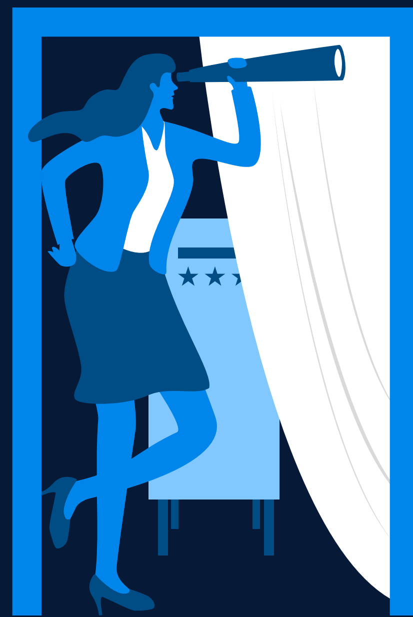
Three policy developments to watch after the U.S. election



In the Loop
October 2024

Key Insights

- Who the next president picks to head key federal agencies could provide early insights into antitrust, trade, defense, and foreign policies.
- As president, Harris would likely progress key initiatives from the past four years. In a second term, Trump could move quickly to rachet up tariffs.
- Given the cost of extending the Tax Cuts and Jobs Act, the debate over how to partially pay for it could create policy risk for certain industries and sectors.

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The 2020 U.S. elections and the 2022 midterms serve as a reminder that the next president and which party controls the Senate and House of Representatives might not be known the day after the election.

And once the results are certain, the transition from campaigning to governing creates its own uncertainties as pre-election promises come up against political realities.

Let's explore three key developments for investors to monitor after the election outcome has been finalized and during the next president's first year in office.

1. Personnel is policy

Regardless of whether Democrat Kamala Harris or Republican Donald Trump is in the White House, who the next president chooses to helm certain federal agencies will shape policy and how it's implemented.

News surrounding nominations for high-profile leadership positions usually picks up in November and December. Senate confirmation hearings then take place in the first several months of the president's term.

If the president's party fails to secure a majority in the Senate, he or she may select candidates who are less likely to be opposed. In this scenario, a Harris administration might keep some agency heads in place as interim or acting chairs.

A Trump administration, on the other hand, would be expected to usher in more meaningful changes, given its starkly different policy priorities from the Biden-Harris White House and the Republican's stated penchant for rolling back regulation.

Presidential appointees to watch

A win by Trump:	A win by Harris:
Secretaries of State and Defense: – Will these appointees skew more isolationist or hawkish in their views? – The people in these positions will help to shape the administration's approach to foreign policy at a time when geopolitical tensions are elevated. **Secretary of Treasury and U.S. Trade Representative:** – Trump has signaled that he would take an aggressive stance on trade policy that would extend beyond China. – Who occupies these roles will help to influence the debate within the administration, so understanding their views will be important.	**Federal Trade Commission:** – Skepticism of mergers and an expansive approach to antitrust enforcement would likely continue if Lina Khan were to remain in charge. – New leadership could open the door to a shift in approach. **Secretaries of State and Treasury:** – Who Harris chooses for these important posts could provide incremental insight into her priorities, but the potential for candidates who would embark on a meaningful shift in direction is probably lower.

2. The next president's opening moves

A Harris administration would likely seek to ensure that Biden's key initiatives, such as policies aiming to green the U.S. economy, move forward. I'll also be keeping an eye out for any executive orders that could provide further details on Harris's agenda.

If Trump were to win a second presidential term, all eyes would be on trade policy.[1]

His administration would probably move quickly to ratchet up tariffs on various Chinese goods while also seeking to lay the groundwork to impose levies on imports from other countries, including traditional U.S. allies.

As for Trump's proposed 10% border tax on all goods coming to the U.S. from abroad, the mechanics of imposing such a measure and its potential usefulness as a negotiating tactic suggest that developments on this front may take longer to unfold.

3. The two fiscal cliffs of 2025

The next president could contend with two fiscal cliffs in his or her first year in office.

> “Regardless of how the election shakes out, many of the TCJA's tax breaks are likely to be extended.

Absent congressional action, the agreement to extend the limit on the U.S. government's borrowing would expire January 1.

- **Unified government:** If the election results in one party controlling the White House and both chambers of Congress, finding a resolution should be easier.
- **Divided government:** Depending on the election outcome, this situation could lead to familiar brinkmanship around raising the debt ceiling, likely in the summer when the U.S. Treasury is expected to exhaust the funds in its general account.

The main event, however, will be the year-end expiration of key provisions in the Tax Cuts and Jobs Act (TCJA) of 2017, which was passed during the first year of Trump's presidency.

- **Extending these tax cuts** could result in USD 4 trillion to USD 5 trillion in deficit spending over the subsequent 10 years.
- **Inaction** could result in one of the largest nominal tax hikes in U.S. history, potentially weighing on consumer and business spending.

Regardless of how the election shakes out, many of the TCJA's tax breaks are likely to be extended.

However, given the cost, the debate over potential spending cuts and revenue increases over the course of the year could create policy risk for certain industries and sectors. These discussions will likely intensify from March to June as the House and Senate draft their budget resolutions.

[1] For more analysis, see my August 2024 blog, “U.S. Election and Trade Policy: What Investors Need to Know.”

Setting the TCJA negotiating table: Probable points of discussion

Provision	For Trump	For Harris	What could be affected?
Individual tax cuts	Would likely seek to extend the TCJA's tax cuts and could push for more breaks	Would likely seek to extend most of the TCJA's tax cuts while aiming to allow marginal tax rates for individuals earning >$400k annually to revert to higher levels	Consumer spending
Corporate tax cut	Could seek to lower from current rate, which would require legislation	Could seek to increase from current rate, which would require legislation	All industries/sectors
Inflation Reduction Act (IRA)	Could pursue changes to IRA tax credits for electric vehicles and renewables	Would be unlikely to pursue changes to Biden's signature legislation	Renewables energy, auto industry, utilities, industrials

Source: Based on candidates' comments from the campaign trail.

"Setting the TCJA negotiating table" highlights items that could be key parts of the discussion for Trump and Harris. Of course, other options for offsetting the cost of extending the TCJA could enter the conversation.

Who is in the White House and the balance of power in the Senate and House of Representatives will influence the tone and substance of these negotiations.

A scenario where the party winning the White House does not secure majorities in the House and the Senate would require compromise between Republican and Democrat lawmakers. In this instance, a shorter-term extension of the TCJA, possibly with some modest changes, could prove more palatable.

Unified government would make it easier for the president to push through his or her vision for tax and fiscal policy, likely through budget reconciliation. This streamlined process requires only a simple majority to pass the Senate, as opposed to the usual 60 votes.

Still, intraparty agreements on complex issues aren't a given. A lack of internal party cohesion would matter even more if partisan majorities in the House and Senate are slim. For example, the scope of potential deficit spending creates the possibility that Trump might encounter difficulties garnering enough Republican support for the additional tax cuts he has mentioned on the campaign trail.

Investors also shouldn't overlook the possibility that the bond market could take a negative view on how the U.S. government handles this fiscal cliff, especially if the process goes down to the wire.

Bottom line: The election outcome will have important implications for future policy priorities and how the government seeks to resolve fiscal cliff stemming from the TCJA's scheduled expiration. I'll be working closely with my colleagues to sort through the potential risks and opportunities that might emerge as these post-election uncertainties start to resolve themselves after November 5.

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