Higher Rates, Bigger Deficits, and Two Very Different Presidents: What Could Possibly Go Wrong?

So here we are, staring down the barrel of yet another U.S. presidential election, and the market is doing what it always does: panicking, speculating, and, occasionally, getting things wildly wrong. Wall Street is buzzing with projections on the potential outcomes of a Trump victory versus a Harris administration, and it's packed with all the usual charts and forecasts. But let's break this down a bit, shall we?

Markets and the 2024 Election: Trump vs. Harris – A Tale of Two Policies

1. Fiscal Policy: Tax Cuts, Spending, and the Great Deficit Debate

Trump: Ah, yes, the familiar promise of tax cuts. More tax cuts. Even more tax cuts. We've been here before. The TCJA, a.k.a. the Tax Cuts and Jobs Act, already slashed corporate taxes, and Trump seems eager to do it again. The result? Well, deficits, deficits, and—did I mention deficits? Bank strategists think this might push deficits above 7% of GDP by 2028, but let's be honest, nobody's going to care about that until the bond market throws a tantrum.

Harris: Harris, on the other hand, would likely go the other way: more spending on social programs, infrastructure, and a dollop of climate action. How to pay for it? Higher taxes on corporations and the wealthy, of course. This might also push up the deficit, but the idea is that it's an "investment" in the future—sort of like buying an electric car. More expensive up front, but hey, it's good for the planet, right?

2. Trade Policy: Tariffs, Trade Wars, and Maybe Some Friends

Trump: Ah, tariffs. The man loves them. Slapping a 60% tariff on China and a 10% tariff on the rest of the world? Sure, why not? Wall Street points out that this could make imports more expensive, reduce them by 17%, and—wait for it—boost inflation by as much as 130 basis points. But look, who needs cheap stuff from China when you can make America great again, right?

Harris: Harris is more likely to play nice with other countries, building coalitions and using diplomacy. Remember diplomacy? It's where you try to solve problems without threatening a trade war every other Tuesday. A Harris administration would probably still push China on intellectual property and market access, but in a way that doesn't tank the global supply chain every time a tweet goes out.

3. Deregulation: Freeing the Market or Tying It Down?

Trump: Deregulation is Trump's bread and butter. Remember when he rolled back all those environmental regulations? Yeah, that's happening again. The energy sector loves this stuff—more drilling, more pipelines, more profits. Bank strategists say this could create a "more business-friendly environment," but honestly, it's a bit of a mixed bag. You might get short-term growth, but at what cost? Oh, right—just the environment, no big deal.

Harris: Harris would likely double down on the Biden administration's regulatory agenda—think more rules for everyone! Especially if you're in energy, finance, or tech. If you're a business, this might mean more compliance headaches, but if you're into clean energy or worker rights, this could be your time to shine. It's regulation, yes, but in the name of a greener, fairer world. Maybe.

4. Immigration: Closing the Doors vs. Opening Them Wider

Trump: Trump's immigration policies are pretty straightforward: fewer people coming in. This is supposed to protect American jobs, but as Wall Street notes, it could also mean a tighter labor market and higher wages. Great for workers, not so great for companies that suddenly can't find anyone to fill positions. Also, good luck with that economic growth when your labor force stops growing.

Harris: Harris, by contrast, would likely push for immigration reform that brings more people in, legalizes those who are already here, and integrates them into the workforce. This could help ease labor shortages and keep the economy growing. It's also more humane, but that's a different conversation. The catch? It's politically tricky, so don't expect this to sail through Congress without a fight.

5. Market Performance: Same Song, Second Verse?

Trump: If Trump wins again, expect a déjà vu moment in the markets. Remember 2016? Stocks rallied, led by financials, energy, and industrials. Wall Street thinks we might see a similar playbook: tax cuts, deregulation, tariffs, and a bit of chaos thrown in for good measure. It's worked before, so why not again? Just don't be surprised if the market has already priced in most of the good news.

Harris: A Harris win might steer the market toward sectors like renewable energy, healthcare, and technology. It's a different kind of growth—slower, more sustainable, more "socially responsible." The market might initially react with some trepidation about higher taxes and regulation, but over time, the sectors that align with her priorities could see some real gains. Think long-term, not just the next earnings report.

6. The Dollar: Weaker? Stronger? Who Knows?

Trump: Trump wants a weaker dollar to boost exports, but as Wall Street points out, that's easier said than done. The "Plaza 2.0" idea seems pretty far-fetched, and tariffs might actually strengthen the dollar by making imports pricier. So, yeah, Trump can talk about weakening the dollar all he wants, but it might not work out that way. Markets are funny like that.

Harris: Harris, on the other hand, would likely prefer a stable, strong dollar that keeps the U.S. looking good to foreign investors. No big surprises here—just a focus on steady growth and making sure the U.S. remains a safe bet in a volatile world. If the dollar weakens, it'll probably be because the rest of the world is catching up, not because Harris is trying to talk it down.

7. Yield Curve: Steep or Flat, But Always Complicated

Trump: Wall Street expects a modest steepening of the yield curve under Trump, mostly due to increased deficits and long-term borrowing. Investors might see some value in inflation-protected securities as real rates rise. It's the classic "borrow now, worry later" approach, with a side of economic uncertainty thrown in for good measure.

Harris: Harris might flatten the curve a bit more with her focus on progressive taxation and targeted spending. But if her policies drive long-term growth and reduce inequality, that could actually be good news for the bond market. It's all about balancing the short-term bumps with the long-term benefits, which is easier said than done, of course.

8. China: Navigating the Next Cold War

Trump: More tariffs on China? Sure, why not. Wall Street says this could knock 2-2.5% off China's GDP, which sounds pretty brutal. But China isn't going to take this lying down—they'll push back with their own measures. Companies that have diversified their supply chains will be fine, but anyone heavily dependent on Chinese exports might want to buckle up.

Harris: Harris would likely try a more diplomatic approach, working with allies to address issues with China. It's less about tariffs and more about rules and norms. This might mean fewer shocks to the global economy and more stability for companies with Chinese exposure. Still, don't expect things to be completely smooth—China's not an easy partner, no matter who's in charge.

9. Investment Strategy: Where to Put Your Money

Trump: If you're betting on a Trump victory, Wall Street suggests loading up on U.S. equities, especially in financials, industrials, and energy. Inflation-linked securities, Japanese yen, and gold also look good as hedges. But be cautious with sectors tied to global trade—Trump's tariffs could hit them hard.

Harris: For a Harris administration, think green: renewable energy, technology, and healthcare are the sectors to watch. ESG investments could get a nice boost as well, with a focus on sustainability and social responsibility. But keep an eye on taxes and regulations—they could impact corporate profits and investor sentiment in the short term.

10. Sector Winners: The Usual Suspects

Trump: Financials, energy, and cyclical sectors should do well under Trump. Deregulation, higher GDP growth, and a steeper yield curve will help these industries. But don't forget the risks: tariffs and geopolitical tensions could throw a wrench into the works.

Harris: With Harris, look to renewable energy, technology, healthcare, and education. These sectors align with her policy goals and could see significant growth. Sure, some industries might face higher regulatory scrutiny, but those that adapt to the new priorities could come out ahead.

Bonus: The Fed – Independent, For Now

Trump: Trump has never been shy about criticizing the Fed, and another term might bring more pressure on the central bank's independence. But as Wall Street points out, the Fed's autonomy has strong bipartisan support, and any significant changes would likely require legislative action.

Harris: Harris would likely support the Fed's independence, seeing it as crucial to maintaining economic stability. She might push for policies that align with the Fed's goals, such as reducing inequality and fostering sustainable growth. But don't expect her to try and influence monetary policy directly—that's not her style.

So, whether it's Trump or Harris, the next four years are sure to bring their share of market surprises. Buckle up, because as always, Wall Street is ready to react, and the rest of us will just have to keep up.

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