October 18, 2024

Summary of Candidate Economic & Fiscal Plans

Guy LeBas
Chief Fixed Income Strategist

In a political regime dominated by sound bites and verbal wins, presidential campaigns have been releasing platforms full of narratives but with progressively hazier financial details. For that reason, handicapping the economic, fiscal, and ultimately bond market implications from the 2024 election requires a fair bit of hand-waving. We've reviewed the published platforms and a range of candidate comments to evaluate probable policies and their economic effects. Keep in mind that our evaluation of these positions is based on economic models from our research providers. There are a lot of assumptions going in and coming out of these models that won't match with the real world, but they are an effective guide.

Perhaps the most significant thing to remember, however, is that either a Harris or a Trump presidency will probably face at least one oppositional chamber of Congress. Apart from policies that fall under executive authority, it will be extremely difficult for either candidate's fiscal policies to become law. Notably, many immigration and tariff decisions do fall under executive authority, and so the candidate differences in economic and fiscal outcomes largely come down to these two categories. Our assessments are relative to the below pre-election base case.[1]

TABLE 1: Base Case Economy

Base Case Outlook	2024	2025	2026	2027	2028
GDP Growth	2.7%	1.9%	2.2%	2.6%	2.7%
Unemployment Rate	4.1%	4.4%	4.3%	4.2%	4.2%
CPI Inflation	2.9%	2.2%	2.3%	2.3%	2.3%
Federal Debt/GDP	99.0%	101.0%	102.6%	103.0%	103.5%
Fed Funds Rate	4.4%	3.6%	3.1%	3.0%	3.3%
10yr Treasury Yield	4.0%	4.0%	3.5%	4.0%	4.5%

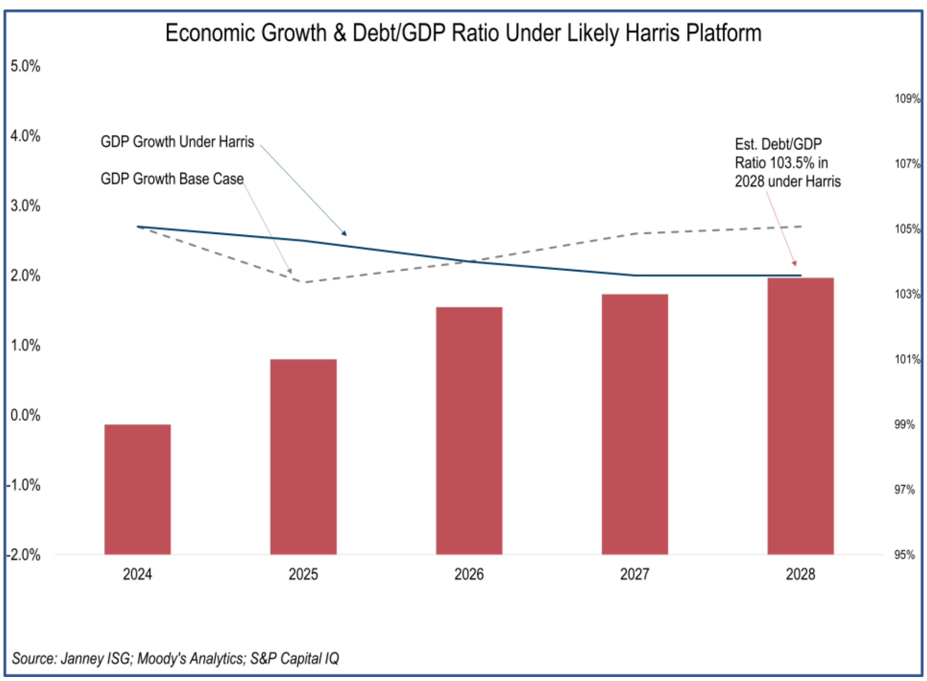
Source: Janney ISG

[1] The economic base case comes from a median estimate submitted to Bloomberg Economics, adjusted for our more optimistic assessment of longer-term productivity growth. Candidate economic estimates are based on economic modeling from Moody's Analytics, S&P Capital IQ, and the FRB/US DSGE adjusted for different base cases to provide a consistent comparison. Interest rate estimates are opinions informed by economic modeling.

Harris Campaign Fiscal Plans

The Harris Campaign and Vice President Kamala Harris outlined several fiscal priorities, though largely without numbers: further investments in infrastructure, corporate and high earner tax hikes coupled with middle-class tax cuts, and grants to support small businesses. Harris' immigration policies are more about a "pathway to citizenship" and updating immigration rules to "ensure fair treatment." The Harris campaign has not discussed tariffs, but broadly subscribes to the Washington consensus of countering China's geopolitical influence with export restrictions and directed tariffs. Generally speaking, the Harris platform would seem to leave the U.S. economy and fiscal situation on its current trajectory.

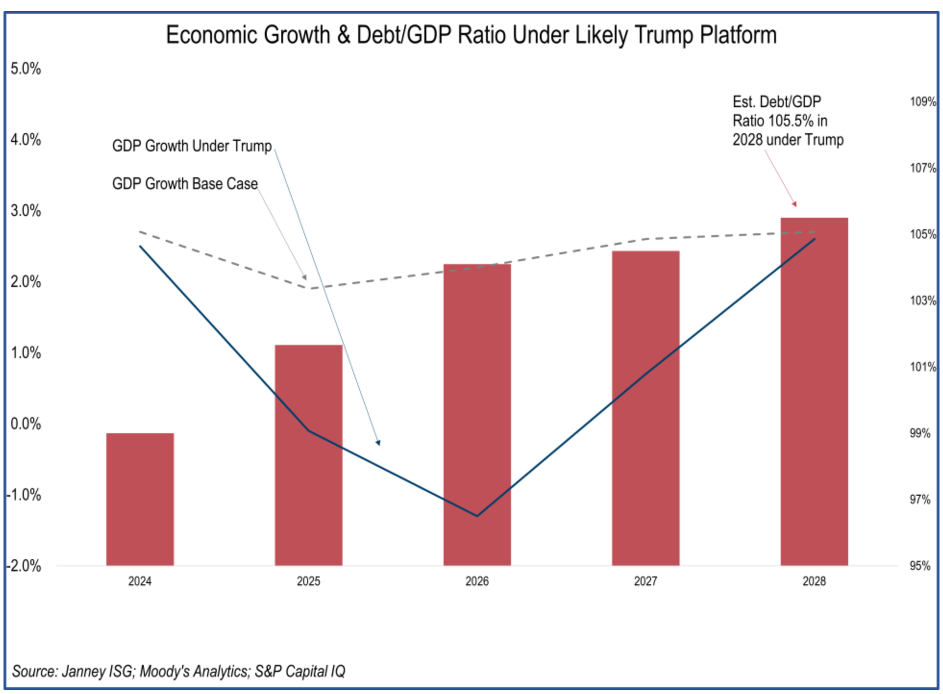
- Further infrastructure investments will be a very hard sell to an opposition Congress. We give that proposal little credit.
- Corporate and high-earner tax hikes are negative for economic growth and inflation, though, were a Harris presidency to completely offset these hikes with middle income tax cuts, would be a slight positive for growth as middle- and lower-income consumers spend more of their disposable income. The effects are likely small.
- Immigration policies under a Harris administration are unlikely to have a short-term effect on economic or fiscal activity. Intermediate term, higher rates of immigration should be positive for overall economic growth and have a damping effect on wages and inflation.
- Harris has not made specific comments on interest rates or the Federal Reserve (Fed) during her campaign. Accordingly, we assume that a Harris presidency would avoid interfering with Fed policy and leave Chair Jay Powell to serve his remaining term.



Trump Campaign Fiscal Plans

The Trump Campaign and Former President Donald Trump have similarly avoided putting numbers on fiscal plans, also focusing on high level issues: economic growth through tax cuts, deregulation, and prioritizing American jobs and industries via tariffs. These limited details, combined with Trump's tendency towards off-the-cuff remarks, make it tough to outline a single policy set. Trump's immigration plans include aggressively deporting undocumented immigrants as well as reducing legal immigration. He has been vocal in proposing a 10-25% tariff on all U.S. imports, with higher tariffs on certain items (e.g., electric vehicles) or countries (e.g., China). Generally speaking, the Trump platform presents downside growth, upside inflation, and a wider deficit trajectory.

- Aggressive anti-immigration efforts will reduce the U.S. working population and reduce U.S. workforce growth. Reduced workforce growth will certainly cut potential economic growth, push wage levels higher, and probably increase inflation (though that last point is fuzzier).
- Roughly 10% of U.S. consumer and business purchases are imported goods. Every piece of reliable economic literature agrees that consumers would face the burden of these higher costs. A 10-25% price hike on these goods would increase inflation and reduce growth in the short term. At best, these tariffs could generate a 1% of GDP revenue boost for the federal government.
- While reducing tax rates would require cooperation from Congress—far from a given—there is a decent probability of a Trump presidency expanding the landmark 2017 TCJA tax cuts. Such cuts would blunt much of the tariff's economic impacts and may also lead to a larger decline in tax revenue than the tariffs generate.
- Trump has commented on interest rates and the Federal Reserve during his campaign, including suggesting replacing Fed Chair Powell with a candidate who would reduce interest rates faster at Trump's request. Given the musing nature of some of these comments, it is unclear how serious a Trump administration would be in that effort. Still, political interference in central banks has historically resulted in higher inflation rates, higher long term interest rates, and a steeper yield curve.



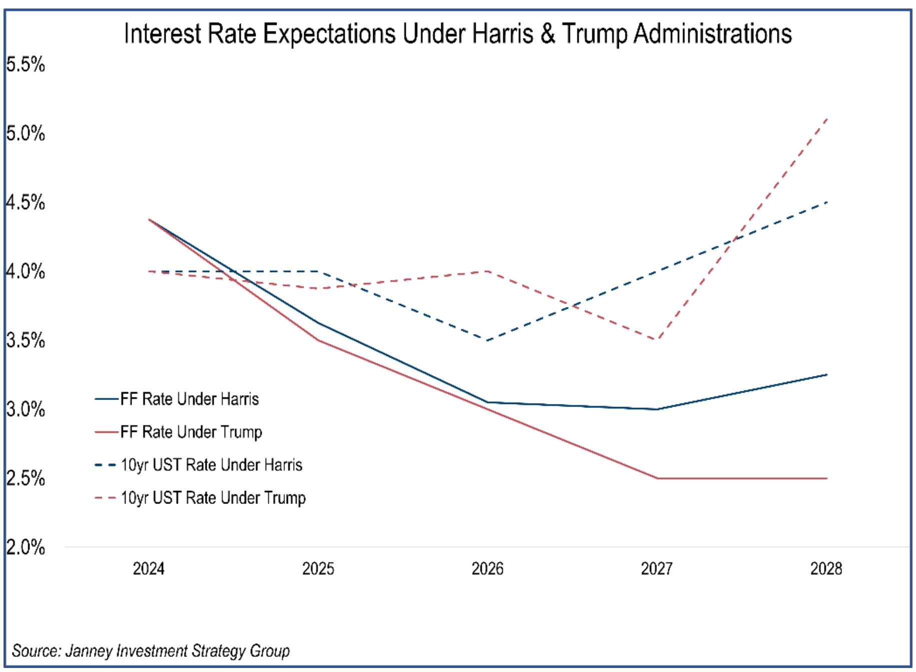
Fixed Income Market Comparison

The level of interest rates is an outgrowth of the economy, Fed policy, animal spirits, and a range of smaller factors.

On the economic front, Kamala Harris' proposed fiscal policies would leave the economy largely on its base case trajectory. There are some intermediate-term effects from redistributive tax proposals and a broadening of the workforce through immigration, but those are relatively small. Also on the economic front, Donald Trump's proposed fiscal policies would likely trigger a recession from workforce shrinkage and tariffs, somewhat offset by tax cuts.

The biggest contrast affecting the bond markets, however, is Trump's suggestions to alter the way the White House interacts with the Federal Reserve. There are numerous examples around the globe of similar policies, most in developing economies, but a few in U.S. history as well. Those examples in which political leaders have influenced policy rates lower mostly ended with lower short-term interest rates at the cost of higher inflation and higher long-term interest rates. Since the President has a fair amount of leeway in hiring Fed officials, we view that theme as the biggest risk for the bond markets.

Finally, on the animal spirits front, the first Trump Presidency brought with it a great deal of excitement for business revenues and pro-growth regulatory policies. It is reasonable to expect a similar reaction if he were to take office again. Resurgent animal spirits, all else equal, is likely to pull some demand out of the bond markets and push it into the equity and risk asset markets. While much smaller than the above factors, these flows could still be material.



Conclusions

The presidency can have a significant effect on economic outcomes, fiscal policy, and the level of interest rates. In the 2024 election, a probable split Congress will limit the ability of either candidate to pass his or her agenda. Still, there are more considerable upside risks to interest rates (and downside risk to bond prices) from a Trump presidency, mostly from his Federal Reserve proposals.

In this campaign season, where everything seems to be wrapped around politics, it is crucial to remember that the vast majority of activity in the U.S. economy takes place outside of the federal government. While it might feel like policies from one candidate or another will mean permanent success or failure, the reality is that U.S. economy and financial markets are incredibly dynamic and will remain so thanks to the vibrant private sector.

Disclaimer

This report is provided for informational and educational purposes only and shall in no event be construed as an offer to sell or a solicitation of an offer to buy any securities or a recommendation for any strategy or to buy, sell, or hold any product. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors. Employees of Janney Montgomery Scott LLC or its affiliates may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed here. The information described herein is taken from sources which we believe to be reliable, but the accuracy and completeness of such information is not guaranteed by us. The opinions expressed herein may be given only such weight as opinions warrant. This Firm, its officers, directors, employees, or members of their families may have positions in the securities mentioned and may make purchases or sales of such securities from time to time in the open market or otherwise and may sell to or buy from customers such securities on a principal basis. This report is the intellectual property of Janney Montgomery Scott LLC (Janney) and may not be reproduced, distributed, or published by any person for any purpose without Janney's prior written consent. This presentation has been prepared by Janney Investment Strategy Group (ISG) and is to be used for informational purposes only. In no event should it be construed as a solicitation or offer to purchase or sell a security. Past performance is no guarantee of future performance and future returns are not guaranteed. There are risks associated with investing in stocks such as a loss of original capital or a decrease in the value of your investment. For additional information or questions, please consult with your Financial Advisor.