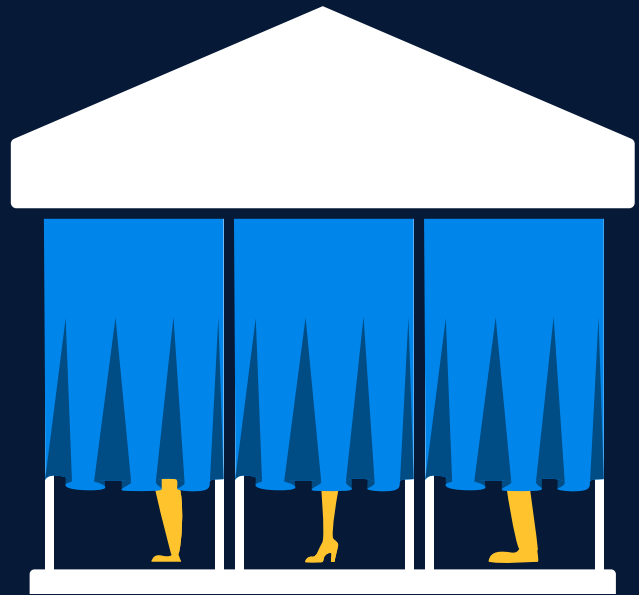


How the U.S. election could impact the financials sector

In the Loop
July 2024



Key Insights

- Financial regulators would likely be more proactive and involved under a Democratic president than in a Republican administration.
- Policy differences could make a difference in bank mergers, banks' capital requirements, and the regulation of consumer finance and the nonbank financial system.
- The economy's health and the outlook for inflation and interest rates are likely to be more important for financials' performance over the next presidential term.



Gil Fortgang
Washington Associate Analyst, U.S. Equity Division of T. Rowe Price Investment Management, Inc.

President Joe Biden's decision to drop out of the election introduces another element of uncertainty to the race.

The situation is evolving quickly. However, the key issues and policy differences should remain the same.

No matter the Democratic candidate, the outcome of the U.S. presidential election is likely to influence the intensity of the financial regulatory environment. Developments on this front could have important implications for traditional banks as well as for the insurance, asset management, and credit scoring industries.

Push for stronger regulation would continue with a Democrat in the White House

Heightened scrutiny, increased intervention, and a push to expand oversight of nonbank financial companies have characterized the Biden administration's approach to regulating and supervising the sector.

Notably, financial regulators took a stronger hand even before the failures of Silicon Valley Bank and Signature Bank in March 2023.

A different Democratic candidate would create some uncertainty about the details, but financial regulators would likely be more proactive and involved under a Democratic president than in a Republican administration.

A Trump win could ease regulatory pressure on financials

In contrast, deregulation would likely be a key pillar of former President Donald Trump's domestic agenda if he were to win the presidency.

What could that mean for the financials sector?

A leadership changeover at key federal agencies could bring a lighter touch to financial regulation and supervision. It would also open the door to halting, reversing, or weakening policies advanced by the Biden administration. Rules that have been proposed but not yet finalized would likely be most at risk.

Where the election outcome could make a difference:

1. Consumer Finance



A win by the Democratic nominee:

Fees: The restrictions on fees for late credit card payments and overdrawn accounts imposed by the Consumer Financial Protection Bureau (CFPB) would remain in play. However, court challenges to these rules could be an impediment. The agency's current director has called out the rising cost of obtaining credit scores as a possible area for action.

Online payments: Scrutiny of emerging payments systems could increase. For example, the Biden CFPB has sought to classify online buy-now, pay-later companies as credit card lenders.



A win by Trump:

Regulatory restraint?: Republicans, including Donald Trump during his first presidential term, typically have advocated for a lighter touch to financial regulation.

CFPB appointee is key: Could this pro-business bent change? Who the Trump administration nominates to head the CFPB will be important to watch.

2. Bank Mergers and Acquisitions (M&A)



A win by the Democratic nominee:

M&A restrictions: Federal financial regulators have been subjecting banking deals to greater scrutiny, especially those that would result in a combined bank with more than USD 100 billion in assets. This hawkishness could continue.



A win by Trump:

Regulatory forbearance: A changeover in agency leadership could lead to a less restrictive approach to bank mergers, although megabanks might still face constraints.

3. Nonbank Oversight



A win by the Democratic nominee:

Extended reach: Lending outside of traditional banks has expanded significantly,¹ so efforts to increase oversight of nonbank lenders would likely continue gaining momentum. Regulators currently are focusing on collecting data and information for potential future action. These efforts could create headline risk for insurance and asset management firms that operate in these markets.



A win by Trump:

Status quo: Federal agencies would likely be disinclined to push for further regulation of the nonbank financial system, barring a crisis.

4. Bank Capital Rules



A win by the Democratic nominee:

Scaled-back increases in capital requirements: After strong industry pushback, regulators are reworking proposed rules for determining how larger banks assess risk and how much capital they must hold. The initial proposal would have entailed 15% to 20% capital hikes; however, reports indicate that the revised proposal moderates this requirement.



A win by Trump:

Potential relief, but timing matters: If the Biden administration fails to finalize the proposed risk framework for large banks during his term in office, that would open the door for Trump regulators to put their own stamp on the rules.

Context is key

The U.S. presidential election is likely to have important implications for the intensity of financial regulation. However, government policy is only part of the equation.

The health of the overarching economy, which influences loan demand and credit risk, and the outlook for inflation and interest rates will exert even greater influence on the financials sector's performance over the next presidential term.

¹ Arif Husain, head of Global Fixed Income and chief investment officer of the Fixed Income Division at T. Rowe Price Associates Inc., discussed this trend and its implications in the July 2024 installment of his Ahead of the Curve blog, "Shadow Banking System' Creates a Trickier Path for the Fed."

INVEST WITH CONFIDENCE™

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so they can feel more confident.

Important Information

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services.

Past performance is not a reliable indicator of future performance. The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

Australia—Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 28, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, Australia. For Wholesale Clients only.

Canada—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

Colombia, Chile, Mexico, Perú, Uruguay—This material is prepared by T. Rowe Price International Ltd - Warwick Court, 5 Paternoster Square, London, EC4M 7DX which is authorised and regulated by the UK Financial Conduct Authority - and issued and distributed by locally authorized distributors only. For professional investors only.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd which is regulated by the Dubai Financial Services Authority as a Representative Office. For Professional Clients only.

EEA—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

Hong Kong—Issued by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

New Zealand— Issued by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 28, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

Singapore—Issued by T. Rowe Price Singapore Private Ltd. (UEN: 201021137E), 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

South Africa—Issued in South Africa by T. Rowe Price International Ltd (TRPIL), Warwick Court, 5 Paternoster Square, London EC4M 7DX, is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (Financial Services Provider (FSP) Licence Number 31935), authorised to provide "intermediary services" to South African Investors. TRPIL's Complaint Handling Procedures are available to clients upon request. The Financial Advisory and Intermediary Services Act Ombud in South Africa deals with complaints from clients against FSPs in relation to the specific services rendered by FSPs. The contact details are noted below: Telephone: +27 12 762 5000, Web: www.faisombud.co.za, Email: info@faisombud.co.za

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

UK—This material is issued and approved by T. Rowe Price International Ltd, Warwick Court, 5 Paternoster Square, London EC4M 7DX which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

USA—Issued in the USA by T. Rowe Price Investment Management, 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2024 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.