Trinity Student Managed Fund
Research Team

Special Report: The US Election

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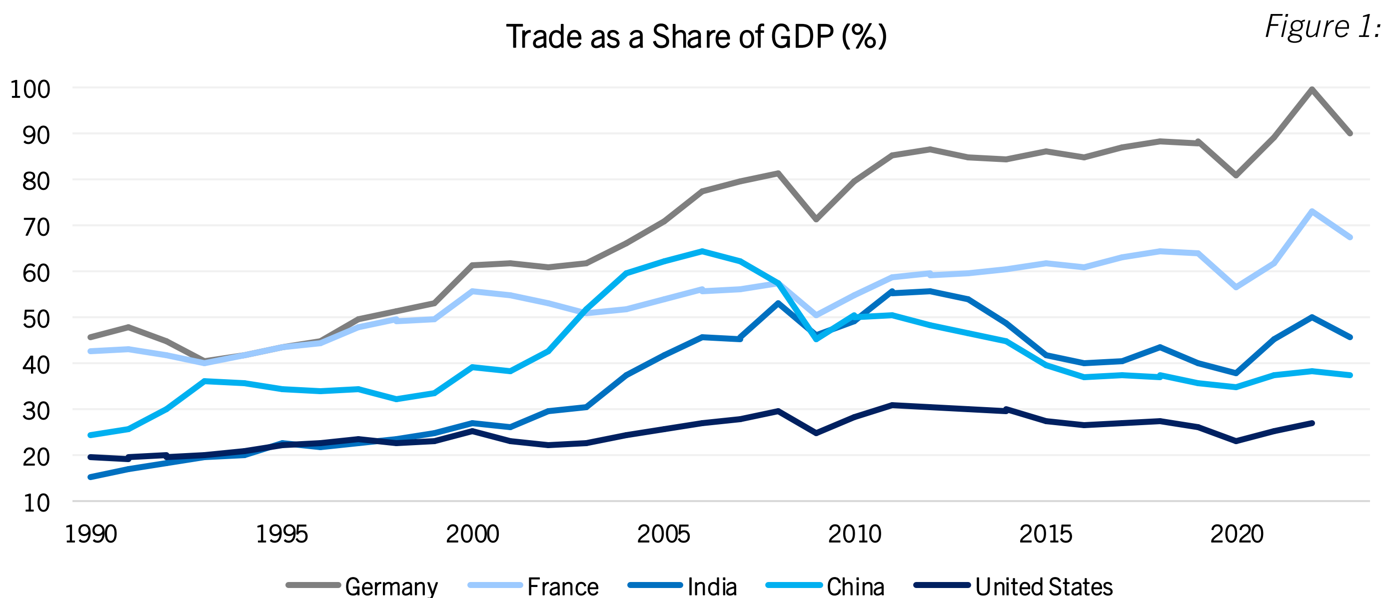
The Impact of Trump's Tariffs on the U.S. Economy and America's Trading Partners

RECENT TREND OF DEGLOBALISATION AND PROTECTIONISM

The global landscape is changing. Global integration is being replaced by a shift towards de-globalisation. Rising protectionist policies and a focus on resource independence are key policies being implemented by many governments around the world. India, for example, as part of its "Atmanirbhar Bharat" (Self-Reliant India) initiative, increased tariffs on various imported electronic goods, such as mobile phones and components. (1) The recently implemented Carbon Border Adjustment Mechanism (CBAM) by the EU is another example. A series of global events have spurred the resurgence of these protectionist measures, such as Brexit, COVID-19, and the war in Ukraine. This has led nations to re-evaluate their dependence on global supply chains and seek greater autonomy over their economic systems, with the U.S. leading the charge on this front. Trump intends to radicalise these protectionist measures by weaponising tariffs on imports.

Figure 1:



WHAT IMPACT DID TARIFFS HAVE IN HIS FIRST PRESIDENCY?

During his first term as President, Donald Trump strategically used tariffs as a cornerstone of his trade policy, aiming to curb the U.S. trade deficit and protect American industries. One of his most significant actions was imposing a 25% tariff on $250 billion of Chinese goods, including machinery, electronics, furniture, and toys. (2) An additional 10% tariff on $300 billion of consumer goods was also later raised to 25%. (3) This move initiated a trade war, as China retaliated with tariffs on American products, notably soybeans and pork, directly impacting U.S. farmers. In addition to China, Trump imposed tariffs on steel and aluminium imports from various countries, including Canada, Mexico, and the European Union, citing national security concerns. These tariffs raised prices for manufacturers relying on these

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materials, prompting criticism from the industry. Trump also introduced tariffs on washing machines and solar panels, aiming to boost domestic production in those sectors. Furthermore, tariffs on textiles and footwear were implemented, impacting retailers and consumers through increased costs. The administration sought to negotiate new trade agreements, resulting in the USMCA (United States-Mexico-Canada Agreement), which replaced NAFTA, incorporating provisions aimed at protecting U.S. dairy and automotive industries. The intent of these measures was to protect American jobs, with many citing the low unemployment rate achieved during Trump's Presidency from 2016 to 2020 as a metric of their success.

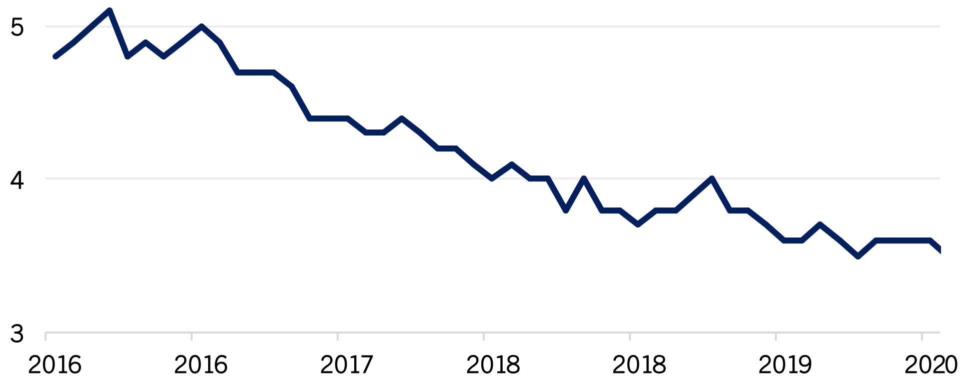

Figure 2:

TRUMP'S REVISED TARIFF POLICY

However, Donald Trump's proposed tariff policy for a potential 2024 presidency represents a significant escalation from his previous administration. His most ambitious plan involves a 60% tariff on Chinese goods and up to 20% on all other imports. In addition, he has promised tariffs of 100% on countries moving away from the dollar. (4) More controversially, he's suggested punitive tariffs, such as a 200% levy on John Deere exports from Mexico and 100% tariffs on Mexican-made goods. (5)

THE IMPACT OF TRUMPS TARIFFS ON THE US ECONOMY

The trade policy of a second Trump presidency would have far-reaching implications for the wider American economy. The immediate concern of such policies is their potential inflationary impact, given an inevitable increase in the prices of imported goods. While tariffs implemented by Trump in 2018 had relatively little impact on inflation data, the new policy would apply to 8 times more imports into the US economy ($3.1 trillion based on 2023 data). (6) Imported goods and services represented 13.9% of US GDP in 2023. (7) An increase in the cost of imported goods would have a significant impact on the purchasing power of households, potentially costing the average household $2,600 per year. (8) This additional inflationary pressure would not be limited to imported goods. Imported goods are essential for the production of the majority of U.S.-produced goods. An increase in input costs would, therefore, be pushed onto consumers via price hikes despite the goods being produced within the U.S. (7)

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The aim of the tariffs is to promote U.S. domestic industry and consumption of American products and services rather than imports. This aligns with the growing focus on industrial policy within both the Republican and Democratic parties in recent years, aiming to generate employment in manufacturing and strategically important domestic industries. (9) Such an aggressive increase in protectionist trade policy and tariff levels not seen since the 1930s would have severe consequences for the economy. (8)

Firstly, as the tariffs are intended to shift consumption from imported goods to domestic import-substituting industries, expansion of production in such industries would require additional labour. Given the U.S. is currently close to full employment, shifts in the labour market towards these industries would come at the expense of other industries. (9) As a tax on consumption, the tariffs have also been criticised due to their effect as a regressive form of taxation, which would significantly erode the purchasing power of low-income households. Government revenue generated from the tariffs would not be high enough to implement social security policies offsetting these effects. (6) Finally, the tariffs would negatively impact the competitiveness of U.S. exports. As the price of imported inputs rises, so does the price of finished exports, pushing the additional costs onto consumers in export markets. The demand for foreign currency will also fall, and the exchange rate of the dollar will rise, assuming the tariffs reduce the demand for imports, increasing the relative costs of exported U.S. goods for foreign consumers. (9) Other countries may also implement retaliatory tariffs, compounding the negative shifts in U.S. export competitiveness.

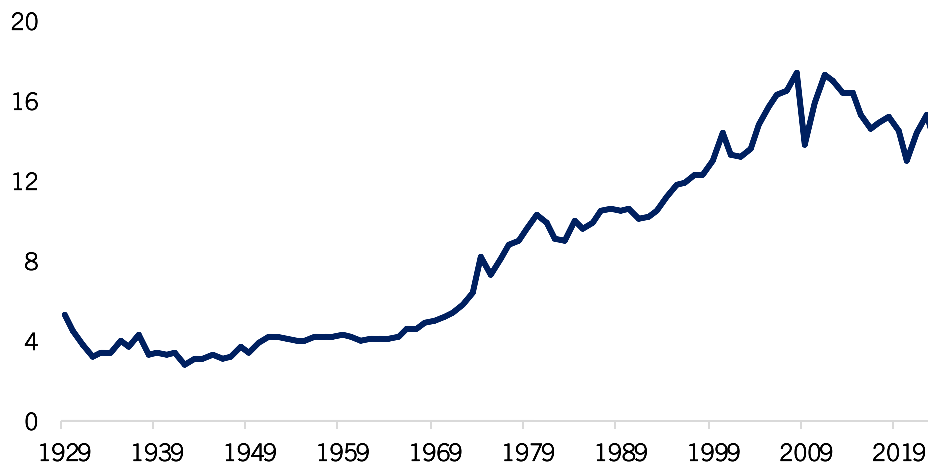

Figure 3:

IMPACT ON EUROPE & CHINA

The implementation of Trump's tariff policy platform would significantly impact the U.S.'s largest trading partners, including China and the European Union. As the U.S.' third largest trading partner, the introduction of a 60% tariff on Chinese imports would have a major impact on trade relations between the countries. (10) The measures are expected to reduce China's GDP by as much as 0.68%. (11) The EU, facing a lower tariff level of 20%, faces a smaller reduction in GDP of 0.11%. However, this figure varies significantly by member state. Germany is facing a potential decline in GDP of 0.23%, largely due to Trump's hostility to the importing of German automobiles. (12)

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Trump has signalled he intends to decrease the U.S. trade deficit by targeting European products, attacking European industry and incentivising businesses to move their manufacturing to the U.S. (13)

RETALIATION FROM TRADE PARTNERS

The EU, China, and other countries could respond to Trump's proposed tariffs by implementing retaliatory measures, such as imposing their own tariffs on US goods. They might also seek alternative markets for their exports, form new trade alliances, and challenge the tariffs through international bodies like the World Trade Organisation. Trump's measures have the potential to greatly escalate global trade tensions, with detrimental effects to the global economy, and must be monitored closely should he be elected.

What Would a Harris Economy Look Like?

One area that Kamala Harris' campaign has struggled to make a case on is her plan for the U.S. economy. The final Financial Times poll of the election race found that 44% of registered voters trusted Trump more to support the economy versus 43% who favoured Harris. (14) Some of Harris' proposed policies have sparked criticism from economists on both sides of the political spectrum. As the Federal Reserve battles to guide the U.S. economy to a soft landing, the future president-elect's economic policies will ultimately determine how successful they are in achieving said goal.

OUTLINE OF MAIN ECONOMIC POLICIES

The thesis behind Harris' plans comes down to building an "opportunity economy" to help Americans get ahead and build wealth. Should she be voted into office in November, Harris will be challenged with balancing economic growth as well as tackling the current cost of living crisis that stemmed from a supply-demand mismatch. Harris' campaign proposes solutions to both demand and supply-side challenges, such as down payment assistance and tax credits for affordable housing projects. (15) The Biden administration's approach to antitrust and corporate regulation was viewed by many business leaders as "restrictive" and punitive at a time when corporate dealmaking was at record lows as firms faced an elevated cost of capital and economic uncertainty. There is optimism among corporates that the Harris-Walz stance will be more moderate. Although Harris plans to raise the corporate tax rate from 21% to 28%, she appears to be placing importance on balancing innovation and fair labour practices without alienating major corporations. (15) This contrasts with the current administration's strict line on monopolistic practices, especially in the tech sector. Additionally, concerning trade and tariffs, Harris intends to avoid escalating tensions with China, positioning herself against the Trump-Vance campaign's broad tariffs that could raise household costs. Nonetheless, she is still expected to adopt a protectionist agenda, albeit a more muted version than that of Trump. Some of her key policies are outlined below:

<u>Accessible Homeownership</u>: A $25,000 down-payment program for first-time buyers – coupled with a $40 billion innovation fund for local government housing initiatives (24)

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Raising Families: Increased child tax credits Up to $6,000 per year for infants, $3,600 for children aged 2-5, and $3,000 for children aged 6 and older. (24)

Healthcare Cost Reduction: Expand drug price negotiations through extended tax credits for premiums and a cap on out-of-pocket prescription expenses. As well as, establishing a "Medicare at home" program to support seniors. (24)

Tax Reforms: Raise taxes on high-income earners through increased capital gains tax rate to 28% for those who earn $1 million or more. Promises to end federal income taxes on tips. Tax deduction of small businesses for startup expenses from $5,000 to $50,000 (24)

Price Gouging: Instituting a national price-gouging ban on food and groceries (24)

WILL THESE POLICIES BE EFFECTIVE?

Experts are divided on how effective Harris' policies are likely to be in stimulating economic growth and tackling the cost-of-living crisis. Four different forecasters analysed the projected 10-year costs and revenues from her proposed policies, with all varying in results. Of the four, only CRFB projected that Harris' plan would result in revenues that exceeded expenditure, contrasting the estimates from Penn-Wharton, Oxford, and the Tax Foundation. (15) CRFB's optimistic models can be attributed to the projected $1.4 trillion in revenue that would come from the corporate tax increase alone. (20) But what does her "opportunity economy" say about the already historically high national debt? Under Harris' proposals, the debt is projected to grow substantially – but in a lower trajectory than her opponent's. CRFB's models estimate an increase in debt to 134% of GDP by 2035 – representing a 9% increase from the current baseline – lower than Trump's projected 143% debt-to-GDP ratio. (18)

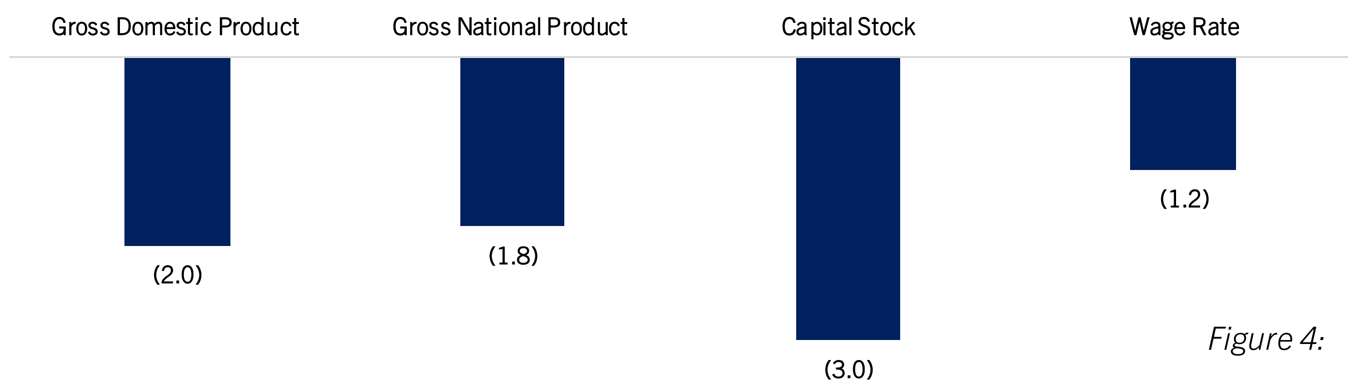

Figure 4:

Two important questions remain regarding her economic policy that will have significant impacts on the country's debt pile. The first is whether she will extend the Tax Cuts and Jobs Act (TCJA) for those earning under $400,000. Doing so could increase deficits by $3.4 trillion over the next decade. (17) Secondly, there is a lack of detail on the projected cost of her Affordable Housing Act, which aims to assist four million Americans in acquiring homes. (26)

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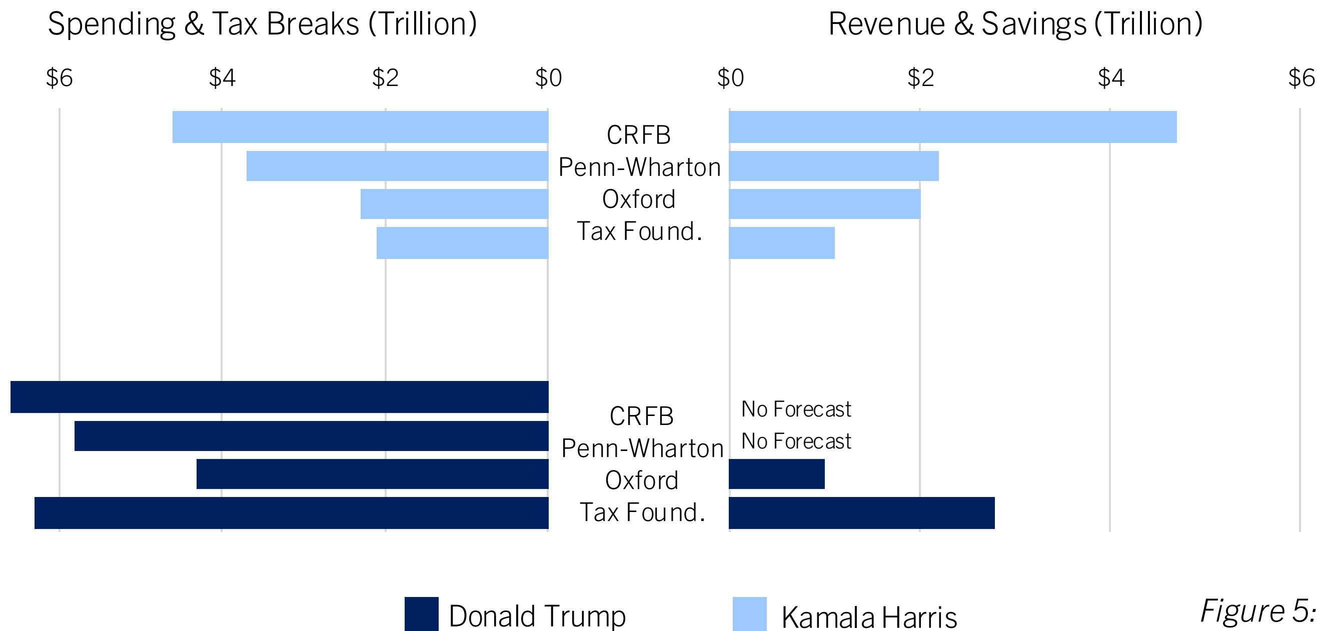
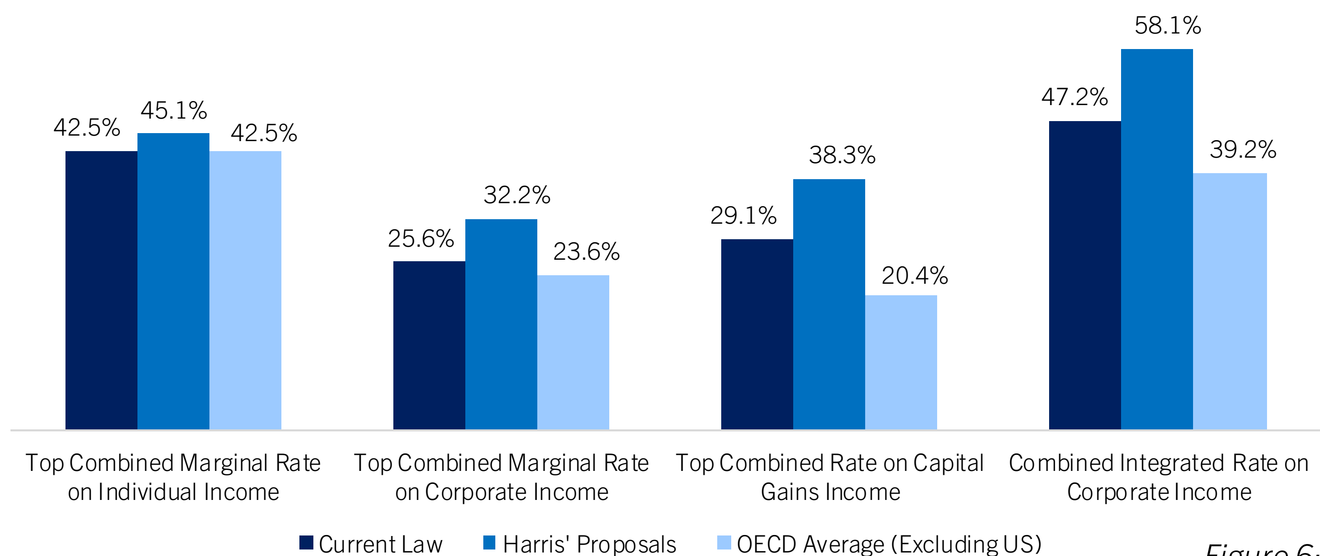


Figure 5:

Estimates suggest the total cost could range significantly between $250 to $500 billion, further clouding the outlook for the debt pile under a Harris presidency. (19) Ultimately, the benefits of Harris' proposals come from their effectiveness in providing immediate relief and targeted benefits to lower-income households. However, according to the Tax Foundation, whose models are more pessimistic on both sides of the argument, the broader economic costs are severe – suggesting slower growth under Harris and increased deficits, fearing that the increased tax rates on corporations would slow business investments and productivity, in a landscape where firms are already bearing the cost of higher interest rates. (17)



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SECTORS THAT STAND TO BENEFIT:

Clean Energy & Electric Vehicles (EVs): Democrats have always had a favourable stance towards industries that benefit the environment and are powering the green transition. Experts predict that renewable energy would thrive under Harris' policies, given that she is a strong proponent of climate action. (15) Sectors including solar (Sunrun Inc., Enphase Energy Inc.), wind, and green infrastructure, which have all enjoyed support from the Biden administration, could see further federal investment. Although a Harris win would unlikely yield new legislation for electric vehicles, it would allow firms to continue benefitting from the support provided by the Inflation Reduction Act. EV-charging network operators (ChargePoint Holdings Inc., Beam Global, Blink Charging Co.) and manufacturers of EVs (Tesla, Rivian, Lucid) should also fare well in the wake of a Harris victory.

Housing: Harris' support for first-time homebuyers and tax incentives for the residential construction industry will support firms such as DR Horton Inc, Lennar Corp, and KB Homes, who are likely to benefit from topline growth due to increased government contracts as well as bottom line increases as a result of these tax reliefs. (15)

Cannabis: Under the Biden administration, public support for nationwide cannabis legalisation has grown significantly. However, despite this momentum, the leading cannabis ETF, MSOS, has seen a steep decline, dropping 86% from its 2021 peak of $52 to just $7.06 today. A Harris administration, however, could be a game-changer. With her commitment to "full marijuana legalisation" and ending prohibition, there's a strong chance that stocks in this sector could rally sharply if she wins. (20)

SECTORS THAT MIGHT BE PRESSURISED:

Healthcare and Pharma: Harris plans to strengthen the government's ability to negotiate drug prices and expand Medicare to cover at-home senior care. This policy would increase regulatory pressures on pharmaceutical companies, likely impacting profitability as drug costs face new caps. Additionally, insurers are expected to raise premiums to offset the added financial burden. (23) With a price cap in place, insurers would no longer be able to pass high drug costs directly to consumers, necessitating adjustments that could spread costs across other areas of coverage. (23) Critics of this policy state how this could destabilise the commercial insurance market.

Financial Sector: Large banks like JPMorgan and Bank of America may likely experience regulatory pressures as Harris advocates for higher capital requirements and fee regulation. Currently, the Fed's Michael Barr has already proposed a revised plan to increase banks' capital by 9%, lower than the originally proposed 19% increase. (22) Although banks celebrated this revision, there is still significant pushback from the financial sector on what they believe to be unfair and overbearing regulation. From regulators' perspective, the fall of banks such as Silicon Valley Bank emphasises the need for higher reserve levels and more stringent regulation.

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The Importance of the Fed's Independence and the Threat Trump Poses to it

The Federal Reserve balances a dual mandate of firstly managing inflation, and, therefore, economic stability, by dictating the proxy for risk-free rates in the market with the Federal Funds Rate. This is coupled with managing employment rates throughout the nation. The independence of the Fed is imperative to maintain a stable economic environment and preserve confidence in the U.S. financial system.

THE IMPORTANCE OF THE FED'S INDEPENDENCE

The importance of its independence can be traced through the 'stagflation' the US economy experienced throughout the 1970s as a result of unchecked inflation and poor interest rate management by Arthur Burns during his tenure as Chairman. In Burns' attempts to curry favour with President Nixon, he was apprehensive to raise interest rates sufficiently which proved disastrous following the end of the price control period of the 1970 Economic Stabilization Act. The dollar subsequently lost a third of its value following the 73-75 recession, causing rampant inflation and the instability in floating currencies markets. (27) In a more modern context, the US government bond market, at an estimated $35 trillion debt load, is only able to maintain its so-called 'exorbitant privilege' of borderline unchecked additional debt due to the independence of the Fed, ignoring current political circumstances for systematic management. (30) Given the pervasive nature of US bonds in global markets, volatility in bond prices and interest rates caused by a loss of the Fed's credibility could have wide-ranging and damaging impacts on global economies. When inflation occurs due to unforeseen shocks to the system, such as a result of the pandemic, the Fed's credibility means that 'prices can be brought back under control with relatively small increases in interest rates'. (33) Without the confidence in an independent Fed, monetary policy has to be more heavy-handed, resulting in greater impacts on the job market and interest rate volatility, maintaining longer-term high inflation harming consumer power and the job market.

TRUMP'S STANCE ON THE FED'S INDEPENDENCE

There has been much speculation about Trump's comments regarding his "better instinct than, in many cases, people that would be on the Federal Reserve — or the chairman". (29) However, in a more recent interview with Bloomberg on October 15th, he was less assertive about his position to assert power over the Fed. Trump suggested that he had "the right to say I think you should go up or down a little bit. I don't think I should be allowed to order it". (30) The controversial 'Project 2025' report, created by the Heritage Foundation think-tank, proposed a number of reforms that would strip the Fed of larger swathes of the Fed's policymaking capacity. It suggested the elimination of the Fed's role in managing employment, limiting its emergency lending powers and even called into question the validity of a central bank at all. Trump has, however, denied any affiliation, labelling some of the proposals as "ridiculous and abysmal". (39) This is despite comments from its leader, Kevin Roberts, who claims to have become "personally close to the president". (39)

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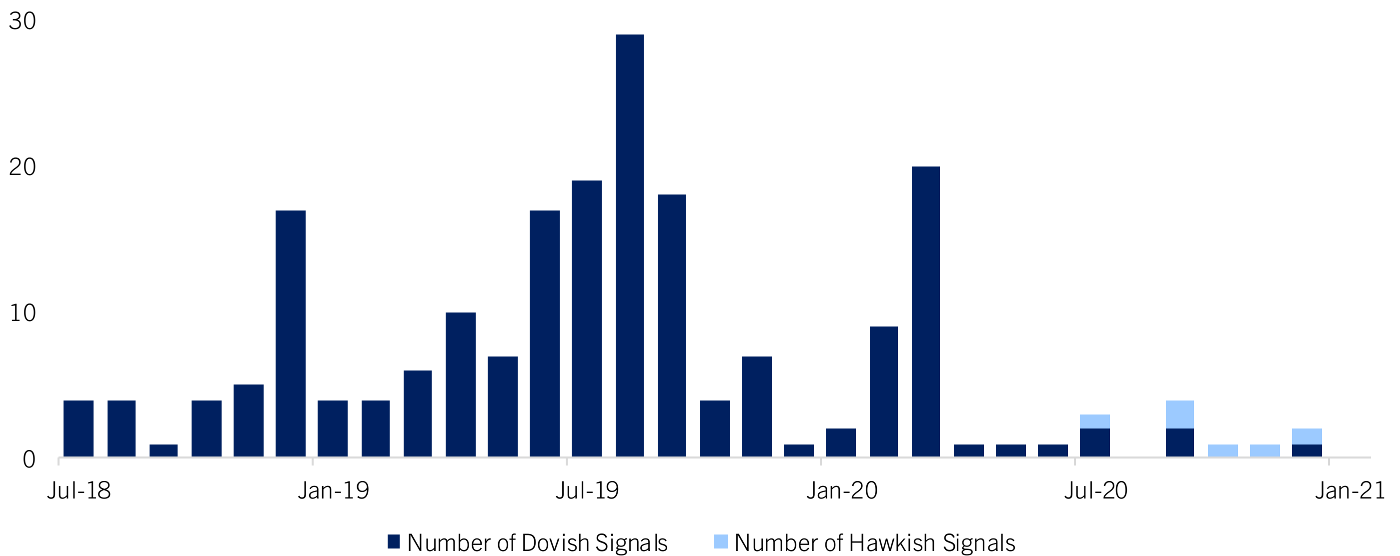

Despite this, Trump's pressure on the Fed, and more specifically Jerome Powell as Chairman, often via Twitter, displayed a divergence on views on the management of interest rate policy. Powell, in his view, hiked interest rates too quickly, reducing the opportunity for accelerated economic growth, instead prioritising stability. This pressure can be traced through the graph below detailing New York Times articles mentioning Trump and Powell connected to interest rates over his presidency. The huge majority of which can be seen to be dovish, calling for the lowering of interest rates.

THE INFLATIONARY RISK OF TRUMPS POLICIES

The inflationary impact of Trump's proposed tariffs is a concern for economists. Some analysts, including Greta Peisch, a trade attorney with Wiley Rein, have suggested that Trump could turn to using the International Emergency Economic Powers Act (1977) to implement this policy objective, which was brought into effect to 'sanction countries and individuals seen as national security threats such as Iran and Venezuela'. (37) Using this presidential power, he could impose his suggested 60% tariffs on China, unopposed. If this were to occur, alongside a 10% tariff imposed on the rest of the world, the weighted average tariff on U.S. imports would jump to 17% from 2.3% in 2023, according to Evercore ISI. (37) This would be the highest tariff rate since the Great Depression following the Smoot-Hawley Tariff act which triggered a global surge in trade barriers. (37) According to Goldman Sachs economists, if Trump were to win, his proposed tariff hikes would 'lead to an inflationary bump', while JP Morgan Chase & Co. strategists have suggested that a restriction on immigration could also act as a potential driver of inflation if it leads to labour shortfalls. (28) Due to the difficulty of removing tariffs and renegotiating a removal of trade barriers, Doug Irwin, a trade historian at Dartmouth College, suggests that 'higher tariffs would likely be around for years'. (37) These tariffs could result in a net negative impact on the economy. According to a recent report by Morgan Stanley, the 60% tariff on China and the 10% worldwide tariff would boost inflation by 0.9% and cumulatively lower GDP by 1.4%'. (37)

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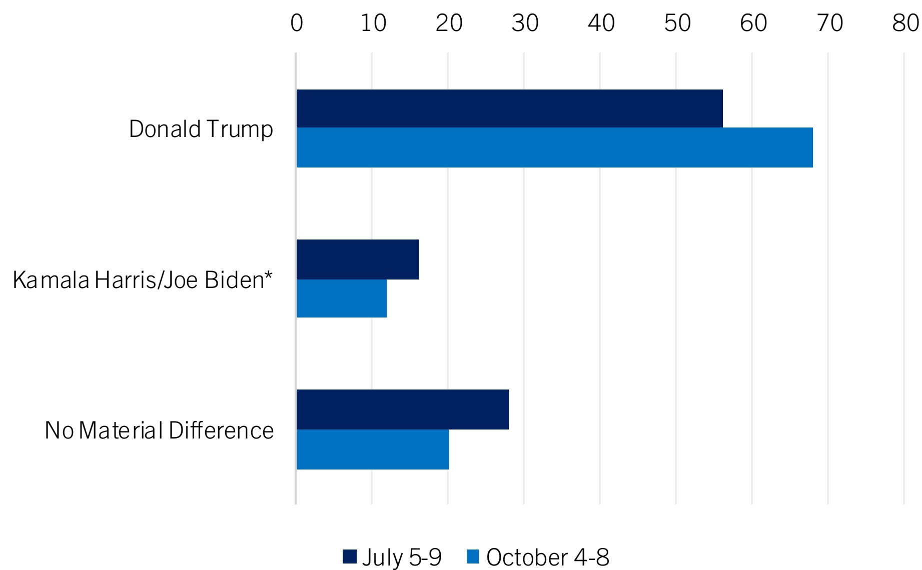

Figure 8:

During Trump's first presidential term, more centrist advisers were able to moderate protectionist impulses, convincing him to use the threat of tariffs to renegotiate deals with trading partners. (37) Examples of this include South Korea agreeing to amend the Korea-U.S. Free Trade Agreement and Japan lowering barriers to U.S. agricultural products. However, the Republican party has moved away from free trade, instead supporting stronger tariffs and protectionism. In particular, JD Vance, Trump's running partner, is a vocal supporter of 'America First' protectionist policies and tariff implementation. If, therefore, the Republicans gain control of the House of Representatives and the Senate, 'they are likely to grant Trump substantial leeway', leading to further speculation of higher inflation under a Trump administration. (37) Given the incredibly tight margins of the upcoming decision and the potential of a divided government, it is unlikely the full extent of Trump's tariff rhetoric will come to fruition. Furthermore, given the predicted Federal Funds Target (upper) Rate's drop to 3.5% by the end of 2025, Powell's recent and predicted dovish behaviour aligns with Trump's economic policy. (40)

2024 US Presidential Election Outlook

As the November 5th presidential election approaches, markets are preparing for potential volatility amid a highly competitive race between Vice President Kamala Harris and former President Donald Trump. While election cycles often raise concerns about market uncertainty, historical data presents a more optimistic picture. The S&P 500 Index has demonstrated remarkable resilience during election years, posting positive returns in nearly every election year since 1960. There are only two notable exceptions: the dot-com bust of 2000 and the great financial crisis of 2008. (41) This trend has strengthened in recent cycles, with the index gaining at least 10% in each of the last three election years (2012, 2016, and 2020). (41) However, the 2024 U.S. presidential election introduces unique dynamics that warrant analysis of potential market impacts and investment strategies. Beyond the presidential race, control of Congress will be crucial, as a split government could lead to policy gridlock,

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with one party controlling the White House or one chamber of Congress and the other party controlling the remaining branches. This article examines the outlook of swing states on the 2024 election, the potential market effects of a close and contested result, and the impact of a split government on fiscal policy and markets.

IMPACT OF A SPLIT GOVERNMENT

Election years have typically benefited U.S. equity markets over the past six decades, with downturns only occurring during major financial crises. Historical data shows markets respond positively to split control of Congress, as political gridlock can reduce uncertainty around major policy changes. Tax policy represents a key area, with dramatically different proposals from each candidate: a potential corporate rate reduction to 15% under Trump versus an increase to 28% under Harris. (42) However, the implementation of either policy change could be significantly constrained by a divided government, as demonstrated in the current Congress, where House Republicans have effectively blocked Democratic spending initiatives. Different sectors show varying sensitivity to potential outcomes. A Harris administration could mean stricter oversight of financial institutions and enhanced bank capital requirements. Trump's proposed trade policies, including comprehensive tariff increases, pose particular challenges for technology companies and materials producers with significant Chinese market exposure. Energy policy divergence is especially pronounced, with traditional fossil fuel companies potentially benefiting from deregulation under Trump, while renewable energy and electric vehicle initiatives would likely continue or expand under Harris. The current likelihood of a split government is high, and such an outcome would make it very difficult for either candidate to pass all legislative priorities. Market indicators reflect heightened pre-election uncertainty, with derivatives markets pricing in significant price movements immediately following the results. (43) The prospect of a divided government raises particular concerns about debt ceiling negotiations, given recent legislative gridlock. History suggests contested results can significantly impact markets - the 2000 election uncertainty triggered both equity market declines and a flight to safer assets.

S&P 500 Index Total Returns During Presidential Election Years (1928-2016) (%)

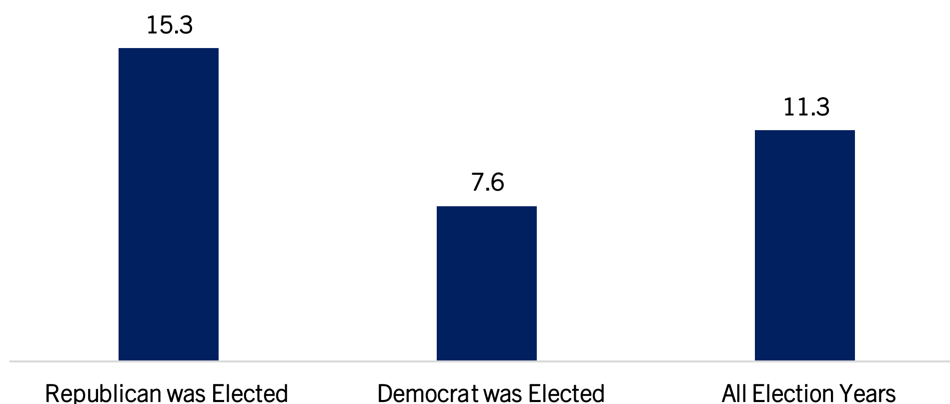

Figure 9:

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OUTLOOK FOR THE SWING STATES

To understand the significance of swing states, it is important to know how the American presidential election operates. The United States presidential election employs an indirect democratic system known as the Electoral College. Under this framework, each state is allocated electoral votes equivalent to its total congressional representation (House members plus two Senators). Most states implement a “winner-take-all” system, where the candidate who wins the state's popular vote receives all of its electoral votes, regardless of margin. This system makes swing states - states that could reasonably vote for either party - disproportionately important. A presidential candidate must secure 270 of the available 538 electoral votes to win the presidency. (44) While states such as California (reliably Democratic) or Alabama (reliably Republican) maintain predictable voting patterns, swing states like Arizona, Pennsylvania, and Michigan frequently alternate between both parties. These swing states often determine electoral outcomes, as their combined electoral votes typically represent the margin between victory and defeat. Consequently, a candidate can win the presidency without securing the national popular vote by strategically winning key swing states. This explains why a candidate can win the presidency while losing the popular vote, as happened in 2016 when Donald Trump won key swing states despite receiving fewer total votes than Hillary Clinton. Candidates, therefore, focus their campaigns heavily on these battleground states, sometimes paying less attention to states where the outcome is considered certain.

The electoral battlefield centres primarily on seven states that collectively represent 93 electoral votes. (45) Pennsylvania, with its 19 electoral votes, emerges as perhaps the most critical swing state. The state's importance stems not only from its substantial electoral weight but also from its position as a cornerstone of both candidates’ paths to victory. Current polling shows an extremely narrow margin, with Trump holding a slight lead. (46) The southern states of Georgia and North Carolina represent an evolving electoral landscape that could reshape traditional political alignments. Georgia’s transformation into a purple state, as evidenced by recent Democratic victories, has introduced new dynamics to the electoral equation. The uncertain outcome in these swing states carries significant implications for market sectors sensitive to policy shifts. Michigan's industrial heartland, where Harris holds a marginal lead, could particularly influence market sentiment regarding manufacturing and trade policy. Arizona's electoral landscape, where Trump leads, reflects broader national tensions over immigration policy and border security. These issues are relevant to regional economic dynamics and could influence market sectors dependent on cross-border trade and labour markets. Wisconsin and Nevada, though commanding fewer electoral votes, could prove decisive in a close election. Wisconsin’s historical position as a critical “Blue Wall” state and Nevada’s diverse electorate and service-sector-dominated economy make them important indicators of broader economic trends.

WHAT A DEAD HEAT RESULT WOULD MEAN FOR MARKETS

A contested 2024 election presents specific market risks, with the 2000 presidential election between George W. Bush and Al Gore providing crucial insights into how markets respond to prolonged electoral uncertainty. The five-week period following Election Day was marked by a series of legal challenges and recount procedures that ultimately required Supreme Court intervention. The uncertainty began when Florida’s initial election night count showed a margin of less than 0.5% between candidates, triggering an automatic machine recount under state law. (47) During this five-week uncertainty period, the S&P 500 fell 7.8% between Election Day and year-end. Following the Supreme Court's December 12th decision, the Russell 2000 recovered with a 1.2% gain while the S&P 500 continued downward, falling an additional 3.7% through year-end. (41) Unlike previously contested elections, where uncertainty

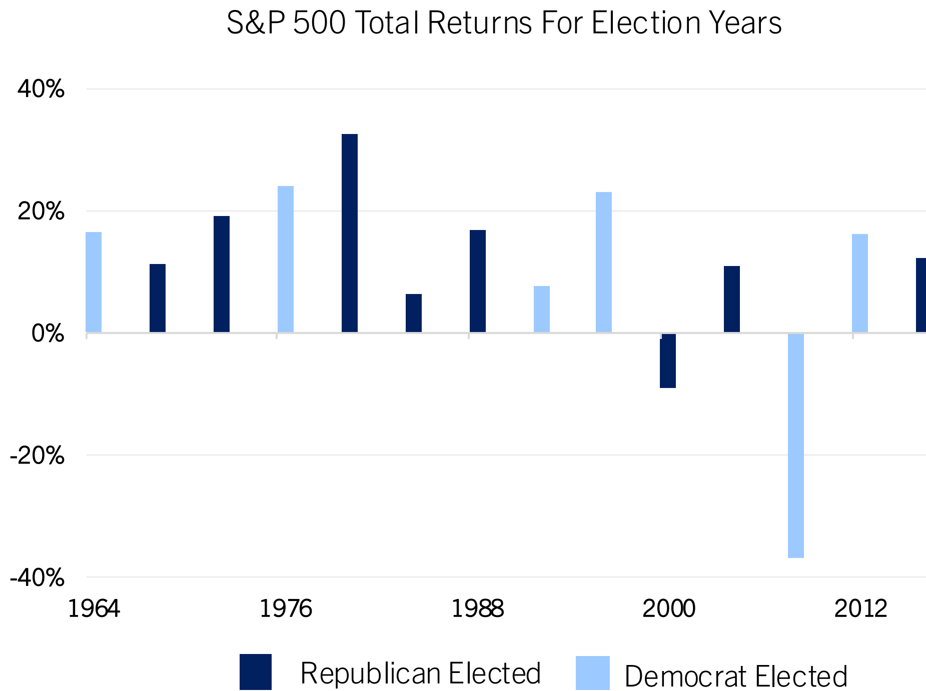

Figure 10:

typically centred on a single state, such as Florida in 2000, current polling data suggests we could face a situation where several decisive states require recounts concurrently. Current polling presents margins within recount territories in several decisive states: Pennsylvania, Michigan, and Wisconsin are all within one percentage point. (48) This confluence of tight margins across multiple decisive states creates an unprecedented risk scenario that could extend market uncertainty well beyond previous electoral experiences. Compared to the 2000 election, the 2024 scenario could produce more pronounced market reactions due to the complexity of multiple simultaneous recounts. Pennsylvania's mandatory recount threshold at 0.5% puts its 19 electoral votes in play, while Georgia's identical threshold affects 16 electoral votes. Michigan's recently revised recount procedures requiring recounts in races determined by less than 2,000 votes and Wisconsin's 1% threshold add another layer of complexity to potential post-election scenarios. Historical data suggests each state's recount process typically takes between one and three weeks, but simultaneous recounts could strain election resources and extend the period of uncertainty. (48)

However, the market environment today differs substantially from 2000. While that period coincided with the dot-com bubble and rising interest rates, current market dynamics feature different challenges and sector weightings. For example, information technology stocks now represent 31.7% of the S&P 500, making their impact on overall market performance more significant than in 2000. (41) Analysis of the 2000 election period reveals that market capitalisation played a significant role in performance during uncertainty. Small-cap stocks demonstrated greater resilience than their large-cap counterparts, likely due to their stronger connection to domestic economic conditions and lower technology exposure. This performance divergence suggests that company size and market exposure may be important factors in navigating potential election-related volatility.

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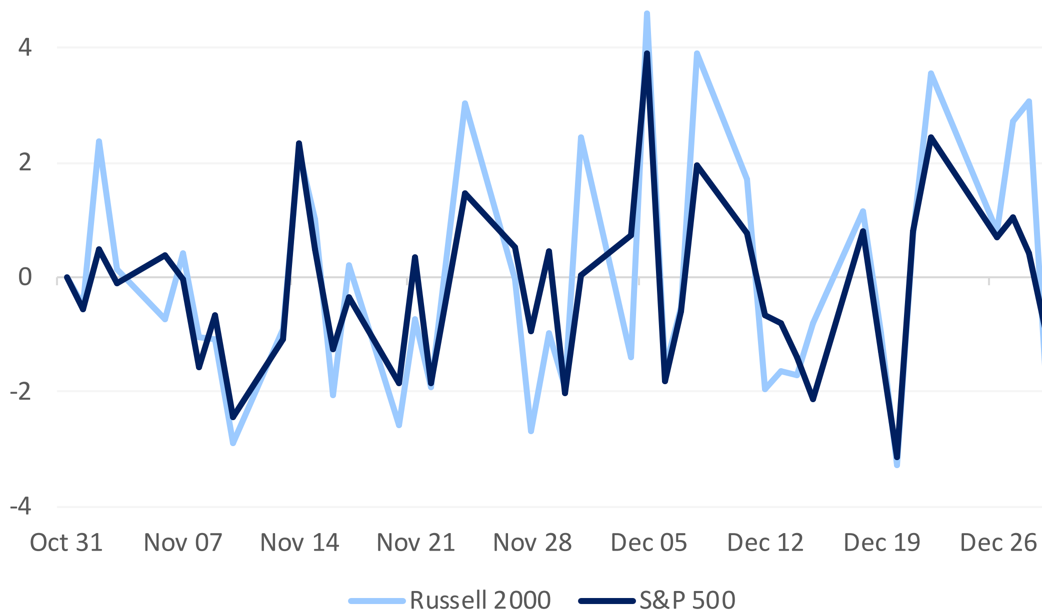

Figure 11:

Current market indicators reflect preparation for election uncertainty. Bond market volatility typically increases during election periods, with the MOVE Index historically rising an average of 4 points in October and falling an average of 7 points in November of election years. Options markets are pricing in potential one-day moves of 1.8% in either direction for the S&P 500 following the election, while Treasury markets anticipate moves of approximately 18 basis points. (49) Beyond equity markets, election uncertainty can affect multiple economic areas. In 2000, 10-year Treasury yields fell 52 basis points during the recount period, while gold prices increased as investors sought haven assets. (50) Defensive sectors, particularly consumer staples, also demonstrated relative strength during this period of uncertainty. Historical analysis of recount scenarios suggests limited long-term market impact. According to a comprehensive study of statewide recounts between 2000 and 2023, only three out of 6,929 races saw their results reversed through the recount process. (51) The average adjustment in vote totals during recounts - approximately 551 votes - indicates that only the closest races might be affected by such procedures. For investment managers, the key consideration may not be the eventual winner but rather the potential period of uncertainty between election day and final certification. Markets historically demonstrate increased volatility during such periods, though these effects typically prove transitory.

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About the Contributing Team

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Jonathan is a third-year Joint Honours Economics and Mathematics student and is Head of Research for the 2024/2025 session. He has previously held the roles of Senior Research Analyst on the Research team and Junior Analyst in the Software sector. Jonathan has completed spring weeks at Lazard, BNP Paribas, and Morgan Stanley, and will be returning to Morgan Stanley next summer. He loves travelling, rugby and sailing.

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Tom is a Master's in Finance Student and a Research Analyst in the SMF for the 2024/25 session. Before joining Trinity College, he completed a degree at the University of Cambridge studying French and Italian. Outside of the fund, Tom recently completed internships at Convex Strategies, a long-vol hedge fund, and at Prusik Investment Management, a long-only, absolute return fund focusing on Asia ex-Japan. His hobbies include listening to podcasts, golf, and following politics.

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Fred is a third year Business & Economics student on Erasmus in Madrid, and is a research analyst for the 2024/25 session. Previously, he was an analyst in the Consumer Discretionary and Communications sectors. Fred has completed internships at Caledonia Investments, D2 VC Fund and EY. His hobbies include GAA, football and music.

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Aoife is a final year Middle Eastern and European Languages and Cultures student and is a Research Analyst for the 2024/2025 session. She is currently writing her dissertation on the impact of remittances on economic development in the MENA region. In her spare time she enjoys travelling, surfing and listening to music.

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Figure 9:
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Figure 11:
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