convertibility to gold, made the administration look passive.


President Nixon sits with economic policy advisors at Camp David, including Chairman of the Board of Governors of the Federal Reserve System Arthur Burns. (Photo courtesy of the Richard Nixon Library)

In February 1971, Nixon shook things up by appointing John Connally Jr., a conservative former Democratic Governor of Texas, as Treasury Secretary and anointing him the administration's economic czar. Nixon was reportedly "awed" by his deft political skills and charisma.

While Connally was a novice in economics and international finance, he was a quick study and relied heavily on Volcker for technical matters. With overseas speculators betting on an imminent dollar devaluation and France having dispatched a naval ship to the U.S. to redeem some of its dollar holdings for gold, Connally declared on his first overseas trip in late May that he would not devalue the dollar or change the price of gold. He also promised to get inflation under control.

These reassuring words briefly calmed the market but prompted Volcker to ask Connally how he could be so firm when he knew that imminent adjustments were unavoidable. Connally replied with a straight face, "That's my unalterable position *today*; I don't know what it would be this summer."

A month later, Connally publicly announced his "Four No's" – no mandatory wage and price controls; no wage and price review board; no tax cuts; no increase in spending – to quell policy speculations.

However, behind the scenes, Connally was working on the antithesis of what he outlined. On the domestic front, he proposed offering tax incentives to stimulate investments, repealing the excise tax on automobiles, cutting budgets to pay for the tax incentives, and freezing wages as well as prices with no definitive end date. On the international front, he

THE NIXON SHOCK

recommended ending the dollar's gold convertibility, floating the currency temporarily to set the stage for a new negotiated fixed currency regime, and imposing across-the-board tariffs to offset the impact of a weaker dollar.

Nixon, who kept the policy discussion a secret between Connally, Shultz, and himself, was receptive to these proposals but preferred to take a piecemeal implementation approach. Connally warned that this method would be picked apart by various interest groups, and that a bold announcement in one fell swoop would make Nixon look like a strong leader. Connally argued that his package had something for everyone: conservatives would endorse the tax incentives and budget cuts, liberals would support the tariffs and wage freeze, and voters would applaud price controls.

President Richard M Nixon and Secretary of the Treasury John Connally discuss the President's new economic programs, Camp David, Maryland, August 1971.

By the second week of August, with a gold run appearing imminent due to more foreign governments requesting to convert their dollars, Nixon finally accepted Connally's proposals and called for the Camp David retreat to ensure that all his economic officials, many having doubts about wage-price controls and a flexible currency exchange system, would be on board for this historic policy announcement. Interestingly, Nixon kept the NSC and State Department in the dark as he did not want to risk any leaks to foreign countries.

At 9 p.m. on Sunday, August 15, 1971, Nixon delivered an upbeat address to the nation. He characterized his new policy initiatives as a "bold action" to create jobs, control inflation, and protect the dollar from international money speculators. Connally was proven right as Nixon's speech was a huge success – polls showed that 75% of Americans supported the wage and price freezes to fight inflation. The following day, investors mounted a "Nixon rally" with the stock market attaining its best single-day gain in history with record-shattering volumes. *The New York Times* editorial read, "We unhesitatingly applaud the boldness with which the President has moved."

Overseas, the "Nixon Shock" stunned allies as the unilateral closing of the gold window was perceived as a technical default by the U.S. government. Volcker had to mend fences with foreign officials with whom he had built trusting relationships. However, with the U.S. having the world's largest economy and being their security guarantor, the ally countries had to swallow the bitter pill. As Connally famously said to his counterparts at the G10 meeting in Rome later that year, "The dollar is our currency, but it's your problem."

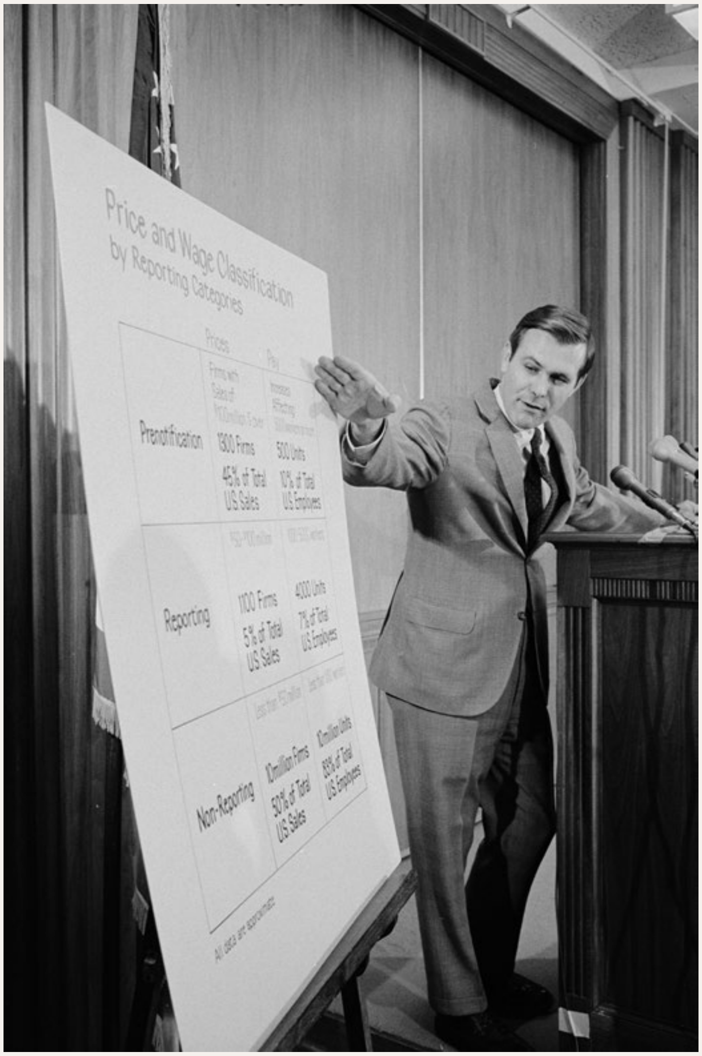
An Era of Price Controls

Nixon's wage and price freezes were enthusiastically embraced by the populace and liberal economists. Nobel Laureate Paul Samuelson said, "With the wage and price controls, [Nixon] assured a more rapid short-term economic recovery and made it absolutely certain he would be the overwhelming victor in the 1972 election." However, conservative economists were abhorred. Milton Friedman, who would win the Nobel Prize in Economics in 1976, warned that wage and price controls "will end as all previous attempts to freeze prices and wages have ended, from the time of the Roman emperor Diocletian to the present, in utter failure."

In mid-November 1971, as the wage and price freezes reached their 90-day marks, Nixon introduced Phase II of the wage and price controls to micromanage the economy. A Cost of Living Council was established to oversee the Pay Board and Price Commission to hold average price increases across the economy at no more than 2.5% per year.

A bureaucracy was created to review pricing decisions by millions of companies. Those with annual sales above $100 million had to receive approvals from the Price Commission for price hikes. Smaller firms had to make quarterly reports to the Price Commission on not only price changes, but also costs and profitability. In many cases, price hike requests were rejected if they resulted in companies attaining higher profit margins.

The wage and price controls were effective in temporarily bringing inflation down to as low as 2.7% by mid-1972, and Nixon was re-elected by a landslide in November of that year. However, imbalances and shortages were building up in the economy. In early 1973, the U.S. Senate Committee on Interior and Insular Affairs sounded the alarm on the "unprecedented breakdown in our energy



Director of the Cost of Living Council, Donald Rumsfeld gestures towards a chart headed 'Price and Wage Classification by Reporting Categories' during a press briefing, Washington DC, 1971

supply and distribution system," and warned that "severe shortages of fuels" were in the offing.

In January 1973, Nixon relaxed price controls with Phase III, which abolished the unpopular Pay Board and Price Commission and eased reporting requirements – only companies with annual sales exceeding $250 million had to file quarterly reports on profits and price changes with the Cost of Living Council.

AN ERA OF PRICE CONTROLS

Nixon barely had any time to savor the "victory" over inflation as the thorny currency problem reared its ugly head again. With the trade deficit rising to $6.4 billion in 1972, Nixon devalued the dollar by 11% on February 12, 1973, in an attempt to restore the country's export competitiveness. This sudden and sizable devaluation led speculators to drive the dollar even lower, which pushed up the prices of imports. The cheaper dollar also created more foreign demand for U.S. farm products and fueled higher prices.

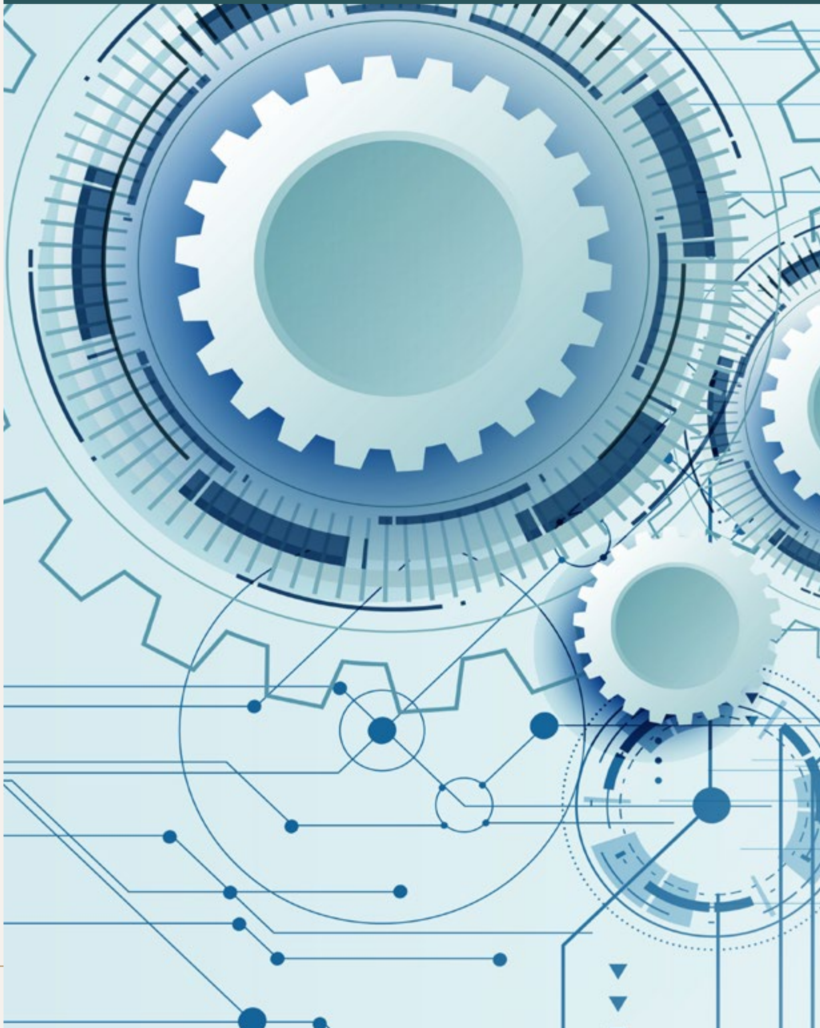
The resurgence of inflation – reaching 6% by mid-1973 – prompted Nixon to announce a second round of price freezes in June, which lasted 60 days and was followed by Phase IV. The administration even temporarily suspended select farm product exports to reduce demand. Unlike the first round of wage and price freezes in 1971, the country had grown tired of the government's intervention. Shortages were becoming widespread, and workers were unhappy that wage growth did not keep pace with rising prices.

The OPEC oil embargo in October 1973 exacerbated inflation, which rose above 10% by February 1974. By then, Nixon was consumed by the Watergate scandal and economic decisions were left to Treasury Secretary George Shultz, a free-market disciple who was privately opposed to the wage and price controls. Shultz and Congress were content to let the Economic Stabilization Act expire in April 1974 to end the first peace time wage and price controls in U.S. history.

All told, Nixon's four phases of wage and price controls lasted 32 months. Milton Friedman was proven prescient, and, as George Shultz reportedly said to Nixon, "At least we have now convinced everyone else of the rightness of our original position that wage-price controls are not the answer."

The Progressive "Blue"-Print

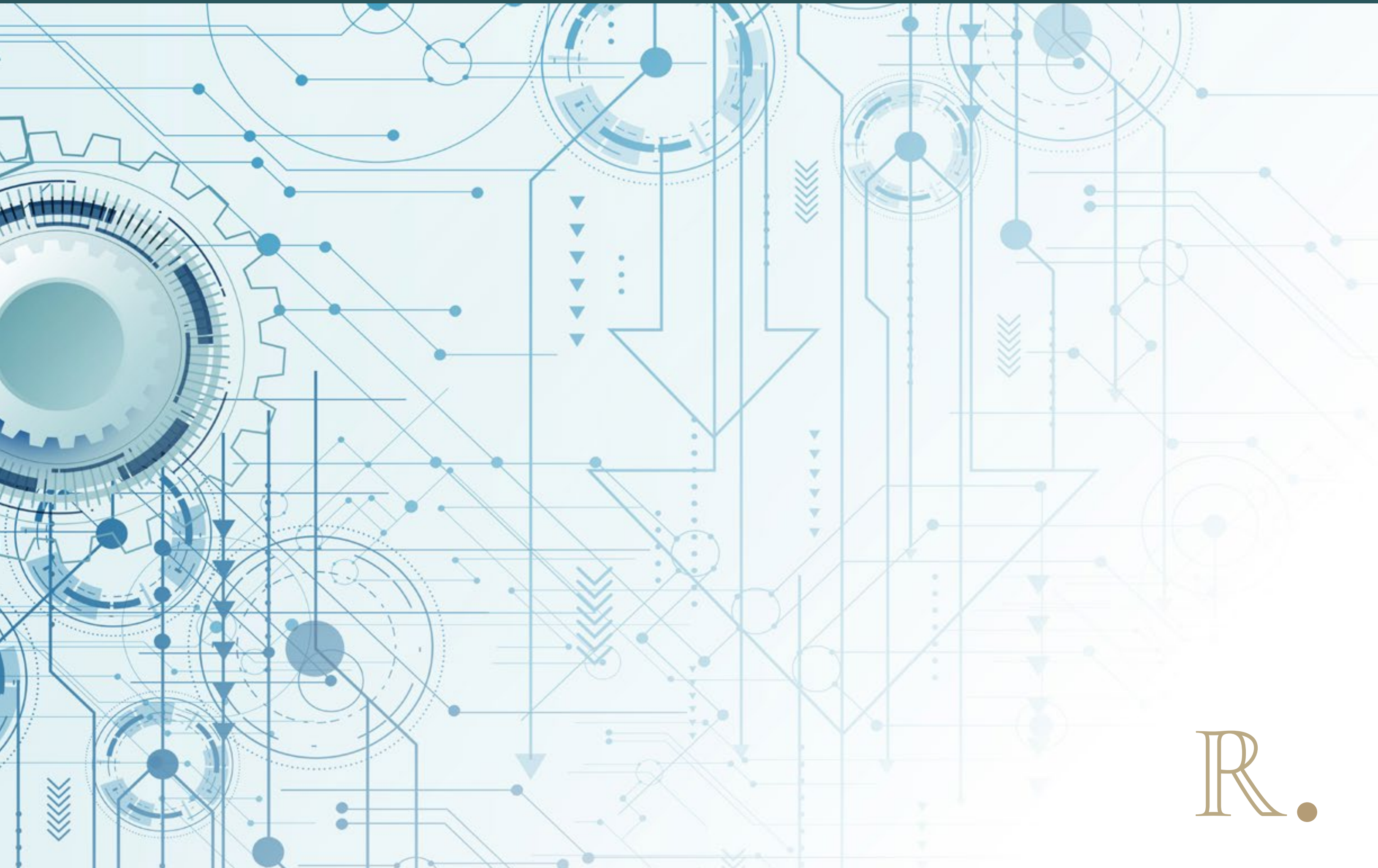
"History does not repeat itself but it rhymes" is a quote often attributed to Mark Twain. Vice President Kamala Harris' proposed price gouging ban echoes President Nixon's wage and price controls. While her supporters were quick to point out that over three dozen states already have anti-price gouging laws, some view 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. When asked about it, Bharat Ramamurti, a White House official speaking for the Harris campaign, sidestepped the issue by explaining that most households are already paying a tax on *unrealized* gains in the form of property taxes. To many investors, it may be a stretch to conflate the two, and by not directly addressing the potential disruptions to America's core growth engines – capital markets and entrepreneurship – it may deepen concerns that a Harris administration could steer policies even further left.

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. Regarding 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.

Many investors and U.S. allies share the concern that Trump's insistence on higher tariffs to encourage more domestic production will have the desired effect of increasing capital spending but will also 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, which he jokingly called the Department of Government Efficiency as a backronym for Dogecoin. 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, NASA's success with SpaceX's fixed-price contracts should encourage more agencies to shift away from cost-plus procurement contracts that have led to frequent overrun costs. Another 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, 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.

Filibusters Hanging in the Balance

While the presidential election receives most of the limelight, control of Congress also matters a great deal as the White House needs the legislative branch to enact the president's agendas.

In March 2021, with Democrats controlling both chambers of Congress (a 50-50 Senate with the VP as the tiebreaker), President Biden introduced his ambitious Build Back Better plan that would have materially transformed the country and perhaps driven inflation even higher.

To enact the progressive program, the Democrats crafted two bills: the $1.2 trillion Infrastructure Investment and Jobs Act (IIJA) that was later signed into law in November 2021, and a $3.5 trillion Build Back Better (BBB) budget reconciliation package. Dissension from two moderate Democrats – Kyrsten Sinema of Arizona and Joe Manchin of West Virginia – derailed the passage of BBB. A compromise was reached in August 2022 in the form of the $891 billion Inflation Reduction Act (IRA) – a quarter of the original BBB plan. Senate Majority leader Chuck Schumer's attempt to weaken the filibuster rule was also stymied by opposition from the two senators.

With both Sinema and Manchin not returning to the Senate in 2025, and if Democrats keep control of the Senate, Schumer could re-introduce the BBB agenda. He has promised to use the new Democratic Senate majority to change the filibuster rule to pass major legislations with a simple majority rather than the longstanding rule of 60 Senate votes to end a filibuster. Once that Rubicon is crossed, the checks and balances preferred by many investors will be materially weakened.

Despite Schumer's optimism about maintaining Democrats' control of the Senate, Polymarket, an online prediction market that allows users to place bets, currently gives the GOP a 75% chance of controlling the Senate by flipping West Virginia and Montana red. However, while Tim Sheehy, the Republican senatorial candidate in Montana, has a slight lead over incumbent Jon Tester in the polls, the latter may outperform expectations as the state's abortion rights amendment on the ballot may drive higher turnout for Democrats.

Regarding control of the House of Representatives, it is up in the air with roughly 30 seats in the toss-up category; Polymarket does not even make a market for it. However, many political pundits expect Democrats to regain control of the House.

In short, control of the White House, Senate, and House of Representatives are still too close to call at this point. For those worried about higher tax rates, a GOP-controlled Senate may be the only check on a Harris administration, as the House will likely turn blue due to the coattail effect. Flipping the House to Democrats may be the only check on a second Trump term, as his coattails will likely pick up a few more Senate seats in the GOP's favor. Under these scenarios, investors will need to calibrate what campaign promises are realistic. For example, the combination of a Harris administration and Republican Senate majority will likely keep the corporate income tax rate at 21%. On the other hand, a Democratic House majority would not be able to stop the Trump administration from lifting tariffs, as those are primarily within the purview of the executive branch.

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 Chinese economy, once a locomotive for global growth, is struggling with a collapsing property market, as well as confidence. The number of Chinese companies funded by venture capital has dropped from 51,000 in 2018 to merely 1,200 in 2023. Many private and public-sector employers have begun cutting pay and benefits. However, instead of boosting consumer spending and confidence to rekindle growth, Chinese policymakers have chosen to double down on manufacturing. The rapid growth in China's manufacturing capacity and government subsidies have alarmed the country's trading partners, which stand to lose more factories and jobs.

The European Union (EU), which has been attempting to bolster its competitiveness, has announced tariffs of up to 35% on electric vehicles built in China. Following the lead of the U.S. and EU, Canada has introduced a 100% tariff on Chinese electrical vehicles and 25% on steel and aluminum. Mexico has imposed tariffs between 5% and 50% on more than 500 import items from China and announced measures to prevent Chinese companies from circumventing U.S. tariffs by using Mexico as a backdoor.

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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