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2024 US elections: macro, geopolitical, and investment perspectives

ECONOMY & MARKETS

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Executive summary

Approaching the US elections, markets are increasingly focusing on the candidates' platforms and their implications on the economy and markets. Taxation, foreign trade, immigration, and fiscal policy are at the forefront of the candidates' agendas. Harris advocates for higher taxes on corporations and the wealthy to fund social initiatives and green policies, while Trump promotes tax cuts, deregulation, and an increase in oil production.

The tariff front is particularly relevant for geopolitical, economic and investment perspectives. A Trump administration pursuing the proposals outlined in the campaign would pose higher risks of economic disruption and could strain alliances. The consequences of these actions are challenging to predict, especially in a world undergoing geopolitical shifts, where any action may provoke reactions from other global powers. For instance, China is likely to respond to tariffs and may adjust its stimulus measures based on the election results. On the other hand, a Harris administration may be seen as less disruptive, but could see adversarial powers align more closely.

Most importantly, it will not be clear until after the elections which policies will be effectively implemented -- beyond the election rhetoric -- or how much Congress would agree to enact, depending on whether they hold sufficient majorities. That would also impact the timing of effective implementation.

For investors, we see five main takeaways:

First, in the short term, market sentiment is likely to be driven by Trump's proposed lower corporate tax regime against the risk of adverse supply and inflation consequences of tariffs and the pledge to deport undocumented immigrants. Meanwhile, **Harris should be seen as a continuity administration**, especially if the Democrats do not have a majority in the House, which will allay fears of wealth taxes and possibly also a higher corporate tax.

Second, the "Make America Great Again" agenda may shape opportunities in US equities, with varying implications at the sector level driven by differing policies. The rally should broaden further, benefitting small caps and sectors such as banks under Trump**. A Harris scenario could be more mixed for equities, with infrastructure, construction, and green companies more favoured.**

Third, geopolitical reordering will shape market opportunities, particularly for emerging markets in the context of supply-chain relocations driven by tariffs and the competition for technological supremacy. Asia may be more under pressure in a Trump administration, but China could also consider the US elections outcome in assessing its stimulus. Other EM may benefit from relocation, such as Mexico.

Fourth, higher fiscal spending is likely to become a significant theme, with potential implications for inflation expectations. We may witness a further **steepening of the yield curve** and an increased probability of higher inflation regimes, prompting investors to factor inflation as a key component of their asset allocation. EM bonds could face challenges in an environment of higher inflation volatility under a Trump scenario. With inflation still on the radar, **commodities and inflation-linked assets** should be favoured as sources of diversification.

Lastly, we think the dollar may have entered a structural downward trend, which only a tough trade policy or a strong reacceleration of US price inflation may be able to delay or even invert. In this respect, a Trump scenario is likely to offer a better opportunity for a stronger dollar, given the potential for policy divergence in favour of the Fed and the rise in risk premium.

Investors should navigate the US elections by balancing short-term sector opportunities with long-term inflation risks, while keeping an eye on geopolitical shifts that could reshape market dynamics.

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Head of Amundi Investment Institute

Infographic: US election implications for investors | OCTOBER 2024

Infographic: US election scenarios and market implications

ELECTION SCENARIOS

HARRIS ← → TRUMP

	Democratic sweep Harris presidency Democratic house Democratic senate	Harris divided government Harris presidency Democratic house Republican Senate	Trump divided government Trump presidency Democratic house Republican Senate	Republican sweep Trump presidency Republican House Republican Senate
Domestic policy	▪ Partial extension of 2017 TCJA; ▪ Corporate tax hike; ▪ Immigration reform; ▪ No fiscal consolidation.	▪ Partial extension of 2017 TCJA; ▪ Corporate tax hike; ▪ Immigration controls; ▪ Disputes about spending increases.	▪ Partial extension of 2017 TCJA; ▪ Corporate tax hike; ▪ Disputes about spending increases.	▪ Extension of 2017 TCJA; ▪ Corporate tax cut; ▪ Immigration controls; ▪ No fiscal consolidation.
Trade policy	▪ Status quo; ▪ Tough on China to stay; ▪ Renegotiate USMCA in 2026.	▪ Status quo; ▪ Tough on China to stay; ▪ Renegotiate USMCA in 2026.	▪ 10% universal tariff; ▪ Reciprocal tariff; ▪ 60% tariff on some select Chinese imports.	▪ 10% universal tariff; ▪ Reciprocal tariff; 60% tariff on some select Chinese imports.
Foreign policy	▪ Status quo on Russia-Ukraine war, Middle East and China-Taiwan.	▪ Status quo on Russia-Ukraine war, Middle East, and China-Taiwan; ▪ Funding for Ukraine more restrained.	▪ Domestic policy constrained so more focus on foreign policy.	▪ More nationalistic; ▪ Less support for Ukraine-Taiwan; ▪ Trade policy to shape foreign policy.
Fed policy	▪ Fiscal policy pressures lead to tighter medium term monetary policy.	▪ Relatively tight fiscal policy puts onus on Fed to provide monetary support.	▪ Inflation fears from tariffs and tax cut extensions make Fed wary to ease too much in 2025.	▪ Easy fiscal policy to be offset by tighter monetary policy to hit 2% inflation target.

ASSET CLASS IMPLICATIONS

Equities	▪ Lower equities from prospects of higher taxes; ▪ Infrastructure, construction, and green companies outperform.	▪ Equity price action determined by organic earnings and growth outlook.	▪ More volatile price action; ▪ Limited tax agenda; ▪ Uncertainty over tariffs on earnings.	▪ Short term, equities rise from prospects of more tax reform and accelerating M&A; ▪ Opportunities in small caps and banks.
Fixed income	▪ Higher deficits pushing rates higher	▪ Relative tight fiscal policy and easy monetary policy positive for rates.	▪ Interest rates under pressure from higher inflation due to tariffs.	▪ Interest rates likely to rise if tax cuts and loose fiscal policy are not offset by spending cuts.
FX	▪ USD negative.	▪ USD negative; ▪ Relatively tight fiscal policy and loose monetary policy.	▪ Higher FX volatility and stronger USD for longer.	▪ Initially bullish USD (ease fiscal + tighter monetary policy), weak after if the curve steepens (growth stronger than inflation).

Source: Amundi Investment Institute, Amundi US as of October 2024. TCJA: Tax Cuts and Jobs Act. USMCA: United States-Mexico-Canada agreement. RoW: rest of the world. USD: US dollar.

Domestic policy and macroeconomic implications: Harris vs. Trump

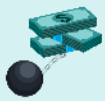
The broad outlines of the candidates' respective platforms are coming into focus, though still lacking any clarity on costs related to their specific proposals. More importantly, it will not be clear until after the election which policies they want to implement -- absent election rhetoric -- or how much Congress will agree to implement (that depends on whether they command sufficient majorities).

Policy differences in brief:

Taxation: **Harris favours higher taxation** on corporates and wealthier households to finance higher social spending, more support for low-income housing, and continuing the green agenda. By contrast, candidate **Trump would reduce tax on corporates**, cut government spending, pursue more deregulation, and increase oil production.

Foreign trade: This is where their platforms diverge significantly. **Harris would continue with the current administration's policy of strategic tariffs**, largely directed at China. **Trump seeks more wholesale protectionism**: a blanket 60% tariff on all imports from China and a 10-20% tariff on imports from all other countries. In practice, many suspect that, faced with possible retaliation and negotiation with trading partners, effective tariffs under a Trump presidency would be much lower.

Immigration: If **Trump is serious about deporting undocumented immigrants** -- over 10 million of the US workforces -- together with his tariff proposals, this **would constitute a material supply shock**, leading to lower growth and higher inflation. **Even just strict control on immigration would reduce US labour supply**.



Debt and deficits: **Neither candidate shows much concern about debt and deficits**, a significant medium-term concern for the United States (and the world). Consensus seems aligned in expecting that under Harris, the deficit would rise by about $2-3tn over ten years, and by $6-7tn under the Trump platform. This will be a material concern for investors given that US government debt is projected to increase to about $50tn by 2034 from the current level of $35tn.[I]

The economic impact of their respective policies can only be gauged from their broad outlines.

Figure 1: Economists' expectations of the impact of Harris and Trump's policies

Harris

Proposal: Harris proposes **raising corporate income tax** from 21% to 28% and possibly a **wealth tax** and a tax on unrealised capital gains (neither may be feasible). She also proposes to regulate prices on some goods and services to limit price 'gouging'. Her plans on **social spending** only mention areas of attention, but not amounts.
Economic impact: Taking the platform at face value (a bold assumption), **economists estimate that a Harris administration would have only a marginal impact on growth** -- US trend growth is estimated at about 2% for the next ten years, largely determined by demographics and productivity.

Trump

Proposal: Similarly, with Trump there are no details on how much government spending will be reduced by or how much revenue can be raised from higher import tariffs. His proposal to **reduce the corporate tax** rate from 21% to 15% could cost about $800bn.
Economic impact: Trump's platform (at face value) would result in a **decline in growth** in the range of 0.5-0.8%, but it is difficult to evaluate any positive boost to growth stemming from deregulation. If fully implemented, **his tariff proposal would reduce US average disposable income** by 5% and would affect adversely many other countries.

Source: Amundi Investment Institute as of 10 October 2024

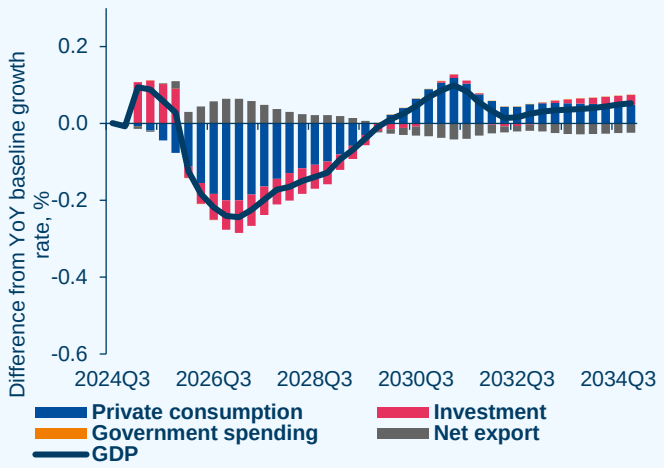
In the short term, US market sentiment will be driven by Trump's lower corporate tax regime against the risk of adverse supply and inflation consequences of tariffs and deporting undocumented immigrants. Meanwhile, Harris should be seen as a continuity administration, especially if the democrats do not command a majority in the House, which will allay fears of wealth taxes and possibly also a much higher corporate tax rate.

Our assessment of the economic impact of the two platforms

We simulated the short-term macroeconomic impact of both platforms, as currently outlined, which is a bold assumption (see page 18 for details). Aware of the fact that they would presumably end up in some watered-down versions if, as is likely, they hit constraints. Over a full presidential term, both platforms may lower YoY GDP growth by 0.1-0.2% on average. Yet, as per the charts below, timing and channels of this impact differ and may be more negative, pronounced, and visible under the Trump scenario -- if fully implemented -- than under Harris. The negative impact of Trump's package stems mainly from inflationary pressures (tariffs-related), whereas under Harris it stems from lower business investment (due to higher taxes).

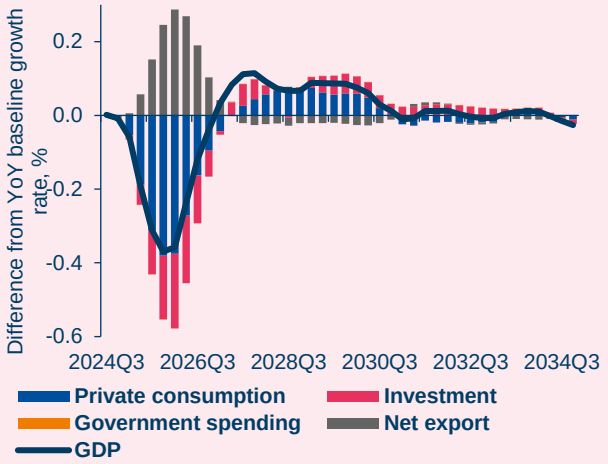
Figure 2: Our base simulated impact on GDP components, demand approach

Harris - Democratic sweep



- **Impact on growth:** Under **Harris**, the main economic impact would come from **higher corporate tax** rates lowering investments, and only partially offset by higher public investment in the early years and support from IRA. Consumption would be also marginally lower due to higher unemployment and weaker income growth, but by less than under Trump because inflation would not be materially different compared to our base line. This would allow the Fed to be more accommodative next year.
- **Impact on unemployment:** the unemployment rate is higher than our baseline projections. Under Harris, where the economic impact is milder and delayed, the unemployment rate would rise by less and later than under Trump.
- **Budget impact:** The positive impact of more social spending and more investment credits to small businesses would partially offset the negative impact of higher corporate tax rates. Higher taxes would likely contain the rise in the deficit and primary balance via higher revenues than under Trump.

Trump – Republican sweep



- **Impact on growth:** The negative growth impact would stem mainly from **tariffs and wage pressure,** which more than offsets the positive impact from lower taxes. Once they are implemented -- assumed in effect in early 2026 -- tariffs percolate into the economy by raising input costs, inflation, and reducing purchasing power and consumption. **Higher inflation in the early years of the mandate** would keep Fed policy rates higher and this would lead to reduce residential and non-residential investment. Overall, the bulk of the negative impact on GDP growth would be concentrated in the early years.
- **Impact on unemployment:** the unemployment rate would rise more than our baseline projections – growth hit more frontloaded -- and more than under Harris. This negative impact fades around mid-2029.
- **Budget impact:** Tax cuts (corporate tax rate reduced to 15%) would have a positive impact on growth, but offset by the negative impact of tariffs. There would be a mild improvement in the primary balance too, yet the overall impact on the deficit would be muted due to higher interest expense.

Source: Amundi Investment Institute, Eikon Refinitiv, S&P Global. Data is as of 10 October 2024. See assumptions on page 18 and reference II.

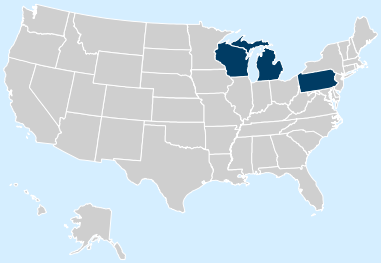
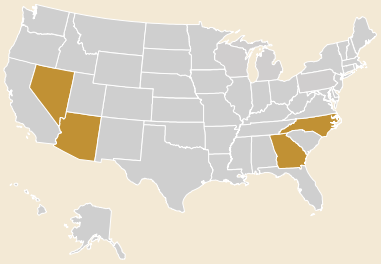
Key drivers of the race

Harris has benefited from momentum since her nomination as Democratic candidate and she currently leads in national polling. However, presidential elections are decided by the electoral college, a weighted voting system, not by the popular vote. As a result, swing states are critical as each US state has a certain number of electoral college votes in relation to its population. There are many combinations of states that could put either Harris or Trump over the threshold of the 270 electoral votes needed to win.

Assuming current national polling holds true,
Harris or Trump do not need to win all seven battleground states.

Polls show a tossup in all swing states in the 2024 election.

Figure 3: Swing states hold the key to victory

States	History	Top issues according to polls
'Blue wall' northern swing states (Pennsylvania, Wisconsin, Michigan) 	**Pennsylvania** has been blue since 1992, except for the 2016 election, when Trump won by a 0.7% margin. **Wisconsin** has been blue since 1988, except for the 2016 election, when Trump won by 0.7%. **Michigan** has been blue since 1992, except for the 2016 election, when Trump won with a 0.2% advance.	**Pennsylvania**: 47% economy, 12% threats to democracy, 11% immigration, 7% healthcare. **Wisconsin**: 43% economy, 11% threats to democracy, 9% abortion access, 9% immigration, 8% housing affordability. **Michigan**: 51% economy, 11% threats to democracy, 8% housing affordability, 7% healthcare.
'Sunbelt' swing states (Georgia, North Caroline, Arizona) and Nevada 	**Nevada** has voted Democrat since 2008, with a secure advance of at least 2%. **Georgia** has voted Republican since 1996 until 2020, in which Biden won with a 0.2% advance. **North Carolina** has voted Republican since 1980, the 2008 election as the only exception, when Democrats won by 0.3%. **Arizona** has voted Republican since 1976, only Clinton 1996 and Biden 2020 made it swing (the latter with an advance of 0.3%).	**Nevada**: 36% economy, 15% housing affordability, 13% immigration, 11% threats to democracy. **Georgia**: 47% economy, 10% threats to democracy, 8% immigration, 8% housing affordability, 7% healthcare. **North Carolina**: 44% economy, 10% immigration, 9% housing affordability, 9% education. **Arizona**: 30% immigration, 24% economy, 11% threats to democracy, 10% housing affordability, 10% abortion access.

The polls are inconclusive and at times contradictory. About 43% of respondents identified Trump as the most trustworthy candidate to handle the US economy compared to Harris' 41% in the Associated Press and NORC Center for Public Affairs Research poll (conducted on 12-16 September). A similar survey conducted for The Financial Times and the University of Michigan's Ross School of Business found 44% of Americans favoured Harris to shepherd the economy compared to Trump. Another, more recent poll focusing on swing states gives Donald Trump as the most trusted candidate on economic (except Arizona) and immigration issues (except Wisconsin), while Harris is the most trusted candidate on election integrity issues in all swing states.

Foreign policy and trade

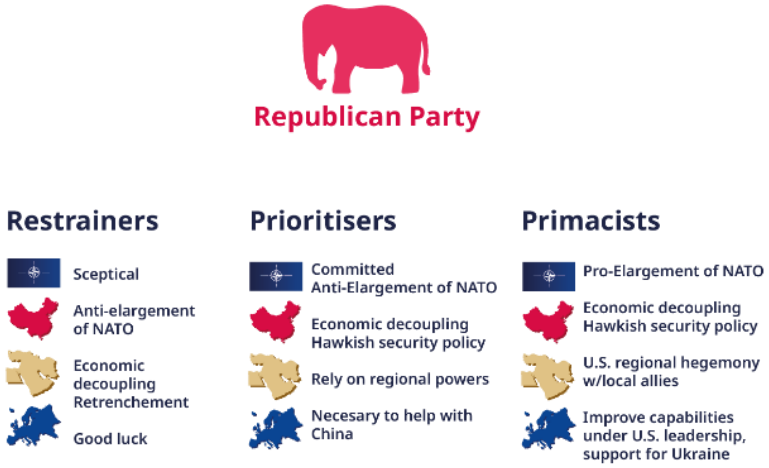
Broadly, both administrations would overlap in some foreign policy areas, such as in their attitudes towards the Middle East and China. Both sides have isolationist tendencies and pursue 'Make America Great Again' policies that aim to re-industrialise the United States. They also believe that Europe should step up in defence matters.

The largest divergence in their views related to foreign affairs is their attitudes towards trade, climate change, and fossil fuels, the Russia-Ukraine war, US allies, and multilateralism. There is a tendency to assume that Harris would provide a more stable geopolitical outlook than Trump.

While US allies are likely to feel more secure under Harris, it is Trump who is more likely to dial down some sources of today's geopolitical tensions, at least in the short term.

It is often said that Trump '1.0' was prevented from implementing much of his policy ideas because pragmatists in his administration blocked them and that Trump '2.0' would face less constraints. This is most likely incorrect because a second Trump term will be influenced by various factors: the different 'foreign policy tribes' in the Republican party (see Figure 4), the real-life experiences Trump witnessed in his first term, the personnel he appoints to key positions, and his appetite to cut deals. All these inputs will shape his foreign policy. For example, in hist first term, Trump hoped to achieve a peace plan and two-state solution between Israelis and Palestinians, which ultimately failed and led to a breakdown of trust between Israel's Prime Minister Benjamin Netanyahu and Trump. These experiences will inform how he deals with current tensions in the Middle East.

Figure 4: Republican foreign policy tribes



The different foreign policy tribes in today's Republican party will influence US foreign policy in a second Trump term.

Source: Amundi Investment Institute based on conversations with experts and research by European Council on Foreign relations.

In short**, a second Trump administration is likely to face constraints in implementing the policy ideas** Trump is formulating as part of the presidential campaign. Therefore, a Trump 2.0 presidency would likely face a combination of ideological and pragmatic influences.

Trump's tariff plan estimated impact

According to our analysis of the Trump tariff plan, a full implementation of tariffs could wipe out the growth gain from tax reductions, shaving a cumulated 1.7% of GDP over ten years, not far from estimates by The Tax Foundation Institute[III], where about 0.8% would stem from increases in tariffs on China to 60% and 10% on all other countries; another 0.5% if tariffs on all other countries were raised to 20%. All these estimates are subject to how other countries react. Retaliation (estimated to potentially shave 0.4% from GDP over the same ten-year horizon) could reduce US growth if sufficiently strong or lead the Trump administration to water down the scale and scope of what they are currently proposing.

Harris vs. Trump foreign policy comparison

After considering the different influences, we summarise below Trump's foreign policy and trade stances and the likely stances of Kamala Harris by looking at her political track record to date and the personnel advising her. Let's take a look at the likely individual policy implications:

Figure 5: Likely individual foreign policy implications

	Harris	Trump
Military intervention 	Traditional Democratic foreign policy, but **aim for less interventionism.**	**Avoid military intervention**; 'peace through strength'.
Allies/NATO/Europe 	**Supportive of NATO and European allies**, but call for greater defence contributions and lower US dependency; seek stronger alignment with China from the EU.	**Pressure allies to reduce reliance on the US. Challenging negotiations with Europe.** Pressure to buy more American products; tariffs and security threats but unlikely to abandon Europe due to tensions with China; US gas exports to Europe may provide political leverage.
Russia-Ukraine 	**More hawkish on Russia**; more likely to 'wait Putin out' – support Ukraine to hold the line; open for temporary ceasefire to win time.	**Attempt to negotiate a ceasefire**. If Ukraine refuses, drop US support. If Russia refuses, double down on Ukraine support.
Middle East 	**Status quo, but increased pressure on Netanyahu**; focus on ceasefire and two-state solution, support for Abraham accords.	**Ongoing support for Israel**; Saudi Arabia more influential in the Middle East.
Iran 	Diplomacy.	Attempts to negotiate a new deal with Iran, not revive JCPOA. Threaten force and punishing economic sanctions.
Mexico 	Seek to renegotiate USMCA ahead of expiring in 2026.	**Remain in Mexico reinstated**; symbolic gesture on imports, but likely to be exempt from tariffs or see reductions as Mexico hikes tariffs on China (e.g., recent steel tariffs on Chinese imports to reduce the likelihood of US tariffs on Mexico).

	Harris	Trump
China 	**Economic policy: status quo**; continue export controls of key technology sector; AI focus. **Security policy: status quo**; deepen APAC alliances.	**Economic policy:** low universal tariff across the board; **high tariffs in sensitive areas.** **Security policy: uncertainty over Taiwan's protection**; status quo in South China Sea.
Tech 	**Bigger focus on tech threats**/ war of the future/AI.	
Trade/industrial policy 	**Support multilateralism** and rules-based order; **opposes tariffs**, but is protectionist (against TPP, NAFTA, USMCA); more labour and climate provisions.	**Tariffs used widely** to get countries to buy more American.

Source: Amundi Investment Institute, October 2024. Trans Pacific Partnership (TPP), Asia-Pacific (APAC), United States-Mexico-Canada Agreement (USMCA), North American Free Trade Agreement (NAFTA).

Key insights on Trump vs. Harris foreign policy and trade

To sum up, both Trump and Harris have upside and downside risks for geopolitical stability. **The downside from a Trump administration would be economic disruption,** as tariffs against allies and foes alike will become a more important tool, leading to retaliatory measures. The Western alliance and transatlantic relations are likely to suffer. **On the upside, a ceasefire in Ukraine is somewhat more likely under a Trump administration**, which in turn could lower the geopolitical risk stemming from growing Russia, Iran, North Korea, and China ties.

A Harris administration is likely to keep the status quo, where the United States manages the transition as hegemon to a multipolar world with the least disruption possible. **The upside is that this approach will focus on maintaining the current world order** and international system as open as possible. **The downside is that Russia/Iran/North Korea and China geopolitical goals are more likely to overlap.**

How the US election could shape emerging market economies

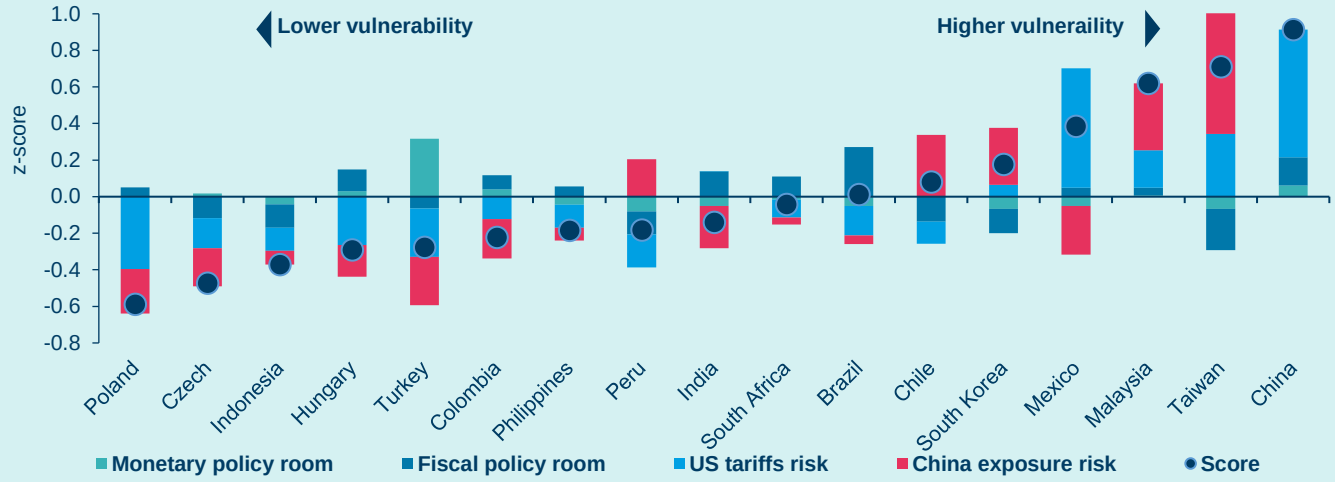
When evaluating the potential impact of the US elections on EM macro and financial markets, the most direct angle comes from their contrasting approaches to tariffs. Trump advocates for a more aggressive stance on tariffs, while Harris leans towards a more moderate or status-quo approach. Both candidates' platforms share a common thread in the lack of fiscal adjustment, implying a possible medium-term risk of rising core yields and term premia, with consequences on EM monetary policy and EM asset class valuations, without significant differentiation between the two candidates. From a theoretical standpoint, Trump's radical tariffs are expected to have broad implications on growth, inflation, and monetary policy globally, with ripple effects on EM macro and asset classes.

Harris' policies are generally more favourable to EM growth, with EM GDP growth projected to outpace that under Trump between late 2025 and 2028.

Growth is expected to peak around mid-2026. before converging with Trump's trajectory by end-28. The driving force behind this outperformance is China's economic resilience under Harris, while Trump's policies initially suppress EM growth, particularly in Asia, before rebounding in later years. In contrast, Mexico should benefit from Trump's trade policies.

Under Trump, the impact would be particularly negative for Asian EM, such as Taiwan, Thailand, and especially China. Malaysia and India would also face adverse effects, albeit to a lesser degree. Mexico and Hungary could emerge as relative winners. Mexico, in particular, could take advantage of supply-chain shifts from China towards North America. In contrast, under a Harris's administration, growth and inflation volatility should be lower, driven by multilateralism, green energy investments, and infrastructure development.

Figure 6: EM vulnerability index



Source: Amundi Investment Institute, CEIC, S&P, OECD. Data is as of 10 October 2024. This is a relative measure of vulnerability based on weighted z-score sum.

Inflation dynamics

In a Trump-led US, EM inflation would experience a temporary spike, rising by over 0.5pp at end-2025 and remaining elevated for most 2026. This inflationary shock is expected to normalise over time, eventually reverting to slightly lower levels seen under Harris. Asia would be the most impacted region, with China, Taiwan, Malaysia, and Thailand seeing the most significant inflationary pressures. Mexico, should experience a disinflationary effect. One of the key concerns is whether EM central banks will need to intervene to curb inflation at the expense of growth or if inflation will naturally settle due to anchored inflation expectations.

Harris's policies are expected to foster a more stable inflationary environment, with less volatility across EM, mainly due to a more collaborative global trade stance and emphasis on economic stability. In contrast, Trump's protectionist trade policies, combined with unpredictable foreign policy, are likely to introduce higher inflation volatility, especially in Asian markets. Furthermore, currency depreciation under Trump could exacerbate inflationary pressures, as currencies serve as both shock absorbers and competitive tools.

Investment implications

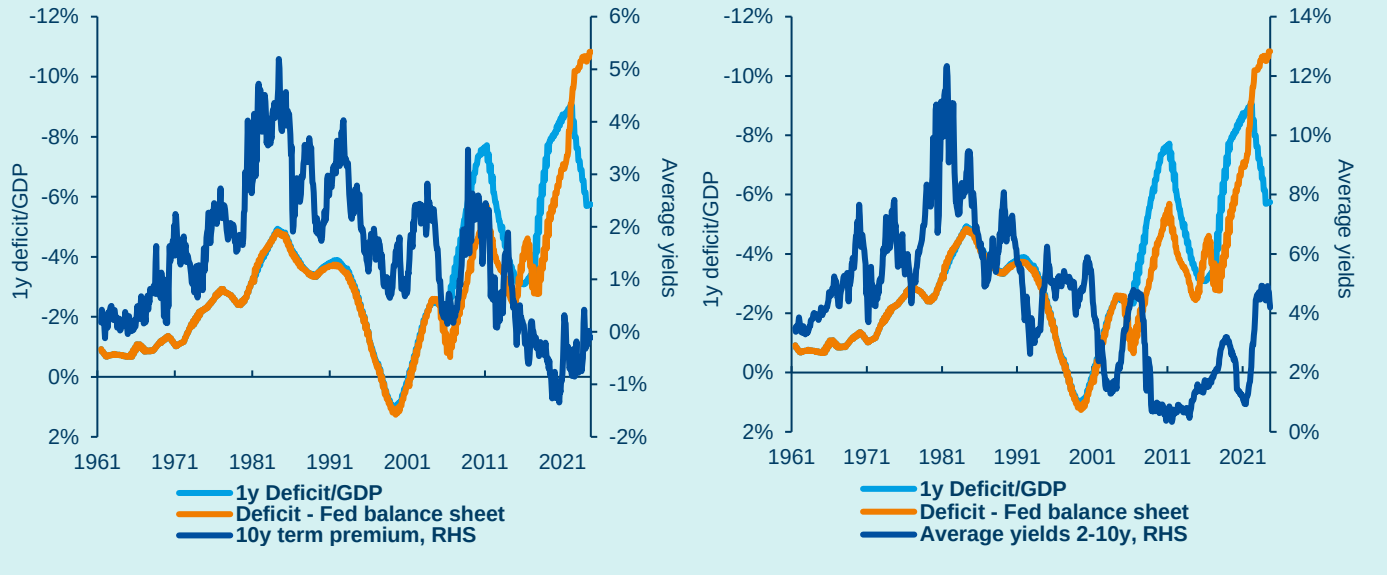
What could be the impact on fixed income markets?

Fixed income investors will focus on how the next President's policies affect the outlook for growth and inflation, but also on how those policies affect the deficit. James Carville famously said that he wanted to be reincarnated as the bond market, because then he could intimidate everyone. In the 1990s, when Carville said this, it made sense, because at that time yields rose and the curve steepened when deficits increased.

The right-hand chart below shows the one-year average of the federal deficit-to-GDP ratio, plotted against the average level of yields in the 2-10-year area of the Treasury curve. The left-hand chart shows the same deficit plotted against the New York Fed's estimate of the 10-year term premium. Higher deficits in the 1970s and 1980s tended to coincide with rising bond yields and a steeper curve. Yet, this relationship broke down after President Clinton (and his strategist James Carville) left government. The deficits of the 2008-09 period and the 2020-21 period did not either steepen the curve or drive yields higher. Several factors may have contributed to the break-down in this relationship, including quantitative easing (even though as the orange line in Figure 7 shows, debt grew faster than the Fed's balance sheet). Given the unprecedented increase in the size of the debt, however, it is quite possible that we go back to the relationship of the 80s rather than the relationship of the recent past.

An expansionary fiscal deficit risks kindling fears of inflation.

Figure 7: Term premium and average yields no longer following deficits



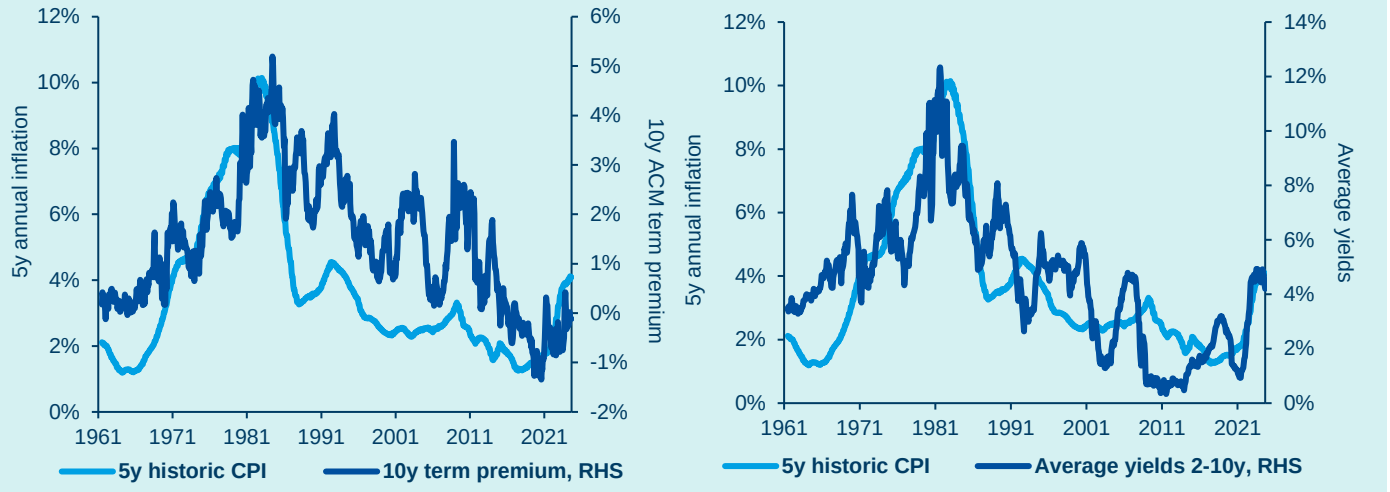
Source: Amundi Investment Institute, Bloomberg. Data is as of 10 October 2024.

Yet James Carville's quote still makes sense if we consider inflation. The period between the entry of China into the WTO and the Covid-19 crisis saw very low inflation rates, which may have reduced the impact of federal deficits on bond yields. The charts on the next page show average yields and the ten-year term premium against the five-year historic rate of inflation, as a proxy for inflation expectations. In both periods -- the 1960s-2000s and the 2000s-2019s -- the impact of inflation on the level and slope of the curve has been considerable.

The key question for bond investors, then, is not just whether the Federal deficit will rise or fall, but what impact that deficit will have on inflation.

Our economists argue that, if either the Democrats or Republicans sweep both the White House and both houses of Congress, the deficit will rise (more so under Trump), and a more worrisome rise in inflation under Trump. A second Donald Trump term, even with a Democratic house will likely kindle inflation, because the president would be able to impose tariffs, at least on China. Fixed income investors will want to be particularly alert to this risk.

Figure 8: Term premium and average yields follow memory of inflation



Source: Amundi Investment Institute, Bloomberg. Data is as of 10 October 2024.

What are the implications on the US dollar?

With the upcoming US elections, a broad set of trade, fiscal, and regulatory policy choices are likely to affect the market perception of economic growth, inflation, and monetary policy. This reflects investors' anxiety over the direction the dollar can take, given the battle between policy continuity and policy uncertainty, the two candidates' proposals point to. In our view, regardless of the US elections outcome, we may need much a substantial spike in risk-premium to support the dollar from current levels.

We think the greenback has entered a structural downward trend, which only a tough trade policy or a strong reacceleration of US price inflation may be able to delay or even invert.

For now, both Trump and Harris scenarios do not offer convincing elements for diverging Fed reaction function, given the threat to financial stability a "high-rates regime" puts on public finances. With a dovish Fed, aligned with other major CBs, the dollar's recent strength may not be sustained for too long. Yet things may rapidly change should the new administration opt to ignore rising debt levels and become more protectionist..

A Trump scenario will likely offer a better opportunity for a stronger USD, relative to our baseline.

More than a Republican sweep scenario, we would expect higher FX volatility in a divided government scenario. The challenge Trump may face on domestic policy should make him tough on trade and the United States may end up as getting more insulated, given the nature of its economy (more closed compared to the rest of the world).

Should Republicans win the Congress, we would expect the USD to strengthen initially on expectations for easier fiscal and tighter monetary response. Yet, we would argue, growth/early cycles trading and positive risk-sentiment may eventually dominate (historically USD negative), unless inflation rises markedly. Meanwhile, in a Harris scenario we find little bad news to support the greenback. Fiscal consolidation and less hostile approach towards trade and tariffs make a dovish Fed the link towards dollar depreciation.

What are the expectations on equities?

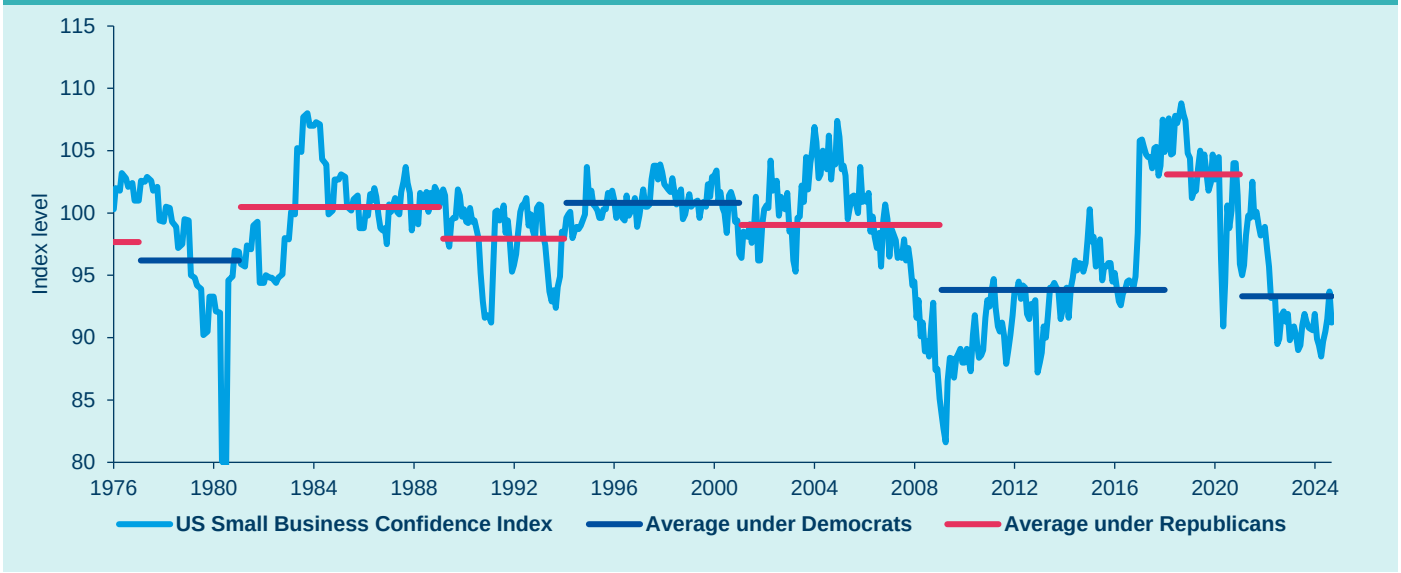
One of the starkest differences between the Trump and Harris platforms is on taxes. President Trump would cut corporate taxes and make permanent the 2017 income tax cuts, while president Harris would increase corporate taxes.

Equity markets are likely to prefer President Trump to President Harris. There are also likely to be important differences on sectors and geographies, particular under a second Trump presidency.

Also, small businesses prefer Donald Trump. That, at least, is the message from the National Federation of Independent Business's optimism survey. The chart below shows the survey, which has been taken since the mid-1970s, and shows

that the preference for a Republican president is relatively recent. In the mid-1970s, Gerald Ford generated slightly more optimism than Jimmy Carter, but small businesses were more optimistic under Bill Clinton than under either of the Bushes, or even under Ronald Regan. The sea change took place under Barack Obama, when optimism fell to its lowest level ever (though it has since dipped even lower under Joe Biden). By contrast, small business optimism hit its highest average ever under Donald Trump.

Figure 9: Small businesses prefer Donald Trump



Source: Amundi Investment Institute, Bloomberg. Data is as of 10 October 2024.

Stock market performances have started to reflect shifts in confidence. The table below shows the annualised performances of the 2000 smallest companies in the Russell index, which are a proxy for small businesses, and the performance of the big companies in the S&P 500. For most presidencies, the performance of small and big companies is larger, and the annualised performance gap in the Clinton era did not affect confidence. However, the gap has been noticeable big under Joe Biden. A lack of confidence may now be affecting stock market performance.

Figure 10: Annualised performance of selected indices during recent presidencies

	Russell 2000	S&P 500	Large vs small business gap	Small business confidence
Reagan	10%	11%	1%	100.5
GHW Bush	12%	10%	-2%	97.9
Clinton	10%	16%	6%	100.8
GW Bush	-2%	-6%	-4%	99.0
Obama	15%	15%	0%	93.8
Trump	10%	10%	0%	103.1
Biden	1%	12%	11%	93.3

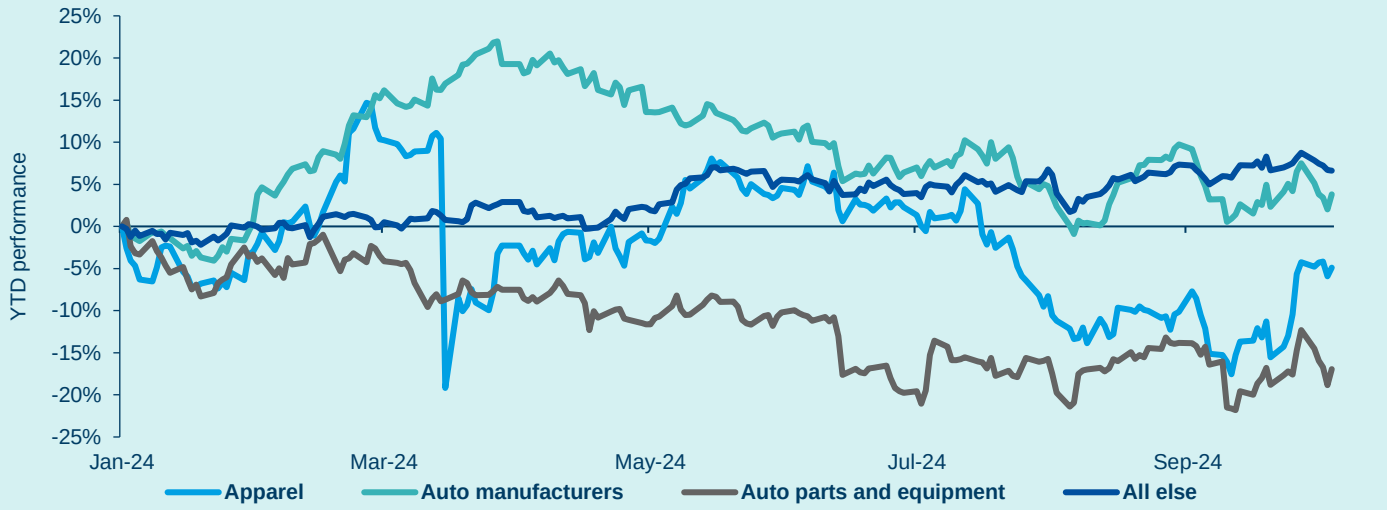
Source: Amundi Investment Institute, Bloomberg. Data is as of 10 October 2024.

It is difficult to tell why small businesses have lacked confidence under the last two democratic presidents. Fears of regulation -- or hopes of deregulation -- may be one issue, with small businesses suffering more from regulatory costs. In any case, whatever the reason, it seems likely that a return of Donald Trump would allow small business confidence to rise and narrow the recent gap in small business performance against large businesses. At the sector level, Trump's deregulation could be supportive for banks and boost M&A activity, while positive market sentiment could help consumer sectors. Harris could favour clean energy and EV, as well as healthcare.

European stock markets have seen a recent underperformance of businesses that export to consumers.

The chart below shows the performance of equally-weighted subindices of autos, auto parts, and apparel against an equally weighted index of all other companies in the Eurostoxx 600. Auto parts and equipment are leading losses, apparel is negative for the year, and auto manufacturers have given up their early gains. This weakness is due to concerns about China, but it could intensify -- and spread to industrial exporters -- if Donald Trump enacts his tariff policies.

Figure 11: European consumer exporters suffer



Source: Amundi Investment Institute, Bloomberg. Data is as of 10 October 2024.

If Donald Trump becomes the next President, equity investors may find it prudent to adopt a cautious approach towards European exporters, while looking for opportunities into small U.S. companies.

What are the implications on emerging market assets?

- **EM debt**: Under Harris, US growth is expected to be moderately higher, while Trump's policies would lead to significantly higher inflation, resulting in persistently more restrictive monetary policy expectations. Higher core yields will result in higher EM local-currency bond yields (GBI-EM), in particular in the second half of 2025, slightly above the base case under Harris. Under Trump, yields would remain contained in H1 2025, but rise sharply in H2, creating a challenging environment for EM debt.
- **Hard currency spreads**: Spreads are expected to widen under Trump due to rising US Treasury yields and weaker EM growth. Harris' policies should keep spreads relatively neutral, with little deviation from the baseline.
- **EM equities**: Under Harris, EM equities are expected to perform moderately, with valuation-based strategies remaining favourable across regions like EMEA (Poland), Latin America (Brazil), and EM Asia (Korea). Under Trump, equities face more downside risks in Asia due to tariffs and trade tensions. Domestic equities in China (A shares) may benefit from incremental stimulus compared to H shares, which are likely to be negatively impacted by intensifying external risks.
- **EM FX:** In FX markets, the baseline outlook is selectively positive for currencies like the Brazilian Real (BRL), Chinese Yuan (CNY), South Korean Won (KRW), Indonesian Rupiah (IDR), and South African Rand (ZAR). Under Trump, EMEA and Latin American currencies could see marginal gains, while Asian currencies may come under pressure due to trade tensions. In a Harris scenario, Asian currencies face headwinds, but to a lesser extent than under Trump.

Figure 12: US elections investment implications on emerging markets

Asset class	Baseline	Harris	Trump
EM debt	GBI-EM (local currency): still downtrend in local yields. EMBI (hard currency): slightly wider spreads.	More modestly higher yields. Neutral, aligned with baseline.	Higher yields than baseline, especially in Asia. Wider spreads due to higher US Treasury yields.
EM equities	Neutral; favour valuation plays in EMEA, LatAm, and Asia.	Neutral.	Negative for Asian equities (tariffs), positive for LatAm .
EM FX	Neutral; favour valuation plays in EMEA, LatAm, and Asia.	Negative for Asia, overall, more negative than baseline.	Marginally positive for EMEA and LatAm, negative for Asia.

Source: Amundi Investment Institute. Data is as of 10 October 2024.

What are the main implications for multi-asset investors?

If Trump is appointed as the next US president, we can differentiate potential trades between the short and medium term. In the short term, the partial or total implementation of his proposed policies may attract investor interest in several sectors, including energy, banks, and consumer discretionary. Specifically, for banks, the delay in further waves of bank regulation could be an appealing prospect for investors. Another sector that may generate interest is healthcare, primarily due to a potential shift in leadership between larger and smaller-cap stocks. As mentioned previously, US mid and small caps could continue to close the performance gap with large caps. It is realistic to expect that some of these trades may persist for three to six months.

The scenario could become mild stagflationary moving ahead, characterised by increased bond issuance and higher long-term inflation due to tariffs, leading to more curve steepening. Consequently, long-term TIPS (Treasury Inflation-Protected Securities) may become more attractive.

Conversely, a Harris victory may result in a more muted market response in the short term, with equities potentially impacted by the prospect of higher taxes. Sectors such as infrastructure, construction, and green companies may outperform due to the candidate's increased focus on these areas.

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Assumptions

Assumptions behind our assessment of the economic impact of the two platforms – pag 6

Baseline scenario: our baseline for the next 18-24 months is the US economy transitioning to slower growth, due to less buoyant domestic demand and higher unemployment. Inflation will decline further, with the Fed achieving its 2% target towards half 2025. This should allow the Fed to cut policy rates further from their current restrictive levels to around 3% by end-2025.

Figure 13: Our base macroeconomic case

QoQ growth rate	Q4 2023	Q4 2024	Q4 2025
GDP	3.2%	3.2%	3.2%
Inflation CPI	2.1%	2.6%	2.6%
Core PCE price index	2.0%	2.1%	1.8%

Source: Amundi Investment Institute, Eikon Refinitiv, S&P. Data is as of 10 October 2024.

Under both scenarios, the unemployment rate is higher than our baseline projections and its dynamics are mainly linked to the impact on growth. Importantly, we do not make any specific assumption on the change in labour supply stemming from changes in immigration laws or the proposal to deport undocumented immigrants.

Their tax proposals suggest quite divergent outcomes. Our analysis suggests the impact of taxes is not linear: symmetric changes around the baseline do not result in a symmetric impact on GDP. Higher tax rates reduce GDP more than a low tax rate boosts GDP.

Figure 14: Domestic and trade policies assumptions

	Domestic policy	Trade policy
Democratic sweep  **Harris**	**Corporate tax provisions, main aspects:** ▪ Increase corporate income tax rate from 21% to 28%. ▪ Increase corporate alternative minimum tax rate to 21%. **Personal tax provisions main aspects:** ▪ High income-earners: a) Increase top marginal income tax rate for high income earners b) net investment income tax to pass through business income c) Increase net investment income tax rate and additional Medicare tax rate. ▪ Changes in capital income tax treatment. ▪ Low-income earners: a) increase child credit b) restore the American Rescue Plan expansion of the earned income tax credit for workers without qualifying children. ▪ Extending Tax Cuts and Jobs Act (TCJA) of 2017 limited provisions expiring at the end of 2025 only for incomes lower than 400k. **IRA**: continuation of policies, with high investment (30-35 USD bn above baseline) and high fiscal costs (20-25 USD bn above baseline).	Status quo.
Republican sweep  **Trump**	**Corporate tax provisions, main aspects:** ▪ Increase corporate income tax rate from 21% to 28%. ▪ Extending Tax Cuts and Jobs Act (TCJA) of 2017 provisions expiring at the end of 2025. **IRA**: lower investments are assumed (5-10 USD billion less than baseline from 2027, broadly in line with baseline before), which translate into lower fiscal costs (5-10 USD billion less than baseline from 2027).	▪ Increase in tariffs on imports from mainland China (to 60%) and rest of the world (to 10%) effective 2026, but exemptions mirror what happened in the period 2017-2023 in terms of proportion. ▪ Full retaliation from trading partners.

Source: Amundi Investment Institute, S&P Global. Data as of 10 October 2024.

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Amundi Investment Institute

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