With recent data pointing to moderating inflation and a cooling labor market, CIO expects the Fed to join the global policy easing cycle, which is set to have implications across asset classes. (UBS)

Harris holds advantage in contentious debate

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US Vice President Kamala Harris and former President Donald Trump clashed on the debate stage Tuesday night in Philadelphia, with sharp exchanges over the economy, immigration, fracking, abortion, and foreign policy. They entered the debate seeking advantage in a presidential race that has been essentially a statistical dead heat based on national polls and very narrow margins in critical swing states.

With just eight weeks to go before Election Day on 5 November, both candidates made a pitch for a diminishing number of undecided voters. Harris highlighted a range of middle class tax cuts and small business incentives, while Trump leveled criticism at the Biden administration generally and Harris in particular, in the areas of inflation and border security.

Our general takeaway is that Harris turned in a stronger performance, especially relative to expectations. Online prediction market PredictIt showed that the gap between Harris and Trump widened post-debate, with the odds for a Harris win rising to 56% from 52%.

We retain our projections for the election outcome, with a 55% probability of a Harris win and a 45% probability of a second Trump administration.

While early voting in some states starts in the coming days, there is still considerable time for polls to shift. We continue to advise investors against making significant portfolio changes in anticipation of specific election outcomes.

This election cycle has been marked by unprecedented twists and turns. The campaign landscape for the presidential election looks a lot different today than it did less than three months ago. Before Harris became the Democratic nominee and closed the polling gap, President Joe Biden delivered a weak performance at the first presidential debate, and Trump was wounded in an assassination attempt during a campaign rally. These shifts reinforce why investors should avoid making outsized portfolio moves based on short-term political developments. Historically, it is not uncommon for the election to shift in the final months of the campaign.

Electoral shifts have tended to produce temporary volatility rather than sustained drawdowns. Making large sectoral shifts to reflect predictions about the outcome could backfire, in our view, as the race remains far from certain. Studies have shown that political biases can have a counterproductive impact on longer-term investment performance, and history suggests contentious election campaigns do not trigger an equity market correction. If one excludes the 2008 presidential election, which occurred during the 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.

Economic indicators and expectations on Federal Reserve rate cuts are more likely to be in the driver's seat. The consumer price index (CPI) for August, scheduled to be released later today, is one of the final key data points before the Federal Open Market Committee meets next week. Investors will be looking for details that could determine the size of the US central bank's first interest rate cut since the pandemic. With recent data pointing to moderating inflation and a cooling labor market, we expect the Fed to join the global policy easing cycle, which is set to have implications across asset classes.

We favor strategies to improve the resilience of portfolios to manage potential volatility ahead. These include adding exposure to gold and the Swiss franc as portfolio hedges, and considering structured strategies to retain exposure to potential gains in stocks while reducing sensitivity to a correction. We have also identified some of the most potentially election-sensitive stocks—including within the US consumer discretionary and renewables sectors—as well as currencies like the Chinese yuan, where we recommend that investors manage any overexposure.

For more investment insights on the US elections, visit **ubs.com/electionwatch**.

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