CIO continues to advocate for portfolio diversification to dampen bouts of volatility, to broaden sources of return, and to help investors avoid behavioral bias into key risk events. (UBS)

# Momentum shifts in the US election

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**The dynamics of the 2024 US election have been altered by the entry of Vice President Kamala Harris, after President Joe Biden dropped out of the race in July as the Democratic candidate. Both the Democratic Party and its donors have been quick to consolidate around her candidacy, and her campaign thus far has largely avoided any major public missteps.**

Recent polls suggest Harris is better positioned in a head-to-head contest against former President Donald Trump. She has gained more than six points in national polls and improved on Biden's position by a similar margin in some critical swing states. Meanwhile, former President Trump's prospects in some key states have dissipated in recent weeks, and independent candidate Robert F Kennedy, Jr. also appears to be fading as a factor in the November outcome.

We have adjusted our latest probabilities of the likeliest scenarios to account for the shifts in likely voter behavior. We raised the probability of a Blue sweep (Harris win with a unified Democratic Congress) to 15% and a Harris win with a divided Congress (Republican Senate, Democratic House) to 40%. Conversely, we lowered the probability of a Red sweep (Trump with a unified Republican Congress) to 35% and a Trump win with a divided Congress (Republican Senate, Democratic House) to 10%.

The Democratic National Convention (DNC) kicked off on Monday night in Chicago, with speeches from President Biden and former Secretary of State Hillary Clinton. More details on the Harris campaign's policy platform are expected in the coming days. Having previously published on the two primary Trump scenarios, we describe below the likely implication for the two primary Harris scenarios:

**If Harris were to win the presidency but with a split Congress (40% probability)**, we would expect much more limited scope for policy changes, and therefore a more muted impact on financial markets. Within equities, it would likely be positive for select companies within industrials, materials, and utilities focused on renewables and energy efficiency. We would see it as neutral to negative for the fossil fuel industry, and the negative regulatory overhang on financial services would likely continue. In this scenario, the Harris administration would be obliged to rely on executive action and regulatory oversight to a significant degree, which has been somewhat curtailed by recent Supreme Court decisions on how executive branch agencies can interpret federal statutes. We would expect the existing trade import tariffs to persist, but believe a Harris administration would take a more engagement-oriented approach to foreign policy, emphasizing strategic alliances and coordinated sanctions. This could see the marginal tax rate on individuals rise and modest changes to estate taxes and state and local tax deductions, while changes to capital gains taxation or corporate taxes would be less likely. We see little immediate impact on the outlook for growth, inflation, monetary policy, and the US dollar.

**A Blue sweep whereby Democrats take the presidency, House, and Senate (15% probability)** would likely be the most negative outcome for equity markets, primarily due to a higher probability of higher corporate tax rates. The expiration of some 2017 personal tax cuts could also be a small drag on consumer spending, and capital gains taxes could increase for some higher earners. Regulatory scrutiny could increase in some areas, but this would represent an extension of existing policy, and the impact could be limited by recent Supreme Court decisions. Within equities, we believe it would be a positive for select companies within industrials, materials, and utilities focused on renewables and energy efficiency, but it would mark a worst-case scenario for financial services and somewhat of a negative for the fossil fuel industry. Foreign policy would likely match that described in the Harris split scenario above. Interest rates would likely decline, led by the front end of the yield curve, reflecting lower inflation and growth plus larger Fed rate cuts. It would likely be slightly negative for the US dollar.

So stepping back, this latest shift in election momentum and probabilities underscores our prior investor guidance to avoid making major portfolio changes in response to campaign developments or in anticipation of any particular election result. We continue to advocate for portfolio diversification to dampen bouts of volatility, to broaden sources of return, and to help investors avoid behavioral bias into key risk events. We expect the S&P 500 will rise toward 5,900 by December 2024, up from 5,609 as of 19 August, with strong earnings growth of near 11% this year and 8% in 2025. We remain constructive on gold amid a backdrop of geopolitical tensions, a rising US fiscal deficit, and impending Fed rate cuts. We also recommend reviewing and addressing portfolio overexposure to election-sensitive sectors, currencies, and countries. Alternative assets can also help diversify portfolios subject to awareness and management of their risks (including illiquidity), with hedge funds offering low correlation to traditional asset classes and private equity offering less volatile growth exposure to smaller companies. Read more via our **ElectionWatch 2024 coverage**.

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