Trump vs. Biden: How 2024 election could affect your portfolio?

Introduction

The two announced candidates for the US presidential election have diverging political and economic agendas. With possible consequences for stock market performance.

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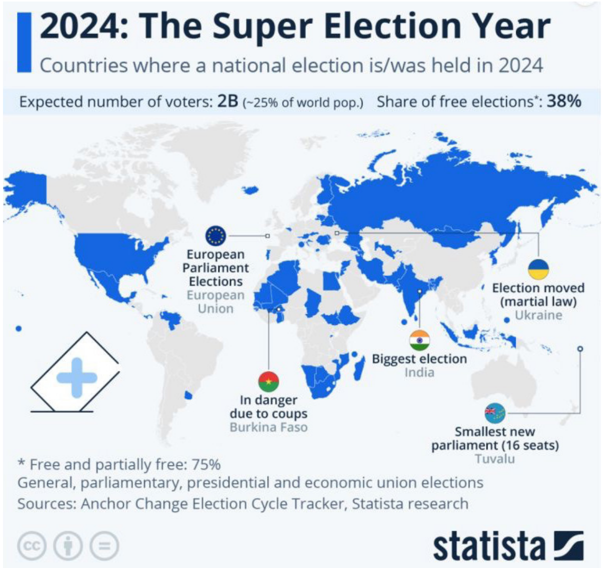
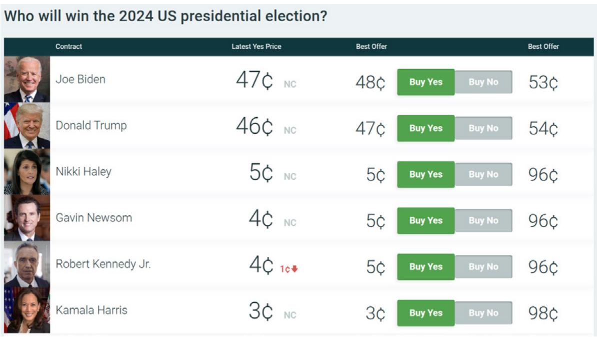
The year 2024 has been dubbed "The Super Election Year", with no fewer than 64 countries involved in at least one major election. Two billion voters - around a quarter of the world's population - are expected to go to the polls this year.



The U.S. presidential election is probably the most eagerly awaited and commented upon, including on the financial markets. Many investors and analysts are closely observing the contrasting economic agendas of Donald Trump and Joe Biden. Indeed, the decisions taken in the Oval Office have repercussions on the global economy, with major implications for everything from energy prices and healthcare to international trade, infrastructure development and the energy transition. At the time of writing, this election remains highly undecided. Indeed, the online betting site Predictit is showing almost equal odds for the two favorites (see below). What's more, there's nothing to suggest that Trump and Biden will be the two candidates running in November. It is also very difficult to know exactly what policies are likely to result from the election of the future occupant of the Oval Office.



Who will win the 2024 US presidential election?

Contract	Latest Yes Price		Best Offer			Best Offer
Joe Biden	47¢	NC	48¢	Buy Yes	Buy No	53¢
Donald Trump	46¢	NC	47¢	Buy Yes	Buy No	54¢
Nikki Haley	5¢	NC	5¢	Buy Yes	Buy No	96¢
Gavin Newsom	4¢	NC	5¢	Buy Yes	Buy No	96¢
Robert Kennedy Jr.	4¢	1¢	5¢	Buy Yes	Buy No	96¢
Kamala Harris	3¢	NC	3¢	Buy Yes	Buy No	98¢

Despite this highly uncertain outlook, we believe it is appropriate to analyse several scenarios and their impact on the performance of different asset classes and sectors. See below for an overview.

The Trump hypothesis

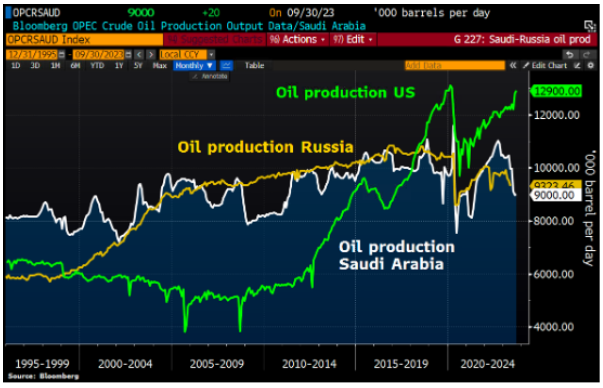
An election of Mr. Trump to the White House is now seen as the most likely scenario by the business and financial world.

Before embarking on the development of a "Trump portfolio", it is imperative to understand the economic logic that defined Donald Trump's previous term and the promises shaping his current campaign. Trump's economic program has always emphasised deregulation, lower taxes and a focus on domestic industries. This combination of ultra-liberal and protectionist policies aims to stimulate economic growth by reducing government intervention and creating a favourable business environment. Mr. Trump's approach often favours the "old economy", such as fossil fuels, to the detriment of new industries (e.g., renewable energies). In addition, one of the hallmarks of his previous term was his trade policy, which tended towards protectionism, renegotiating trade agreements to benefit US companies and imposing tariffs to protect domestic industries from foreign competition.

Potential deregulation of the energy sector under a Trump administration could mean a relaxation of environmental standards and greater access to drilling and mining; this is not an urgent issue for the US, which in just a few years has become the world's largest oil producer (under the Biden administration).

A further increase in black gold production could have an impact on the prices of all fossil fuels. Companies active in hydrocarbon intermediation, as well as coal and natural gas exporters, could benefit. It should be noted that these two sectors are in Mr. Biden's crosshairs and could therefore suffer in the event of his re-election.

Crude oil production by the United States, Russia and Saudi Arabia



Source: Bloomberg

Trump's penchant for deregulation also extends to the financial sector. A potential relaxation of the regulations imposed by the Dodd-Frank Act could create a more permissive environment for financial activities, leading to higher profits for financial companies with a positive influence on sector stocks. But this policy also implies lower capital requirements from the Fed and less protection for consumers and investors.

Another sector likely to benefit from a Republican victory is defence and immigration enforcement. Although the defence sector is less dependent on politics than it used to be, Trump has always been a strong supporter of increased military spending, which could benefit defence contractors and related industries.

With the number of illegal immigrants entering the U.S. at record levels, Trump's measures on border management will be a major issue of his presidency. If Trump wins, we can expect certain measures taken during his first term to return to the fore. For example, Trump has already promised to launch a massive deportation campaign, targeting gang members and drug traffickers for swift deportation. Prisons, such as private jails and detention centres, could therefore benefit from a Republican victory.

The student debt crisis has been a bone of contention in the U.S. under the Biden administration. In fact, it's one of the areas where the two candidates have very different views. If Trump is elected, companies active in the for-profit education sector could benefit from reduced regulatory risk. As for the likelihood of further easing of student loans, this seems unlikely.

While the economic agenda of a Trump administration offers positive growth prospects for certain sectors, it's just as important to examine the potential negative impacts. One of the potential big losers from a Donald Trump comeback would be the renewable energy sector. Trump's focus on traditional energy sources such as oil and coal come at the expense of reduced support for green energy initiatives. This stance may result in reduced federal funding and incentives for clean energy projects, which could hinder the growth of the wind turbine and photovoltaic panel sector. With Trump already expected to withdraw from the Paris Agreement, a withdrawal - even a partial one - from Biden's Inflation Reduction Act (IRA) could represent a significant risk for companies in this sector. Conversely, Trump is likely to support nuclear power, the most efficient and reliable source of energy. Uranium could benefit from this.

Foreign trade is another area of concern under Trump's economic policies. His administration's protectionist stance, characterised by tariffs and the renegotiation of trade agreements, could lead to trade tensions and reduced global cooperation. Mr. Trump has already threatened to impose 10% tariffs on all imports into the United States. The first target of such a policy would be China, but Europe and Mexico could also become targets again, as well as the steel and lumber industry. While such policies aim to support domestic industries, they can also lead to retaliatory measures by trading partners and disrupt global supply chains. This can have a negative impact on sectors heavily dependent on international trade, such as technology and manufacturing. In addition, protracted trade conflicts could lead to higher costs for US businesses and consumers, potentially dampening economic growth.

The Biden hypothesis

Joe Biden's administration is campaigning on an economic agenda that contrasts sharply with Donald Trump's. This agenda is based on progressive principles, with a strong emphasis on sustainability, healthcare, and international cooperation. Mr. Biden's approach calls for a significant transition to green energy, to combat global warming while encouraging economic growth in environmentally friendly sectors. His administration is also focused on expanding access to healthcare, reflecting a broader social welfare agenda. In addition, Mr. Biden's stance on international trade is moving away from protectionism and favouring global partnerships and alliances to spur economic growth.

The Biden administration has proposed substantial investments in green infrastructure, renewable energy sources and research into climate-friendly technologies. Such a policy creates exciting opportunities in these areas, as government support and political incentives strongly stimulate market demand and innovation in clean energy technologies. If Biden is re-elected, the Inflation Reduction Act (IRA) could be strengthened.

A Democratic victory would increase the chances of Congress passing Medicaid expansion, which would benefit the healthcare organisations and facilities that depend on it. Democrats are also more likely to increase funding for the National Institute of Health (NIH), which would benefit companies active in the life sciences. Nevertheless, the healthcare sector tends to underperform the S&P 500 index in election years. Indeed, this sector is usually the whipping boy for politicians in the two years leading up to an election. After the election, however, the sector traditionally outperforms the S&P 500 in the first two years of the new administration.

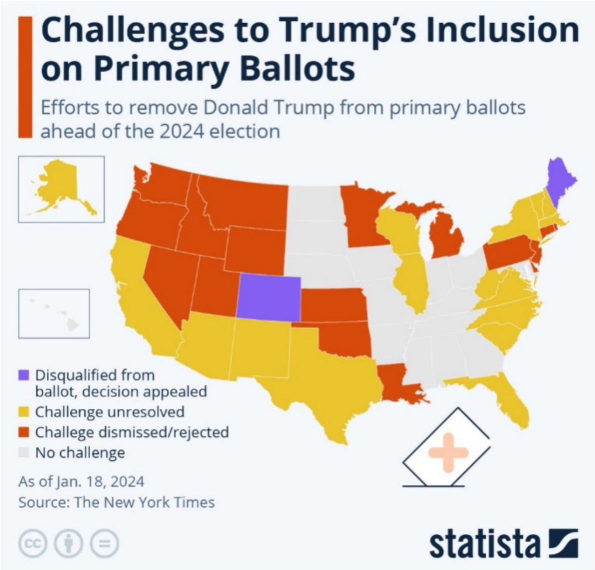
The 3rd candidate hypothesis

In assessing the various scenarios for this election, it's imperative to consider potential surprises that could upset the usual race between the two parties. The emergence of a significant third-party candidacy, such as that of Senator Joe Manchin, and the legal challenges facing Trump are two examples of unforeseen factors that could have a profound impact on the election and, consequently, the markets.

Historically, third-party candidacies have the potential to split votes in unexpected ways, attracting more voters from one major party rather than the other. A Manchin candidacy, potentially attracting centrist voters, could particularly influence sectors sensitive to political change in areas such as energy, healthcare, and environmental regulation.

The legal & constitutional unknown

There's no denying it: the 2024 US presidential election is a high-risk affair. It is less predictable than previous elections, and whatever happens, it will result in very negative reactions from the loser's camp. Another unknown is the legal challenges facing Donald Trump in his race to become the second president in U.S. history to serve two non-consecutive terms. As the chart below shows, the situation varies from state to state. Some of them are already preventing Trump from seeking re-inauguration, but the decisions are currently under appeal.



If the Supreme Court were to convict Donald Trump before the election, it would not only prevent him from running, but also send shockwaves through the political landscape, radically altering Republican strategy, not to mention the potential repercussions and retaliation from his supporters. Such a development could lead to heightened market volatility, as investors grapple with the implications of a last-minute candidate.

While these different possibilities make the forecasting exercise more complex, they also underline the importance of an investment strategy based on diversification and flexibility, and capable of withstanding the possible market shocks associated with this super election year.

For further information

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