Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com

June 24, 2024

WASHINGTON POLICY STRATEGY

Potomac Perspective

In this note, we look at several sectors that could be impacted by the outcome of the 2024 presidential election. Populism continues to gain strength in both political parties, so a greater emphasis on industrial policy and central planning are the likely results no matter which candidate wins. We anticipate some sectors might fare better than others depending on the outcome. Regardless of how those issues sort themselves out, we expect a big debate over tax policy in 2025-26, which could be very beneficial to the lobbying industry.

Intro

Election Day is less than five months away, and we examine which sectors could benefit from the election of either President Joe Biden or former President Donald Trump. We also mention some industries which are in no-man's land and might not benefit regardless of which candidate wins. In discussing possible winners and losers, we try to do so from a market perspective – and attempt to assess which equity sectors might rally or sell off based on the election results.

Government regulation often has unintended consequences which result in market performances that defy conventional wisdom. The simple view that the election of Donald Trump and a deregulatory agenda would benefit numerous business sectors misses the point that government regulation can benefit existing industry participants by raising barriers to entry for possible competitors and can result in strong equity performance for incumbents.

Forecasting winners and losers is also complicated by shifts in American politics. Populism continues to make inroads in both political parties. Republicans, for example, are becoming a more working-class party that is drifting away from its traditional support of capital. Industrial policy, a form of central planning, has been embraced by both political parties, making understanding government policy more important than ever, as the federal government will have more influence in picking winners and losers in the private sector.

Returns are likely to be impacted by a host of policy factors. Monetary policy, which we generally skip in this note, as well as tax, trade, and antitrust polices will have disparate impacts on various industries.

Regarding tax policy, numerous provisions of the Tax Cut and Jobs Act of 2017 (TCJA) will expire after 2025, and the next administration and Congress will have to debate whether to extend those cuts. Although the corporate tax rate is not scheduled to reset after 2025, the Congressional Budget Office estimated that extending all expiring provisions of the TCJA will cost $4 trillion over 10 years. Higher corporate income tax rates might be a tempting target to offset the extension of lower individual income tax rate. In a switch from the tradition position of the Republican Party, a growing number of congressional Republicans might support an increase in the corporate tax rate.

In addition, Mr. Trump and some of his advisors favor a weaker dollar, which could be beneficial to exporting firms and harmful to importers. However, a strong U.S. economy could undercut Mr. Trump's desire for a weaker dollar, so it is far too soon to know how this will play out.

The note spends more time looking at the repercussions of a Trump win than a Biden win, since the former would represent more of a change from current policy than the latter. A Biden win would, mostly, continue the status quo. We assume for the purposes of this discussion that the winning presidential candidate will also sweep Congress. Obviously, a divided Congress would impede either candidate's legislative agendas, but should still enable them to enact much of their regulatory agendas. Lastly, this note does not analyze the horserace. We will leave that for subsequent notes.

<u>Non-financials</u>

- *Defense* – Both candidates support higher defense budgets. The fiscal situation will constrain how much defense budgets will actually rise. Mr. Trump might push for significant increases in defense spending, but the realities of the federal budget mean he probably will not get as much as he wants. Sector outlook: Slight winner if Trump wins.
- *Energy* – Above, we note government policy can have unintended consequences. Perhaps no industry illustrates this like energy. According to Bloomberg, clean energy (+136%) outperformed traditional energy (-52%) during the Trump administration, while clean energy (-29%) underperformed traditional energy (+276%) during the Biden administration.
    - *Traditional energy* – We expect that Trump would look to increase domestic supply by opening up additional federal property for exploration and drilling and pursuing permitting reform. Trump would likely end the temporary pause on liquefied natural gas (LNG) export applications. If Biden wins, we expect continued limits on domestic exploration and production as well as the possible extension of the LNG moratorium. Sector outlook: Based on past performance, this sector could benefit from a Biden win.
    - *Clean energy* – Donald Trump and Republicans have proposed the elimination of clean energy tax credits that were passed or expanded as part of the Inflation Reduction Act (IRA). The knee-jerk reaction of a Trump win might be that clean energy tax credits are in peril. Certainly, Congress will look for budget saving as part of the upcoming tax debate, and clean energy tax credits could be part of that discussion. However, some of the tax credits are going to support construction of facilities in Republican states and districts and, despite the rhetoric, we think there is more Republican support for clean energy tax credits than some people realize. Rather than eliminating the tax credits, Republicans could seek to cap them. Sector outlook: Mixed, but Biden policies should be more beneficial.
- *Health Care* – Pharmaceuticals are among the industries with few friends in Washington, D.C., and the sector is a target of populists in both parties. While President Biden signed legislation to cap insulin prices under Medicare, this was an initiative Mr. Trump began in 2020, and we expect he would push for expanding "most favored nation status," which would limit drug prices to those paid in other developed countries. Antitrust regulators in either a Trump or Biden administration could target pharmacy benefit management and possibly examine industry consolidation among hospital networks. Sector outlook: Lose-lose.
- *Technology* – Technology is another sector that lacks allies outside of its geographic hubs (e.g. Silicon Valley). We think both Biden and Trump would be open to repealing Section 230 protections and that both candidates would pursue antitrust claims against tech firms (already begun under the Biden administration). While not a priority for either candidate, privacy protections are being debated in Congress on a bipartisan basis and would likely be signed into law. As the TikTok legislation demonstrated, both parties are willing to place limits on tech firms when national security is seen at risk. Sector outlook: Lose-lose.

Financials

- *Banks* – In Trump's first term, the banking regulators were among the least populist and most "establishment" types. The Trump campaign has not released detailed policy proposals, but if history repeats itself, we think changes at the Office of the Comptroller of the Currency and possibly the Federal Deposit Insurance Corporation could lead to restoring more balance to banking supervision and efficiency in the bank merger application process. If the Basel III Endgame has not yet been finalized, it could be re-proposed or scrapped altogether. If Trump appointed regulators re-propose Basel III, we think a new iteration will be capital neutral. We note there will not be immediate personnel changes at the Federal Reserve Board, so some changes in bank regulation and supervision could be slow. A Biden win could lead to new limits on bank mergers and acquisitions (especially for large regional banks), could provide new momentum to finalize the current Basel III proposal, and might open the door to more aggressive liquidity rules. **Sector outlook: Winner if Trump wins; loser if Biden wins.**
- *Consumer Finance* – If Trump wins, the head of the Consumer Financial Protection Bureau (CFPB) would be replaced immediately. Pending regulations would likely be pulled back and scrapped. A Trump administration might try to drop opposition to litigation that challenges some recently passed rules like the CFPB's credit card late fee rule. A Biden win could result in the reappointment of CFPB Director Rohit Chopra, who would feel emboldened to finish the current agenda with a focus of so-called "junk fees." **Sector outlook: Winner if Trump wins; loser if Biden wins.**
- *Cryptocurrency* – Over time, Mr. Trump has become a more vocal supporter of digital assets, and we expect he would appoint a crypto-friendly regulator to run the Securities and Exchange Commission (SEC), possibly current SEC Commissioner Hester Peirce. If Mr. Biden is reelected, we expect that SEC Chairman Gensler could be nominated for another term, or Biden could turn to someone who holds views on crypto similar to those of Mr. Gensler. While such a SEC Chairman would be hostile to crypto, the industry has won important legal battles with the agency, and the SEC's ability to restrain cryptocurrencies has been limited by the courts. **Sector outlook: Win if Trump wins.**
- *Mortgage Finance* – Monetary policy is likely to have the biggest impact on the mortgage finance sector and, as we noted above, we do not opine on that factor in this note. If Mr. Biden wins, we expect the conservatorship of the government sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, will continue. A Trump administration could seek to privatize the two companies (this was part of the agenda during the first Trump administration), but accomplishing privatization is far from certain. Also, we think there is some commonality among the two candidates and the role of the Federal Home Loan Bank System, so there could be changes to the System regardless of who wins. **Sector outlook: Positive for the GSEs if Trump wins.**
- *Nonbanks* – The Biden administration has raised the possibility of the Financial Stability Oversight Council (FSOC) designating some nonbanks as systemically important financial institutions (SIFIs). So far, the expansion of private credit markets and nonbank lending has not led to FSOC action, but a second Biden term could pursue SIFI designations. We think a Trump administration would likely act more cautiously, if at all, in this area. **Sector outlook: Positive if Trump wins.**
- *Private Equity* – Private equity does not have many friends in Washington. As Republicans become more populist, the number of the industry's GOP allies is shrinking. If Mr. Trump wins and appoints populists to run the Department of Justice or the Federal Trade Commission (FTC), the industry could face regulatory pressure from antitrust regulators. We remind investors that Sen. J.D. Vance (R-Ohio), a potential Trump running mate, has called FTC Chair Lina Kahn "the best person" in the Biden administration. **Sector outlook: Lose-lose.**

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