

2024 Election

What investors need to know



INVESTMENTS

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Author's note

On July 21, President Biden announced he would not seek re-election in 2024 and endorsed Vice President Kamala Harris. This decision followed the first general election debate on June 27, where concerns about his age and mental acuity prompted calls from some lawmakers and others for him to step aside.

For investors, the key takeaway is that there is not much daylight between Harris and Biden on most policy issues, particularly those with the largest potential impact on financial markets. Importantly, both take an institutionalist approach to policymaking. They may have different skills, interests, and preferences in their agendas, but their general policy framework is the same.

Our strongest conviction is that markets are driven by real policy change—not politics. This paper reflects the contours of what that real policy change could look like depending on the candidate and any majority in Congress.



INTRODUCTION

What's at stake in the 2024 election

Elections are notoriously difficult to predict, and their real policy outcomes are even more so. Candidates' campaign barks are often louder than their presidential bites. Trump promised to repeal the Affordable Care Act but failed to do so. Biden campaigned on a clean energy agenda but has overseen more oil drilling than the Trump administration.

In many ways, Democrats and Republicans have a similar goal for the United States: to maintain its importance as a global strategic and economic power. But their paths to meeting this goal are different.

Though it may sound academic, the two parties' differing views on governance—the role, size, and importance of norms and institutions—are what makes the difference here. This matters for investors.

Let's make this more concrete. President Trump—and many Americans—favor a limited role not only of government, but also of the institutions supporting it. Trump has championed this viewpoint by criticizing institutions such as the Department of Justice and the FBI¹ when he disagreed with them. On the international stage, Trump's version of nationalism led to a decisive end to those agreements that he perceived more U.S. benefit could be gained. He removed the U.S. from Trans-Pacific Partnership (TPP) discussions and withdrew the U.S. from the Iran Nuclear Deal and Intermediate-Range Nuclear Forces Treaty.

President Biden has had his own fair share of divisive policies: he did not reduce tariffs; he oversaw the removal of Russia from the SWIFT² global payments system; his administration is still considering punitive actions against China, including a TikTok ban. However, even within this context, President Biden's approach to policymaking represented a return to the presidential norm of history. His administration emphasized rebuilding alliances, rejoining international agreements like the Paris Climate Accord, and supporting international organizations such as the North Atlantic Treaty Organization (NATO). Domestically, he worked to restore the role of government institutions in policymaking. We expect that this approach to policymaking would be upheld by Harris.

Will the election impact the Federal Reserve?

Historically, the independence of the Federal Reserve is not a political issue. The Fed was designed to operate independently within the government. It is self-funded by the interest it receives on the financial instruments it holds, not by the federal budget; and all Fed Chairs since Paul Volcker have served under presidents of both parties.

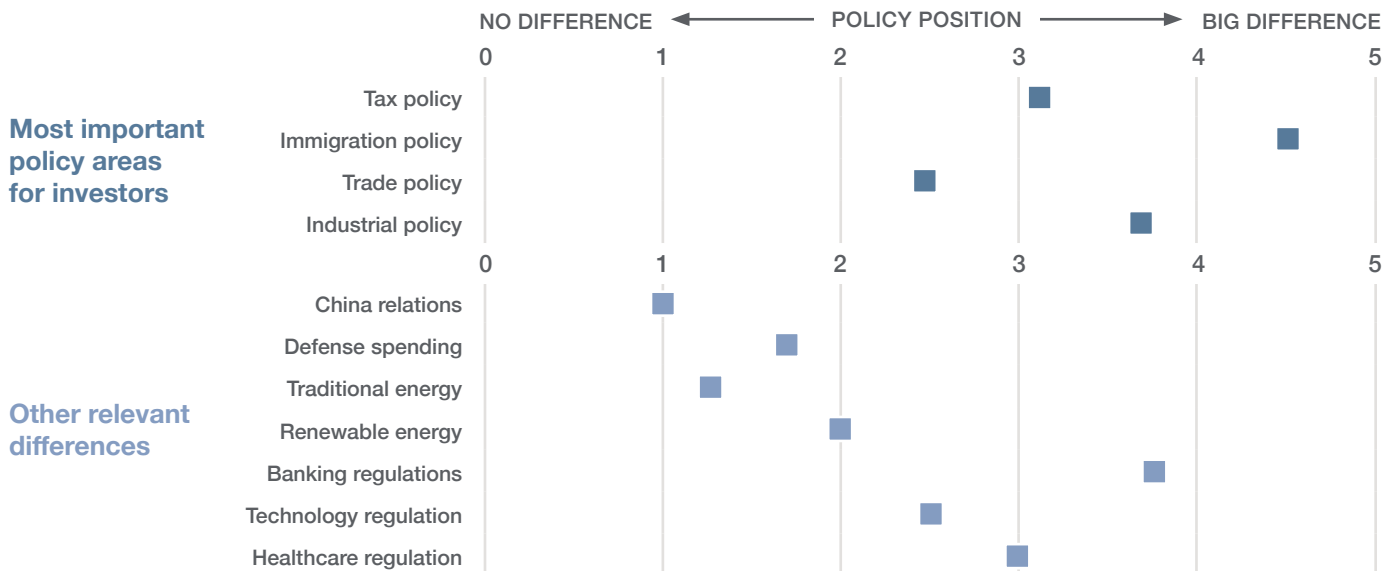
However, on top of many investors' minds is whether Trump will attempt to increase executive branch control over monetary policy. In his first term as president, Trump broke with decades of precedent by openly criticizing the Fed Chair he appointed, Jerome Powell, first for raising interest rates and then for not cutting them further. Trump has said he doesn't plan to reappoint Powell, and legitimate speculation has surfaced that a second Trump administration could plan to erode the Fed's independence.

What happens if Trump wins and appoints a chair that will follow the president's influence on monetary policy decisions? If this were to occur, it would represent a major change in the history of the Federal Reserve. It is worth noting that two of Trump's Fed chair nominees were withdrawn in his first term because they were seen as too political.

We think it is unlikely that the Fed's independence will ultimately be jeopardized. It's too crucial, especially for the financial markets. If there's a threat to the Fed's independence, financial conditions would probably tighten significantly. In a less extreme case, a president who is overly vocal about monetary policy—especially in the context of a high debt and deficit—may prompt investors to abandon the long end of the U.S. bond market, likely driving higher volatility and a steeper yield curve.

For investors, the most pertinent policy areas affected by the election's outcome are tax, immigration, trade, and industrial policy. This paper outlines the policy differences between the two parties' agendas in each of these policy areas, in order to gauge their potential impact on the economy and markets.

Key policy differences between Democrats and Republicans in the 2024 U.S. election



Opinions of the New York Life Investments Global Market Strategy team.

The next president will manage the expiration of the 2017 tax cuts

Nearly all of the 2017 Tax Cuts and Jobs Act (TCJA) tax changes revert to their pre-TCJA levels at the end of 2025, forcing the new president to decide on renewal.

For investors, it's important to remember that taxes are heavily connected to the country's fiscal balance—especially its deficit. We focus on the differences in the parties' tax policies in this section, but both parties appear ready to expand the budget deficit. This has at least two implications: upward pressure on the yield curve, as investors demand more compensation for the risk of holding an expanding volume of U.S. debt, and the potential for market-enforced discipline—whether on spending or taxes—in the future.

Tax Cuts and Jobs Act of 2017

Select provisions	Pre-TCJA	TCJA	Status
Corporate tax rate	35%	21%	Permanent
Individual tax rate	Tax brackets: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%	Tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%	
State and local tax (SALT) deduction	Full deduction	Capped at \$10,000	
Child tax credit	\$1,000 per child	\$2,000 per child	Expires at end of 2025
Estate tax exemption	~\$6 million	~\$14 million	
Immediate expensing	Limited eligibility	Broad eligibility	

Candidate positions



Harris

Raise tax rates on the most wealthy

Position: Address a higher-spending policy approach by raising taxes and increasing revenues from higher-income households and corporations.

- **Biden's term:** Biden introduced and expanded various tax credits for renewable energy projects, electric vehicles, and energy-efficient home improvements. Also, the Inflation Reduction Act (IRA) provided \$80 billion in additional funding to the Internal Revenue Service (IRS).
- **Proposal:** Biden's second term agenda included raising roughly \$5 trillion³ over ten years through tax increases on corporations and wealthy individuals. We would expect Harris to pursue similar legislation.

Key items:

- Increase the tax rate for top earners from 37% to 39.6%.
- Increase the corporate tax rate from 21% to 28%, which is below the pre-TCJA 35%. (A Democratic majority in Congress would likely be required).
- Levy a minimum tax on billionaires of 25%. The top 1% of earning families in the U.S. make up 42%⁴ of all income taxes paid, so raising the rate on higher earnings would be expected to drive greater revenues.

- **Expected impacts:**

Deficit expansion: After accounting for all changes in revenue and spending, the deficit is estimated to drop to \$1.5 trillion through 2034.⁵

Corporate tax rate: Raising the corporate tax rate could dampen corporate investment and productivity.



Trump

Extend tax cuts

Position: A laissez-faire tax policy that assumes unhindered business growth will generate increased revenues for both businesses and the government, ultimately contributing to deficit reduction.

- **First term:** The TCJA was the cornerstone of Trump's tax policy.
- **Proposal:** Make the temporary tax cuts of the TCJA permanent.
- **Expected impacts:**

High deficit growth: Trump's plan would add approximately \$3.5 trillion⁶ to the deficit through 2034, doubling the current deficit.

Not the same as before: Extending the TCJA may not garner the same market impact as its initial passing, because the provisions are already in place (in other words: no new tailwind). In addition, an extension may not have the same economic impact because personal income tax cuts do not stimulate as much economic growth as a permanent cut to the corporate tax rate.⁷

Pinching pennies: Trump would likely attempt to roll back electric vehicle and renewable energy subsidies, though these changes would do little to offset increases to the deficit.



What investors are asking

Will the state and local tax (SALT) deduction cap increase?

It's possible. For context, SALT deductions permit taxpayers to deduct certain taxes paid to state and local governments from their adjusted gross income. Right now, the SALT deduction limit of \$10,000 is set to expire at the end of 2025. Lawmakers have several options for the SALT cap: letting it expire, extending it as is, raising it, or changing income requirements. Each option yields a different amount of government savings or revenue to offset potential tax cut extensions.

If Trump wins and Republicans control Congress with a large margin ("red sweep"), it's likely the cap will be extended. Even though some Republicans from high-tax states like New York might oppose this cap, they would likely be in favor of using the SALT cap to offset some of the TCJA expansion's deficit impact.

The scenario where we see the cap removed entirely—favoring taxpayers in high-tax states—is in the event of a Trump presidency with a slim majority in Congress. Lawmakers from high-tax states might only support the bill if it does not extend the SALT cap.

Democrats are less likely to favor an increase in the SALT deduction cap—or removal of the cap entirely—because of its deficit impact. As a result, we believe a Democrat-led Congress would be more likely to extend the SALT cap in favor of increasing spending in other places.

Which sectors are most exposed to the potential expiration of the TCJA?

In our view, sectors most exposed to the expiration of certain tax provisions are technology, telecommunications, healthcare, and industrials. These sectors especially benefitted from the immediate expensing of research and development and depreciation costs, two provisions of the TCJA that have since begun phasing out. We expect Trump would try to reimplement this rule; it is less likely Harris would.

What is the expected impact on municipal bonds?

We don't expect the policies of either party to directly impact the municipal bond market. Demand for municipal bonds in high-tax states like New York or California rose when the SALT deduction was capped. Moreover, the long-term outlook for tax-exempt municipal bonds is bright given the need to address the deficit by raising government revenues through higher taxes.

What was the impact of Biden's stock buyback tax?

Biden implemented a 1% stock buyback tax in 2022 as part of the Inflation Reduction Act (IRA) to encourage companies to reinvest excess capital. So far, the tax has not appeared to affect companies' buyback plans. As of Q1 2024, stock buybacks were up 19%⁸ from the start of Biden's term and 13% from the passage of the IRA. For his second term, Biden proposed raising the buyback tax to 4%, which is estimated to generate \$166 billion in government revenue.⁹ We expect Harris would consider similar legislation.

IMMIGRATION

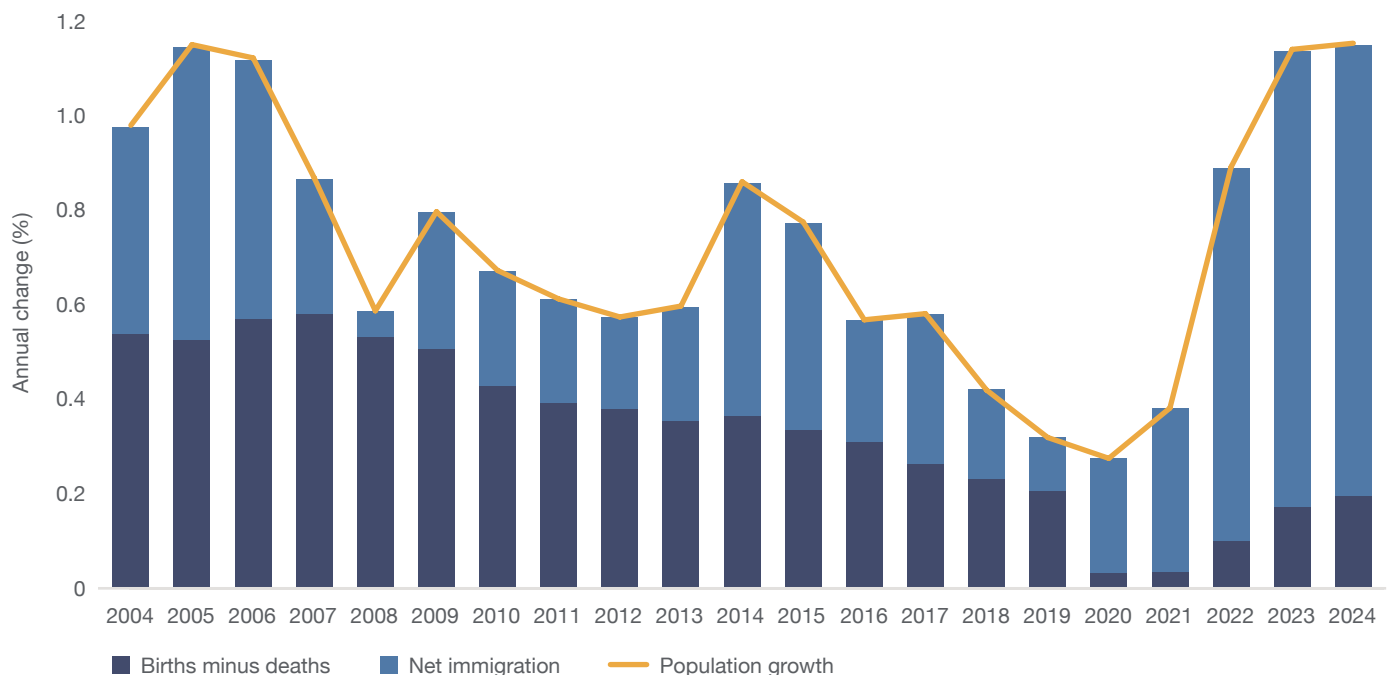
Voters expect the next president to address issues at the southern border

Immigration has surged in the last couple of years due to a post-COVID backlog, relaxed restrictions on pent-up demand, and global economic and social instability.

In this election year, the Congressional Budget Office found, and the Federal Reserve acknowledged, that immigration, including illegal immigration, has bolstered the economic recovery by increasing labor supply, supporting growth, and mitigating wage pressures. Still, the large and highly visible increase in new arrivals to the U.S. has led both Harris and Trump to acknowledge the necessity of addressing immigration and border issues.

Proposals for managing both legal and illegal immigration vary greatly, but both parties would likely preside over an increase in spending on the issue. In 2023, the U.S. spent roughly \$25 billion¹⁰ between U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement—just a small piece of what is proposed by either party.

Net immigration has fueled a surge in population growth, leading to higher economic growth prospects



Sources: New York Life Investments Global Market Strategy, U.S. Congressional Budget Office, Macrobond, August 2024. Data for 2024 is estimated by the CBO.

Candidate positions



Harris

Secure the border and expand legal immigration

Position: Legislate through Congress for more resources to manage an overwhelmed border and create new legal pathways to immigrate to the U.S.

- **Biden's term:** Initially, Biden worked to reverse many of Trump's restrictive immigration policies, such as ending the "zero tolerance" policy¹¹ and lifting travel bans. As immigration surged, Biden changed tact and sought stronger enforcement of the border. Lacking congressional backing, Biden then resorted to executive orders to force a border closure.

Failed legislation: Biden proposed an immigration reform bill earlier this year that had bipartisan support but failed.

- **Proposal:** Harris is likely to revisit legislative reform aimed at bolstering border security through increased personnel and streamlining the asylum process.

- **Expected impacts:**

Deficit expansion: The cost of Biden's previously championed bipartisan immigration bill was estimated at \$118 billion.¹²



Trump

Close the border and deport undocumented immigrants

Position: Trump has promised a return to the restrictive immigration policy of his first term, including a sweeping crackdown on illegal immigration.

- **First term:** Trump transformed U.S. immigration policy through a series of explicit actions (travel bans, border wall construction, family separation) and implicit measures (asylum restrictions, increased costs, extended security checks).
- **Proposal:** Trump intends to enforce even stricter immigration enforcement than in his first term, including completing the border wall construction, detention and deportation of undocumented immigrants, and ending birthright citizenship.

- **Expected impacts:**

Deficit expansion: The deportation of approximately 11 million undocumented immigrants currently residing in the U.S. is highly unlikely. If it were to occur, it's estimated to cost between \$400 billion and \$600 billion¹³—a massive increase in federal spending.

Policy stagnation: Trump has made immigration a key part of his campaign and would likely hold up other bills and find means to fund these plans.

What investors are asking



Trump has said he wants to implement a domestic deportation operation. Can he, and has the U.S. tried this before?

While it would be difficult and instigate a litany of legal challenges, the president is ultimately in charge of enforcing the immigration laws of the country and, therefore, has discretion on how to prosecute immigration law violators.

The U.S. government has attempted mass deportation before. In 1954, U.S. agencies began deportation operations in California, Arizona, and Texas, with a goal to compel U.S. farmers, particularly in Texas, to hire Mexican workers legally through a guest-worker initiative. To enforce the initiative, government officials set up roadblocks and raided factories and neighborhoods where immigrants were working. The government claims to have deported more than one million Mexican nationals during the summer of 1954, but that number—and its impact—is highly disputed. The guest-worker initiative saw only temporary increases in uptake, and the program was unsuccessful in deterring further illegal immigration.

How might Trump manage legal immigration? What impact would that have on the labor market?

During his first term, Trump proposed allowing immigration to the U.S. based on merit, aiming to attract high-skilled workers while tightening the availability of visas for lower-skilled labor. If he implements these changes in a potential second term, the lower availability of lower-skilled labor could impact industries reliant on immigrant labor, such as agriculture, hospitality, and construction.

How has the recent immigration surge impacted growth and inflation?

The recent rise in immigration, which has included large numbers of undocumented workers, has positively impacted economic growth and helped cool an overheated labor market. According to the Federal Reserve, from 2022 to 2023, each 1% increase in employment growth from immigrant workers corresponded to a nearly 0.5% decrease in job vacancy rates. Furthermore, areas with significant rises in immigrant labor typically experienced a slowdown in wage growth, which may have helped to slow inflation amid the recently very tight labor market.

Who bears the fiscal burden of illegal immigration?

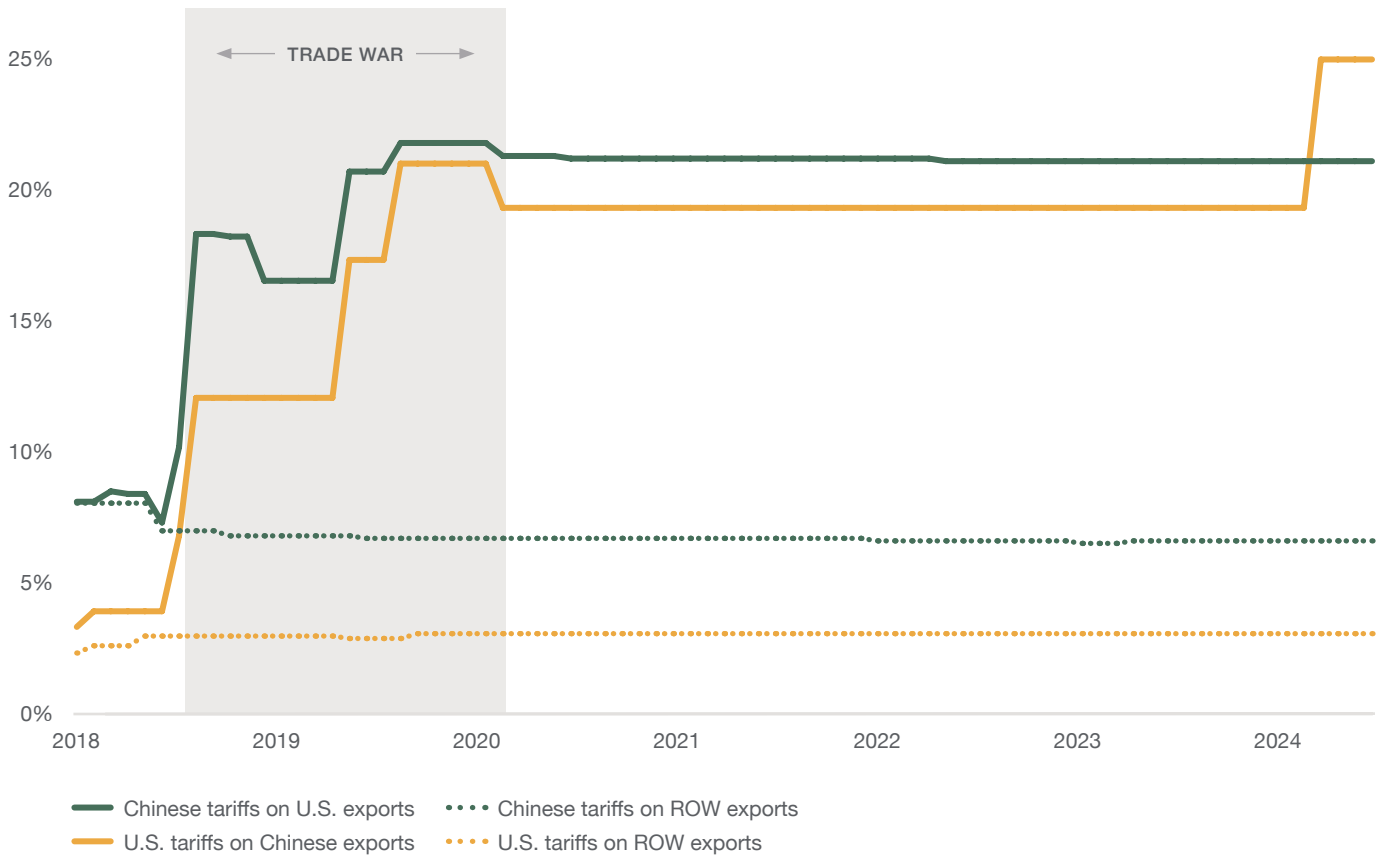
State and local governments typically shoulder the majority of the costs associated with illegal immigration. These expenses include providing education, healthcare, and law enforcement services to all residents, regardless of their immigration status. In 2023, state and local spending on services related to illegal immigration reached \$116 billion,¹⁴ almost twice as much as the federal government's total immigration expenditures.¹⁵

So long to the free-trade policies of the past

Trump and Biden’s first terms as president showcased very different approaches to trade policy. But *both* presidents have demonstrated a major break with the trade policy of the past.

Moving away from the long-standing commitment to free trade—characterized by low barriers and minimal government interference, a cornerstone of U.S. policy since World War II—both administrations raised tariffs on China and implemented other protectionist measures. We believe investors should be mindful not only of the differences between the two candidates, but also the differences between both candidates and the past.

U.S.-China tariff rates toward each other and the rest of the world (ROW)



Sources: Data from The Peterson Institute for International Economics through 2023. Estimates of the New York Life Investments Global Market Strategy team for 2024. August 2024.

Candidate positions



Harris

Protect U.S. industry

Position: Focus on strategic autonomy or protecting U.S. industry, favoring a return to a more rules-based international order, though a notable step away from the free trade policies of the past.

- **Biden's term:** Biden supported international engagement but also raised trade barriers if they would support U.S. industry. Biden upheld the tariffs imposed during Trump's term and raised tariffs on select imports from China. The stated purpose behind these tariffs is to protect four key U.S. supply chains: semiconductors, batteries, critical minerals, and pharmaceuticals.
- **Proposal:** Harris would likely continue limiting U.S. market access to foreign countries and supporting restrictive trade policies if they protect U.S. industry.
- **Expected impacts:**

Moderate inflation pressure: Protectionism is likely to keep a floor on consumer prices, though the impact on future inflationary pressure is unclear.

Political economy: Democrats' proposed trade policy may garner less headline risk, but is still focused on ensuring that foreign countries' access to U.S. markets is not expanded.



Trump

Reduce trade deficits

Position: Trump's trade policies emphasize reducing trade deficits with other countries by implementing tariffs and renegotiating trade agreements.

- **First term:** Trump entered a trade war with China over the U.S.-China trade balance. Trump imposed steep tariffs on Chinese goods to force trade renegotiations and address issues like intellectual property theft.
- **Proposal:** A 10% universal tariff on all imports and a 60% tariff on Chinese goods.

History: In 1971, President Nixon imposed a 10% tariff on all imports in order to strengthen the U.S. trade position. The tariff only lasted four months, but was partly successful, as it was used as a negotiating tool leading to the Smithsonian Agreement.¹⁶ Trump may attempt to use the large volume of U.S. trade as a negotiating tool with partners such as Japan and China, leveraging tariffs (or their removal) as a tool to seek better trade terms.

- **Expected impacts:**

High inflation pressure: Significantly hiking tariffs would be highly inflationary on the U.S. economy. If both major tariffs were imposed, their impact would amount to \$1,700¹⁷ in higher costs per year for a typical middle-class household in the U.S.

Political economy: Trump's proposed trade policies raise the risk of retaliatory actions from both allies and adversaries. Last term's trade war with China is the obvious example, but the EU, Canada, and Mexico imposed tariffs on U.S. imports as well in retaliation for U.S. tariffs on steel and aluminum. India also imposed tariffs on U.S. goods after the Trump administration removed its preferential trade status.



What investors are asking

Are tariffs taxes?

Yes. If the U.S. imposes tariffs on certain goods or services imported, the U.S. buyer pays the tariff, which is revenue to the U.S. government. The exporting countries do not pay tariffs. For example, if Brazil exports beef to the U.S. and the U.S. imposes a tariff, Brazil does not pay; U.S. beef purchasers pay, likely passing along higher costs to their end consumers.

Are Trump's proposed tariffs in violation of World Trade Organization (WTO) rules?

Likely, but it's unclear. Several of Trump's 2018 tariffs on steel and aluminum were found to violate WTO rules. Whether a flat 10% tariff is in violation depends on several factors. Regardless, the U.S. has shown a willingness to disregard any rulings. Both the Trump and Biden administrations have shown a tendency toward protectionism. The Biden administration criticized the WTO's decisions on the Trump tariffs, arguing that they highlight the need for significant reforms at the WTO, and has maintained the tariffs.

Could Trump pull the U.S. from NATO?

Yes, but not without significant difficulty. The U.S. Constitution requires 2/3 Senate approval to join treaties, but is silent on how they should be exited. This theoretically opens the door for a president to exit NATO unilaterally. However, Congress has sought to prevent this from happening in the FY 2024 National Defense Authorization Act, which forbids the president from exiting NATO without 2/3 Senate approval.

Which countries are most vulnerable to Trump tariffs?

Those with the biggest goods trade surplus to the U.S.: China, Mexico, EU, Japan, Canada. The winner of U.S. vs. China? Mexico. The rise of 'nearshoring'—moving supply chains closer to home countries (or to broader North America in the case of the U.S.)—is likely to continue benefitting Mexico. Last year, Mexico overtook China as the largest source of U.S. imports. This likely means Mexico is also at risk of additional tariffs in a Trump victory. Although Mexico is part of the U.S.-Mexico-Canada trade agreement, the deal doesn't entirely prevent the imposition of new tariffs.

Spending and regulation drive meaningful sector impacts

A combination of factors—different visions for U.S. industry, different plans for spending or incentivizing investment, different perspectives on regulation, and the role of government—contribute to meaningful potential impacts of new industrial policy on economic sectors.

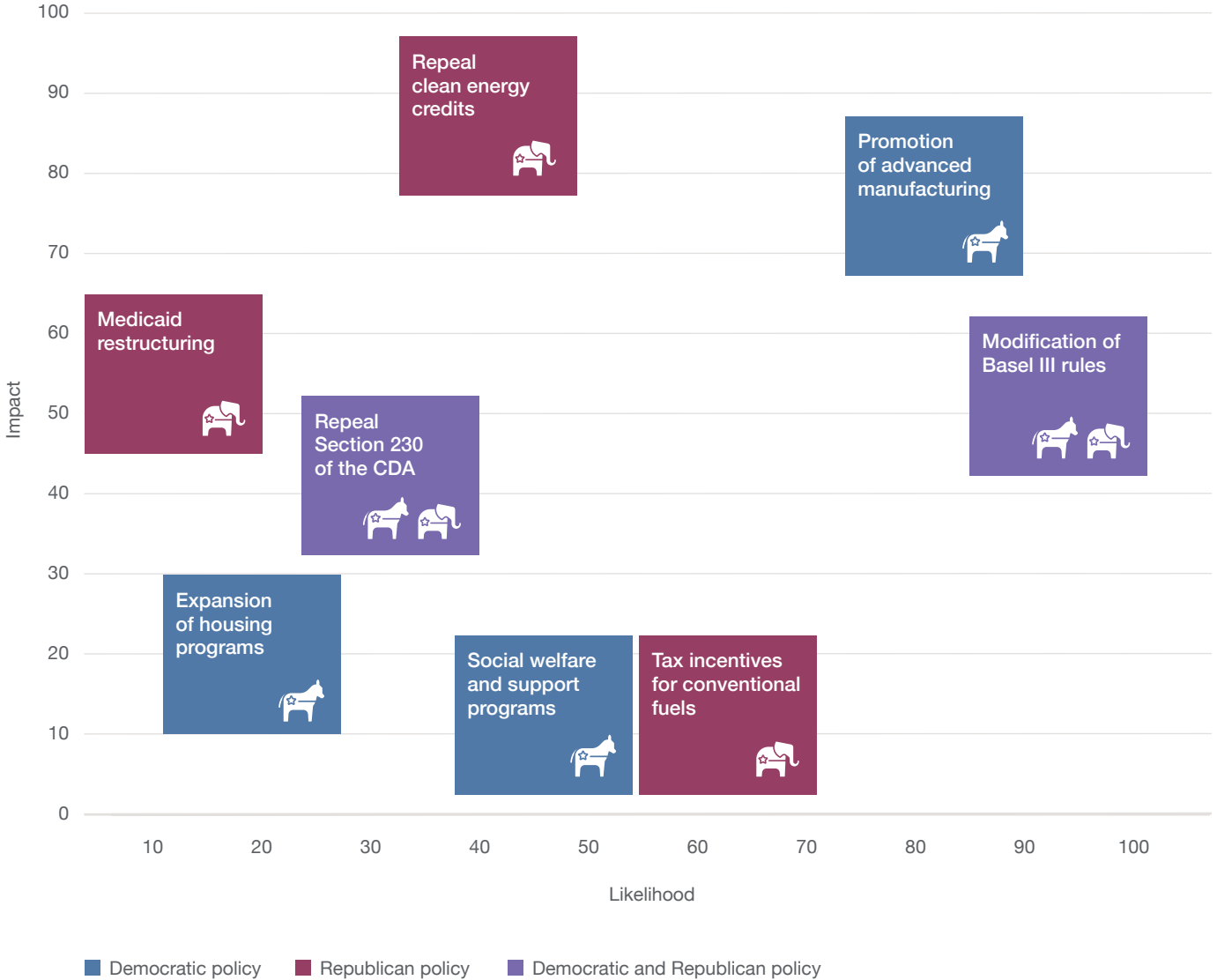
Trump has demonstrated a willingness to spend and a strong deterrence to regulation. Trump approved \$8.4 trillion in borrowing during his presidency, with \$2.3 trillion from spending increases. He boosted discretionary spending in both defense and sectors such as healthcare and infrastructure. His approach to regulations can be defined by Executive Order 13771, which required eliminating two regulations for each new one. He also believed environmental regulations hampered the U.S. energy sector, leading to rollbacks in emissions standards and waterway protections, and withdrew from the Paris Climate Accords.

Democrats, on the other hand, see government spending and regulations as crucial for protecting workers, consumers, and the environment. Biden overturned Executive Order 13771 and, during his first three years and five months, approved \$4.3 trillion in new borrowing. Biden's spending was focused on modernizing the economy through investments in infrastructure and green energy. He was also supportive of funding social initiatives such as the Supplemental Nutrition Assistance Program (SNAP).

The ultimate impact of these differences is complicated. Take the Inflation Reduction Act (IRA) for example—a key policy battleground in this election which we explore in this section. Essential components of the act include funding for clean energy, reducing drug prices, increasing IRS resources, and extending subsidies for the Affordable Care Act—with potentially meaningful and intersecting impacts for a variety of sectors. For this reason, we are wary of sector trades reflecting the traditional split between Republicans and Democrats. Instead, we are focused on areas where there is bipartisan support in an otherwise uncertain policy environment. For example, both parties agree on the CHIPS Act, which supports domestic infrastructure development.

INDUSTRIAL POLICY

Potential policy shifts



Sources: The Economist and opinions of the New York Life Investments Global Market Strategy team, August 2024. CDA: Communications Decency Act of 1996.

Candidate positions



Harris

Targeted government-led investing

Position: Strengthen the U.S. by ensuring manufacturing and supply chain dominance through targeted investments.

- **Biden's term:** The Biden administration targeted strengthening four critical U.S. supply chains: semiconductors, batteries, critical minerals, and pharmaceuticals. Biden successfully passed three new laws essential to his industrial policy: the Infrastructure and Jobs Act, the Inflation Reduction Act, and the Chips and Science Act.

- **Proposal:** A second Biden term agenda looked similar to his first term agenda—focusing government spending on manufacturing and social initiatives. We would expect Harris to pursue similar legislation.

- **Expected impacts:**

Deficit expansion: Biden's support of infrastructure investment and the expansion of social initiatives make it likely that spending would not be cut. Whether that spending raises the deficit depends on the success of his tax policy.

Traditional energy: In order to maintain supply and stabilize energy prices, Biden has allowed domestic oil and natural gas production to rise to new highs. In fact, Biden has issued more drilling permits (10,070) than Trump (9,893),¹⁸ after the first three years of their terms.



Trump

Laissez-faire policies and deregulation

Position: Trump supports a broad deregulatory agenda aimed at strengthening the U.S. position by increasing energy exports.

- **First term:** In his time in office, Trump issued several executive orders aimed at reducing regulatory burdens.

Select examples:

Environmental: The Trump administration rolled back the Clean Power Plan, which aimed to reduce carbon emissions from power plants.

Financial: Trump significantly weakened the Dodd-Frank Act by raising the threshold for when new capital standards apply to financial institutions from \$50 billion in assets to \$250 billion.

- **Proposal:** Trump has proposed a number of deregulatory measures, including raising the number of drilling permits, tax breaks for energy producers, faster approval of pipelines, and ending the U.S. liquid natural gas export ban.

- **Expected impacts:**

IRA cutbacks: Trump is likely to repeal subsidies for the electric vehicle industry, creating uncertainty for auto and battery manufacturers. He is also likely to eliminate subsidies for offshore wind projects.

Traditional energy: Despite record-high U.S. oil production, Trump would likely reduce regulatory uncertainty and advocate for increased production, including coal and natural gas.

What investors are asking



What are the future prospects for the Inflation Reduction Act (IRA)?

The IRA was a cornerstone of President Biden's agenda. Key components of the act include funding for clean energy, reducing drug prices, increasing IRS resources, and extending subsidies for the Affordable Care Act. Although its immediate impact on inflation may be limited, the IRA has significantly propelled investments in clean energy and healthcare.

Since the IRA has been an important driver of investment in recent years, investors are focused on the implications of its extension or rollback. Harris would likely seek an expansion of the IRA's provisions. A second Trump term may lead to some rollback, but perhaps not completely. Some core components of the IRA, especially those related to clean energy manufacturing, are directed toward Republican-held states. Consumer-focused elements of the IRA, such as electric vehicle incentives and home heating regulations, could be more vulnerable under a Trump administration. Tax credits for clean electricity and renewable power production are considered less at risk, given they support energy sector growth.

What could be the implications for tech industry regulations?

Both the Trump and Biden administrations pursued antitrust investigations and lawsuits against major tech companies like Google, Facebook, and Amazon. Increased scrutiny of monopolistic practices could lead to breakups or significant operational changes in how these companies conduct business.

The U.S. regulatory approach to artificial intelligence also represents a meaningful area of potential policy impact for the next president. So far, limited U.S. legal infrastructure for AI has meant that there are few existing rules, and high uncertainty around any future rules (and costs).

One area we expect to see changes is the potential revision of Section 230 of the Communications Decency Act, which currently shields online platforms

from liability for user-posted content. Recent proposals from both political parties aim to amend Section 230 to better control misinformation and other harmful online content, including content generated by artificial intelligence. If the next president weakens Section 230, telecommunications companies could face new legal challenges, which would have serious financial implications.

How might healthcare regulations evolve under the next administration?

Biden's Inflation Reduction Act included provisions for drug price controls. Harris would likely look to expand the number of drugs covered but may face difficulty without full control of Congress. Trump, who successfully eliminated the ACA's individual mandate penalty in his first term, is likely to oppose expanding price controls and favor allowing ACA subsidies to expire to reduce spending.

How will the financial sector be impacted by each candidate's policies?

Because the Basel III rules, which set capital requirements on banks, are up for review by the next Congress, the financial sector's future could look quite different depending on the election results. A second Trump administration would be more likely to weaken or pause the implementation of Basel III rules, particularly if there is a Republican majority in Congress. By contrast, Harris would likely advocate for stricter Basel III rules, pending congressional support. She might also advance the SAFER Banking Act to allow financial institutions to manage cannabis-related funds.

There is some consensus on cryptocurrency, with recent bipartisan efforts in the House to establish a regulatory framework for digital assets. This legislation, though unlikely to pass the Senate before the election, sets the stage for potential regulatory actions in the next term.

Impacts

In this paper, we have illustrated the areas where Democratic and Republican policy proposals differ the most, at least those with tangible impacts for investors. But proposals are just that—ideas, hopes, visions—and can often overstate what is likely or even possible. The makeup of Congress, cultural context, and outside events can impact which policies are passed. In other words: we’ve painted a picture of possibilities, but the reality for investors may look very different.

Investors are likely to see election-related volatility until the president is elected and congressional makeup is known. In this context, there are a few key circumstances for which, as probabilities rise, would be most likely to bring market moves.

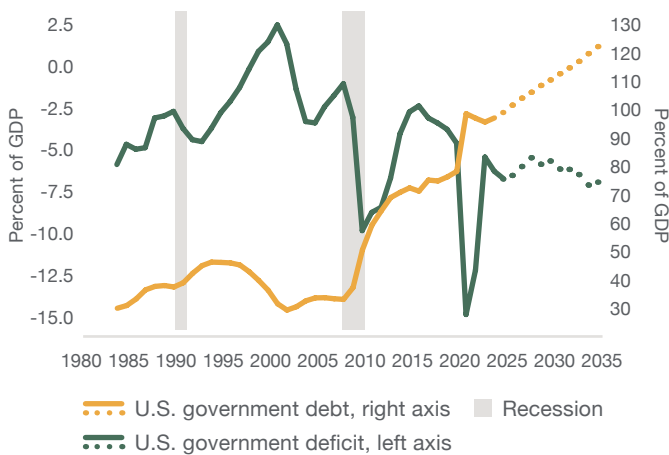
Durable market moves come from the prospect of real policy change—**not politics.**

First: a sweep in either direction makes deficit expansion (and inflation) more likely

We’ve illustrated that both parties have shown a willingness to spend, even if on different things, and meager plans to make up for that spending with higher taxes or spending cuts elsewhere. As a result, a sweep on either side of the aisle makes a higher

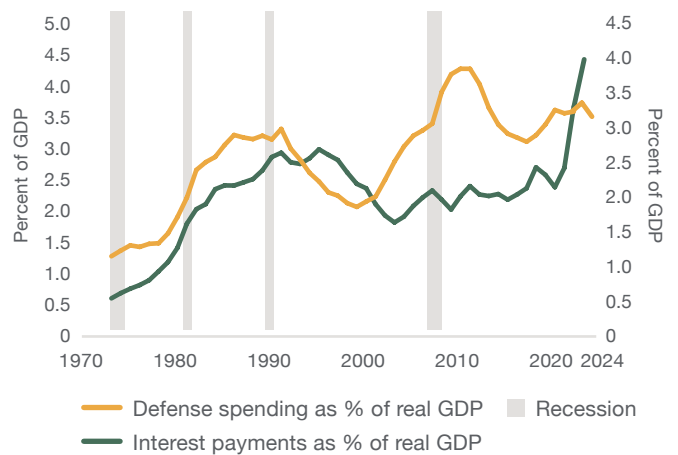
deficit more likely, too. A higher deficit would require more Treasury issuance; higher Treasury supply, all else equal, may lead to higher market interest rates as investors demand more compensation for the risk they’re taking.

The growing deficit will be an even greater challenge for the next administration



Sources: New York Life Investments Global Market Strategy, U.S. Congressional Budget Office (CBO), National Bureau of Economic Research (NBER), Macrobond, August 2024. Dotted lines represent forecasts.

U.S. interest payments on its public debt are outpacing defense spending



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Economic Analysis (BEA), U.S. Congressional Budget Office (CBO), Macrobond, August 2024. Real GDP is a measure of a country’s total economic activity adjusted for inflation.

Economists largely agree that deficit spending is associated with higher inflation. Further, a number of the candidates' policies could have a direct impact on inflation. For instance, Trump's proposed tariffs would be highly inflationary on the U.S. economy. The tariffs would amount to \$1,700¹⁹ in higher costs per year for a typical middle-class household in the U.S. His proposed immigration policies, which include tightening border controls and reducing legal immigration, could make it harder to fill jobs, pushing up wages and adding to inflation pressures.

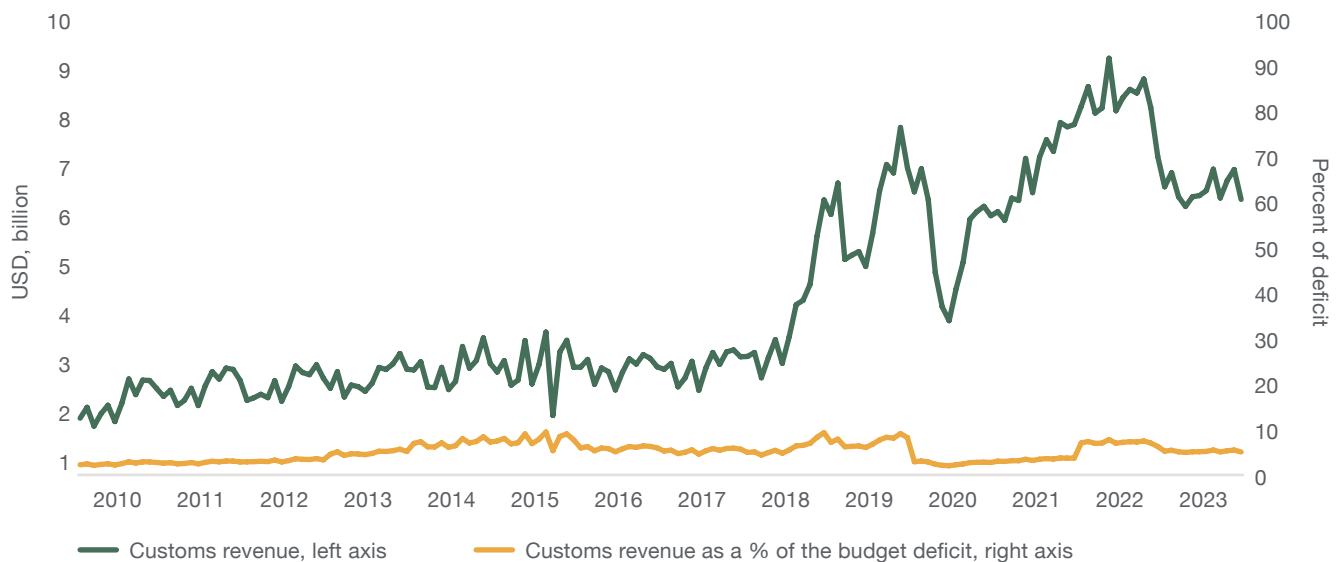
Similarly, Biden's efforts to rebuild key U.S. supply chains have also been linked to rising inflation due to the increased spending involved. In another Democratic term, we expect Harris would likely continue spending related to Biden's industrial policies (e.g., CHIPS 2.0) and revisit social initiatives previously cut from the Build Back Better plan, such as free community college and universal preschool. Consequently, we expect interest rates to rise, with the yield curve potentially steepening if the market anticipates long-term inflation.

Second: presidential discretion allows for some major policy changes without Congress

Many of the candidates' proposals depend on Congress to become reality. But there are a few things presidents can do on their own. Levying tariffs is one such thing, and so we expect markets to react to rising probabilities of a Trump victory. Trump's proposed tariffs could have a substantial impact on both equity markets and the U.S. dollar's relative strength. Tariffs are viewed as inflationary

and effectively a tax on consumers, which could depress corporate earnings and thus drag on equity market strength. Additionally, more protectionist and inflationary policies might lessen investor demand for the dollar. Trump wants tariff revenues to reduce the deficit, but as we illustrate below, historical experience suggests little relationship between the two.

Tariff revenues don't make much of a dent in the deficit



Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond, August 2024.

The president also has significant discretion with regard to administrative appointments, such as choosing key officials within the executive branch, including Cabinet members, heads of federal agencies, and federal judges (including Supreme

Court justices), subject to Senate confirmation. These appointments carry out the agenda of the president, so they can significantly influence the direction of federal policy, the judiciary, and regulation.

Third: sector head-fakes are likely

As the election approaches, we expect to see large sector swings as the market prices in different election outcomes, potentially driving volatility. Navigating these moves requires a highly tactical portfolio approach that isn't appropriate or feasible for the average investor.

Instead, we are focused on sectors where attention and spending are likely to persist under a Republican or Democrat agenda. These include digital infrastructure, which benefits from bipartisan support to modernize the U.S. economy; energy production, which increased under both Trump and Biden; and defense, given spending is expected to remain high to support U.S. allies and maintain military readiness.

Fourth: elections don't stand alone

Though we've spilled much ink to describe how different election outcomes may drive meaningfully different economic and market outcomes, the election isn't the only game in town. In fact, the relationship between the economy and politics is much looser than many investors expect. Though elected officials control fiscal policy, they don't control monetary policy or the economic cycle. Fiscal and monetary policies can create a system of incentives—such as reducing taxes and interest rates to promote economic activity—but these can only encourage, not enforce, certain behaviors for consumers and corporations.

For this reason, for most investors, the most powerful strategy for election years is simple: stay diversified rather than chase tactical bets.

Has the Supreme Court already taken the bite out of future regulation plans?

Earlier this year, the Supreme Court issued a decision to overturn the Chevron deference doctrine, which compelled federal courts, in reviewing a federal government agency's action, to defer to the federal agency's interpretation of any ambiguous or unclear statute that Congress delegated to the agency to administer. The decision significantly alters the regulatory landscape by shifting the power to interpret ambiguous statutes from federal agencies to the judiciary. This change will likely lead to increased legal scrutiny of agency regulations, making it more challenging to pass new regulations and potentially limiting the agencies' ability to enforce existing rules efficiently.

The Chevron decision will make it harder for Harris to implement regulations on issues such as climate change and healthcare, as agencies will face more legal challenges. For Trump, this ruling supports his goal to limit federal regulatory power, making it easier to roll back existing regulations and reduce government oversight.



And, for our U.S. citizen readers:
don't forget to vote on **November 5!**

1. Federal Bureau of Investigation
2. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a global messaging network used by banks and financial institutions to securely transmit information and instructions through a standardized system of codes. It facilitates international money transfers by providing a reliable and standardized way to communicate financial transactions across borders.
3. Federal Budget in Pictures. “Do the Rich Pay Their Fair Share?” 2024.
4. Tax Foundation. Details and Analysis of President Biden’s Fiscal Year 2025 Budget Proposal, 2024.
5. Estimates by the Congressional Budget Office from May 2023. The CBO provides information about how its most recent budget projections would change under different assumptions about future legislated policies.
6. OECD. Tax Policy Reform and Economic Growth, 2010.
7. Tax Foundation. Details and Analysis of President Biden’s Fiscal Year 2025 Budget Proposal, 2024.
8. New York Life Investments Global Market Strategy calculations. Data from S&P Global and Macrobond. August 2024.
9. Institute on Taxation and Economic Policy. Revenue-Raising Proposals in President Biden’s Fiscal Year 2025 Budget Plan. 2024.
10. The Congressional Progressive Caucus Center. Federal Spending on Immigration. 2023.
11. The “zero tolerance” policy, implemented during Trump’s administration, mandated the prosecution of all adults illegally entering the U.S., resulting in the widespread separation of families at the border.
12. Senators unveil long-awaited border deal. Politico. 2024.
13. Estimated by the American Action Forum in 2015.
14. Federation for American Immigration Reform. The Fiscal Burden of Illegal Immigration on United States Taxpayers. 2023.
15. There is significant debate—hundreds of billions of dollars of difference—as to whether illegal immigration creates any fiscal burden. According to the libertarian Cato Institute, “In 2024, HHS found that over a 15-year period, refugees and asylees produced about \$124 billion more in taxes than they received in benefits.” From a variety of sources, Cato also finds that immigrants who have dropped out of high school still have a net positive fiscal effect: taxes paid are greater than benefits received. (CATO. The Cost of the Border Crisis. 2024.)
16. The Smithsonian Agreement was a pivotal arrangement reached in December 1971 among ten major world powers, including the United States, to realign exchange rates and widen the allowable fluctuation bands for currencies, effectively replacing the Bretton Woods system of fixed exchange rates.
17. Peterson Institute for International Economics. Why Trump’s Tariff Proposals Would Harm Working Americans. 2024.
18. Reuters. “Biden’s oil boom.” 2024.
19. Peterson Institute for International Economics. Why Trump’s Tariff Proposals Would Harm Working Americans. 2024.

DISCLOSURES:

Past performance is no guarantee of future results, which will vary. All investments are subject to market risk and will fluctuate in value. Diversification cannot assure a profit or protect against loss in a declining market.

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