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Emerging market assets often experience strong, if short-lived, price moves around Election Day. (UBS)

Long-term portfolio construction is best treated as an apolitical exercise

01 April 2024, 4:54 pm CEST, written by UBS Editorial Team

What can we learn from past US elections? We know that emerging market assets often experience strong, if short-lived, price moves around Election Day.

The nature of the electoral outcome also seems to matter: Emerging market assets have performed better during periods of a unified US government as well as during periods with a Democratic president in the White House. But these findings have to be taken with a grain of salt, as they rely only on eight presidential election cycles, providing a limited amount of data from which to draw definitive conclusions.

A forward-looking framework

To complement a historical analysis in assessing the potential impact of this year's election on emerging markets, it is worth analyzing three key channels of influence:

1. **Changes in key US macroeconomic variables**: The outsize influence of the US economy on the global stage means emerging market assets are sensitive to expectations on US GDP growth, inflation, and interest rates—all of which could be influenced by the outcome of this election cycle, particularly in the event of a Blue or Red sweep.
2. **Trade policy**: A US president's signature can shape the country's commercial relationships with the rest of the world. The US has exerted great influence on the direction of global trade in the postwar era, though the focus on unilateral actions has increased lately.

3. **Geopolitics**: For decades, the US has acted as the guardian of the world geopolitical order. And although it has turned inwards in recent years, it continues to shape global affairs. How it handles its relations with China, Mexico, Argentina, Venezuela, Russia, and the Middle East, for example, could be quite different depending on who wins the presidency. Whether the US chooses to push on unilaterally or leans toward multilateral alliances is also at stake.

Trump vs. Biden: United vs. divided Congress

A described in our latest ***ElectionWatch*** report, considering the tax and regulatory policies both candidates have stated so far, a Trump presidency appears to be more conducive to an environment of faster US economic growth and higher inflation. All else being equal—notwithstanding the potential disruption that may be caused by his tougher stance on trade and foreign policy—a strong US economy would be supportive of emerging market assets, even if it may come hand in hand with higher US interest rates. The impact would be even more pronounced in the case of a united Congress—one that makes enacting tax and spending legislation easier.

In the realm of trade and geopolitics, however, while we can expect the status quo if Biden wins, a Trump presidency looks likely to increase uncertainty around US external policy. The former president has repeatedly expressed his preference to use tariffs as a trade policy tool and seems likely to take a more unilateral and isolationist approach to address cross-border issues.

What should I do about it?

Although the outcome of the contest matters, long-term portfolio construction is best treated as an apolitical exercise. Academic research has shown that an investor's personal political biases—and the electoral performance of their preferred candidate or party—directly affect their level of optimism or pessimism about the economy and markets. Emerging market assets should play a central role in such portfolios, as they promote geographic diversification and contribute to higher returns than a portfolio without them.

It is also important to remember that emerging markets are a heterogeneous set of economies, and any blanket statements could gloss over their idiosyncratic drivers. For that reason, in our latest ***Investing in Emerging Markets*** report, we dive deeper into the election's implications for countries in Latin America, Asia, and Central and Eastern Europe, the Middle East, and Africa (CEEMEA).

In summary, in **Latin America**, Mexico appears particularly susceptible to shifts in policy and rhetoric, although the country enjoys a number of advantages that could mitigate the election-related risks, and we continue to find attractive opportunities across Mexican assets. Brazil will have the challenging yet potentially rewarding job of maintaining a neutral position in the face of US-China tensions. We find the Brazilian real attractive relative to lower-yielding currencies in this context. In case of a Trump victory, Argentine President Javier Milei's close relationship with the former president may yield benefits for his embattled country, while Venezuela may find a tougher road ahead given Trump's decidedly hawkish record on the use of sanctions.

Asia Pacific is a region where the election more clearly brings both disruption and opportunity. US-China relations look likely to remain on a structurally challenged path. Further US technology restrictions against mainland Chinese companies are a distinct possibility irrespective of who sits in the Oval Office, supporting our view of the need to diversify global tech exposure into Korea and Taiwan—home to world-class memory suppliers and chip foundries. A short CNY, long JPY tactical position can also act as an effective hedge against a sharp rise in Sino-American tensions.

Finally, in **CEEEMEA**, a pickup in US fossil fuel production and exports in case of a Trump victory may weigh on international prices and increase competition for exporters in the Gulf region. A Trump presidency would also likely lead to sharply reduced financial and military support for Ukraine and a weakened NATO, which would increase the geopolitical risk premium on European assets.

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Original report - **Emerging markets and the 2024 US elections, 1 April 2024.**

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