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# Implications of a potential rematch

ElectionWatch 2024

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federal largesse to local communities. Much has changed since the former speaker retired almost 40 years ago. All politics is now national. Voters are more reluctant to divide their votes for different offices between the two parties, and the degree of disdain held by each party's adherents for the other has increased in the past decade.<sup>1</sup>

While partisanship is not a new phenomenon in the United States, the level of animosity has increased markedly. Social media is one culprit, as is the notable rise in the number of unaffiliated voters, whose exit from active political participation often leaves each party without moderating voices in primary elections. A survey conducted by the Pew Research Center in 2016 showed that 47% of Republicans and 35% of Democrats viewed members of the other party as "immoral." A similar survey conducted just six years later indicated that almost three-quarters of Republicans and two-thirds of Democrats held that view.<sup>2</sup>

As the ideological gulf between the Republican and Democratic parties widens, fewer voters appear willing to vote for a candidate for Congress from one party but simultaneously choose a presidential candidate from the other.<sup>3</sup> The number of congressional districts that voted for a presidential candidate

## All politics is national

Thomas P. "Tip" O'Neill, who notably served as speaker of the House for a decade, was fond of reminding his colleagues that "all politics is local." His famous tagline was intended to convey a belief that political influence was derived through service to one's constituents, party loyalty, and an ability to deliver

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and a House representative from different political parties declined from 190 in 1972 to just 16 in 2020.<sup>4</sup> The same trend is evident in the Senate, where 90% of elections held since 2012 have been won by candidates aligned with the party that won that state’s most recent presidential race.<sup>5</sup>

None of the presidential candidates is popular with a majority of voters, and a recent Gallup poll reported that 63% of

American voters agreed with the statement that both political parties do a “poor job” of representing their interests.<sup>6</sup> In that context, it is not surprising that some independent and third-party candidates have received more media attention. However, it is important to keep in mind that these campaigns generally fail to attract the support needed to become competitive in national elections and win enough electoral votes (Fig. 1).

Figure 1  
Independent and third-party campaigns typically are not competitive

Year	Won	Presidential candidate	Vice presidential candidate	Political party	Electoral vote count	% of electoral vote	Popular vote count	% of popular vote
1912	✓	Woodrow Wilson	Thomas R. Marshall	Democratic	435	81.9%	6,294,327	41.8%
		Theodore Roosevelt	Hiram Johnson	Progressive	88	16.6%	4,120,207	27.4%
		William Howard Taft	Nicholas Butler	Republican	8	1.5%	3,486,343	23.2%
		Eugene V. Debs	Emil Seidel	Socialist	0	0%	900,370	6.0%
1968	✓	Richard Nixon	Spiro Agnew	Republican	301	55.9%	31,785,480	43.4%
		Hubert Humphrey	Edmund Muskie	Democratic	191	35.5%	31,275,166	42.7%
		George Wallace	Curtis LeMay	American Independent	45	8.4%	9,906,473	13.5%
1980	✓	Ronald Reagan	George H.W. Bush	Republican	489	90.9%	43,904,153	50.7%
		Jimmy Carter	Walter Mondale	Democratic	49	9.1%	35,483,883	41.0%
		John Anderson	Patrick Lucey	Independent	0	0%	5,720,060	6.6%
1992	✓	Bill Clinton	Al Gore	Democratic	370	68.8%	44,909,326	43.0%
		George H.W. Bush	Dan Quayle	Republican	168	31.2%	39,103,882	37.4%
		Ross Perot	James Stockdale	Independent	0	0%	19,741,657	18.9%
1996	✓	Bill Clinton	Al Gore	Democratic	379	70.4%	47,402,357	49.2%
		Bob Dole	Jack Kemp	Republican	159	29.6%	39,198,755	40.7%
		Ross Perot	Pat Choate	Reform	0	0%	8,085,402	8.4%
2000	✓	George W. Bush	Dick Cheney	Republican	271	50.4%	50,455,156	47.9%
		Al Gore	Joe Lieberman	Democratic	266	49.4%	50,992,335	48.4%
		Ralph Nader	Winona LaDuke	Green	0	0%	2,882,738	2.7%
2016	✓	Donald Trump	Mike Pence	Republican	306	56.9%	62,955,340	46.2%
		Hillary Clinton	Tim Kaine	Democratic	232	43.1%	65,788,564	48.2%
		Gary Johnson	William Weld	Libertarian	0	0%	4,487,570	3.3%
		Jill Stein	Ajamu Baraka	Green	0	0%	1,448,603	1.1%

Source: The American Presidency Project, UC Santa Barbara, 2023

## Looking ahead to November

Once President Joe Biden announced he would seek a second term, he immediately became the presumptive Democratic nominee. Former President Donald Trump’s path to the nomination initially was less certain due to the presence of numerous competitors, but he handily won both the Iowa caucuses and the New Hampshire primary to become the presumptive Republican nominee. Former South Carolina Governor Nikki Haley remains in the race but faces an uphill battle for the nomination.

While any one of eight potential election outcomes is theoretically possible, we believe four scenarios are more likely than others.

As we have discussed in prior *ElectionWatch* reports, US presidents enjoy an extraordinary degree of autonomy in the management of foreign relations and national security. However, in the execution of domestic policy, presidents generally must work with Congress to achieve an enduring legacy. This often requires a unified government, where both chambers of

Congress are controlled by the same party as the president. For examples, look no further than the enactment of the Affordable Care Act in 2010 under unified Democratic control and the Tax Cuts and Jobs Act in 2017 under unified Republican control.

With the presidency and both chambers of Congress being contested in 2024, there are eight potential election outcomes. While any one of them is theoretically possible, we believe four scenarios are more likely than others. Republicans are favored to assume control of the Senate because Democrats are defending more seats in this cycle, and some of their candidates are particularly vulnerable. Majority control of the House is more difficult to predict because of the exceedingly narrow margin of control that Republicans now enjoy. Some state governments are still altering the boundaries of congressional districts, which could affect the outcome of elections in November. It is far too early to make a prediction about the outcome of the presidential race, but in Fig. 2 we have set forth the most likely outcomes for control of Congress based on who will occupy the Oval Office in 2025. Please note that we have illustrated the four scenarios that strike us as more likely outcomes. We plan to provide more precise probabilities later this year.

Figure 2  
Scenarios for control of Congress based on who wins the presidential race

Scenario	Possibility if Biden wins	Possibility if Trump wins
Republican Senate and Democratic House	Possible	Possible
Republican Senate and Republican House	Unlikely	Possible
Democratic Senate and Democratic House	Possible	Unlikely
Democratic Senate and Republican House	Unlikely	Unlikely

Source: UBS

## Nine months is a long time in politics

Political fortunes can shift appreciably over the course of a long presidential campaign. Barring an unexpected withdrawal by either Biden or Trump due to health concerns or legal challenges, the two candidates will be engaged in an acrimonious campaign for the next nine months. This will be a test of endurance for American voters, who will be subjected to incessant media coverage and repetitive advertising. The impact will be most pronounced in the six states that will decide the election outcome.<sup>7</sup>

As we indicated in our last *ElectionWatch* report, national polls should be treated with skepticism because US voters choose

presidents based on the outcome of votes cast in the Electoral College.<sup>8</sup> As a result, support from voters in “swing states” is relatively more important in the general election than the margin of victory in states where one party or the other is expected to win. With that said, it is also important to remember that public opinion can change substantially in the runup to Election Day. So national polls in February are unlikely to offer much clarity about the outcome.

For example, Governor Jimmy Carter held a 33-point advantage over incumbent Gerald R. Ford in July 1976, but Ford closed the gap in the ensuing months and only lost the election by two

points. Four years later, national polls initially showed Carter with a commanding lead over Ronald Reagan. Reagan, of course, ended up winning in a landslide.<sup>9</sup> Democratic Governor Michael Dukakis led incumbent Vice President George H.W. Bush by 17 points in July 1988, but Bush won. Four years after that, the narrative was reversed. Bush’s early lead in the polls evaporated and he lost to Governor Bill Clinton. These examples are not unusual. Economic conditions tend to have an outsized impact on voter sentiment, a fact not lost on Clinton’s campaign strategists who urged the Arkansas governor to focus on domestic “kitchen table” issues rather than geopolitics. National polls generally receive a great deal of media attention, but their utility value in the initial stages of a general election is limited.

## Investment implications

Investors are often anxious to know whether a specific election result will have a significant impact on portfolio performance. As we have discussed in prior reports, fiscal and regulatory policies can affect the performance of specific asset classes in the short run and should be monitored. However, longer-term portfolio management decisions should be treated as an apolitical exercise.<sup>10</sup> Political biases can have a counterproductive impact on longer-term investment performance by encouraging risk-averse behavior at precisely the moment when securities are undervalued and market opportunities are attractive.

**Contentious election campaigns do not, in and of themselves, trigger an equity market correction.**

Equally important, only two dozen presidential elections have been held since 1928, so there simply are too few data points to draw a statistically defensible conclusion regarding the political impact of one party or another on market behavior. Moreover, the data referenced by pundits often rely on calendar-year performance. This can be misleading because the incumbent executive occupied the presidency for the entire calendar year in which the election occurred. While the result of any election might have a temporary impact on equity market sentiment, a credible argument can be made that the incumbent president bears as much responsibility, or more, as the newly elected individual for market performance when a change of administration occurs. In Fig. 3, we show calendar-year returns for the S&P 500 in each election year since 1928. Contentious election campaigns do not, in and of themselves, trigger an equity market correction.

If one excludes the 2008 presidential election, which occurred during an unprecedented global financial crisis, the performance of the S&P 500 in election years was roughly similar regardless of which party was elected to the presidency (Fig. 4).

Figure 3  
S&P 500 performance in presidential election years  
Calendar-year returns, 1928–2020

Presidential election year	Incumbent president	Candidate elected	S&P 500 total returns
2020	Trump	Biden	18.4%
2016	Obama	Trump	12.0%
2012	Obama	Obama	16.0%
2008	Bush W.	Obama	-37.0%
2004	Bush W.	Bush W.	10.9%
2000	Clinton	Bush W.	-9.1%
1996	Clinton	Clinton	23.1%
1992	Bush H.W.	Clinton	7.7%
1988	Reagan	Bush H.W.	16.8%
1984	Reagan	Reagan	6.3%
1980	Carter	Reagan	32.4%
1976	Ford	Carter	23.8%
1972	Nixon	Nixon	19.0%
1968	Johnson	Nixon	11.1%
1964	Johnson	Johnson	16.5%
1960	Eisenhower	Kennedy	0.5%
1956	Eisenhower	Eisenhower	6.6%
1952	Truman	Eisenhower	18.4%
1948	Truman	Truman	5.5%
1944	Roosevelt	Roosevelt	19.8%
1940	Roosevelt	Roosevelt	-9.8%
1936	Roosevelt	Roosevelt	33.9%
1932	Hoover	Roosevelt	-8.2%
1928	Coolidge	Hoover	43.6%

Source: Bloomberg, UBS

Figure 4  
Returns are similar regardless of the winning party  
Average S&P 500 total returns, excluding 2008

Presidential election years	Performance with Republican elected	Performance with Democrat elected
1928–2020	15.3%	12.3%
1948–2020	12.4%	13.9%
1960–2020	12.4%	15.1%

Source: Bloomberg, UBS

## Policy issues in play

The two presumptive presidential candidates are very familiar to the US electorate, and their policy platforms are markedly different. President Biden is expected to emphasize the implications of climate change and disparities in wealth and income. He will likely focus as much attention as possible on abortion rights to encourage higher turnout among registered Democrats and unaffiliated voters. Former President Trump is expected to emphasize the adverse impact of inflation on American households and the national security threat posed by a porous southern border. He will likely also focus attention

on the need to execute new trade agreements under a threat of broadly imposed tariffs.

In Fig. 5 below and on the next page, we review some of the salient policy issues expected to receive the most attention in Congress. The expiration of a wide range of personal tax provisions, ranging from higher estate tax exemptions to limitations on state and local tax deductions, will be addressed by Congress in 2025. The outcome of the election will affect how those provisions are handled.

Figure 5

### Potential impact of the election on sectors, fiscal policy, and geopolitics

**Sectors**

Industrials	Thus far, a bipartisan compromise on defense funding and foreign aid has proven elusive. We believe a compromise will be reached by the end of March that will provide for higher spending in the next fiscal year. Both candidates are expected to support aid for Israel, but more stringent conditions may be attached to future aid. Military assistance for Ukraine has become a more contentious issue, and a Trump administration would be more likely to encourage a negotiated settlement to the conflict.
Energy	The two candidates are expected to highlight their alternative approaches to energy policy. A Trump administration would be expected to advocate forcefully for a reduction in expenditures related to the Inflation Reduction Act (IRA). A unified government under GOP control would be necessary for this to occur and might still encounter opposition. A Trump administration would likely remove barriers to fossil fuel development. The key issue to watch during 2024 will be oil prices due to a potentially broader conflict in the Middle East.
Financials	The outcome of the election will affect regulatory policy, but Congress is set to encounter difficulty passing substantive legislation regardless of who is elected president. We would expect a Biden administration to impose more stringent rules and interpret regulations that increase the cost of compliance for banks. A Trump administration would be more likely to support some deregulation and tailoring of existing rules and regulations that could simplify the oversight of banks and lower compliance costs.
Healthcare	Healthcare policy will likely have a lower profile in this election. We expect President Biden to claim credit for authorizing Medicare to negotiate some pharmaceutical prices. However, we do not expect additional drug pricing proposals to gain much traction in a closely divided Congress. Republicans are unlikely to sponsor major healthcare policy initiatives and appear to have little appetite to roll back the IRA’s drug pricing provisions, but will likely focus attention on rising health-care costs.
Municipals	As the next Congress reconvenes in January 2025, both parties will be focused on passing a major tax bill. We expect all federal tax expenditures—including municipal tax exemption—to be actively debated, but substantive changes to tax exemption appear unlikely. Public interest groups are advocating for a change to the Internal Revenue Code that would permit advance refundings. We believe this is unlikely in a Republican scenario but remains a possibility in a Democratic sweep or a divided government.
Real estate	Section 1031 now applies only to exchanges of real property. Exchanges of personal or intangible property are no longer exempt from treatment as a gain or loss under the Internal Revenue Code. We place a low probability on the restoration of personal or intangible property as eligible exchanges for 1031 treatment. Previous Democratic administrations have discussed further limitations on 1031 exchanges, but the probability of substantive restriction in a closely divided Congress is low.
Technology and communication services	Technology policy has been front and center in both domestic policy and international relations for the past five years. The four pivotal issues for the two presidential candidates are: 1) the perception of disproportionate market power of large technology companies; 2) the impact of mergers and acquisitions by large technology companies on competitive practices; 3) bilateral relations with China; and 4) the risks, threats, and opportunities of artificial intelligence. Of these, the campaign will probably focus most intensely on the third.

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**Fiscal policy**

Federal deficit	Management of the growing federal deficit is now top of mind for many members of Congress. Republicans are likely to focus on reductions to domestic policy programs, while Democrats will likely focus on raising new revenue to support existing programs. A unified government under either party would result in policies aligned with those priorities. A divided government would result in only incremental changes that might slow the rate of growth but not reverse the size of the deficit.
Personal tax provisions	Congress will address a variety of expiring personal tax provisions after the election. We believe an increase in the limitation to the state and local tax deduction is probable, but a return to an unlimited deduction is more problematic because it would result in foregone revenue to the federal government, thereby raising the deficit. The top marginal tax rate is scheduled to revert to 39.6% in 2026. A unified Democratic government will likely target lower income levels for relief. A unified government under GOP control would seek to make the existing rates permanent.
Estate tax provisions	The federal estate tax exemption will be cut in half in 2026, adjusted for inflation, due to the sunset provision in the Tax Cuts and Jobs Act. We expect a spirited debate over whether to adjust the exemption higher, but the outcome will depend on the election results.

**Geopolitics**

Immigration and border protection	Immigration and border protection has become a contentious campaign issue. Republican candidates are likely to focus on the threat to national security from a porous border. Democrats will likely focus on the GOP's unwillingness to strike a legislative compromise. At present, it is unclear whether a legislative compromise will be reached prior to the election.
Foreign aid	A negotiated outcome that allows the US to resume military assistance to Ukraine and Israel is proving more elusive than expected, but we still anticipate a compromise over increased military aid, subject to some conditions.
International trade	Global trade relationships will be front and center in the next administration. A second Biden administration will likely pursue the "high fence, small yard" policy, whereby the most advanced technology is highly restricted, but trade in less sensitive consumer items is less affected. A Trump administration is more likely to implement trade restrictions and impose broad tariffs on national security grounds to leverage concessions from global trading partners.

Source: UBS

*Report designed by Cheryl Seligman***Endnotes**

<sup>1</sup>We are obliged to note that there are occasional noteworthy exceptions to the growing reluctance to split tickets. For example, Senator Susan Collins (R-ME) retained her seat in the US Senate in November 2020 despite the fact that President Biden won the popular vote in Maine by 9 points over former President Trump.

<sup>2</sup>Pew Research Center, "As Partisan Hostility Grown, Sings of Frustration with the Two Party System," 9 August 2022.

<sup>3</sup>David C. Kimball, "A Decline in Ticket Splitting and The Increasing Salience of Party Labels," University of Missouri, 2002. See also Shiro Kuriwaki, "Is Ticket Splitting More Prevalent in State and Local Races?" MIT Election Lab, July 2019. Kuriwaki argues that the instances of ticket splitting remains more common in state and local races.

<sup>4</sup>Stef Kight, "Charted: Split-ticket districts are disappearing," Axios, 6 July 2022, based on data provided by Pew Research Center and the University of Virginia.

<sup>5</sup>Drew DeSilver, Pew Research Center, 8 December 2022.

<sup>6</sup>Jarret Renshaw, "Biden, Trump unpopularity buoys third party hopes for 2024 US election," 17 November 2023.

<sup>7</sup>The six states that will be contested most actively are Georgia, Arizona, Wisconsin, Michigan, Nevada, and Pennsylvania. One or two others may be in play as the general election campaign gets underway.

<sup>8</sup>UBS Chief Investment Office, *ElectionWatch 2024*, "Early expectations," 4 October 2023.

<sup>9</sup>Michael D. Cohen, "Presidential Races Can Change Significantly as Election Day Approaches," Gallup, 26 October 2000.

<sup>10</sup>UBS Chief Investment Office, *ElectionWatch 2024*, "Early expectations," 4 October 2023.

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