As the election outcome is highly uncertain, CIO do not advise investors make any substantial changes to strategic portfolio allocations. (UBS)

How should investors prepare for the US election?

15 July 2024, 2:56 pm CEST, written by UBS Editorial Team

The attempted assassination of Donald Trump adds a new layer of complexity to an already tumultuous election season. President Biden continues to face calls to withdraw from the race. But while investors may feel tempted to take positions based on their expectations for the outcome, we advise caution.

Given continued uncertainty so far ahead of the vote, we favor expressing views with only a portion of a portfolio. Meanwhile, hedges in both equities and currencies can help manage risks.

The outcome of the election could create waves in markets, especially if one party secures a clean sweep.

- A Trump administration, particularly if supported by a Republican majority in Congress, would likely focus on trimming regulation and cementing prior tax cuts.
- Primary beneficiaries of less stringent regulation could include financial services, while higher tariffs on imports could harm US companies with global supply chains.
- A second Biden administration would likely continue to support initiatives benefiting green energy, efficiency, and EV makers.

But taking large positions so far from the vote would be a risky strategy.

- Polls have historically been unreliable guide to the outcome so far from the vote. Candidates with an early advantage failed to take the White House in 1980, 1988, and 1992.
- It is important to remember the principle that investors should vote at the ballot box, and not with their portfolio.

So, instead we favor positions to manage the risk surrounding the election.

- To manage potential volatility, investors can use structured investments with capital preservation or yield generating features, for single stocks or for cyclical sectors like energy, industrials, and financials.
- A well-diversified portfolio can also help mitigate market swings around political events.

Did you know?

- At this stage, we think the most likely outcome of the election is either a "red sweep," where Trump secures the presidency and Republicans control both chambers of Congress, or a split government, where Biden serves a second term with a divided Congress.
- But polls can be an unreliable guide to the outcome, especially so far from the vote. For example, in 1988 Democratic Governor Michael Dukakis led then Vice President George H.W. Bush by 17 points as late as July 1988, but Bush went on to win.
- In our view, companies in the areas of electrification, hydrogen, energy efficiency, renewable energy, and waste management should benefit in a Biden second term. And we think the main beneficiaries of a Trump administration would be in the financials, energy, and health care sectors, as well as domestic automakers, steelmakers, and semiconductor manufacturers.

Investment view

As the election outcome is highly uncertain, we do not advise investors make any substantial changes to strategic portfolio allocations. It is, however, prudent to consider near-term election risk management.

Main contributors: Christopher Swann, Thomas McLoughlin, Daisy Tseng, Vincent Heaney

Original report - **How should investors prepare for the US election?, 15 July 2024.**