



Insigneo Weekly Dispatch

The 2024 US Election: the consequences of polarization

As 2024 advances and we approach the end of the first quarter, we are starting to see the presidential election in the US increasingly in the spotlight.



By Melissa Ochoa Cárdenas

Investment Strategist

Insigneo

The 2024 US Election: the consequences of polarization

As 2024 advances and we approach the end of the first quarter, we are starting to see the presidential election in the US increasingly in the spotlight. The polarized political landscape in the country and the uncertainty surrounding the Oval Office have led us to start assessing what this election may mean for investors and how to position ahead of it.

The first thing we would like to do is to revisit the previous time Donald Trump was in office. We know that markets do not like unpredictability and tend to react negatively when faced with it. Today, Trump's policy plan and proposals, in so far as he has communicated them, would probably represent an increase in uncertainty versus the more predictable policy prescriptions and Administration of President Biden. Still, we want to point out that market performance before, during, and after Trump's first electoral triumph was not as negative as many expected. In 2016, the US stock market – as measured by the S&P index – had a 9.5% price increase, equivalent to an 11.95% total return. Zooming in on the index performance, November 2016 exhibited a 3.42% price increase, which is positive when compared to the 1.94% setback observed in October of that same year and the relative stability that September exhibited (-0.12%). Meanwhile, December 2016 maintained the positive momentum that markets started to pencil in after Trump's victory, considering that the promised tax cuts were deemed beneficial to the corporate sector. This positive sentiment remained throughout Trump's time in office, with the S&P displaying an astonishing 83.19% total return during his presidential period.

In contrast, the Treasury market reacted negatively to Trump being elected, a fact that can be seen in the performance of the Bloomberg US Treasury Index, which registered a price decrease of 3.84% in Q4, with November being the month with the worst performance (-2.67%). This reaction was

mainly explained by the expectation that Trump’s proposed fiscal program would be inflationary, which in turn would have brought a more aggressive monetary policy tightening by the Fed. Still, the Treasury market recovered its positive momentum shortly after that to grant Trump a 17.84% total return for his presidential period, as measured by the Bloomberg index we previously mentioned.

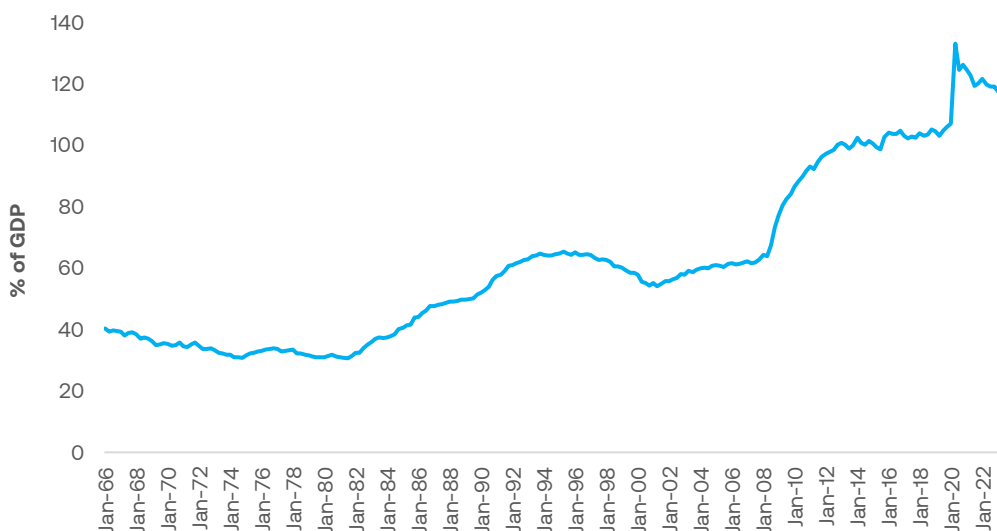
With this in mind, we would venture to state that another Trump presidency may not be as bad as some market analysts are now similarly expecting. More specifically, we have begun to think that a new Trump presidency may positively affect the domestic environment, though it may be less benign on the geopolitical front. Again, let us use history as a guide. Some of the main catalysts for the equity market during Trump’s presidency were the promise of a looser fiscal policy, looser regulation, and, as previously mentioned, the tax benefits for corporations.

In what could be seen as a contradiction with his campaign promises, where he advocated for the average working

person, Trump’s tax policies focused more on making the US a more competitive country. This occurred amid Trump’s reduction of the corporate tax rate and his easing of business investment restrictions, which led to a more hospitable corporate environment.

However, the implementation of such policies during Trump’s administration did not leave the economy unscathed. During the 2017–2020 period, US total public debt as a percentage of GDP reached its peak of 132% during the second quarter of 2020 and has remained elevated since. Against this backdrop, it is worth noting that during President Biden’s Administration, his fiscal policy was aimed at narrowing the public debt but has clearly fallen short of expectations with such actions as partial student debt forgiveness. Ultimately, and according to the latest figures from the Federal Reserve Bank of St. Louis – FRED –, the US total public debt stood at 120% of GDP as of 3Q23, a considerably high figure when compared to the levels observed in the two previous decades:

The Next President Faces a Daunting Fiscal Picture – Total Public Debt as a % of GDP



Source: FRED

Furthermore, the trade policies implemented during the Trump Administration have had a lasting impact. The trade war that Trump initiated in 2018 led to China losing its pole position as America's top trading partner in 2019. Mexico is now claiming the first spot. Additionally, the erratic stance regarding trade policies with China undermined the ease of doing business since firms did not know whether they could export their goods to China, thus making financial planning more challenging.

Regardless of which candidate is elected on November 5, it is worth reviewing the state of the economy that the new president will inherit. The US economy has maintained a healthy pace of growth after the short-lived recession induced by the pandemic, with the strength underpinned by the pent-up excess savings that consumers accumulated during the pandemic. As we have stated on other occasions, those excess savings are slowly wilting away, which leads us to believe that US growth should cool going forward, especially as monetary policy remains tight. One of the few factors that may help US growth remain buoyant would be the continuation of Biden's fiscal policy and programs that require heavy investments, such as the green energy projects from the Inflation Reduction Act.

One overarching theme that stood out when reviewing the current backdrop is the polarization surrounding the US election, which has reached a zenith over the previous decades. As we undergo the initial primaries, and the inevitability of a Trump vs. Biden rematch becomes more salient, it is worth pointing out the absence of a political middle ground. This situation was visible during the

Michigan primaries, where "uncommitted" Democratic voters were more than 58,000 as of February 28, according to Edison Research. In the case of the Republican party, and even if Trump exhibited a comfortable lead in the ballots, former UN ambassador Niki Haley had received 27% of the support, with 58% of the votes counted. This dissatisfaction with the current political environment is also visible in Biden's disapproval rating. According to RealClearPolitics, Biden's disapproval rating as of February 26 stood at 55.9%; meanwhile, Trump's unfavorability, according to RealClearPolitics, stands at 53.9%. These percentages may not seem outrageous, but we cannot ignore the fact that American society is not content with the way its country is being managed. When confronted with both unpopular options, voters are increasingly saying that "Biden is too old; Trump is too dangerous." ■



Click or scan this code to access more insights at insigneo.com/insights

Important Legal Disclaimer

Insigneo Financial Group, LLC comprises a number of operating businesses engaged in the offering of brokerage and advisory products and services in various jurisdictions, principally in Latin America. Brokerage products and services are offered through Insigneo International Financial Services, LLC, headquartered in Puerto Rico, and through Insigneo Securities, LLC, headquartered in Miami. Both are members of the Financial Industry Regulatory Authority (FINRA) and Securities Investors Protection Corporation (SIPC) <https://www.sipc.org/>. Investment advisory products and services are offered through Insigneo Advisory Services, LLC, an investment adviser registered with the Securities and Exchange Commission. In Uruguay, advisory services are offered through Insigneo International Asesores de Inversion Uruguay, SA, Insigneo Asesores de Inversion Latam, SRL, and Insigneo Asesores de Inversion de Uruguay, SRL, in Argentina through Insigneo Argentina, SAU, and in Chile through Insigneo Asesorías Financieras, SPA. Collectively, these eight operating businesses make up the Insigneo Financial Group. To learn more about the Broker Dealers including their conflicts of interest and compensation practices, please go to <https://insigneo.com/disclosures/> or via www.finra.org. To learn about Insigneo Advisory Services, LLC and any conflicts related to its advisory services, please see its Form ADV and brochure which can be found at Investment Advisor Public Disclosure website <https://adviserinfo.sec.gov/>

FOR AFFILIATES LOCATED IN CHILE

Insigneo Asesorías Financieras SPA se encuentra inscrito en Chile, en el Registro de Prestadores de Servicios Financieros de la Comisión para el Mercado Financiero. Este informe fue efectuado por área de Research & Strategy de Insigneo Securities LLC, o sus proveedores, en base a la información disponible a la fecha de emisión de este. Para evitar cualquier conflicto de interés, Insigneo Securities LLC dispone que ningún integrante del equipo de Research & Strategy tenga su remuneración asociada directa o indirectamente con una recomendación o reporte específico o con el resultado de una cartera.

Aunque los antecedentes sobre los cuales ha sido elaborado este informe fueron obtenidos de fuentes consideradas confiables, no podemos garantizar la completa exactitud e integridad de estos, no asumiendo responsabilidad alguna al respecto Insigneo Securities LLC, Insigneo Asesorías Financieras SPA ni ninguna de sus empresas relacionadas.

Este material está destinado únicamente a facilitar el debate general y no pretende ser fuente de ninguna recomendación específica para una persona concreta. Por favor, consulte con su ejecutivo de cuentas o con su asesor financiero si alguna de las recomendaciones específicas que se hacen en este documento es adecuada para usted. Este documento no constituye una oferta o solicitud de compra o venta de ningún valor en ninguna jurisdicción en la que dicha oferta o solicitud no esté autorizada o a ninguna persona a la que sea ilegal hacer dicha oferta o solicitud. Las inversiones en cuentas de corretaje y de asesoramiento de inversiones están sujetas al riesgo de mercado, incluida la pérdida de capital.

La información base del presente informe puede sufrir cambios, no teniendo Insigneo Securities LLC ni Insigneo Asesorías Financieras SPA la obligación de actualizar el presente informe ni de comunicar a sus destinatarios sobre la ocurrencia de tales cambios. Cualquier opinión, expresión, estimación y/o recomendación contenida en este informe constituyen el juicio o visión de área de Research & Strategy de Insigneo Securities LLC, o sus proveedores, a la fecha de su publicación y pueden ser modificadas sin previo aviso.

FOR AFFILIATES LOCATED IN URUGUAY

En Uruguay, los valores están siendo ofrecidos en forma privada de acuerdo al artículo 2 de la ley 18.627 y sus modificaciones. Los valores no han sido ni serán registrados ante el Banco Central del Uruguay para oferta pública.

FOR AFFILIATES LOCATED IN ARGENTINA

Insigneo Argentina S.A.U. Agente Asesor Global de Inversión se encuentra registrado bajo el N° 1053 de la Comisión Nacional de Valores (CNV) e inscripto ante la Inspección General de Justicia (IGJ) bajo el N° 12.278 del Libro 90, Tomo -, de Sociedades por Acciones. Este informe fue efectuado por área de Research & Strategy de Insigneo Securities LLC, o sus proveedores, en base a la información disponible a la fecha de su emisión. Para evitar cualquier conflicto de interés, Insigneo Securities LLC dispone que ningún integrante del equipo de Research & Strategy tenga su remuneración asociada directa o indirectamente con una recomendación o reporte específico o con el resultado de una cartera. Aunque los antecedentes sobre los cuales ha sido elaborado este informe fueron obtenidos de fuentes consideradas confiables, no podemos garantizar la completa exactitud e integridad de estos, no asumiendo responsabilidad alguna al respecto Insigneo Securities LLC, Insigneo Argentina S.A.U. ni ninguna de sus empresas relacionadas. La información base del presente informe puede sufrir cambios, no teniendo Insigneo Argentina S.A.U. la obligación de actualizar el presente informe ni de comunicar a sus destinatarios sobre la ocurrencia de tales cambios.

Este material está destinado únicamente a facilitar el debate general y no pretende ser fuente de ninguna recomendación específica para una persona concreta. Por favor, consulte con su ejecutivo de cuentas o con su asesor financiero si alguna de las recomendaciones específicas que se hacen en este documento es adecuada para usted. Este documento no constituye una oferta, recomendación o solicitud de compra o venta de ningún valor negociable en ninguna jurisdicción en la que dicha oferta o solicitud no esté autorizada o a ninguna persona a la que sea ilegal hacer dicha oferta o solicitud. Las inversiones en valores negociables están sujetas al riesgo de mercado, incluida la pérdida parcial o total del capital invertido. Cualquier opinión, expresión, estimación y/o recomendación contenida en este informe constituyen el juicio o visión de área de Research & Strategy de Insigneo Securities LLC, o sus proveedores, a la fecha de su publicación y pueden ser modificadas sin previo aviso