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WASHINGTON POLICY STRATEGY

Potomac Perspective

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Among the most common questions we field from clients are “when will we know the outcome of the presidential election” and “will there be chaos if the results are contested.” The second question suggests not only concerns about the civic response to a contested outcome, but also concern about the financial market’s response.

National and key battleground state polls show some momentum for Trump but are all incredibly tight and point to the potential for a close result in the Electoral College. This could also mean a contested outcome similar to 2000 and 2020. History, however, suggests that the markets are influenced more by economic conditions rather than political unrest and uncertainty.

With two weeks to go, the presidential race remains incredibly close and remarkably stable. Since Vice President Kamala Harris’s surge in the polls topped out in mid-August, they have changed only slightly over the past few weeks. According to the RealClearPolitics (RCP) average, Harris currently holds a 0.9-point lead nationally over former President Donald Trump, and the situation in the seven key battleground states is even tighter.

According to the RCP average as of October 20, Trump leads in all of the battlegrounds, but none of those leads are more than two points. The polls in the key states, and nationally, are within the margin of error. Forecaster Nate Silver currently thinks Trump has a 53.1% chance of winning the Electoral College, while Harris’s chances of winning are 46.6%. That is a coin-flip.

This suggests a high probability that the outcome of the election will be contested. Depending on the circumstances related to the contested states and Electoral College outcome, there could be civil unrest in the country. While such an outcome is not desirable, investors probably should not panic. We looked back at the equity market’s performance during the contested outcomes of 2000 and 2020. These reviews offer some historical comparisons, but investors need to also remember the economic and market environments during which these political events took place.

In 2000, the election outcome was uncertain until the Supreme Court issued a decision on December 13 which ended Al Gore’s legal challenges in Florida and resulted in George W. Bush winning the state and the election. The equity markets sold off during the period of the legal challenges. The S&P 500 sold off by approximately 5% between Election Day and December 13, and the Dow Jones Industrial Average (Dow) declined by around 1.4%. These selloffs occurred, however, during the bursting of the “dot com bubble,” which probably influenced the market more than the political situation.

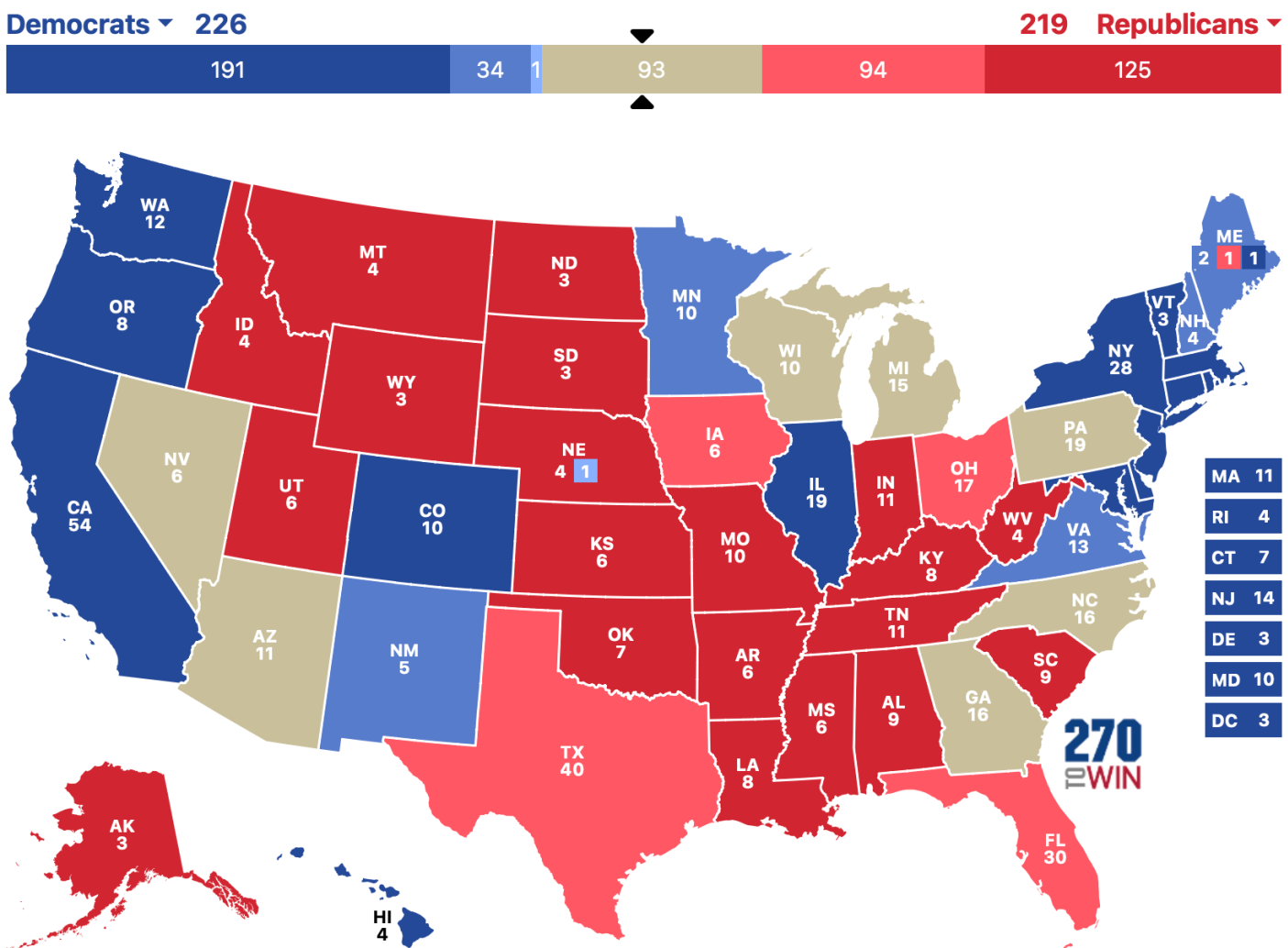
In 2020, Donald Trump’s campaign filed lawsuits in several narrowly decided states, and there was physical violence in Washington, D.C. on January 6, 2021, when Congress voted to certify the Electoral College results. We looked at the performance of the equity markets from Election Day until Inauguration Day. During that time, the markets rallied. The S&P 500 rose by over 14% while the Dow climbed by around 13.5%. The political chaos occurred during a time when headlines about the rollout of the COVID-19 vaccines were in the news. It’s likely that markets rallied on the hope of the end of the pandemic and higher economic activity.

The markets reacted differently during these two incidents, but the main takeaway for investors is that the dominant economic and market conditions at the time drove the financial markets rather than political events. We cannot say if history will repeat itself if there is another contested election, but investors should be mindful of the historical precedents.

Battleground State Scenarios Underscore Close Election

The seven key battleground states account for 93 electoral votes, and there are numerous scenarios for each candidate to win the 270 votes needed to win the presidency. Below are four maps that help demonstrate the state of the race and the paths to slim victories and even a tie. 270towin.com was kind enough to let us use their website for this work.

The first map shows the state of the race excluding the battlegrounds. We think Vice President Harris starts with 226 votes and former President Trump starts with 219. In this map, all of the non-battleground states follow their recent histories, but if any of them were to flip, it would probably mean the election was far more decisive than current expectations suggest. These scenarios are not predictions – merely illustrations of how close the Electoral College vote could play out.

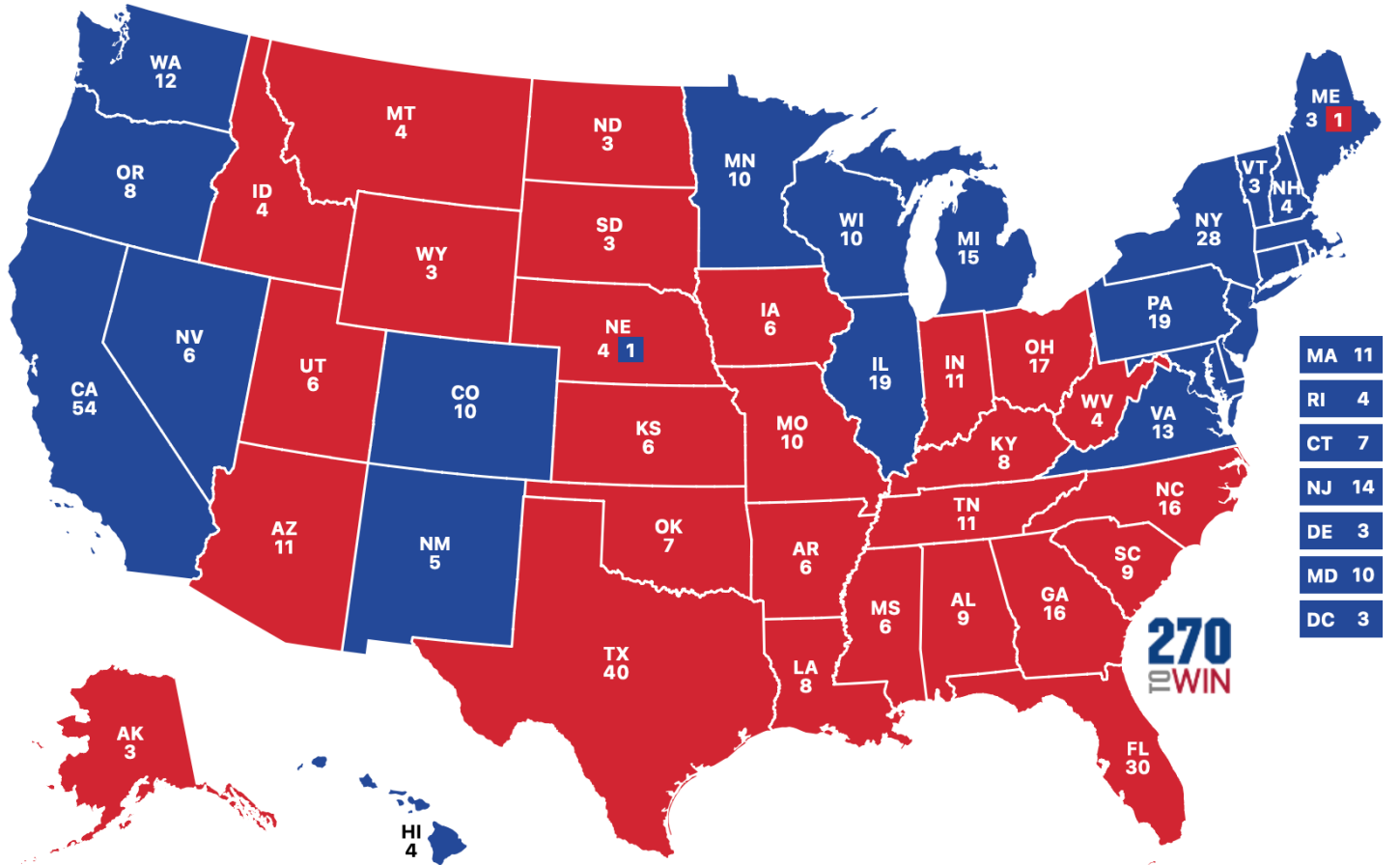


Harris's Path to 270

In this scenario, Harris wins all of the industrial states (Michigan, Pennsylvania, and Wisconsin) as well as Nevada, while Trump flips Arizona and Georgia. The scenario would give Harris a 276-262 victory, the closest election since 2000.

Democrats ▾ 276

262 Republicans ▾



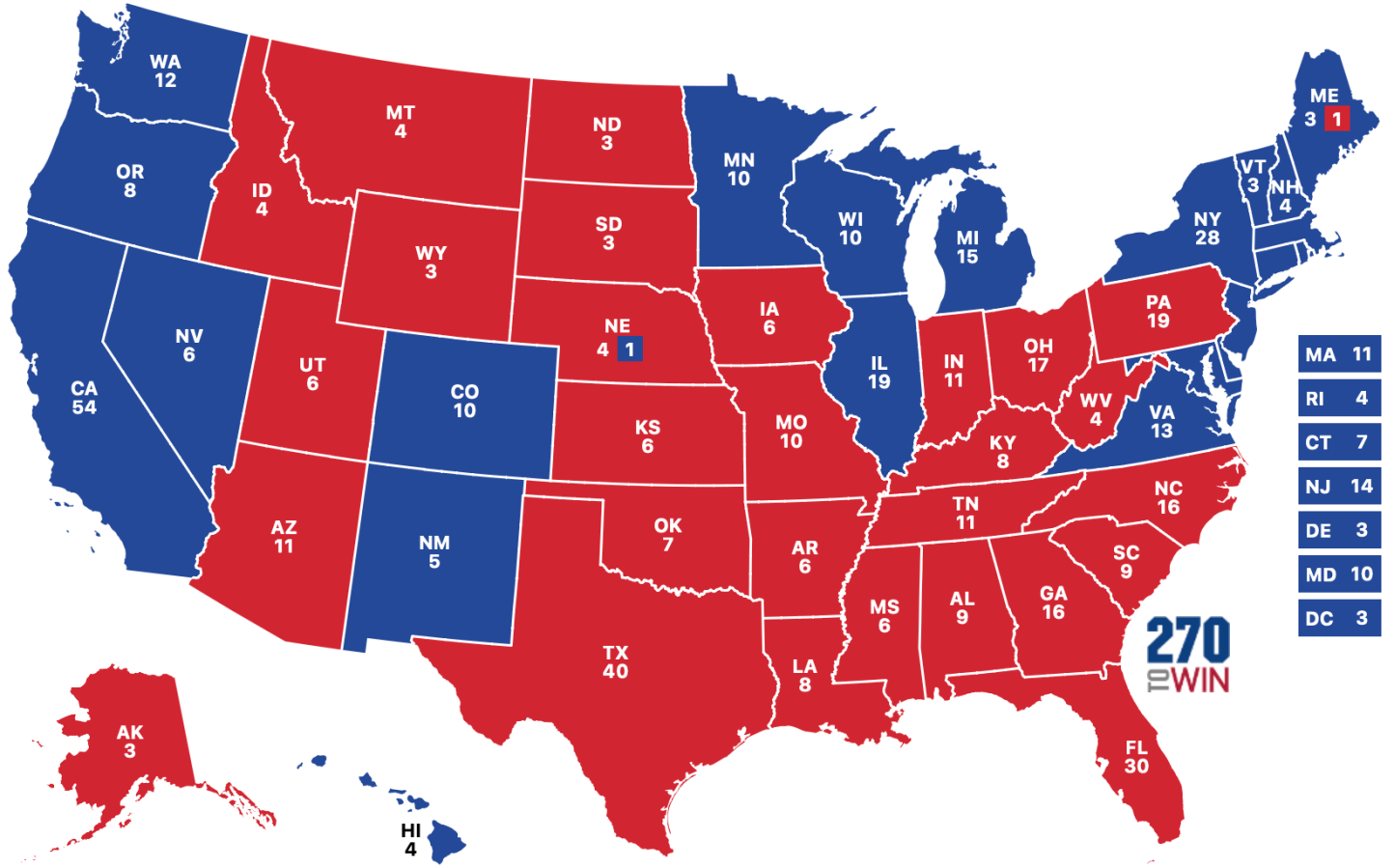
Map Created: Oct. 4, 2024 at 14:11 UTC (10:11 AM EDT)

Trump's Path to 270

Similar to above, in this scenario, Trump flips Arizona and Georgia, while Harris keeps Nevada, Michigan, and Wisconsin. However, if Trump can also flip one of the industrial states, he would win. In this scenario, Trump wins Pennsylvania, so he would win the Electoral College, 281-257.

Democrats ▾ 257

281 Republicans ▾



Tie Ballgame

Chances of a tied Electoral College vote are low, but they're not zero, either. In our opinion, this is the scenario which carries the highest risk for political chaos as well as market uncertainty and volatility.

Several things would have to align perfectly in order for there to be a 269-269 tie. Trump would have to flip all the Sun Belt states (Arizona, Georgia, and Nevada) while Harris would need to keep all three industrial states (Michigan, Pennsylvania, and Wisconsin). In addition, Trump would need to flip Nebraska's Second Congressional District. Nebraska and Maine award two Electoral College votes to the statewide winner plus one vote for each congressional district. NE-2 includes Omaha and voted for President Joe Biden in 2020 and for Trump in 2016. If NE-2 switched back to Trump, it could contribute to a tied Electoral College vote. In the case of a tie, the House of Representatives would choose the next President. Under the Constitution, each state delegation gets one vote. Currently, Republicans have the majorities in 26 states, Democrats have the majority in 22 states, and two delegations (Minnesota and North Carolina) are tied. This could, obviously, change following the upcoming congressional elections.

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