

# Preparing portfolios for the 2024 U.S. election cycle

# Current perspectives on the U.S. elections



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## The state of the presidential race

- With President Biden choosing to drop out of the running for a second term and Vice President Kamala Harris now at the top of the Democratic ticket, the Presidential Race has shifted from a referendum on acuity to a choice on policy.
- A strong economy typically benefits the incumbent. Although the U.S. economy has remained resilient, renewed recession concerns coupled with elevated prices and low housing affordability are weighing on confidence.
- Consensus no longer sees a Republican sweep of the presidency and Congress, and importantly, this points to a potentially divided House, limiting any significant legislative action.

## What markets should focus on

- Election noise should not prompt drastic changes in portfolio allocations, as cyclical and secular economic factors tend to influence the market more significantly than politics.
- That said, three influential policy issues could potentially impact and heighten volatility in the period ahead: U.S. trade policy, geopolitics, and fiscal sustainability.

## Long-term investment implications

- History tells us that the presidential political party has very little impact on the strength of the U.S. economy or stock market. This resilience should instill confidence in investors, emphasizing the importance of remaining fully invested.
- Avoiding the market during periods of election-related volatility has seldom been a successful approach. Since 1933, the S&P 500 has averaged double-digit annual returns, regardless of whether Democrats or Republicans hold the presidency.

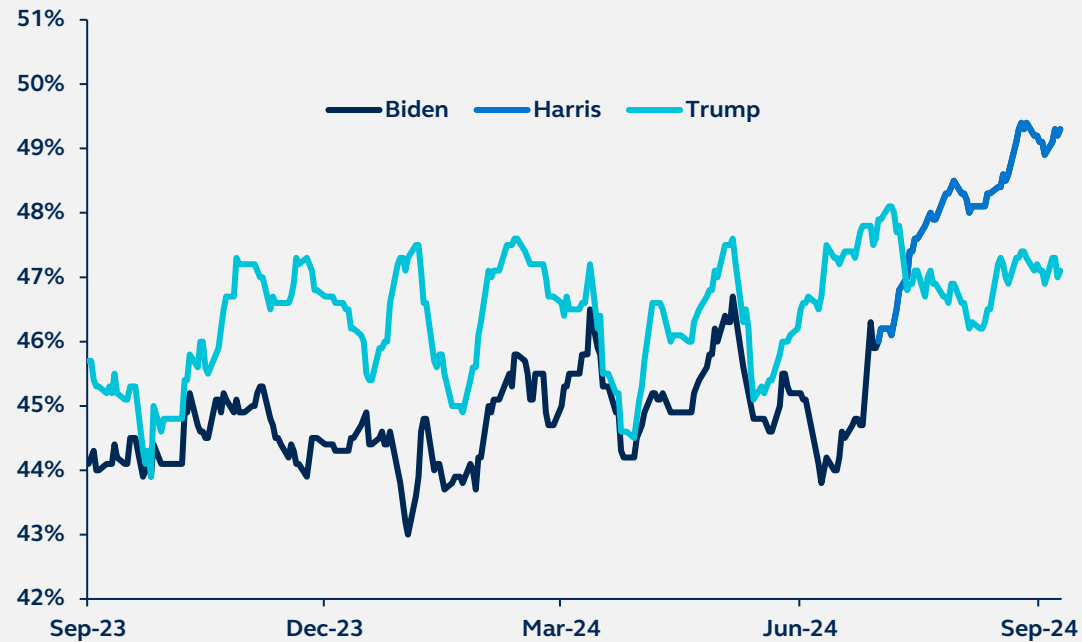
# 2024 U.S. Presidential Race

## A re-shaping of the race

Biden's dropping out of the running changed the calculus of the race, with the election shifting from a referendum on acuity to a choice on policy. Despite reinvigorating voters and edging a slight lead on Trump, Harris is still polling well behind where Biden was versus Trump back in 2020.

### Presidential Polls

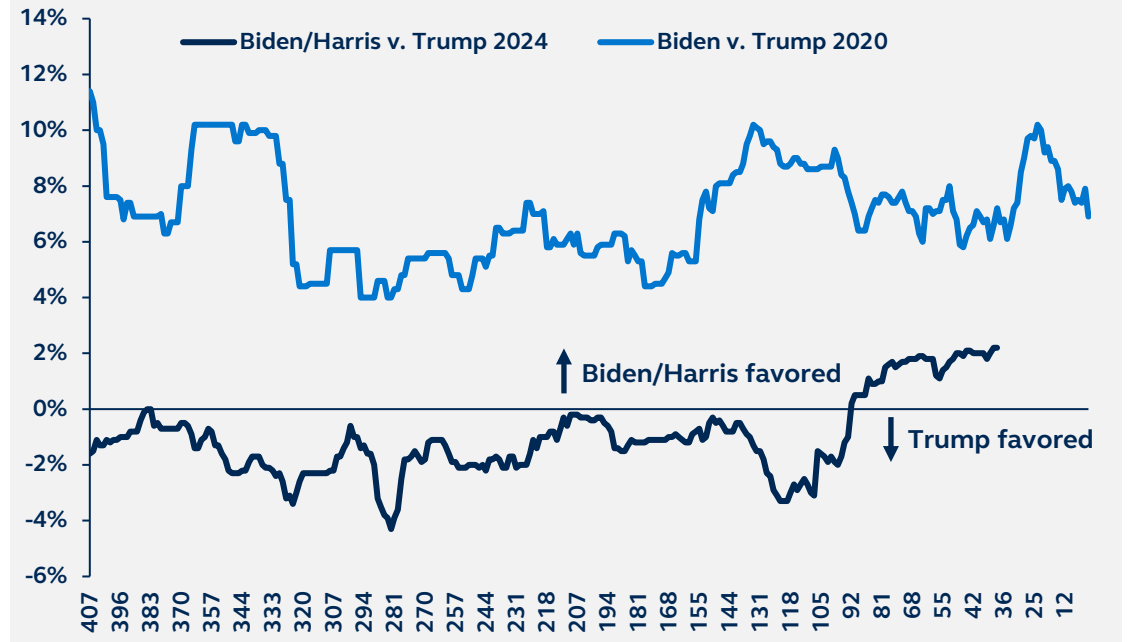
RCP National Polling Data, Quarterly, August 2023–present



Source: Bloomberg, Principal Asset Management. Data as of October 3, 2024.

### Average Polling Spread Between Candidates

Points, Days Until Election

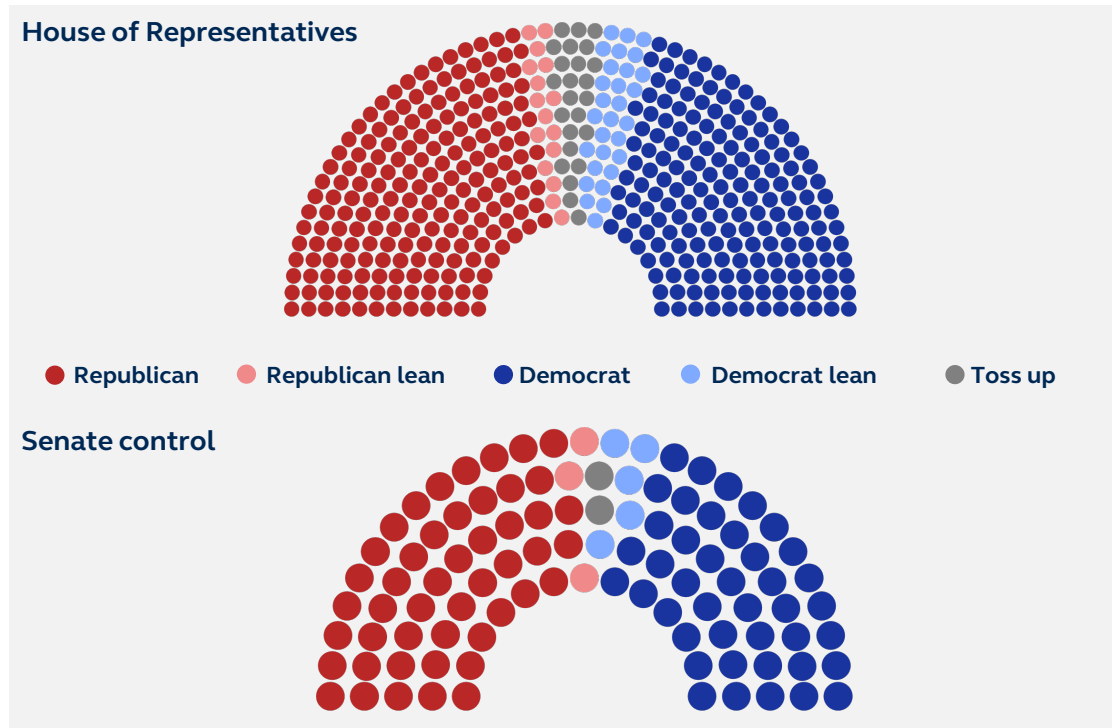


Source: Bloomberg, Principal Asset Management. Data as of October 3, 2024.

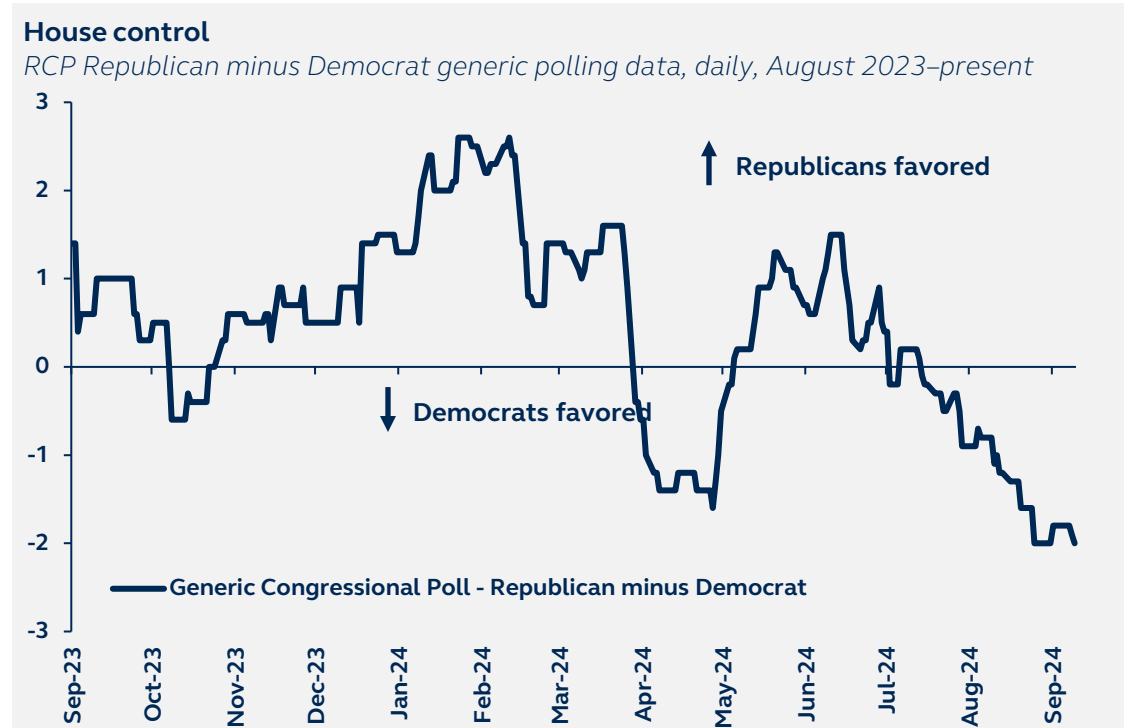
# 2024 U.S. Congressional Race

## A Republican sweep is no longer consensus

Democrats are now slightly favored to win back the House after losing it to the GOP in 2023. The Senate, meanwhile, is likely to switch back to a GOP majority, with more Democratic seats up for grabs in competitive races. A divided House will limit legislative action and will likely be a hurdle for whoever controls the White House.



Source: Cook Political Report, Principal Asset Management. Data as of September 20, 2024.



Source: Bloomberg, Principal Asset Management. Data as of October 3, 2024.

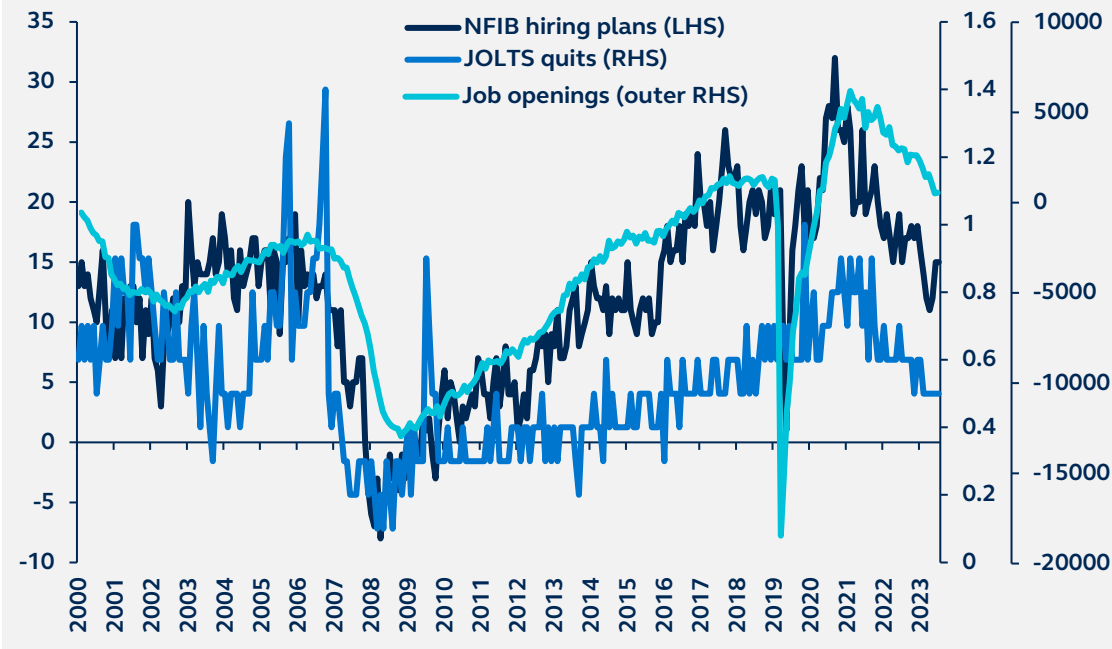
# The economy matters to voters

## Inflation and the labor market remain top of mind

Growth is slowing, and the labor market is softening as a result. With job openings declining and the unemployment rate gradually ticking up, voter sentiment is likely to take a hit. Compounding this issue is that despite inflation rates moderating, price levels remain more than 20% higher than pre-pandemic, weighing heavily on consumers, particularly lower-income households.

### Labor market tightness: various measures

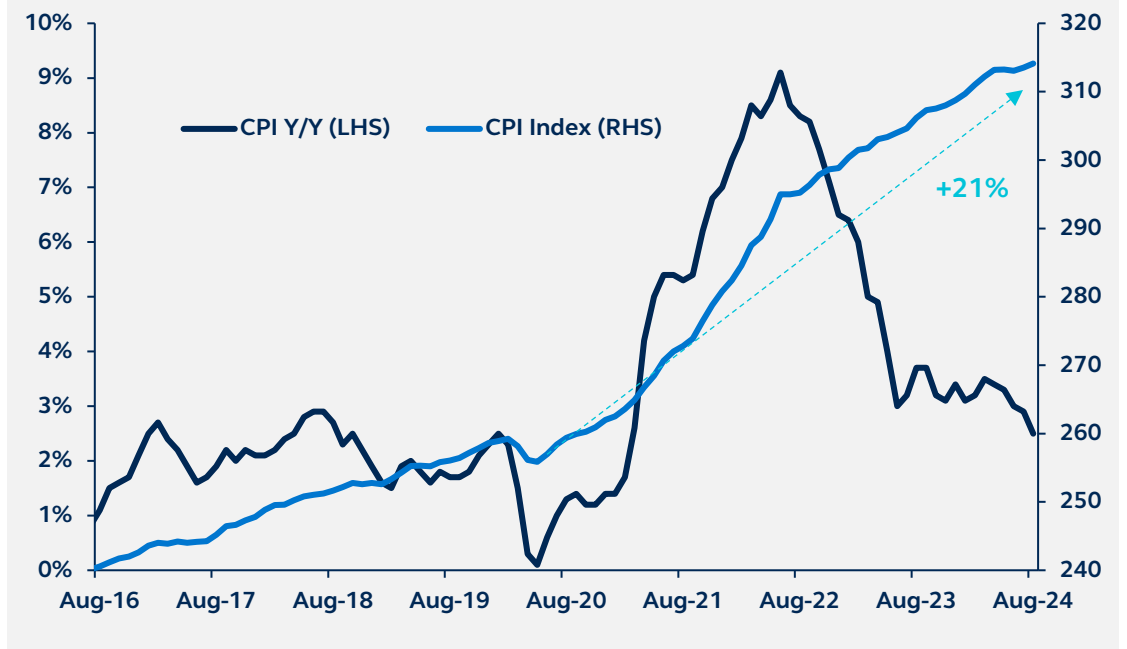
NFIB hiring plans, JOLTS quits rate, job-workers gap



Source: Cleantomics, Bureau of Labor Statistics, Principal Asset Management. Data as of September 20, 2024

### CPI inflation

CPI Y/Y change, CPI Index; August 2016–present



Source: Bloomberg, Principal Asset Management. Data as of September 20, 2024.

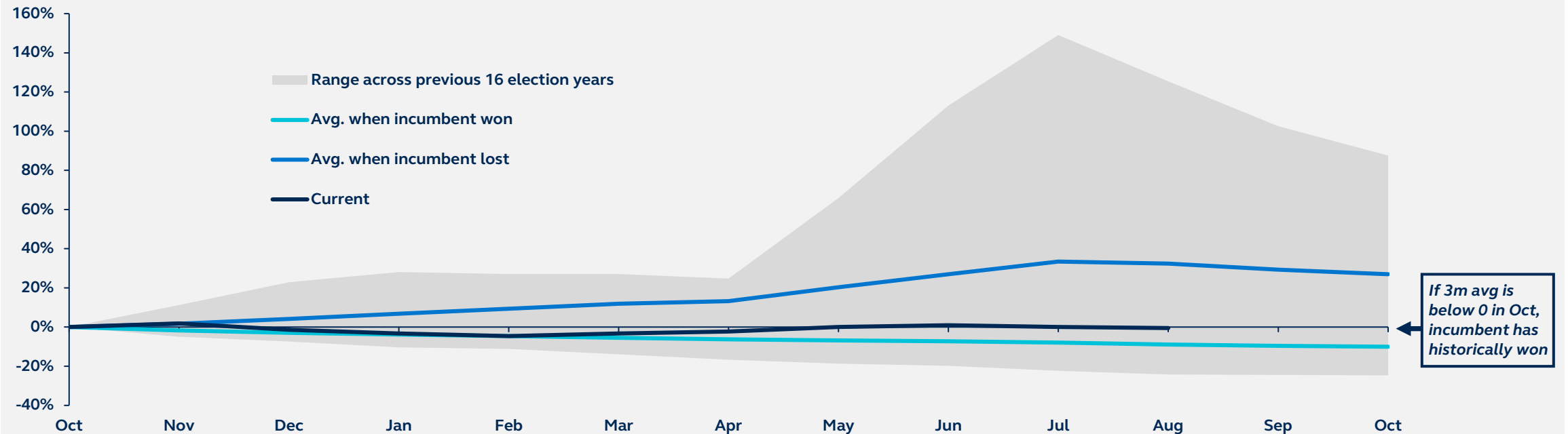
# Economic conditions impact voter sentiment

The “Misery Index” has accurately predicted 15 of the past 16 presidential elections

Economic conditions impact voter sentiment in the lead-up to elections and, historically, are indicative of whether the incumbent wins or loses. The Misery Index, a combination of inflation and unemployment, has predicted 15 out of the past 16 presidential election results. If the three-month average is lower year-over-year in October, the incumbent party has historically won. At this stage, rising unemployment is the biggest risk to the incumbent, Harris.

## Misery Index 12-months prior to election in previous 16 election years

*Inflation plus unemployment, 3-month moving average, percentage change over one year*



Source: Bloomberg, Principal Asset Management. Data as of September 20, 2024.

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# Policy outcomes

Harris has a similar agenda to the one Biden had been campaigning on

Policies on taxes, trade, and geopolitics can significantly impact specific industries, affecting the broader U.S. and global economy. Harris is largely running on the same policies laid out in President Biden's budget, albeit with some modifications. Trump's agenda is more focused on broad tax cuts, primarily financed by stringent trade policies.

Harris		Trump
Targeted tariffs to protect green energy	<b>Trade</b>	60% tariff on China; up to 200% tariff on Chinese-made autos from Mexico; 10% universal tariff
Extend a portion of the 2017 Trump tax cuts; Increase corporate and capital gains tax	<b>Taxes</b>	Extend the 2017 Trump tax cuts; Lower corporate income tax
Traditional approach of working with allies	<b>Geopolitical</b>	Deal-by-deal approach driven by transactional ideals
Leave to market forces	<b>Dollar</b>	Weaker
Not concerned about the deficit	<b>Fiscal unsustainability</b>	Not concerned about the deficit
Record costs on private sector	<b>Regulation</b>	Hard freeze on new regulation
Status quo	<b>Immigration</b>	Deport millions

Source: Piper Sandler, Principal Asset Management. Data as of September 20, 2024.

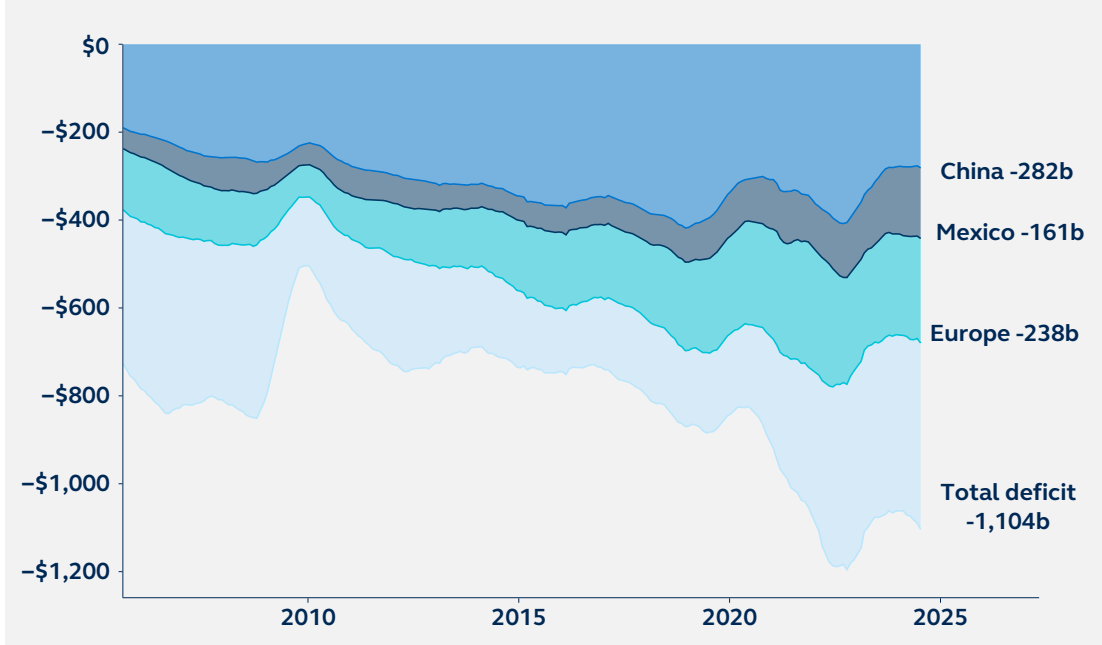
# Policy theme: U.S. trade

More restrictive trade policy is a bipartisan policy, particularly with China

Both candidates are likely to be tough on China, but Trump has outlined more stringent proposals than Harris. With the Chinese economy already challenged by the ongoing property downturn, it is vulnerable to any potential headwinds for its export sector, a notable driver of GDP growth. With Trump's 10% blanket tariff proposal, Europe and the rest of the world are unlikely to go unscathed as well.

## U.S. trade balance by country

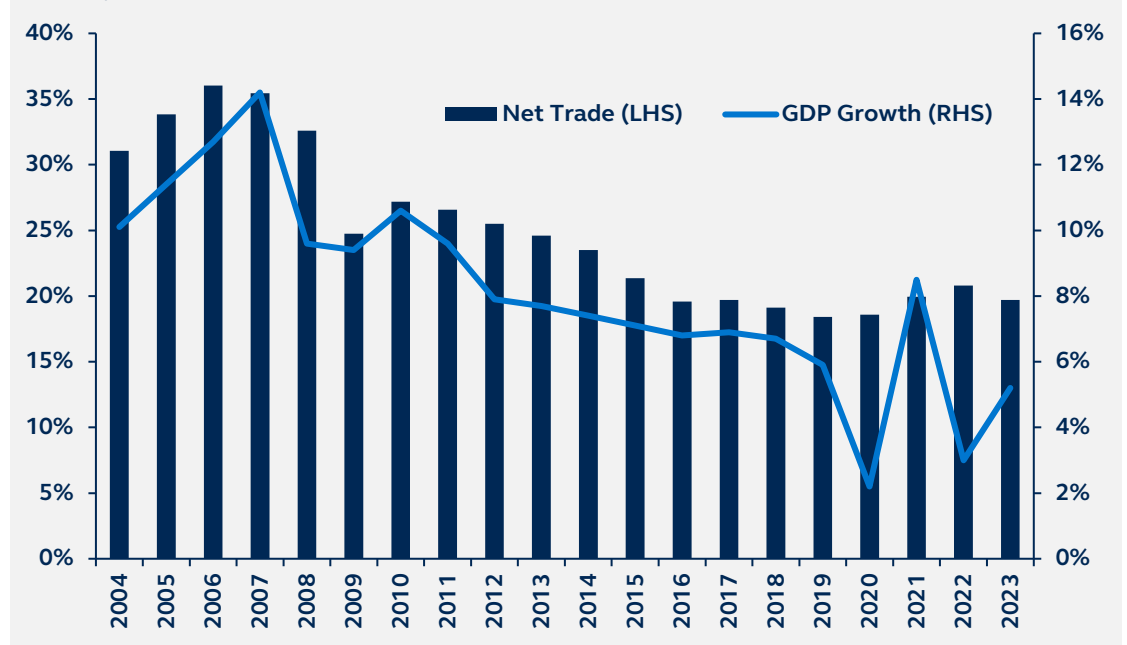
Rolling 12 months, visible trade, free alongside basis, billions



Source: Cleonomics, U.S. Bureau of Economic Analysis, Principal Asset Management. Data as of July 31, 2024.

## China trade exports contribution to GDP

January 2004-present



Source: Bloomberg, Principal Asset Management. Data as of September 20, 2024.



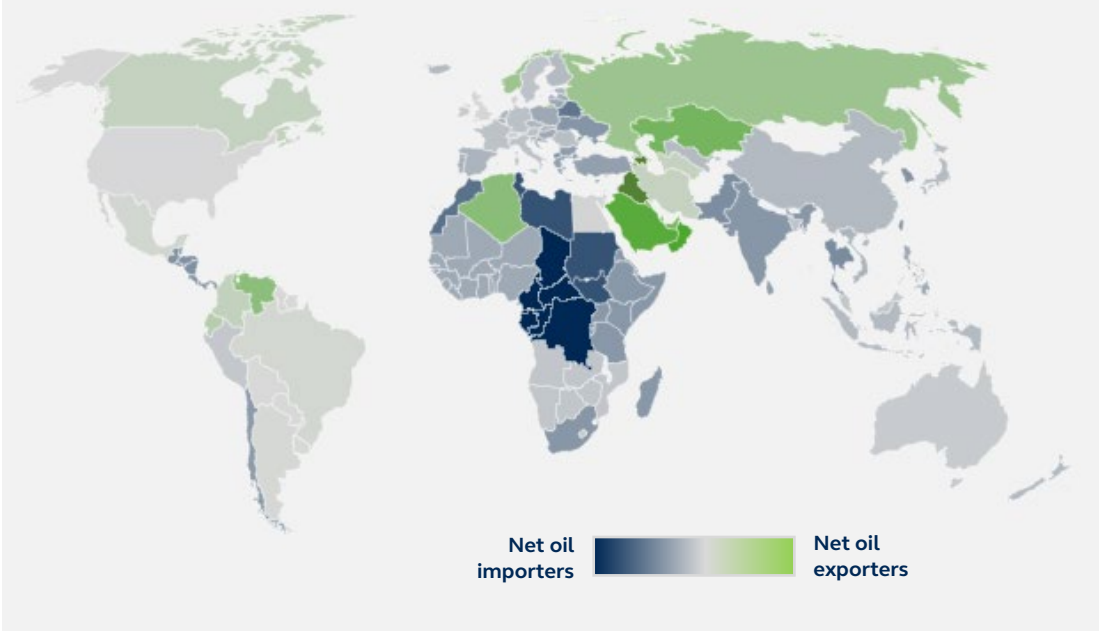
# Policy theme: Geopolitics

Support for Ukraine and NATO, Iranian sanctions, and oil supply

The Ukrainian and Middle East conflicts are firmly in the spotlight as key issues during the upcoming U.S. election, potentially creating volatility around the global energy complex. The U.S., which has grown to be the world's swing oil producer, is less susceptible to geopolitically driven energy shocks versus Europe and the rest of the non-OPEC+ world.

## Net oil importers and exporters

Oil production minus consumption as a percentage of latest GDP



Source: BP, International Monetary Fund, World Bank, Principal Asset Allocation. Countries without reported data are omitted. Data as of March 31, 2022

## World top 10 oil producers

2023

Country	Million barrels per day	Share of world total
United States	21.91	22%
Saudi Arabia	11.13	11%
Russia	10.75	11%
Canada	5.76	6%
China	5.26	5%
Iraq	4.42	4%
Brazil	4.28	4%
UAE	4.16	4%
Iran	3.99	4%
Kuwait	2.91	3%
<b>Total top 10</b>	<b>74.59</b>	<b>73%</b>

Source: EIA, Principal Asset Management. Data as of September 20, 2024.

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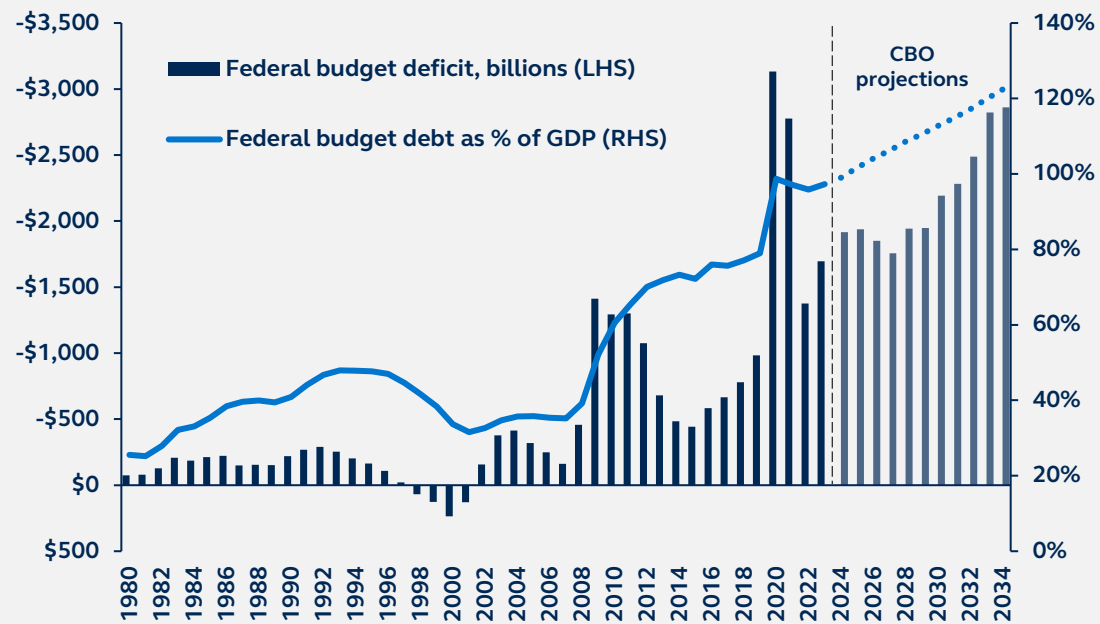
# Policy theme: Fiscal deficit management

## The fiscal picture is set to continue deteriorating

With interest rates set to stay structurally higher for longer and neither presidential candidate offering significant plans to address fiscal sustainability, net interest payments are likely to stay elevated as the fiscal outlook worsens. And while former President Trump may be guiding towards more expansionary policy, the depth of the fiscal imbalance may be a key constraint.

### Government debt and deficit

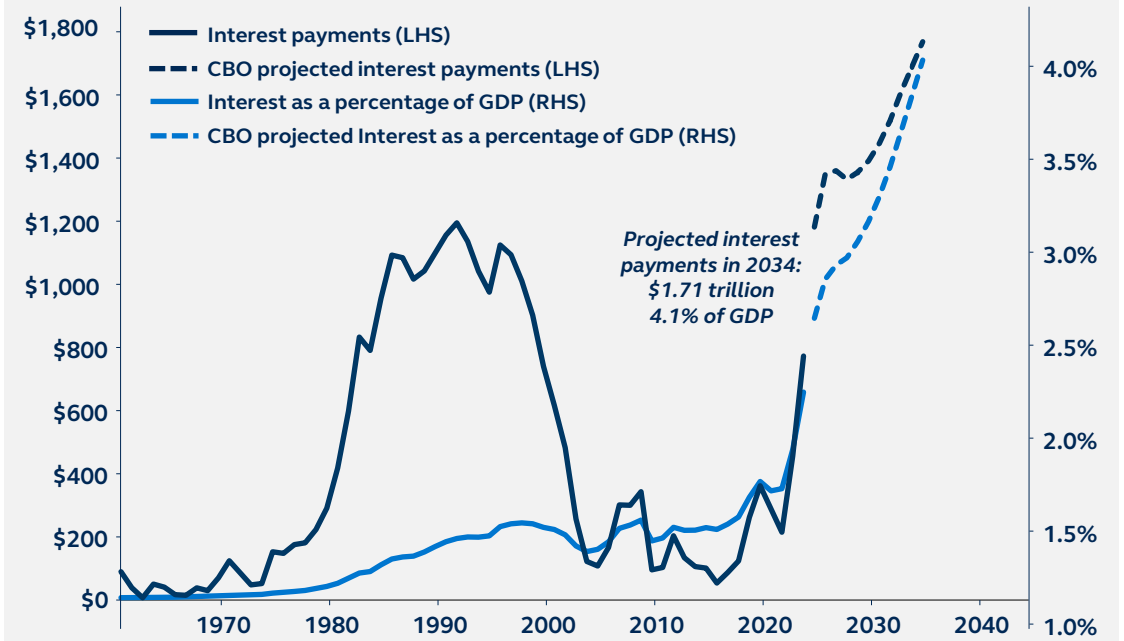
1980–present, CBO projections through 2034



Source: CBO, Principal Asset Management. Data as of June 30, 2024.

### Federal interest payments

\$ billions and percentage of GDP, actual values and Congressional Budget Office projections



Source: Clearnomics, U.S. CMB, CBO, Bureau of Economic Analysis, Principal Asset Management. Data as of August 15, 2024.

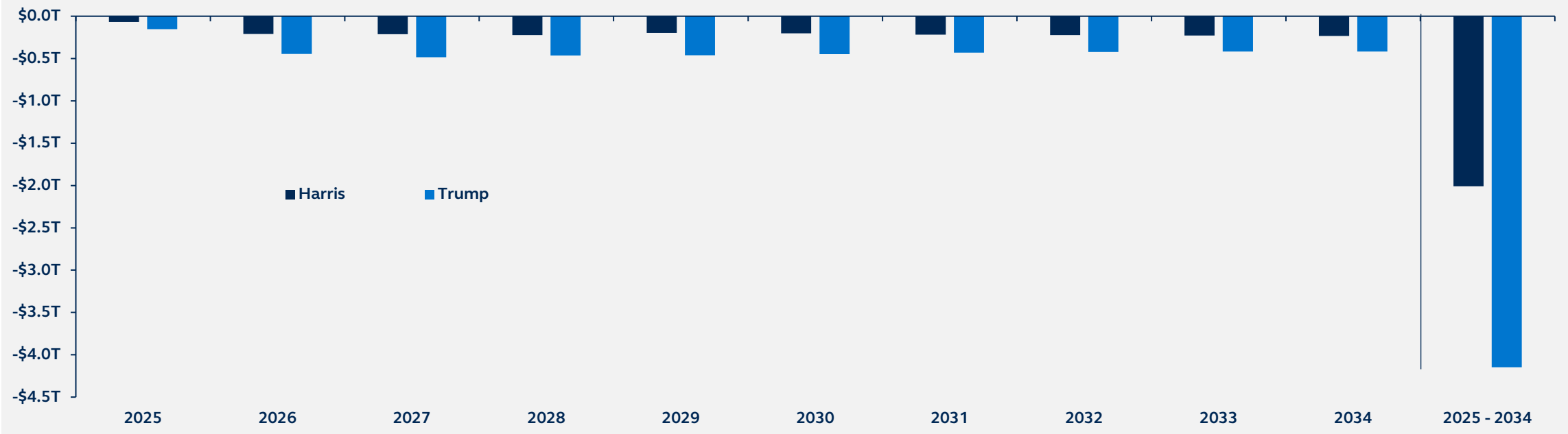
# Policy theme: Fiscal deficit management

The fiscal picture is set to continue deteriorating

Both candidates have a proposed policy agenda that will add pressure to the budget deficit over the next ten years, though Trump's agenda of broad tax cuts is likely to have a much more significant impact. In practice, however, the policy changes in the coming years will likely be far less dramatic given a divided Congress.

## Penn Wharton budget model: Effects of the candidate's campaign policy proposals

Net effect on primary deficit (-) or surplus (+), with dynamic effects



Source: University of Pennsylvania, Principal Asset Management. Data as of September 20, 2024.

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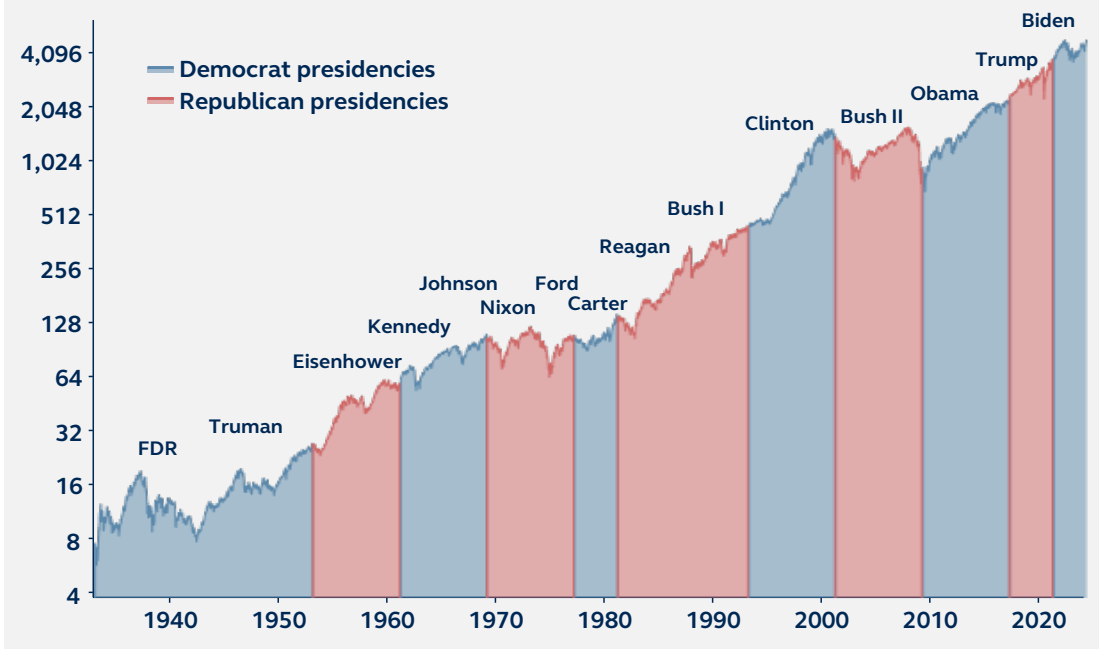
# Long-term investment implications

Focus on the fundamentals, not election-related headlines

Avoiding market participation during election-related volatility has historically not been advantageous. U.S. stocks have almost always risen by the end of a president's term, with the S&P 500 averaging double-digit gains since 1933 whether Democrats or Republicans occupy the White House. Exiting the market due to an election result or simply because an election is happening often proves detrimental to investor portfolios.

## Stock market and presidencies

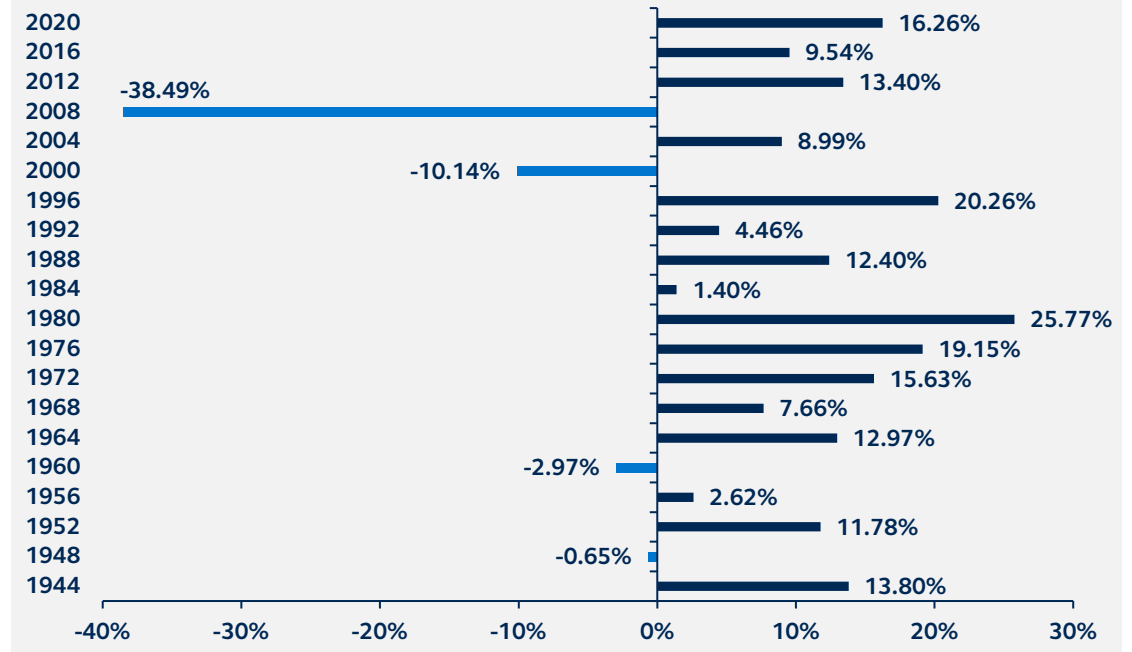
S&P 500 Price Index, 1933-present



Source: Cleonomics, Standard & Poor's. Data as of December 31, 2023.

## Market performance during election years

S&P 500 total returns



Source: Bloomberg, Principal Asset Management. Data as of September 20, 2024.

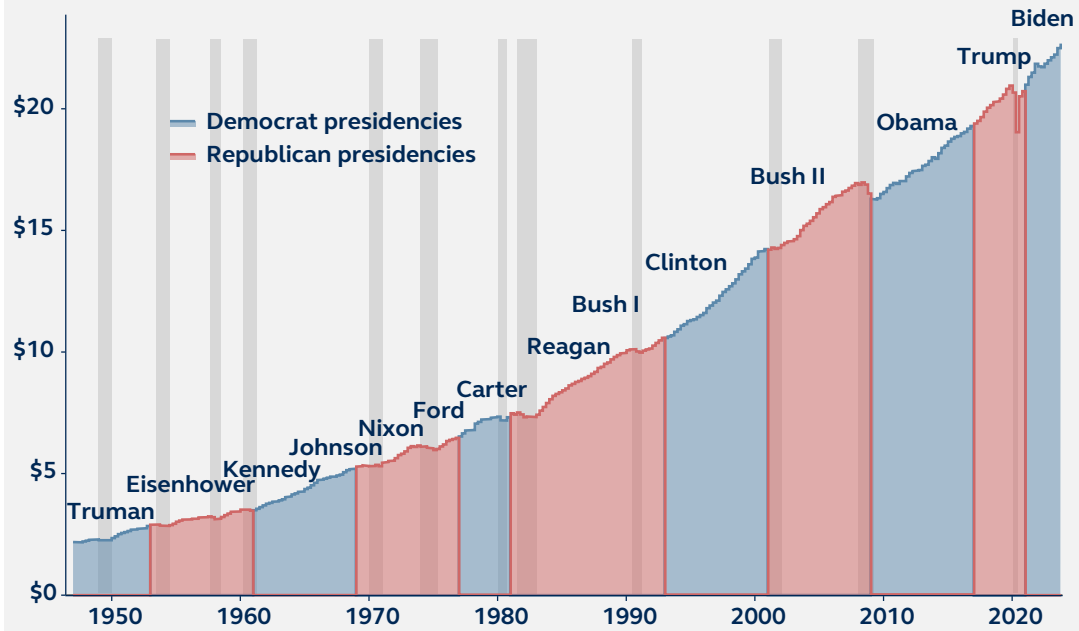
# Long-term investment implications

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Election-related market moves are often quickly eclipsed by the long-term gains created by market and business cycles. Many factors, including economic growth, corporate profits, monetary policy, valuations, technological revolutions, and globalization influence these cycles. Looking ahead, with the Fed securing a soft landing, the economic outlook seems fairly robust, and this should feed into corporate earnings, helping support a strong market backdrop.

## The economy and presidencies

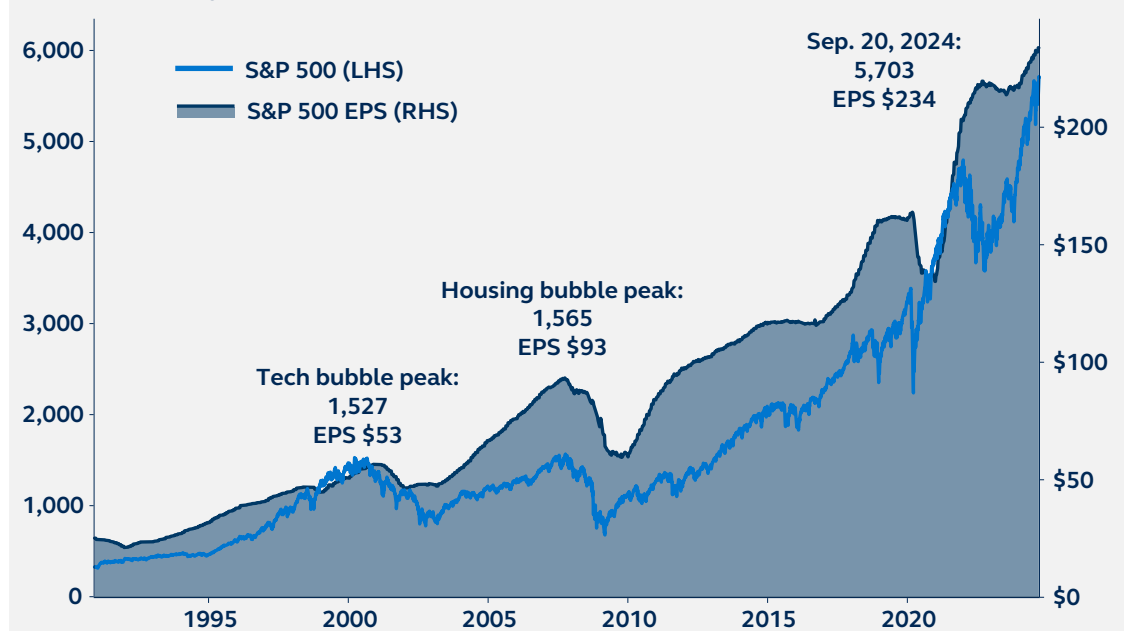
U.S. real GDP, \$ trillions, 2017 dollars, recessions are shaded



Source: Clearnomics, Bloomberg, Principal Asset Management. Data as of December 31, 2023.

## Stock market and earnings

S&P 500 trailing 12-month EPS, S&P 500 Index, 1990–present



Source: Clearnomics, Standard & Poor's, Bloomberg, Principal Asset Management. Data as of September 20, 2024.

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## Risk considerations

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