

Special Coverage: Post-debate US election update

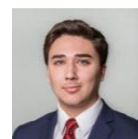
Key takeaways

- ◆ As of 9 July, President Joe Biden's approval rating is 35.7%, while 53.4% of Americans polled have an unfavourable opinion of Donald Trump. There're several third-party candidates in this Presidential election who can attract marginal independent voters. Given that the Presidential race is so close, it could tip the balance.
- ◆ US presidential elections have historically affected financial markets dramatically. In the last 11 presidential elections (back to 1980), the S&P has outperformed global markets 75% of the time, by an average of 4%. Therefore, our overweight on US equities is well positioned relative to the political cycle.
- ◆ In terms of this year's Presidential election, fiscal policy remains stimulative, hoping to keep consumer spending and sentiment rising. Historically, a healthy economy with stimulative monetary and fiscal policies have traditionally favoured the incumbent party. The viability of both candidates remains an issue in the election. However, given the polling numbers, it seems that both parties may stick with the current candidates. If so, it would reduce uncertainty and potential market volatility.



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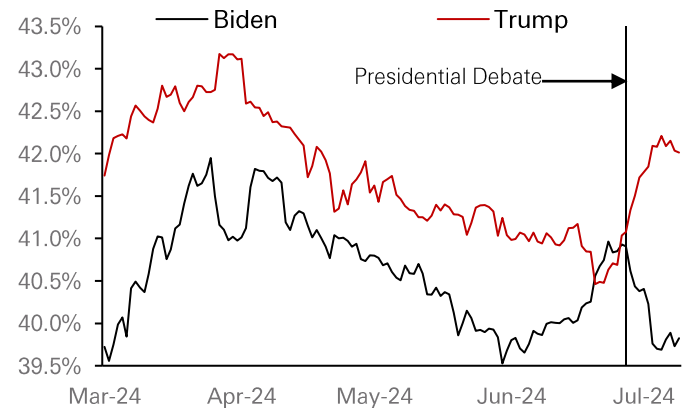
What happened?

- President Biden and former President Trump as a pair have the lowest popularity rate for major party candidates in more than three decades. As of 9 July, President Joe Biden's approval rating is 35.7%, the lowest approval rating since former President George H.W. Bush during the 1989-1993 administration, while 53.4% of Americans polled have an unfavourable opinion of Donald Trump.
- Before the first Presidential debate on 27 June, Trump led Biden by 1.1%. Post-debate, Trump widened his lead a bit to an average of 1.9% in various polls. Heading into the Republican convention, as of 9 July, Trump leads Biden by 2.2%. The race for the White House remains very tight.
- The Republican convention will be held from 15-18 July. The Democratic Party will select its presidential nominee during a virtual roll call. It should be held before the in-person 2024 Democratic National Convention, which will take place during 19-22 August, in Chicago, Illinois. Both the conventions should be uneventful and most probably be rallies for the selected candidates.
- There're several third-party candidates in this Presidential election. Currently, 25% of Americans hold unfavourable views of both major party candidates. This is the highest share of voters expressing negative views for the majority party candidates' pair at this point in the election cycle dating back to the 1988 election.
- Historically, third-party and independent candidates have often fallen short of early polling numbers. Moreover, their final vote shares often come in lower than the polls suggest. However, third-party candidates can attract marginal independent voters. Given that the Presidential race is so close, it could tip the balance.

- Both candidates are facing legal issues. The US Supreme Court recently ruled that a President can't be prosecuted for actions that were within his/her constitutional powers as president. This is a landmark decision since for the first time, it recognises, a form of presidential immunity from prosecution. The court also ruled that a President "is entitled to at least presumptive immunity from prosecution for all his official acts". It's important to understand that even as a convicted felon, any candidate can run for President and serve a full term.
- The Biden-Trump rematch is the seventh rematch in US Presidential history. In the six prior rematches, four ended in a different result. Two ended with the same result as the first election. This is the first time that an ex-President has to run to reclaim the White House in more than a century.
- In the Senate, there're 34 seats up for election in 2024, including a special election in Nebraska. Currently, 23 seats in question are held by Democrats or Independents. Republicans can retake control with a net gain of two seats.
- In the House of Representatives, all 435 seats are up for election this year. The Republican Party currently controls the House, where 218 seats are needed for a majority. As of 26 June, polling suggests that the Republicans could win 209 seats, the Democrats are likely to win 201 seats, with 25 seats labeled as a toss-up.
- Since 1980, there have been 11 Presidential elections. The Fed has changed the policy rate in 10 of those years. In five of the elections, the Fed lifted rates by an average of +1.7%. In the other five, the FOMC lowered rates by an average of -1.6%. They've shifted rates before the election in 9 of those 10 election years.
- The most aggressive shift in policy was in 1980 when the Fed tightened rates rapidly by 4% to fight inflation. In 2008, the FOMC was forced to cut rates aggressively because of the housing crisis, which led to the global financial crisis. The November Fed meeting is just two days after election day. The FOMC meets twice after the election, giving it time to cut rates further, if needed.

The Presidential race remains very close

Presidential election national polls: average



Source: FiveThirtyEight, HSBC Global Private Banking and Wealth as at 9 July 2024.

Investment implications

- In the last 11 Presidential elections (back to 1980), the S&P has outperformed global markets 75% of the time, by an average of 4%. Our overweight on US equities is well positioned relative to the political cycle.
- In terms of this year's Presidential election, fiscal policy remains stimulative, hoping to keep consumer spending and sentiment rising. Monetary policy should also become less restrictive as we expect the Federal Reserve to begin lowering policy rates by 0.25% in September this year.
- If the Democrats take the White House, we should look for further policy action focused on environmental issues, alternative energy and social policy. A focus on the consumer and the industrial sectors (building of new manufacturing facilities) is consistent with those policies.
- If Republicans take the White House, it's likely that the focus would shift to more traditional petroleum-based energy policy, defense and technology companies.
- In addition, former President Trump has promised to make his tax cuts from 2017 permanent, which would provide a boost to consumers, and he is likely to reverse several Biden Administration policies which forced larger banks to hold larger balances. This could be a positive factor for the financial sector.

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