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WASHINGTON POLICY STRATEGY

Potomac Perspective

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Several media outlets have called the 2024 presidential election for Donald Trump. Not only has Trump won the Electoral College, but he is poised to win the popular vote and could be the first Republican candidate to win an outright majority of the popular vote since 2004. Republicans have retaken the Senate, but the House is too close to call.

We expect equity markets could rally on this outcome, but the bond market could sell off on fears of higher fiscal deficits and higher interest rates.

- **PRESIDENTIAL ELECTION** – President Donald Trump has won an impressive victory, which gives him a mandate as he returns to the White House.
 - **Market implications** – The fact that we know the outcome of the race will be welcome by investors since the country will not have to endure a repeat of the 2020 process. We expect the equity markets will see a Trump win as pro-economic growth and will rally on the news. The sectors that could outperform on a Trump win include financials (especially regional banks), cryptocurrency and digital assets, as well as oil and gas. The bond market could sell off on fears of increased deficits and higher interest rates. We think some of these fears are overblown because it will be difficult to pass some of the Trump platform through Congress, especially if the legislature is divided (see below).
 - **Political takeaways** – The political story of the election, beyond the headlines, has been that the realignment of the American electorate continues as Trump gained among Hispanic and Black voters while losing support among white voters, according to Fox News exit polls.
- **SENATE GOES GOP** – As expected, Republicans have won the Senate majority. Republicans needed a net gain of two seats to win the Senate. As of this writing, Republicans have flipped three seats held by Democrats and have not lost a single seat currently held by the GOP. Some races have yet to be called, and Republicans could add as many as four more seats to their majority, which would exceed even the most optimistic Republican expectations. Winning the Senate could have significant implications for parts of the Trump agenda, especially extending expiring tax cuts, because Senate Republicans could use the reconciliation process to circumvent the Senate's filibuster, but that's only relevant if Republicans keep the House.
- **HOUSE: TOO CLOSE TO CALL** – Republicans currently hold a 220-212 majority (three vacancies). The race for the House remains too close to call. Regardless of which party wins the House, it appears any majority could be less than five votes. If Republicans win the House, they might have an even smaller majority than they do today (and one with which they have struggled to govern). The outcome of the House will have a significant impact on the looming tax debate. Trump will have an easier time extending the sunset tax cuts if Republicans hold the House, which would enable Congress to use reconciliation (see above); however, a razor-thin majority will bring challenges of its own, as vulnerable Republicans might not support the entire Trump economic agenda.

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