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Trump by a Nose: Market Impacts of a GOP Sweep

Joe Lieber
202-964-7473
joe.lieber@capitolpolicypartners.com

While the outcome of the presidential election hovers around the 50/50 mark, we are moving our odds from a slight advantage for Vice President Kamala Harris to one for Donald Trump. Republicans are very likely to pick up the Senate, and we still believe the House will be controlled by whichever party wins the White House. However, Democrats have a better chance of picking up the House if Trump prevails than Republicans have of holding it if Harris is elected, in our view.

Below the presidential election commentary, we give some quick takeaways on what a Trump presidency, coupled with a GOP sweep of Congress or Democratic control of the House, might mean broadly for **tax policy**, **trade**, **green energy companies**, **healthcare**, and other sectors.

Presidential Election

Recently, we've seen a divergence between the polls and betting markets, with the polls— along with aggregators like Fivethirtyeight.com – giving a slight advantage to Harris, while the betting markets are clearly favoring Trump.

Currently, Fivethirtyeight.com gives Harris a 54% chance of winning, while the RealClearPolitics.com (RCP) betting average (which is different than the RCP poll average that favors Harris) gives Trump a 58% chance.

SOURCE	TRUMP	HARRIS
RCP Average	**58%**	**41%**
BetOnline	58%	41%
BetFair	57%	38%
Betsson	58%	44%
Bovada	59%	41%
Bwin	60%	42%
Points Bet	58%	43%
Polymarket	59%	37%
Smarkets	56%	41%

Source: RCP Betting Averages

We aren't sure why there is such a disparity between the polls and the betting markets, but we suspect there are several reasons for this discrepancy.

First are historic polling errors, which we have written about previously. In 2016, the final RCP average had Hillary Clinton up by 3.2% on Election Day, and she won the popular vote by 2.1%, presenting an error rate in her favor of 1.1%. In 2020, President Biden won by 4.5% while the final RPC average had him up by 7.2%, resulting in a 2.7% error rate.

In addition, if there is any momentum in this race, it appears to slightly be on Trump's side. The betting markets might just be skating to where the puck is going, and the polls may yet follow.

Trump is still likely to lose the popular vote, even if he captures the Electoral College (EC) vote. Again, in 2016, he lost the popular vote by 2.1% yet won the White House with 304 EC votes to Clinton's 227. Harris probably needs more than a 2-point lead in polls to defeat Trump. The current RPC polling average gives Harris a 1.5% lead over the former president, which is much smaller than either Clinton (+7) or Biden (+9) had at this point in the cycle. Fivethirtyeight.com currently gives Harris a 2.8% lead. Note that in the final weeks of those races, Trump narrowed the advantage his Democratic opponents enjoyed. In addition, Trump is ahead by a hair in the "blue wall" states of Michigan (+1) and Pennsylvania (+0.5), according to RPC polling average. If he wins both states, it is very difficult to see Harris victorious in the EC.

Trump will need to get out the vote among low-propensity voters. According to the Cook Political Report, in key battleground states, Harris leads among the most high-frequency voters 51%-47%, with Trump ahead among low-frequency voters 52%-45%. So, voter turnout will be key, and the Trump camp knows who they need to focus on.

In our last update, we mentioned that since the *Dobbs* decision on abortion, Democrats have *outperformed* polling in federal, state and local elections. If that dynamic persists in this cycle, the polls might be *underestimating* Harris' odds. It is one issue that makes this race difficult to handicap, and closer than it might otherwise be.

An interesting dynamic playing out in some key Senate races in battleground states is the wide difference in Trump's support vs. that for the GOP Senate candidate. In Arizona, for example, Rep. Ruben Gallego (D) leads Kari Lake (R) by 6.4%, while Trump leads Harris by 1.1% in the RPC poll average. In Nevada, Sen. Jacky Rosen (D) is ahead of Sam Brown (R) by 5.5%, but Trump is up by 0.5.

We suspect that in this era of low split ticket voting the Senate numbers will narrow to more closely resemble the presidential numbers, another reason we believe the Senate flips to the GOP.

While the presidential race appears to be very close, a small win by Trump or Harris in key states can make the race seem like more of a blowout from an EC college standpoint, somewhat like 2016.

What Does a GOP Sweep Mean for the Markets?

We see tax cuts and trade policy dominating the agenda in a GOP sweep scenario, given the 2017 tax cuts expire next year and how focused Trump has been on trade. That's probably also true if Trump wins the White House but the Congress is split. Taxes will be key if Harris wins as well.

Of course, there will be a multitude of issues affected by the election's outcome, which we outline in brief below.

- **Taxes, Trade** and **Green Energy**. Under a GOP sweep, Trump's 2017 tax cuts are likely to be extended, though not permanently, given how costly they will be ($4.5-$6 trillion over 10 years).

- Investors shouldn't have to worry about a year-end selloff due to concerns about the capital gains tax rate going up, since that is unlikely under either a GOP sweep or Harris win with a Democratic House.

- The **green energy tax breaks** passed in the Inflation Reduction Act (IRA) are very much at risk under a GOP sweep scenario, as there are no good ways to pay for even a short-term extension of the Trump tax cuts. Eliminating these provisions, which would likely raise between $500 billion and $1 trillion, will certainly be up for discussion regardless of how much they benefit "red" states.

- The exception would be if somehow Republicans were to make the tax bill bipartisan, which is unlikely in our view.
- If Democrats retake only the House, most all of these IRA breaks are safe.
- We would expect the **R&D tax credit**, **bonus depreciation**, and **interest deductibility** to be restored to their 2017 levels, benefiting a host of sectors and companies
- We should see a material boost to the **child tax credit**, which could benefit lower-end retailers like **WMT**, **DG** and **DLTR**, under any scenario.
- Trump may try to use an **across-the-board 10% tariffs** and/or an i**ncrease in tariffs against China** as a tax payfor, given that the two might be able to raise $2.5-$3 trillion over 10 years. However, we doubt the GOP Congress will go for it, putting greater pressure on eliminating the IRA green energy provisions. Such an effort could delay implementation of the tariffs, though conventional wisdom is that the tariffs are put in place quickly.
- The **corporate rate** is likely to stay at 21% in our view. However, we are intrigued by Trump's plan to lower it to 15% for companies that produce in the U.S. We aren't sure exactly what that means, but it's worth keeping an eye on, and could benefit companies whose primary business and inputs are U.S. based.
- Finally with regard to the **SALT deduction**, recall that if the tax cuts expire, full SALT deductibility comes back, but since we think the cuts are likely to be extended, we expect the $10,000 limit on SALT deductions to rise to $15,000 or $20,000.
- **M&A Environment.** No surprise, the M&A environment would improve under a Trump presidency, even if it doesn't revert to the go-go days of recent Republican presidents. FTC chair Lina Khan would very likely be replaced within months, despite the positive comments Vice President candidate JD Vance has made about her tenure at the agency.
- **Infrastructure (CAT, VMC, MLM; URI):** By and large we see most provisions from the bipartisan Infrastructure Investment and Jobs Act (IIJA), especially as it relates to **highway spending**, remaining in place and not being materially changed.
- **Gig Economy Companies (UBER, LYFT, DASH):** Risk to material changes to the independent contractor model from regulators (Dept. of Labor, FTC, National Labor Relations Board) would virtually end under a Trump administration. These companies might still find legislative/regulatory risks at the state level, however.
- **Cannabis (TLRY, CRON, ACB, CRLBF):** A GOP sweep, or even if the Democrats control the House, likely means no material positive changes for the industry beyond the ongoing rescheduling, which we expect to occur regardless of the outcome of the presidential race. Keep in mind GOP leaders from Speaker Mike Johnson (R-LA), who we expect would keep his job if the GOP maintains control of the lower chamber, to likely Senate Majority Leaders [John Thune (R-SD) or John Cornyn (R-TX)], are not supporters of material cannabis legislation.
- **Obamacare (OSCR, CNC, ELV, HCA, THC):** Not surprisingly, a GOP sweep threatens the existence of the enhanced ACA premium subsidies, which are set to expire at the end of 2025. We see a path forward under either a GOP sweep or Democratic control of the House to retain *some* of the enhanced subsidies. Furthermore, a Trump win means the resurrection of regulation that provides more competition to Obamacare insurers and potential risk to hospitals. A Harris win suggests an extension of the enhanced subsidies and ongoing support for the program.
- **Biopharma (NVO, GSK, ABBV, GILD, MRK):** While there has been some speculation that a GOP Congress and a Trump White House may work to eliminate, or at least curtail, IRA drug price negotiations, we are doubtful. With CBO having scored those provisions as saving nearly $100 billion over 10 years, this would only add to the offsets needed for extension of the higher-priority tax cuts, and we are dubious that a sufficient number of Republicans would be interested in a public vote that would likely be cast as support for higher prices.

- **Medicaid (CNC, MOH, ELV, HCA, THC, CYH):** A GOP sweep likely reignites the debate over the Medicaid program and efforts to lower the rate of future spending, limit enrollment, and generate federal savings that could be used to pay for other priorities (e.g., tax cuts). Such changes still would likely result in states contracting with Medicaid insurers but with less generous contracts and hospitals/providers seeing fewer patients at potentially lower rates.

- **Medicare Advantage (MA) (HUM, UNH, CVS, ELV, ALHC, AGL):** A Trump win likely sets the tone for a more hospitable regulatory environment for MA insurers and their value-based care providers, but we still think future MA rates will remain in the low-single digit environment unless a GOP Congress materially changes the program design to favor these insurers and add money to the program, which at this point is not a high priority.

- **Medical Devices (MDT, ABT, BSX, NVCR, NYXH, LIVN):** CMS under Trump would likely return to previous efforts to grant coverage to novel devices following FDA approval. While the Biden team has made similar efforts through its Transitional Coverage of Emerging Technologies (TCET) program, it falls well short of the automatic four years of coverage the Trump administration had proposed, and many GOP lawmakers have endorsed.

- **Diagnostics (EXAS, GH, MYGN, NTRA, CDNA, CSTL):** The Trump administration would be unlikely to implement FDA's finalized rulemaking this year requiring manufacturers to submit to pre-market approval / clearance, as it had previously asserted that the agency has no such authority under the law, and numerous GOP lawmakers have criticized this move. While this would reduce aggregate compliance costs for manufacturers, it would also eliminate the baked in advantages that more established / better capitalized companies have against smaller potential competitors.

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