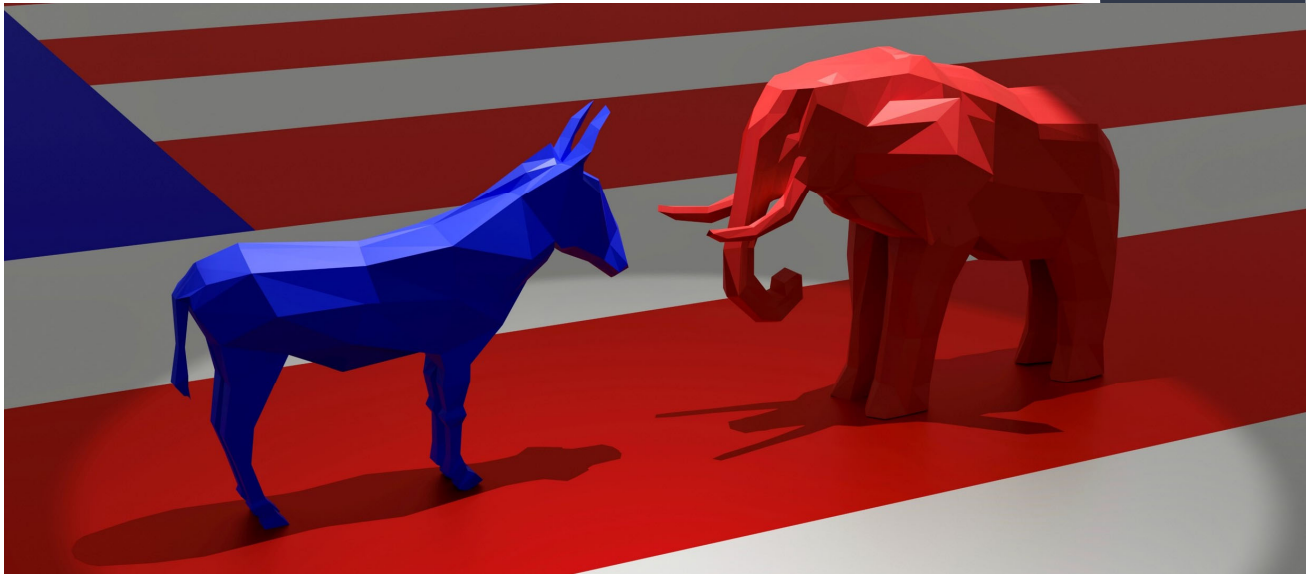


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The Final Lap

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There are now just three weeks to go until the most-anticipated political event of the year, the US Presidential election. You might recall that at the beginning of the year, many commentators were concerned that, with more than half of the world's population heading to the polls this year, there was scope for increased volatility – for which read “stock markets could go down”. There might have been the odd wobble here and there, but so far, there has been no real negative impact. Well, maybe in France, but that legislative election was

not on the calendar in January! India's stock market has cruised to new highs, with progress only interrupted recently by Emerging Market investors switching back into China to chase the stimulus-fed rally. And any serious escalation of tensions between China and Taiwan has yet to materialise under the latter's new President.

The results of most of this year's important elections were generally much as anticipated, at least in terms of the winner, if not always in terms of the margin of victory. The US election, however, remains very finely balanced, with neither candidate being able to muster a decisive lead. Although the country-wide opinion polls which evaluate the potential "popular vote" tend to agree that Vice President Kamala Harris is in the lead, the "electoral college" system of awarding votes by state means that it's impossible to separate the candidates. Remember that both Al Gore (2000) and Hillary Clinton (2016) won the popular vote but not the White House. The only other candidate to suffer that fate has been Grover Cleveland in 1888. He was the incumbent President, too. And after four years out of the White House, he won again in 1892 to become the only President to serve two discontinuous terms... so far. Donald Trump is trying to emulate that feat. That trivia must be handy for some Pub Quiz points in the weeks ahead!

Odd as this system might seem to outsiders, it's no more peculiar than the UK's "first past the post" system, which can lead to tactical voting and even collaboration between supposedly opposing parties in individual constituencies. I once heard Michael Bloomberg state why he would never stand as an independent candidate for President. He said that there were not enough votes available to win once you accounted for all the dyed-in-the-wool Democrats and Republicans. And most states have their own "colour" too. Famously, California and New York, bastions of the "liberal elite" are guaranteed wins for the "blue" (Democrats). Texans are going to vote "red" (Republican) – the last Democrat winner of the state was Jimmy Carter in 1976.

Even so, it is not unknown for allegiances to shift. Florida, once firmly Democrat, has swung more towards the Republicans as the years have gone by and as its demographics have shifted, with incomers enticed by favourable taxation. Of course, the state is (in)famous for being the deciding state in the 2000 election when the recounts dragged on for weeks thanks to arguments over "dimpled" or "hanging" chads – the bits not properly punched out of paper ballot forms. Anyway, having been pro-Trump in 2016 and 2020, it is expected to go the same way this time, with a meaty thirty electoral college votes up for grabs.

Interestingly, those thirty votes are one more than in 2020, because the last US census led to changes in the number of electoral college votes awarded to certain states dependent upon population numbers. Texas, with a growing population, was the big winner (+2), with the two main (shrinking) Democrat strongholds, New York and California, losing one each. Seven states in total lost a vote, and they included two of the so-called "swing states" (more on which in a moment), Pennsylvania and Michigan. There were six gainers which included the swing state of North Carolina. Calculations show that this would have led to a six-point electoral college swing in Donald Trump's favour on today's basis, but still insufficient to change the result (he lost by 306 to 232).

There are 538 electoral college votes to be won – hence the name of the opinion poll analysis organisation of that number which was founded by the renowned statistician Nate Silver (who has since moved on to the eponymous Silver Bulletin. He is also the author of *The Signal and The Noise*, which is a fascinating read). Therefore, the target to win is 270. It is widely expected that forty-three of the fifty US states will vote as they did in 2020. If you add up all the electoral college votes available in those states, Donald Trump's "starting point" is 219 and Kamala Harris's is 225.

That leaves 94 swing state votes to play for. These are divided as follows: Pennsylvania 19, Georgia 16, Michigan 16, North Carolina 16, Arizona 11, Wisconsin 10 and Nevada 6. You can play around with those numbers to see which combinations might be required to hit the target. It is generally held that you can't, these days, become President without winning Pennsylvania, but the maths suggests it is not impossible. But it is a very important state, which is why both candidates are spending a lot of time there and spending huge sums of money on campaign advertisements. According to the latest analysis of polls available on [fivethirtyeight.com](https://www.fivethirtyeight.com), Trump is leading in Georgia, North Carolina and Arizona, which would get him to 262, still short of victory.

However, I noticed when looking at the data versus a week ago that he had either increased his lead or narrowed his deficit in five of the seven states. He seems to have positive momentum at the moment. This has been reflected in various indicators. Betting markets have moved in favour of Trump and a custom basket of shares that might benefit from his winning, created by Goldman Sachs, has outperformed a similar basket exposed to a Harris victory.

Perhaps more incredibly, the heavily loss-making DJT SPAC (Special Purpose Acquisition Company) has risen 108% since 23rd September through to 11th October. OK, it's still down 62% from its highly speculative (nonsensical?) peak of March 2023, but it's now worth more than \$5bn in terms of market capitalisation. Trump himself owns 57% of the shares and so, in theory, his net worth has risen by almost \$1.4bn in the last couple of weeks. I am not in a position to offer an investment opinion on this vehicle and I note that neither is it covered by any Wall Street analysts. Bloomberg's description of the business runs as follows: "The company operates a social media platform that focuses on free and open communication for citizens. Trump Media and Technology Group through its platform helps create content, follow other users and engage in an open global conversation."

One other result of the apparent swing in favour of Trump is that bond yields have risen. This is down to two key factors. First is his planned imposition of tariffs on potentially all imports into the US, ranging from 60% tariffs on products from China to 10% on anything from anywhere else, friend or foe. This would almost definitely increase inflation, at least unless importers take the hit (which would have a negative impact on profit margins). We have seen inflation breakeven rates (the rate of future inflation inferred from the relative prices of conventional and inflation-linked bonds) increase sharply in the last few weeks. The 2-year rate has shot up from 1.46% to 2.10%, while the 10-year rate is up from 2.03% to 2.33%. OK, some of this might also be down to stronger-than-expected US economic data, but I think there is more than a dash of "Trump trade" in the move. The optimistic view is that he is only using the tariff threat as a big stick with which to beat trade partners into more favourable trade deals. We shall see.

He does seem to see tariffs (misguidedly in our opinion) as a potent weapon to deal with all sorts of threats. When the farm machinery company John Deere recently discussed a plan to relocate some of its production facilities to Mexico, Trump made the following statement: "If you do that, we're putting a 200% tariff on everything that you want to sell into the United States".

The other source of concern for bond investors is the burgeoning US fiscal deficit. The Democrats are by no means promising any sort of fiscal consolidation, but a recent report by the non-partisan Committee for a Responsible Federal Budget projected an increase in the deficit of \$7.5 trillion between 2026 and 2035 under Trump versus \$3.5 trillion under Harris. All other things being equal, that means a greater supply of Treasury bonds. There was a similar scare a year ago, which saw the 10-year Treasury yield spike up to 4.98% (it is 4.10% today). This was cured by another combination of factors. First, inflation prints started to come down nicely from their peak. Second, the Treasury Department, under the leadership of former Federal Reserve Chair Janet Yellen, adeptly managed the supply of bonds being issued by increasing the issuance of short-dated Treasury Bills vs coupon-bearing bonds. Bills can be considered quasi-cash, and can be bought by, for example, the

money market funds which are currently drowning in inflows of cash. This is a plan to which the Treasury has generally stuck, although one feels it cannot do so for ever.

With all this uncertainty, we are still not willing to position portfolios for one election outcome or the other. At this point you might be tempted to say that we are being paid to take a view, but I am going to hide behind a statement that I saw this morning from the co-CIOs of a large fund management organisation: "Maintaining moderate exposures right now is not an expression of timidity, but of discipline". They are right. Sizing of market bets should be dependent upon one's opinion of the certainty of the outcome. Right now, it's as clear as mud.

In the end, according to US political scientist Professor David Schultz, it could come down to the preferences of just 150,000 citizens. And their reasons for voting one way or the other could be quite different depending upon their location. For example, Arizonans are most interested in issues to do with immigration and the managing of the border with Mexico. Industrial and trade policy is high on the focus list of voters in Michigan, whereas in rural Pennsylvania it's all about energy policy. But in metropolitan Pennsylvania the parties' focus is on college-educated women and their response to policies covering reproductive rights. There is no single overarching message which is likely to swing the result, which is why, frustratingly and even this close to the big day, there is none forthcoming from either candidate.

Finally, it might be better for everyone's anxiety levels to zoom out a bit and take the long view. Data published by Charles Schwab shows that if one had only invested under Republican Presidents since 1948 (and to the end of 2023), a starting sum of \$10,000 would have turned into \$311,000; if only under Democrat Presidents, that would have become just over \$1.2m. But leaving it in the market the whole time would have left you with \$38 million. Such is the power of compounding and staying in the market whatever your political preferences!

Economic Commentary

FTSE 100 weekly winners

Imperial Brands PLC	5.3%
CRH public limited company	4.5%
St. James's Place Plc	4.4%
Fresnillo PLC	4.3%
Barclays PLC	4.2%
Mondi plc	4.0%
Ferguson Enterprises Inc.	4.0%

FTSE 100 weekly losers

Just Eat Takeaway.com N.V.	-8.0%
J Sainsbury plc	-6.9%
Melrose Industries PLC	-6.8%
Taylor Wimpey plc	-6.4%
Croda International Plc	-5.9%
Anglo American plc	-5.6%
JD Sports Fashion Plc	-5.4%

FTSE 100 index, past 12 months



EuroStoxx 600 index, past 12 months



S&P 500 index, past 12 months



All data shown in GBP.

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