BCA Research

September 2024

Shape Your Conviction™

US Election: So What?

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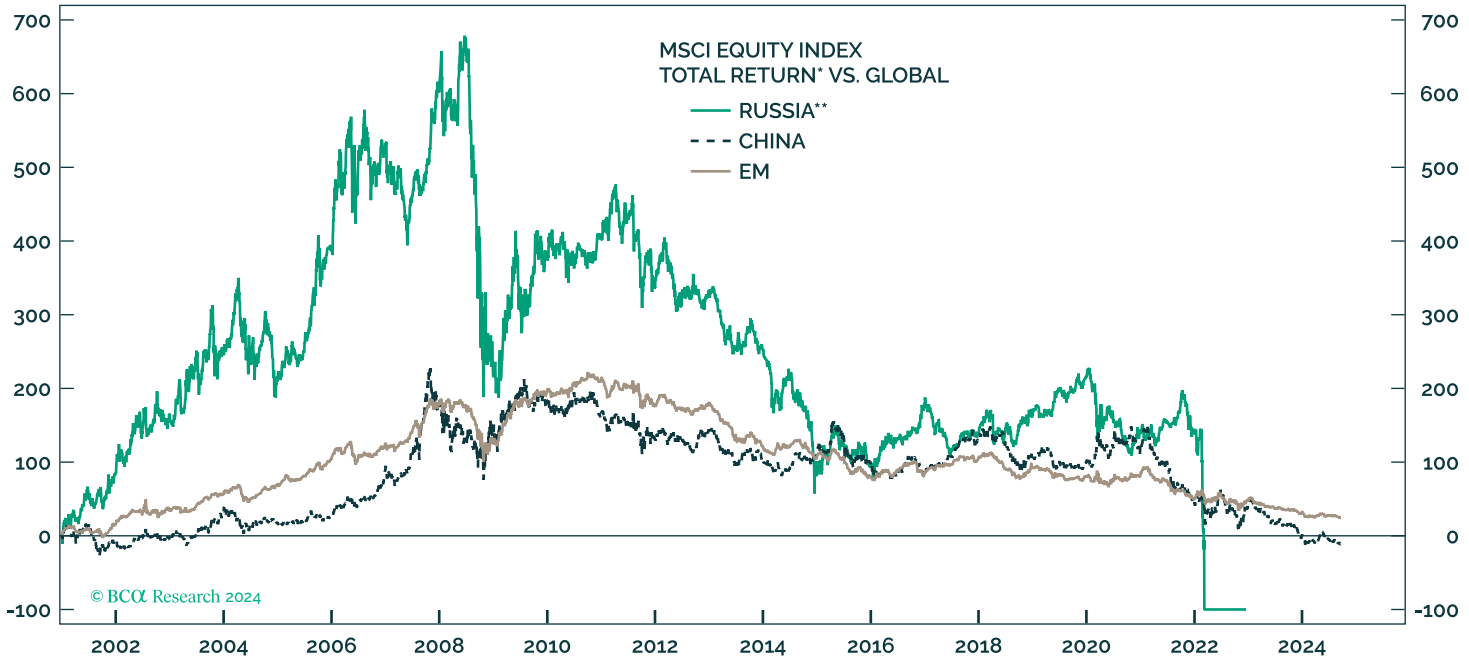
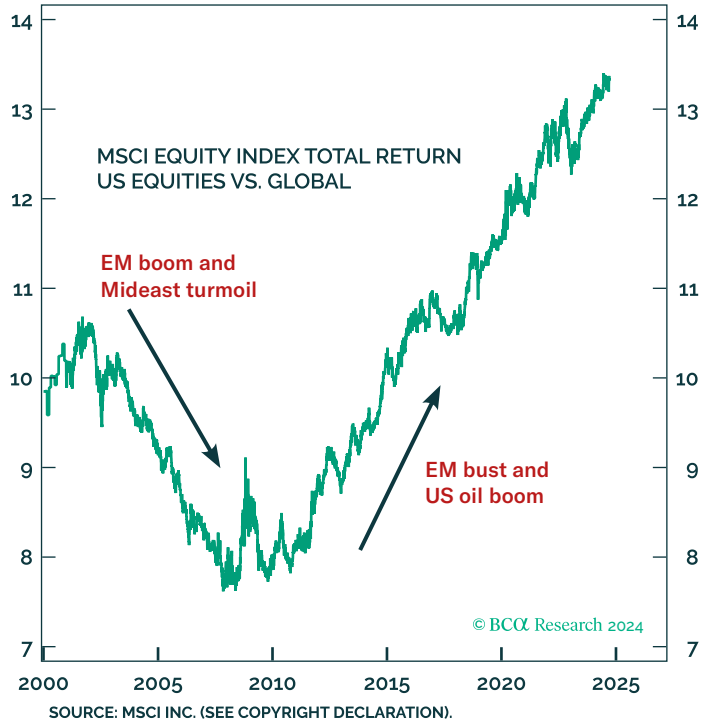
Investing With Geopolitics, Not Trading On Geopolitics

Yes, Geopolitics And Politics Matter For Markets ...



* REBASED TO JANUARY 2001 = 0.
** MSCI RUSSIA HAS BEEN CLEARED TO 0 SINCE MAR.9, 2022, AND DELISTED SINCE DEC.19, 2022.
SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).

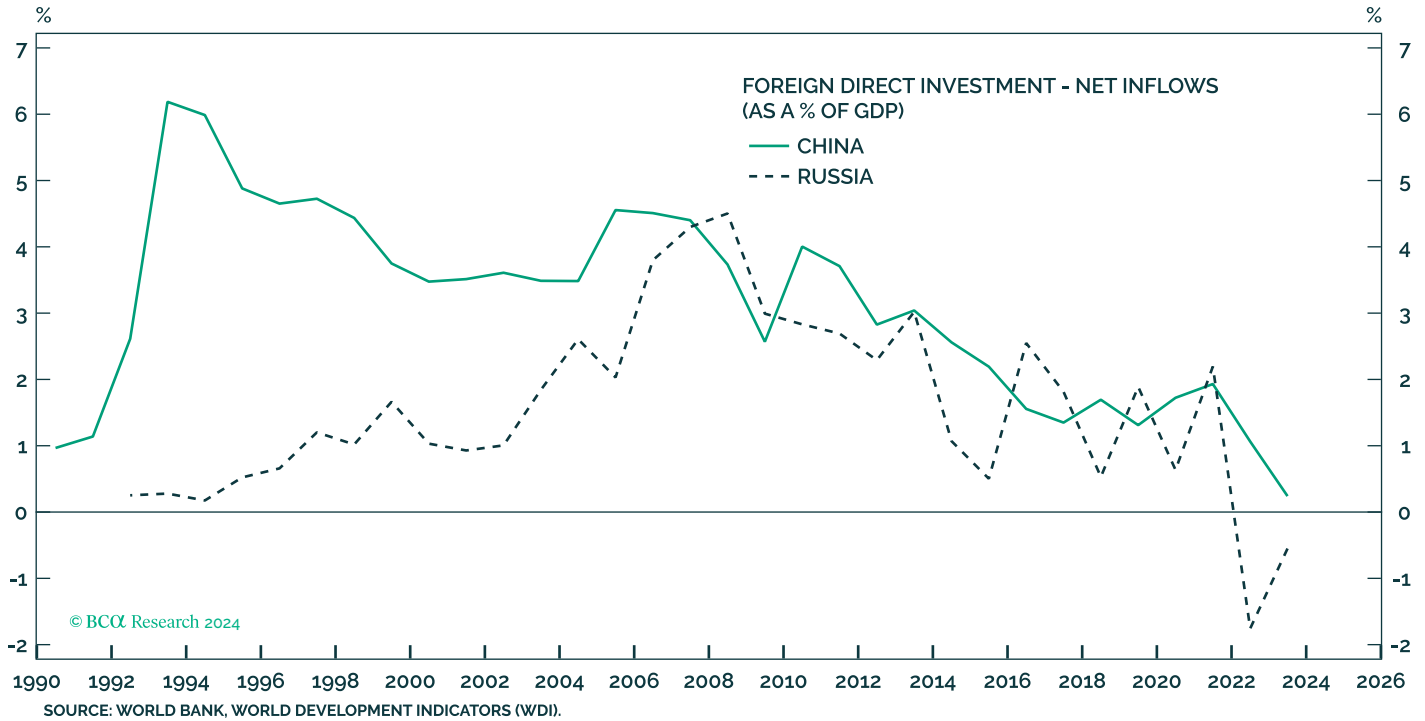
… But The Way They Matter Changes Over Time



SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).

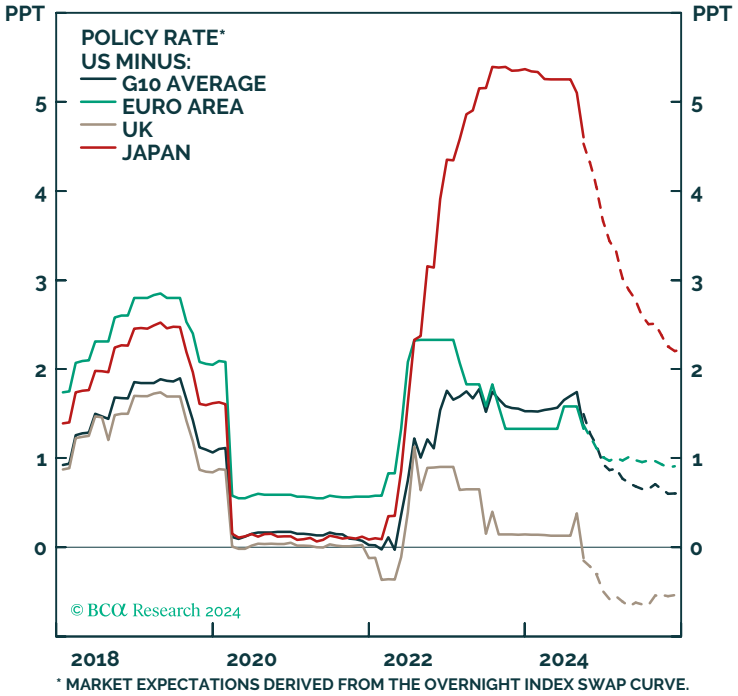
SOURCE: MACROBOND.

Dictatorship Is A Poor Investment Thesis

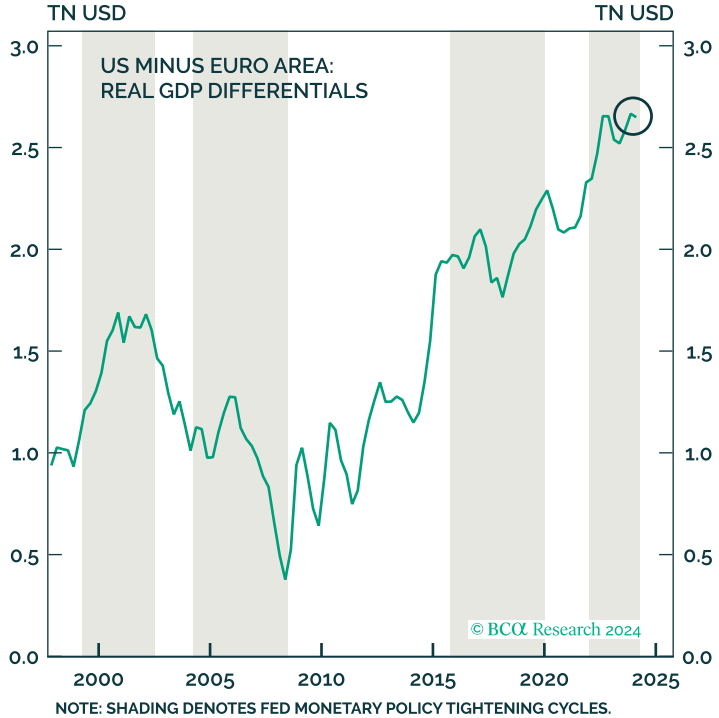


SOURCE: WORLD BANK, WORLD DEVELOPMENT INDICATORS (WDI).

US Will Keep Outperforming For Now



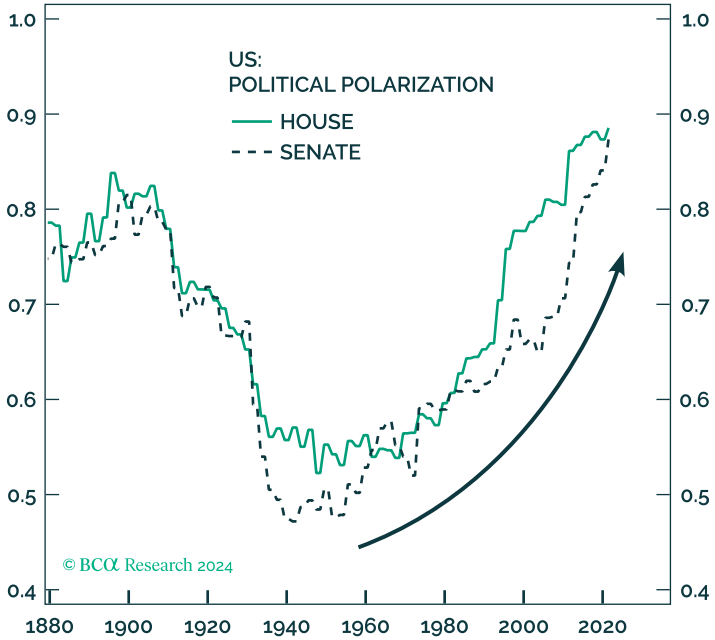
* MARKET EXPECTATIONS DERIVED FROM THE OVERNIGHT INDEX SWAP CURVE.



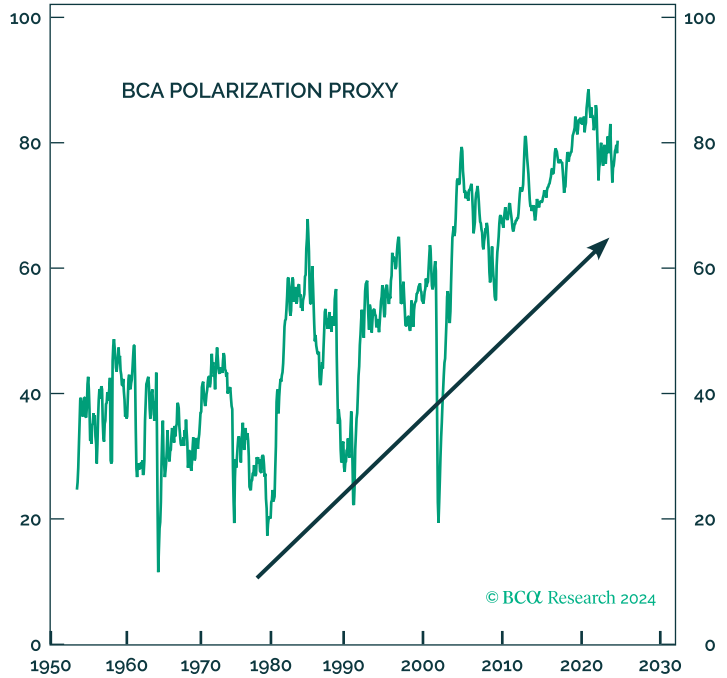
NOTE: SHADING DENOTES FED MONETARY POLICY TIGHTENING CYCLES.

America Reaches Peak Polarization

US Reaches "Peak Polarization" In Politics

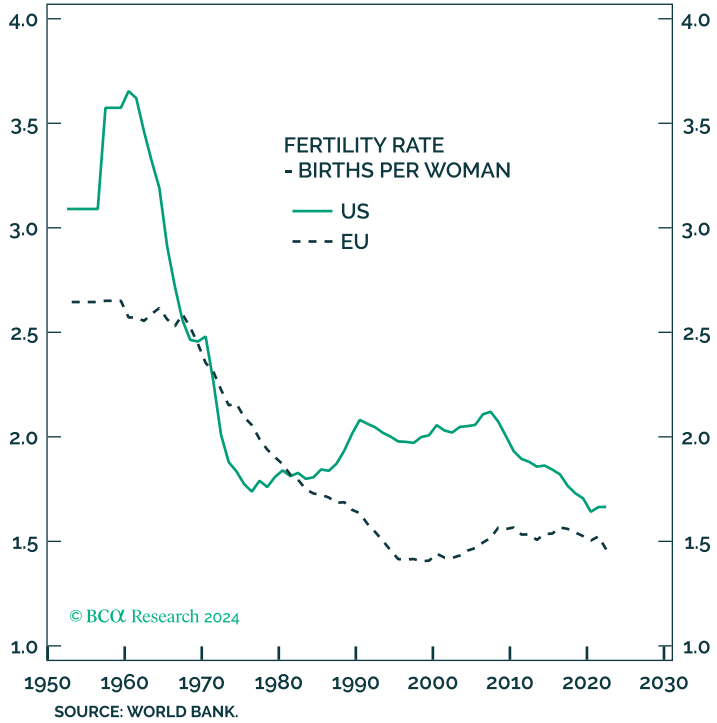


NOTE: MEAN DIFFERENCE BETWEEN THE PARTIES ON THELIBERAL-CONSERVATIVE DIMENSION IN THE SENATE AND THE HOUSE.SOURCE: LEWIS, JEFFREY B., KEITH POOLE, HOWARD ROSENTHAL,ADAM BOCHE, AARON RUDKIN, AND LUKE SONNET (2020). VOTEVIEW.ORG.

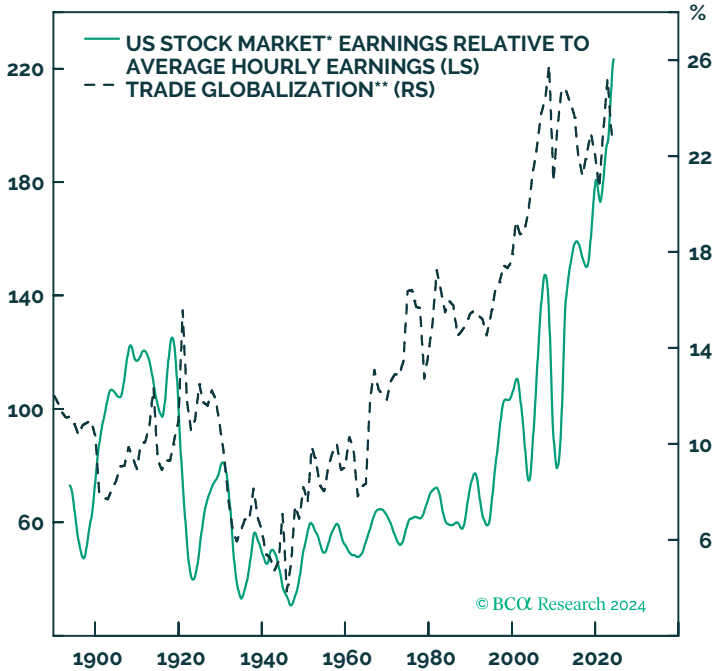


NOTE: DATA SHOWN AS A 3-MONTH MOVING AVERAGE.
SOURCE: GALLUP AND BCA CALCULATIONS.

Traditional Family Life Declined



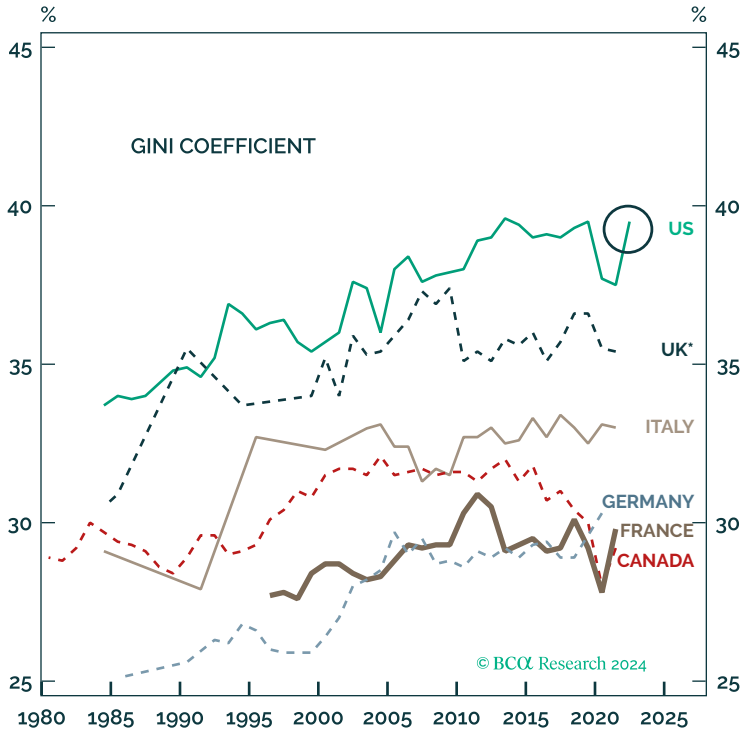
SOURCE: WORLD BANK.



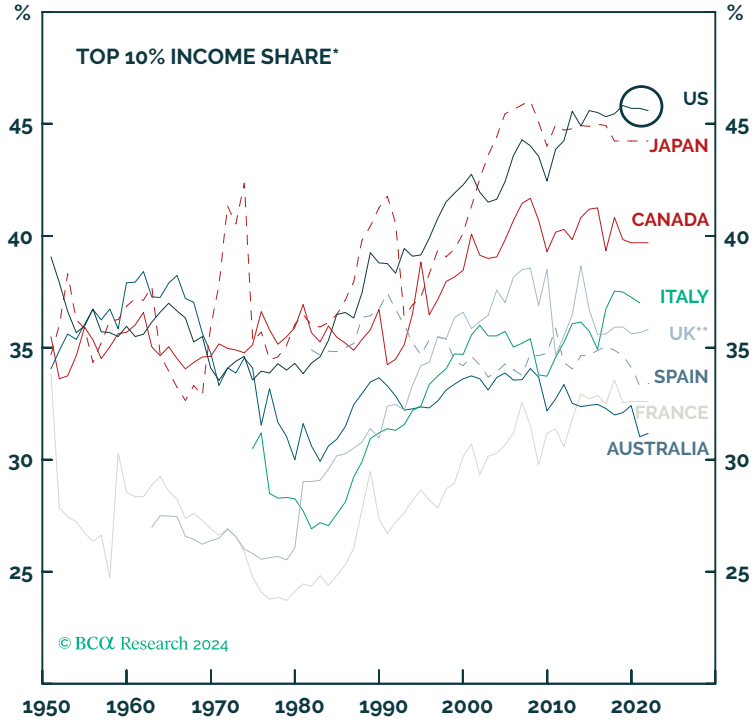
* COWLES INDEX PRIOR TO 1926; S&P 500 AFTER 1926;
SOURCE: ROBERT SHILLER ONLINE DATA.

** MEASURED BY IMPORTS AS A PERCENT OF GDP & WEIGHTED BY POPULATION,
BCA CALCULATION FROM 1994.

Inequality And Social Disparities Widened

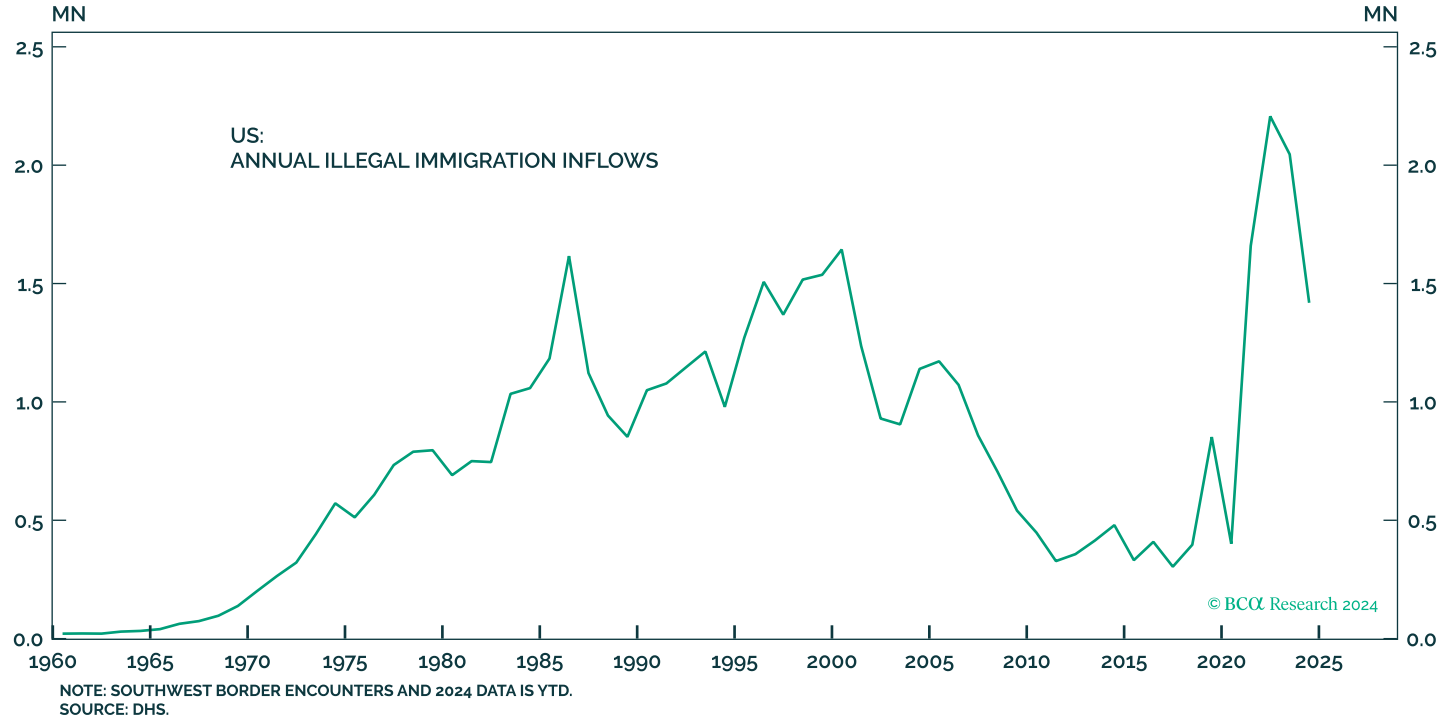


NOTE: DATA BEFORE 2012 REFLECTS ORIGINAL OECD INCOME DEFINITION, WHILE POST-2012 DATA REFLECTS OECD 2012 INCOME DEFINITION.
* DATA IS INTERPOLATED. SOURCE: OECD.



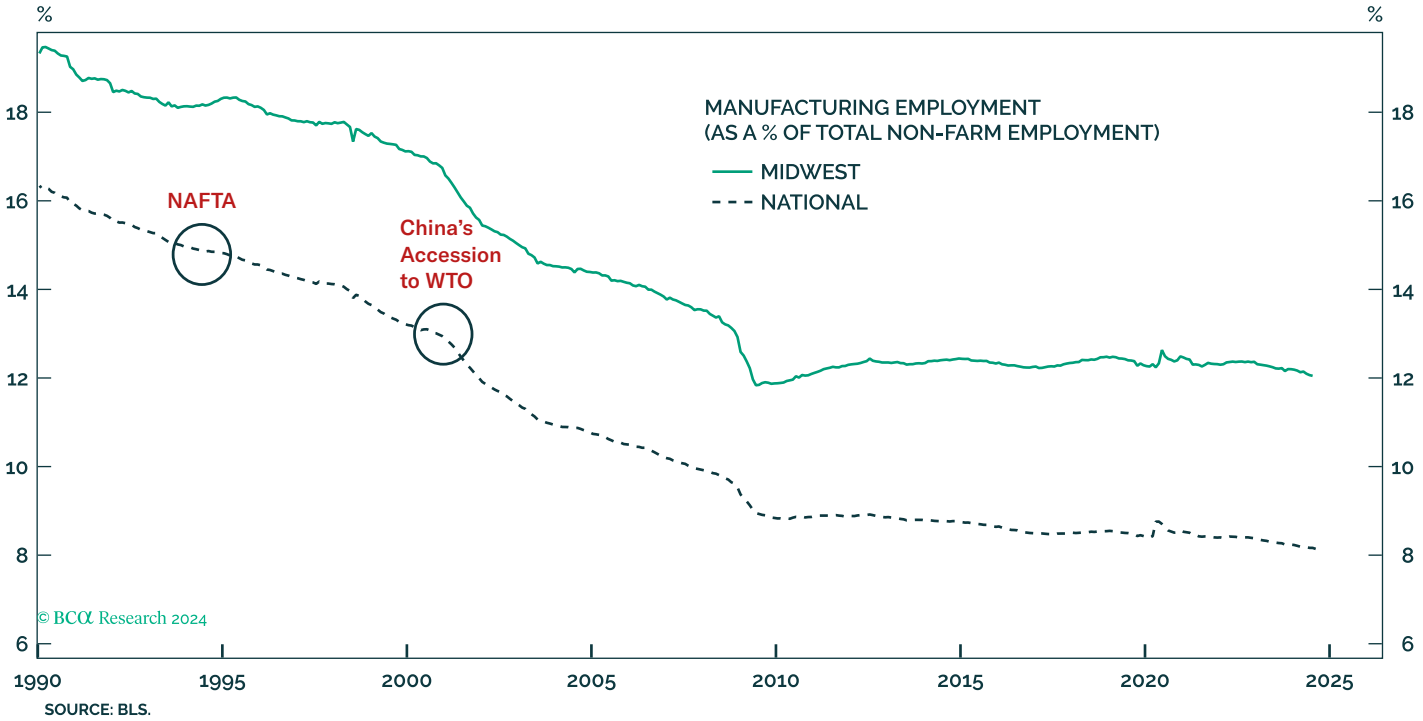
* SOURCE: THE WORLD WEALTH AND INCOME DATABASE.
** INCLUDES MARRIED COUPLES AND SINGLE ADULTS (1962-1989), ADULTS (1990-2012).

Government And Institutions Lost Trust

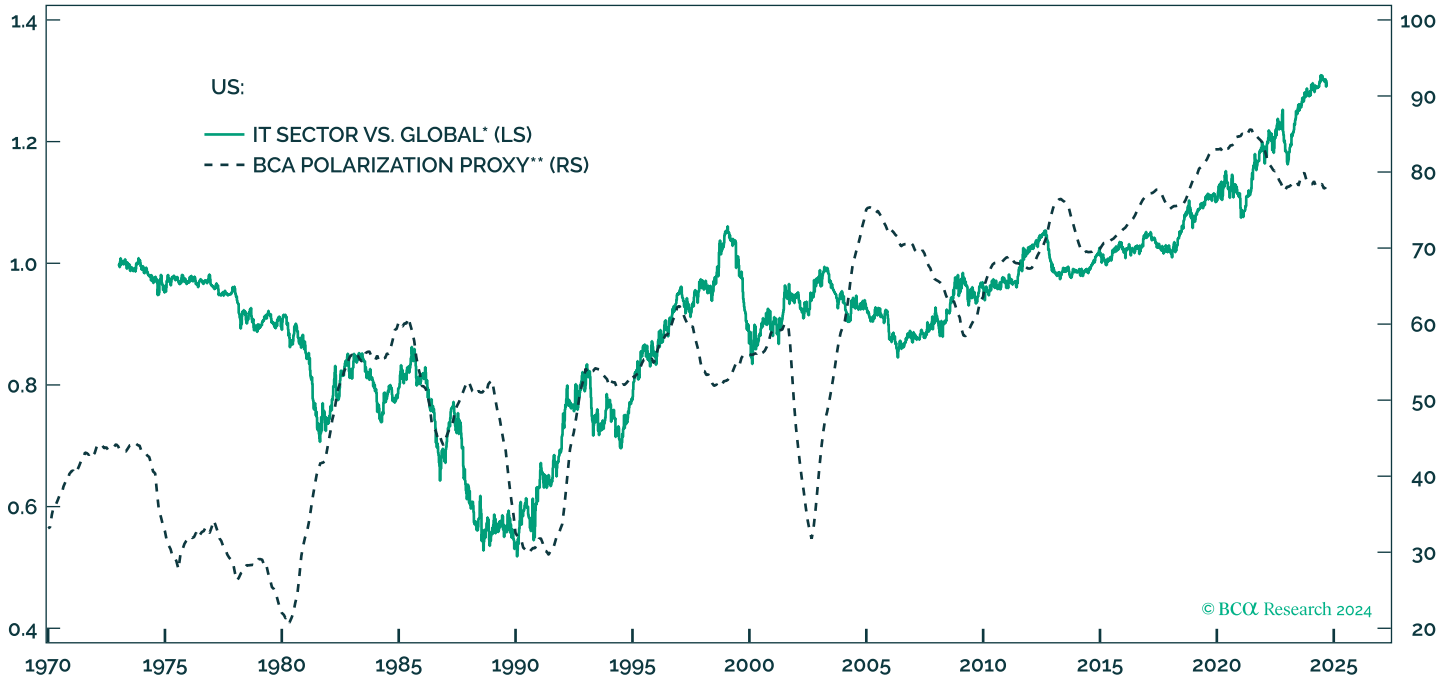


NOTE: SOUTHWEST BORDER ENCOUNTERS AND 2024 DATA IS YTD.
SOURCE: DHS.

Social And Economic Structure Changed



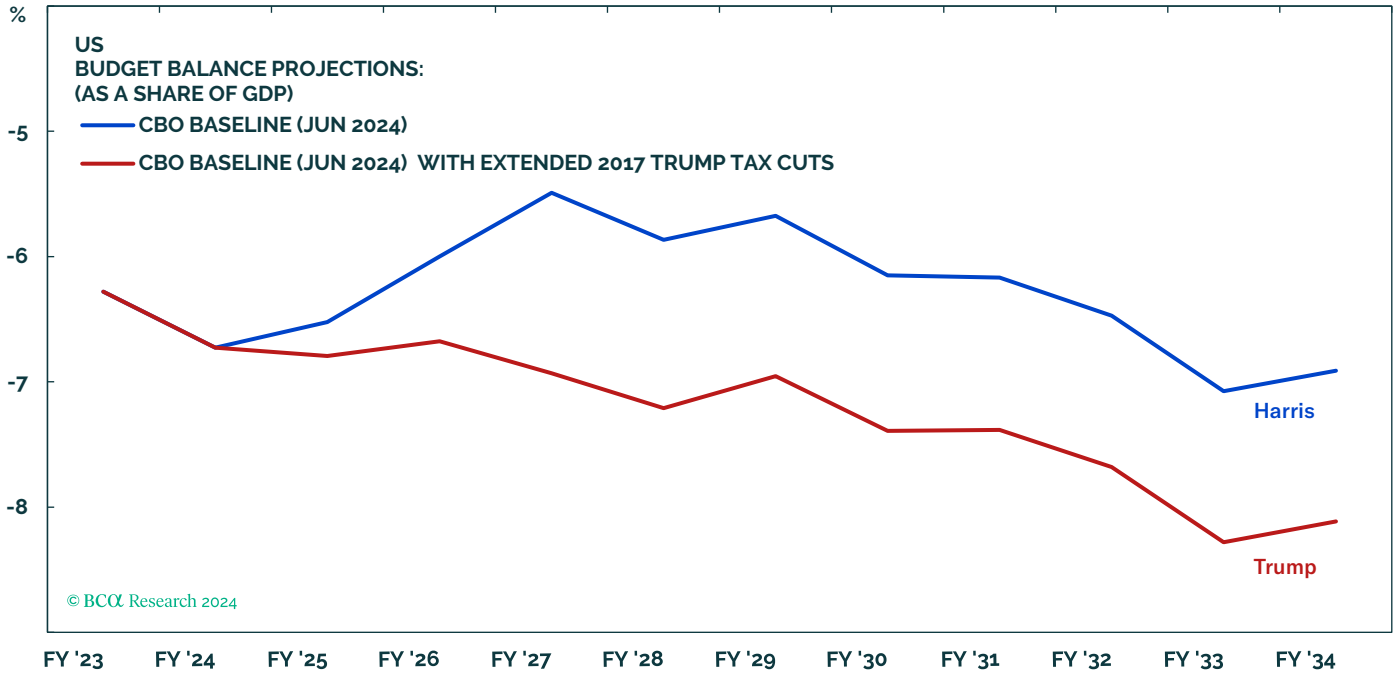
The Whole Story In A Single Chart



* SOURCE: REFINITIV DATASTREAM.
** SHOWN AS A 12-MONTH MOVING AVERAGE OF ABSOLUTE VALUE OF THE DIFFERENCE IN PRESIDENTIAL APPROVAL RATING BY PARTY. SOURCE: GALLUP.

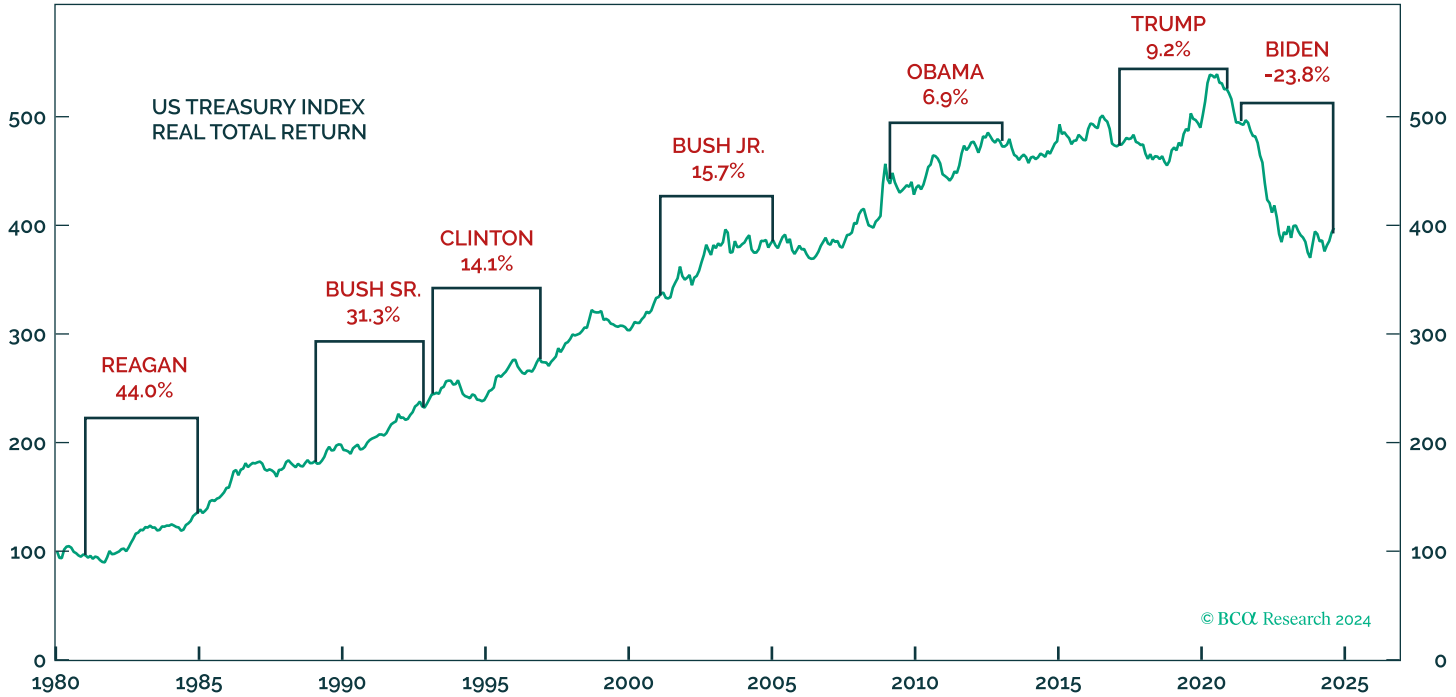
The 2024 Election:
GOP Will Take The Senate

How Will The 2024 Election Affect Fiscal Policy?



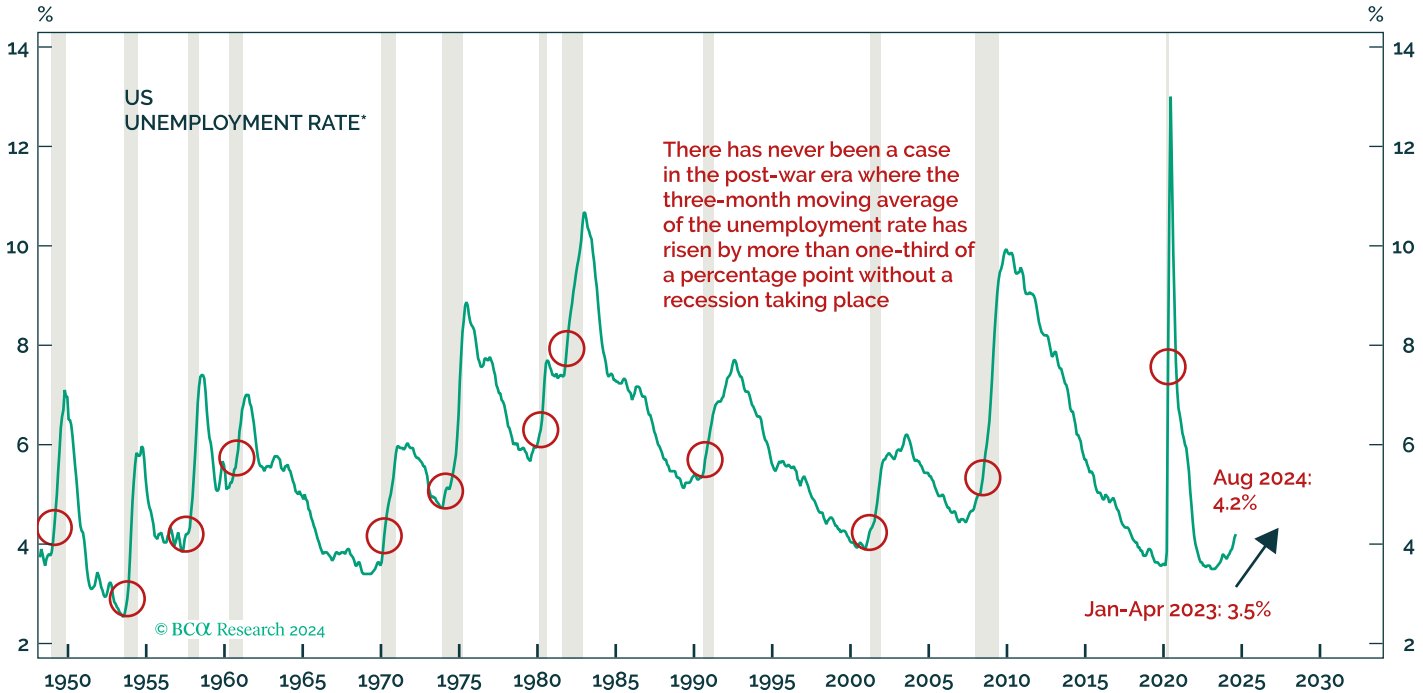
SOURCE: CONGRESSIONAL BUDGET OFFICE AND BCA CALCULATIONS.

Bond Markets Need To Get Reassured



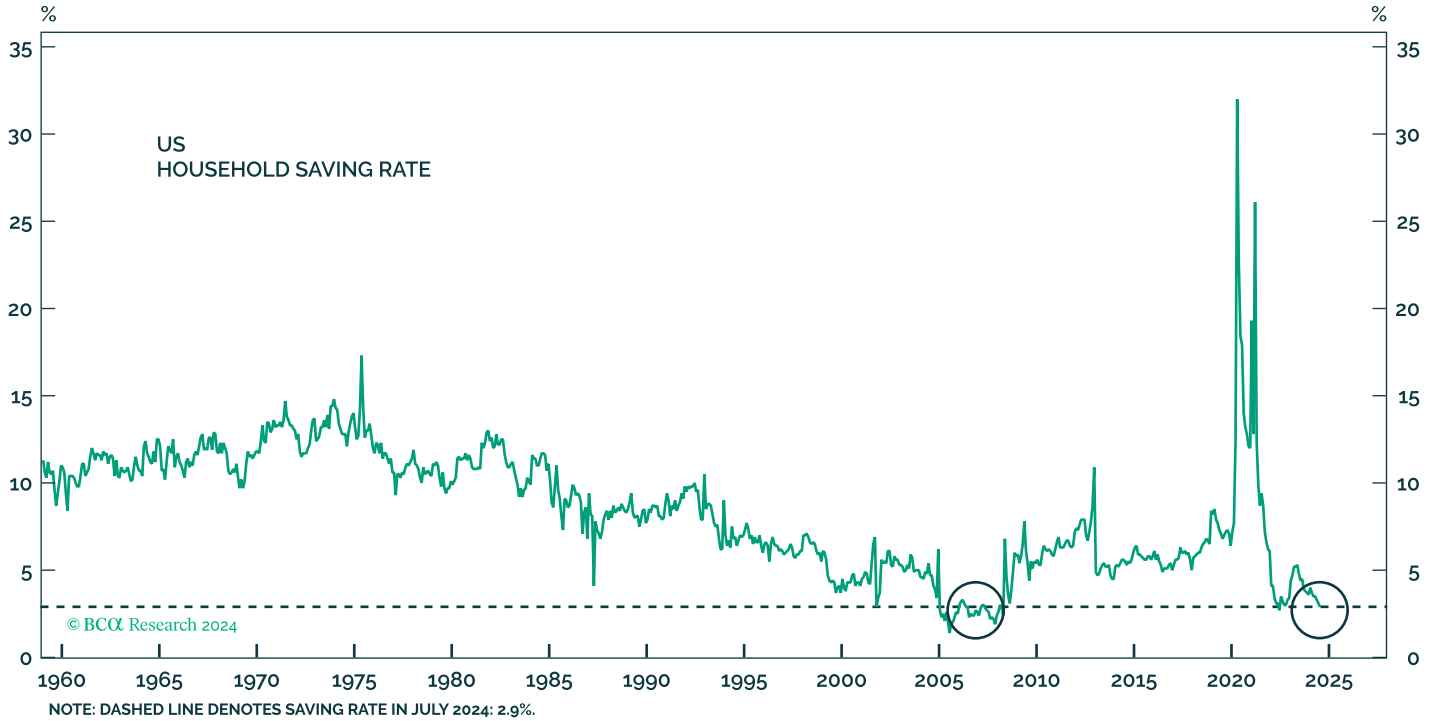
NOTE: DATA IN THE CHART REFERS TO RETURNS OVER PRESIDENTS' FIRST TERM; REBASED TO JANUARY 1980 = 100; DEFLATED BY CPI.
SOURCE: BLOOMBERG BARCLAYS INDICES.

Now The Business Cycle Is Waning



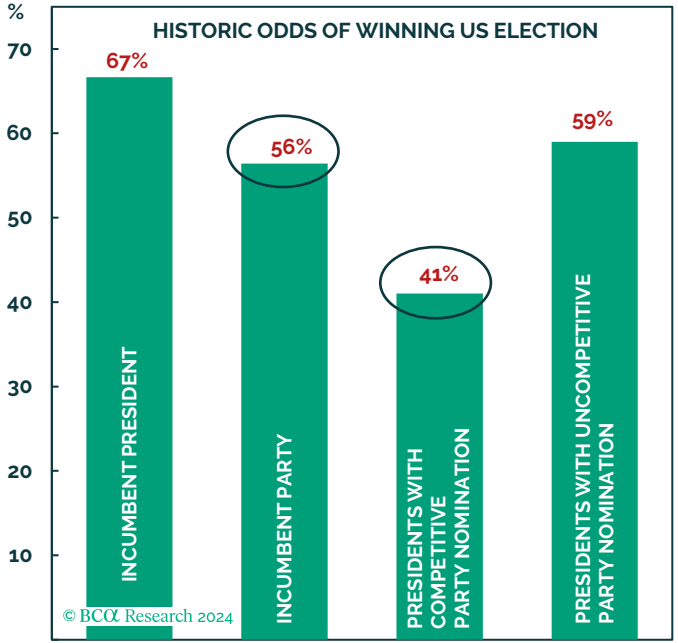
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS; CIRCLES IN THE CHART DENOTE THE TIMES WHEN THE 3-MONTH MOVING AVERAGE OF THE UNEMPLOYMENT RATE INCREASED BY MORE THAN ONE-THIRD OF A PERCENTAGE POINT FROM PRIOR LOWS.
* SHOWN AS A 3-MONTH MOVING AVERAGE.

But Recession Not Yet In Full Swing



NOTE: DASHED LINE DENOTES SAVING RATE IN JULY 2024: 2.9%.

History Says Ruling Party Will Squeak By

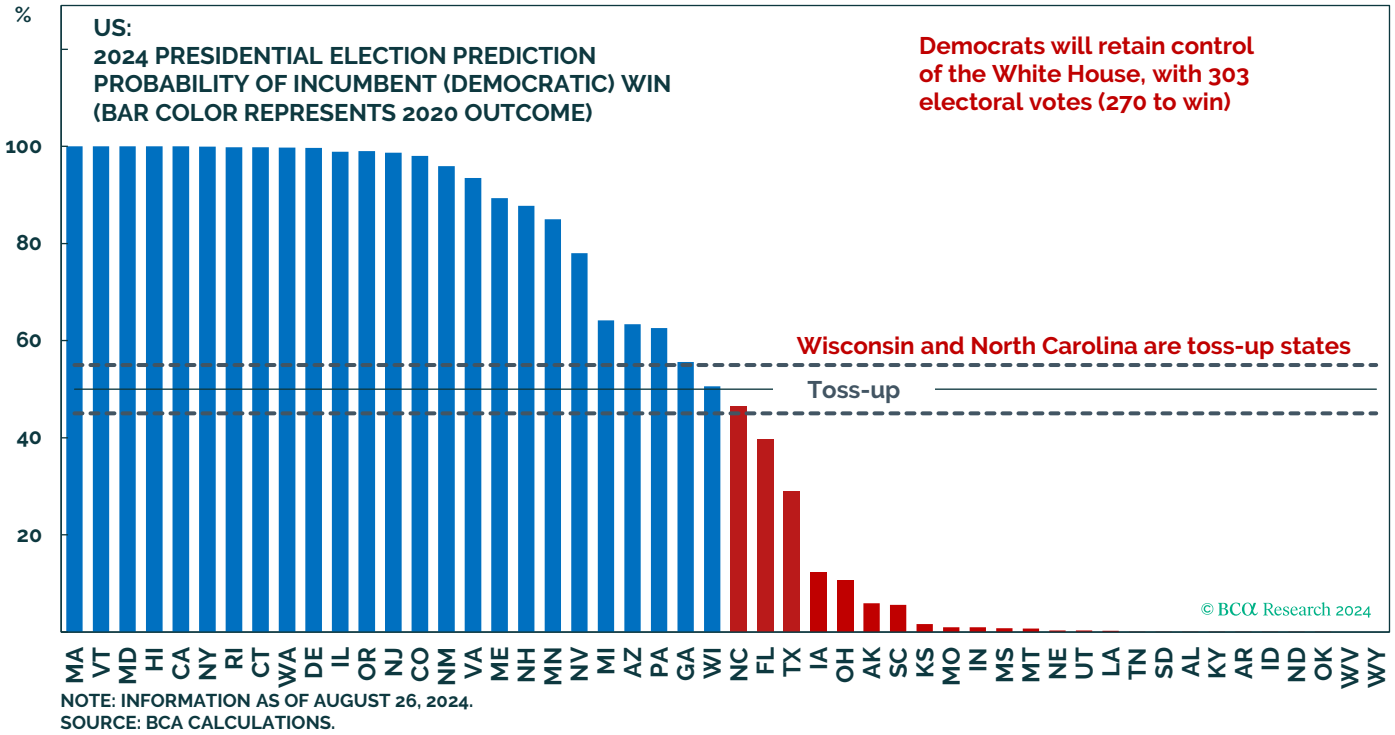


NOTE: A COMPETITIVE NOMINATION IS DEFINED AS ONE WHERE LESS THAN 80% OF DELEGATE VOTES ARE RECEIVED BY A PRESIDENTIAL NOMINEE.
SOURCE: CNN; NBER; DAVE LEIP'S ATLAS.

WIN RATES IN US ELECTIONS AMID RECESSION	
RECESSION IN CALENDAR YEAR OF ELECTION	
INCUMBENT PRESIDENT WIN RATE	44%
POST-WWII	33%
INCUMBENT PARTY WIN RATE	40%
POST-WWII	20%
NO RECESSION IN CALENDAR YEAR OF ELECTION	
INCUMBENT PRESIDENT WIN RATE	80%
POST-WWII	78%
INCUMBENT PARTY WIN RATE	64%
POST-WWII	56%

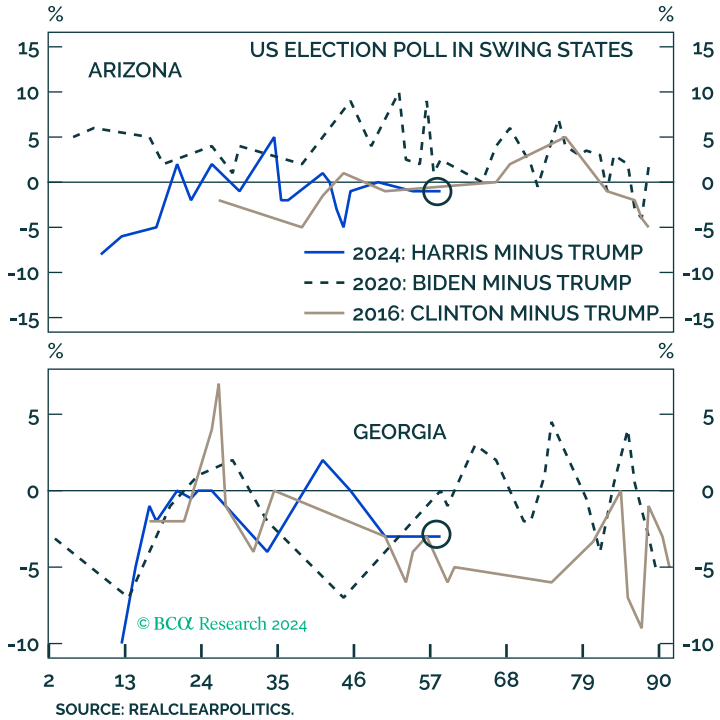
SOURCE: NBER; DAVE LEIP'S ATLAS.

Our Quant Model Agrees With History

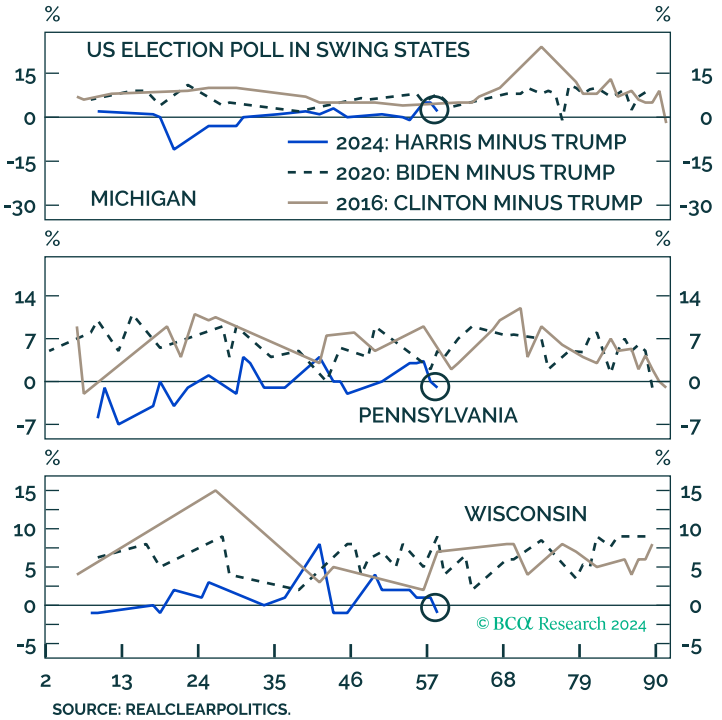


NOTE: INFORMATION AS OF AUGUST 26, 2024.
SOURCE: BCA CALCULATIONS.

But Opinion Polls Tied In Swing States

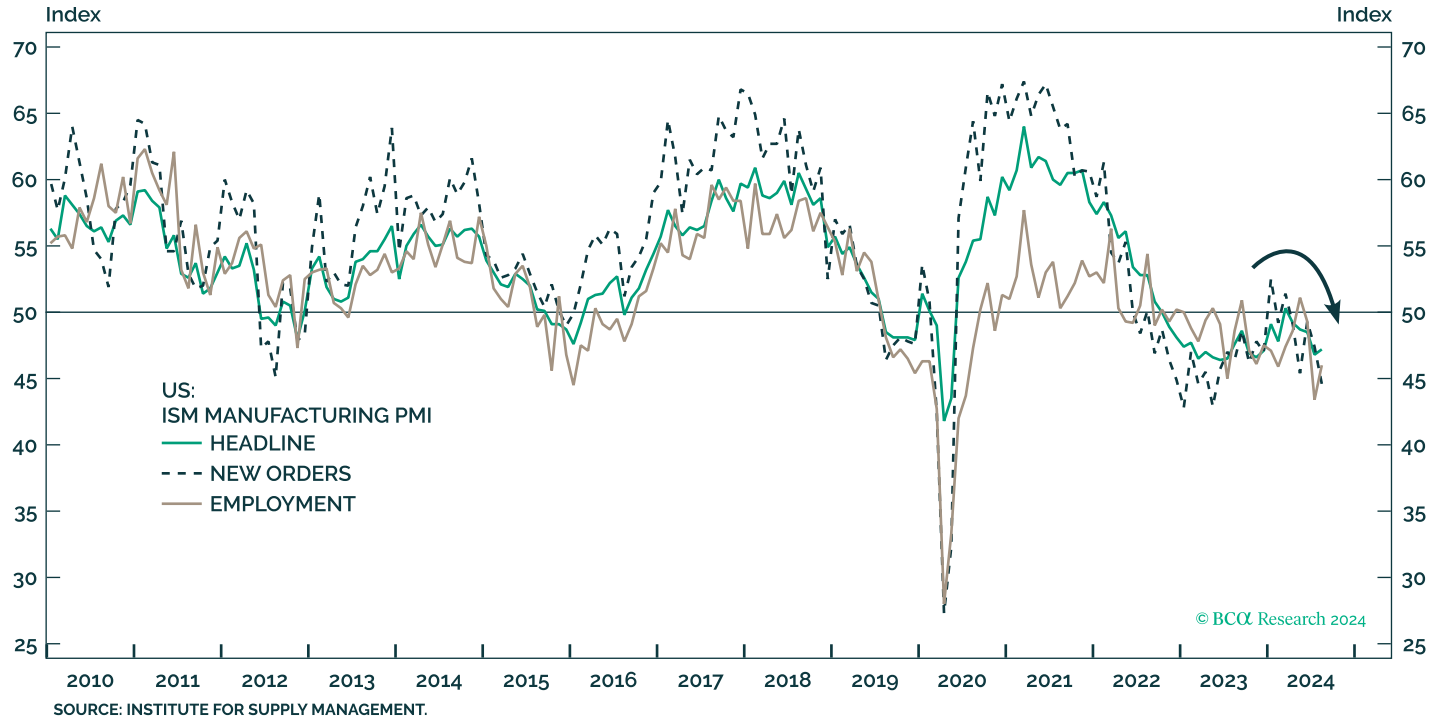


SOURCE: REALCLEARPOLITICS.



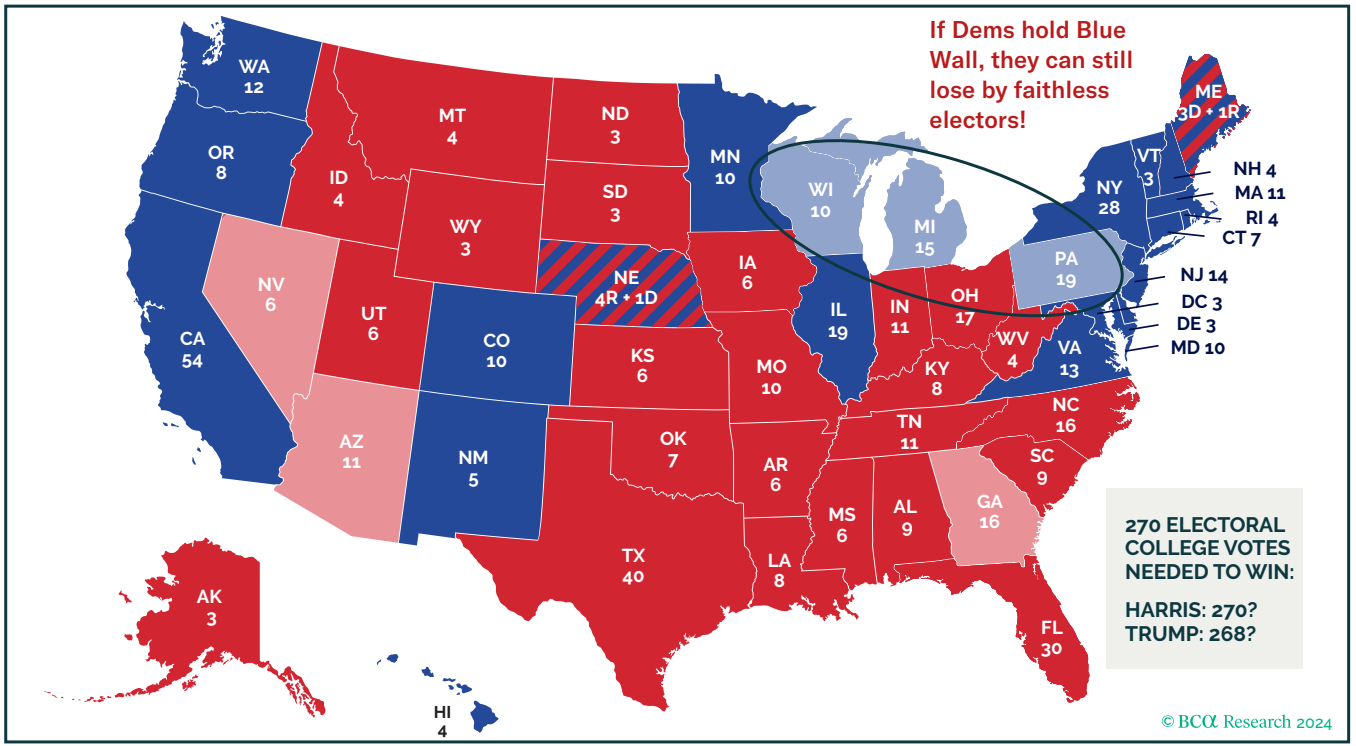
SOURCE: REALCLEARPOLITICS.

Manufacturing Slowdown Hits Midwest First

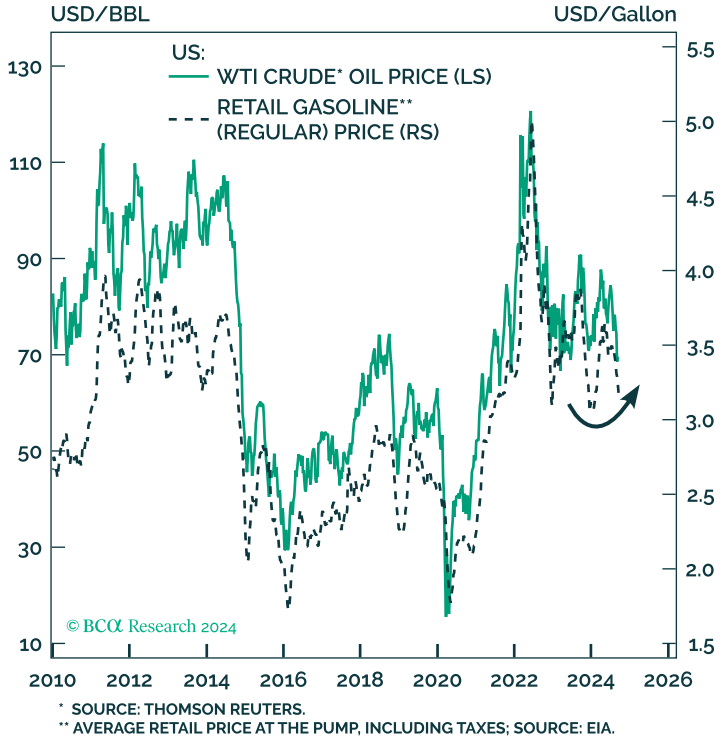


SOURCE: INSTITUTE FOR SUPPLY MANAGEMENT.

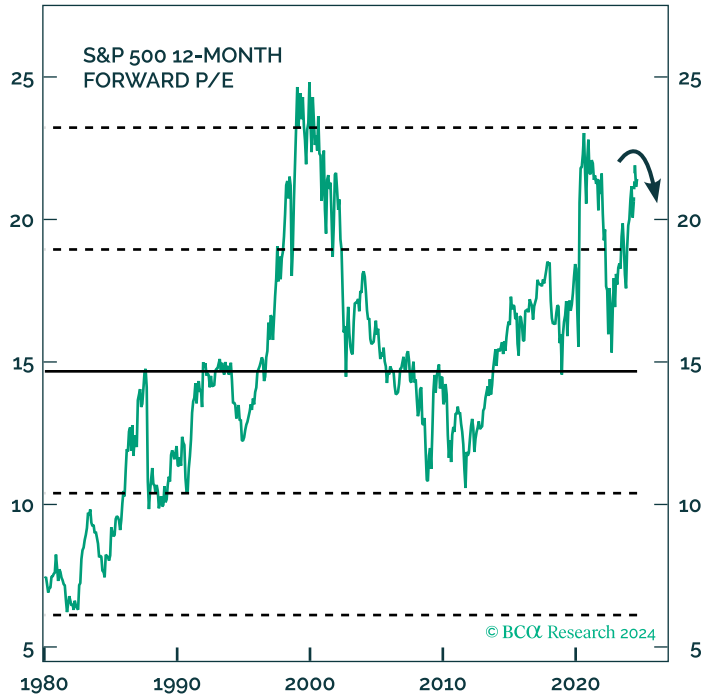
Scenario: Dems Win Popular And Electoral Vote But Lose White House?!?



Global Instability Will Rise, Beware October Surprise

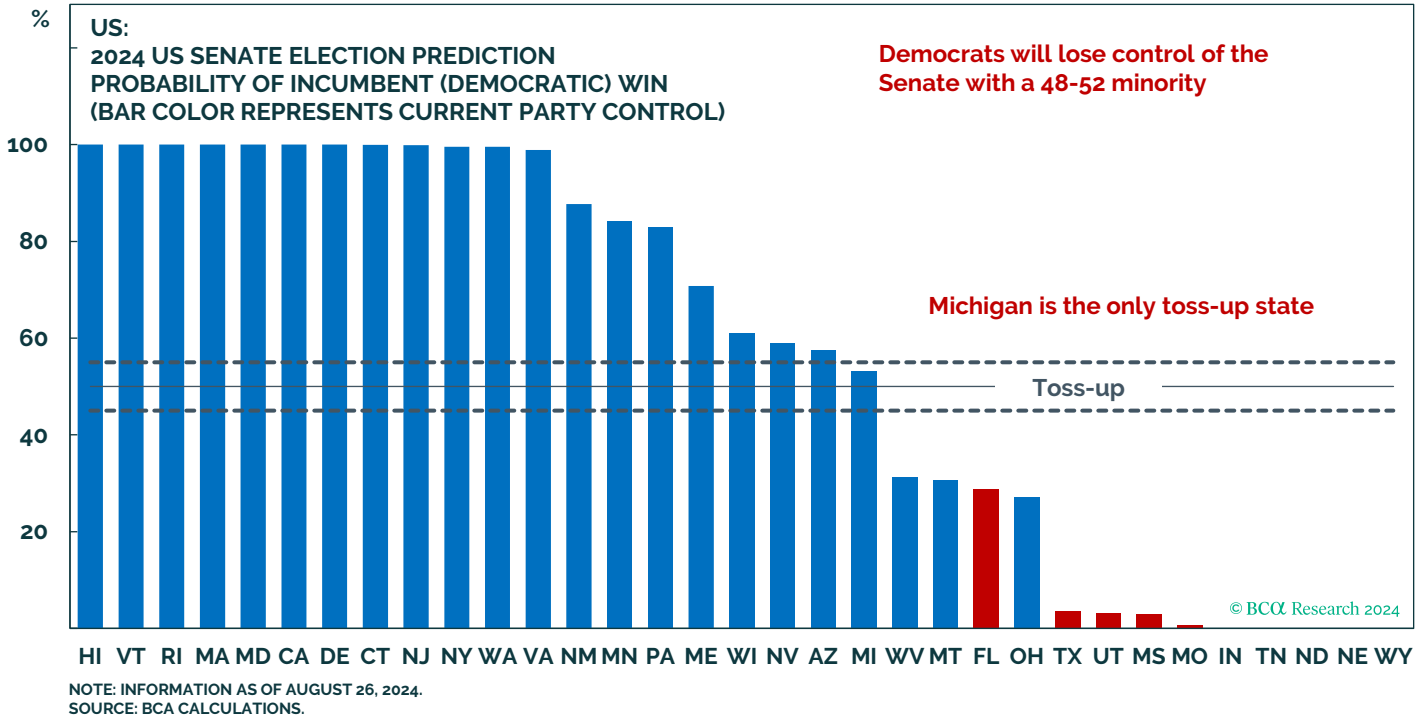


* SOURCE: THOMSON REUTERS.
** AVERAGE RETAIL PRICE AT THE PUMP, INCLUDING TAXES; SOURCE: EIA.



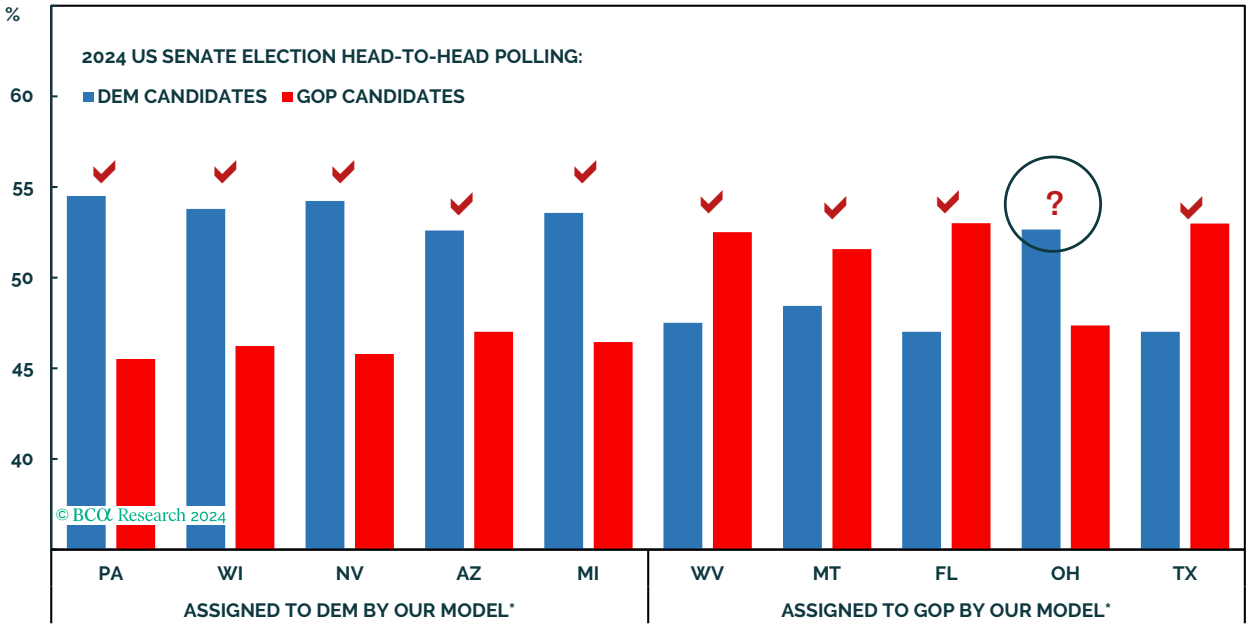
NOTE: SOLID LINE DENOTES SERIES MEAN; DASHED LINES DENOTE +/-1 AND 2 STANDARD DEVIATIONS FROM THE MEAN.

Republicans Very Likely To Win Senate



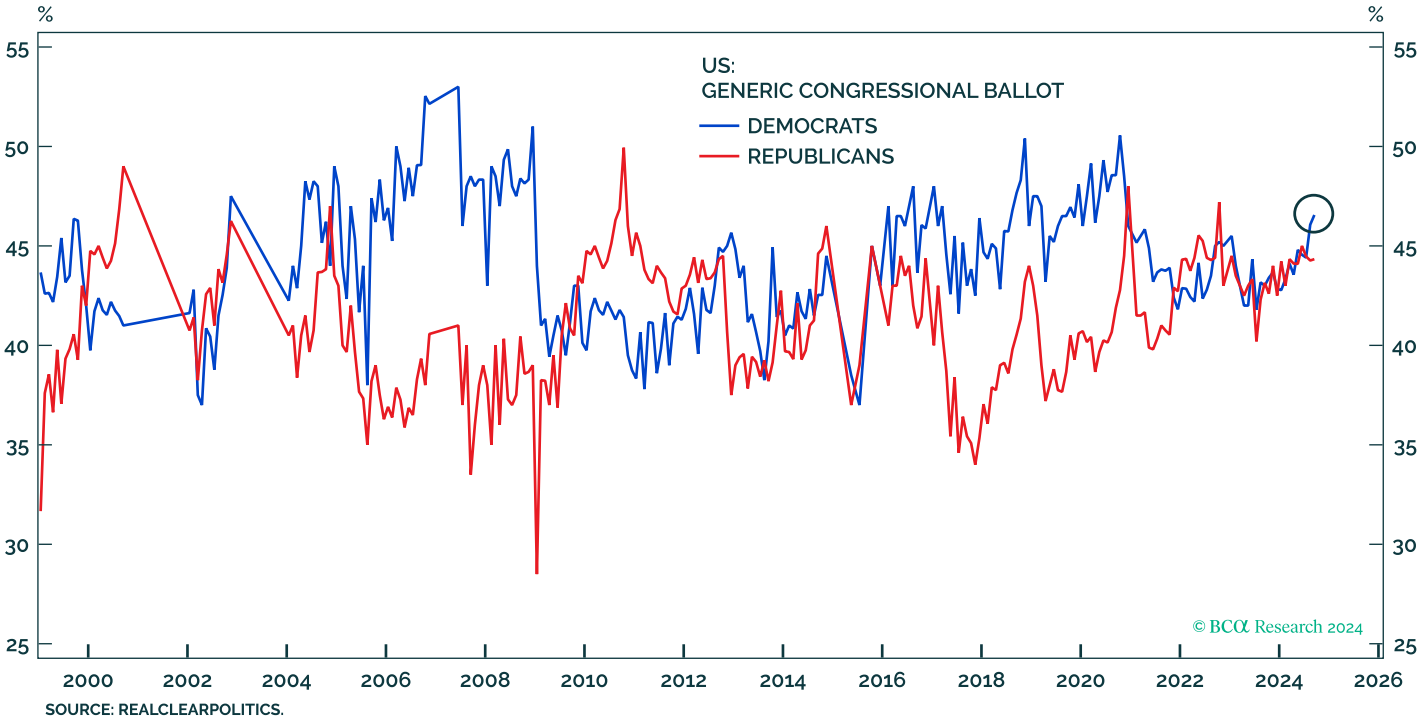
NOTE: INFORMATION AS OF AUGUST 26, 2024.
SOURCE: BCA CALCULATIONS.

Senate Polls Support Quant Model



NOTE: HEAD-TO-HEAD POLLING OF DEM AND GOP NOMINEES OR PRESUMPTIVE CANDIDATES ARE CONVERTED TO SHOW RELATIVE POLLING. DATA REFLECTS THE AVERAGE OF POLLING CONDUCTED BETWEEN JUL - AUG 2024.
* BASED ON THE PREDICTION RESULT OF 2024 SENATE ELECTION MODEL (UPDATED ON AUGUST 26, 2024).
SOURCE: FIVETHIRTYEIGHT AND BCA CALCULATIONS.

House Will Follow Presidential Race



SOURCE: REALCLEARPOLITICS.

Which States Could Steal The Election? Georgia Or Michigan

Swing States	2020 Margin	House	Senate	Governor	Secretary of State	State Supreme Court
Georgia	0.23%	GOP	GOP	GOP	GOP (E)	Conservative Majority
Arizona	0.31%	GOP	GOP	DEM	DEM (E)	Conservative Majority
Wisconsin	0.63%	GOP	GOP	DEM	DEM (E)	Liberal Lean
Pennsylvania	1.16%	DEM	GOP	DEM	GOP (A)	Liberal Majority
North Carolina	1.35%	GOP	GOP	DEM	DEM (E)	Conservative Majority
Nevada	2.39%	DEM	DEM	GOP	DEM (E)	Conservative Lean
Michigan	2.78%	DEM	DEM	DEM	DEM (E)	Liberal Lean
Florida	3.36%	GOP	GOP	GOP	GOP (A)	Conservative Majority
Texas	5.58%	GOP	GOP	GOP	GOP (A)	Conservative Majority

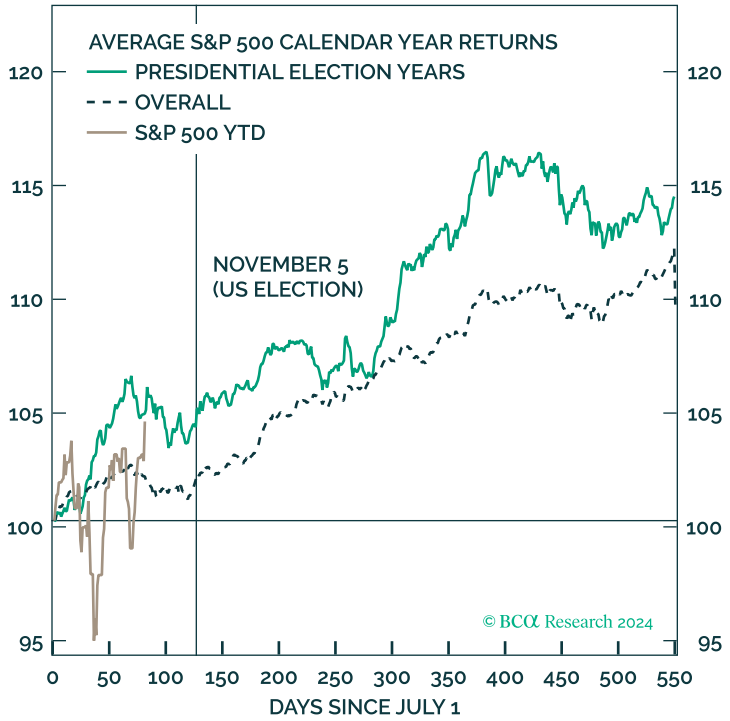
NOTE: AS OF AUGUST 30, 2024.

What Happens In A Contingent Election? Trump Wins

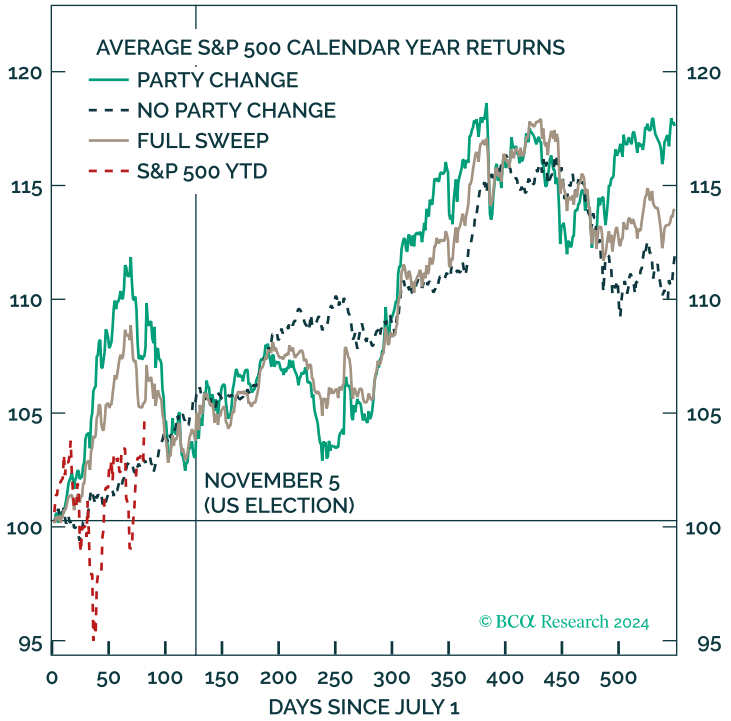
	US HOUSE OF REPRESENTATIVES: LIKELY PARTISAN LEAN BY STATE DELEGATION	
	VOTES	STATES
DEMOCRAT VOTES	22	AK, CA, CO, CT, DE, HI, IL, ME, MD, MA, MI, NV, NH, NJ, NM, NY, OR, PA, RI, VT, VA, WA
EVENLY SPLIT	2	MN, NC
REPUBLICAN VOTES	26	AL, AZ, AR, FL, GA, ID, IN, IA, KS, KY, LA, MS, MO, MT, NE, ND, OH, OK, SC, SD, TN, TX, UT, WV, WI, WY

Scenarios And Market Reactions

How Will Markets React?

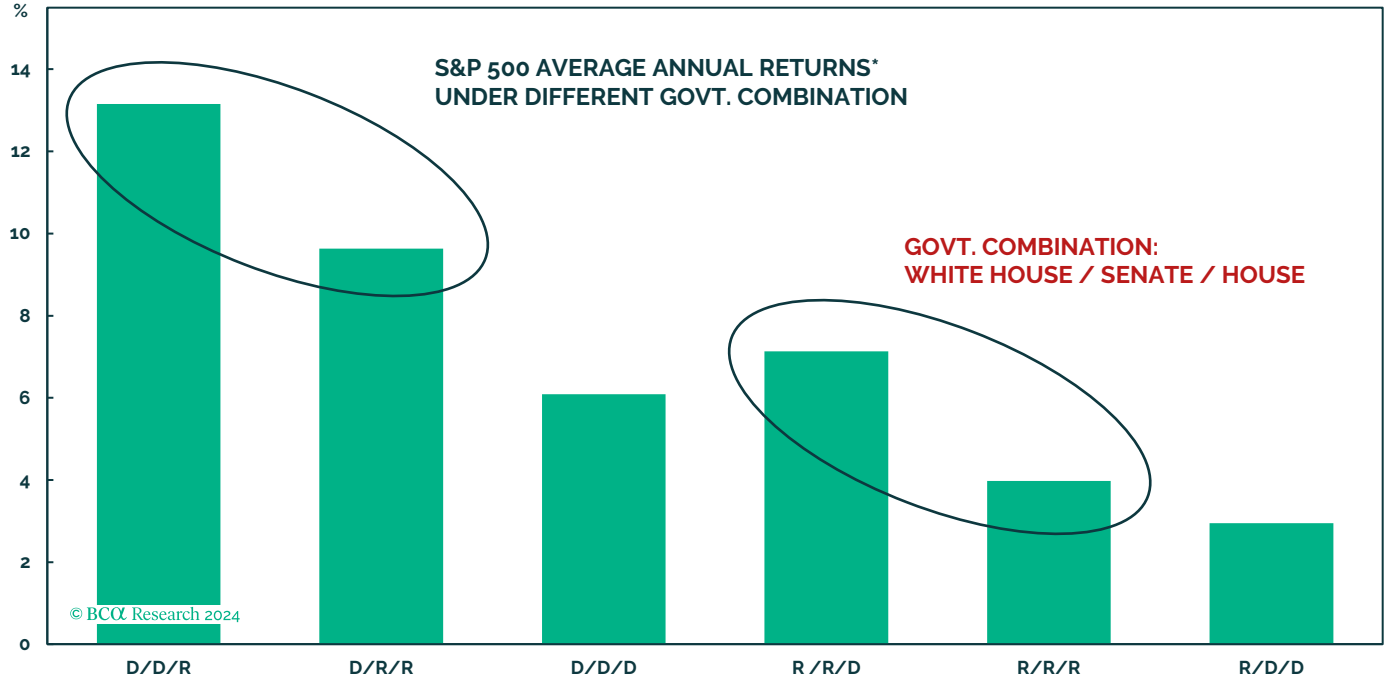


NOTE: EACH CALENDAR YEAR IS REBASED TO JUL. 1 = 100; DATA STARTING 1928.



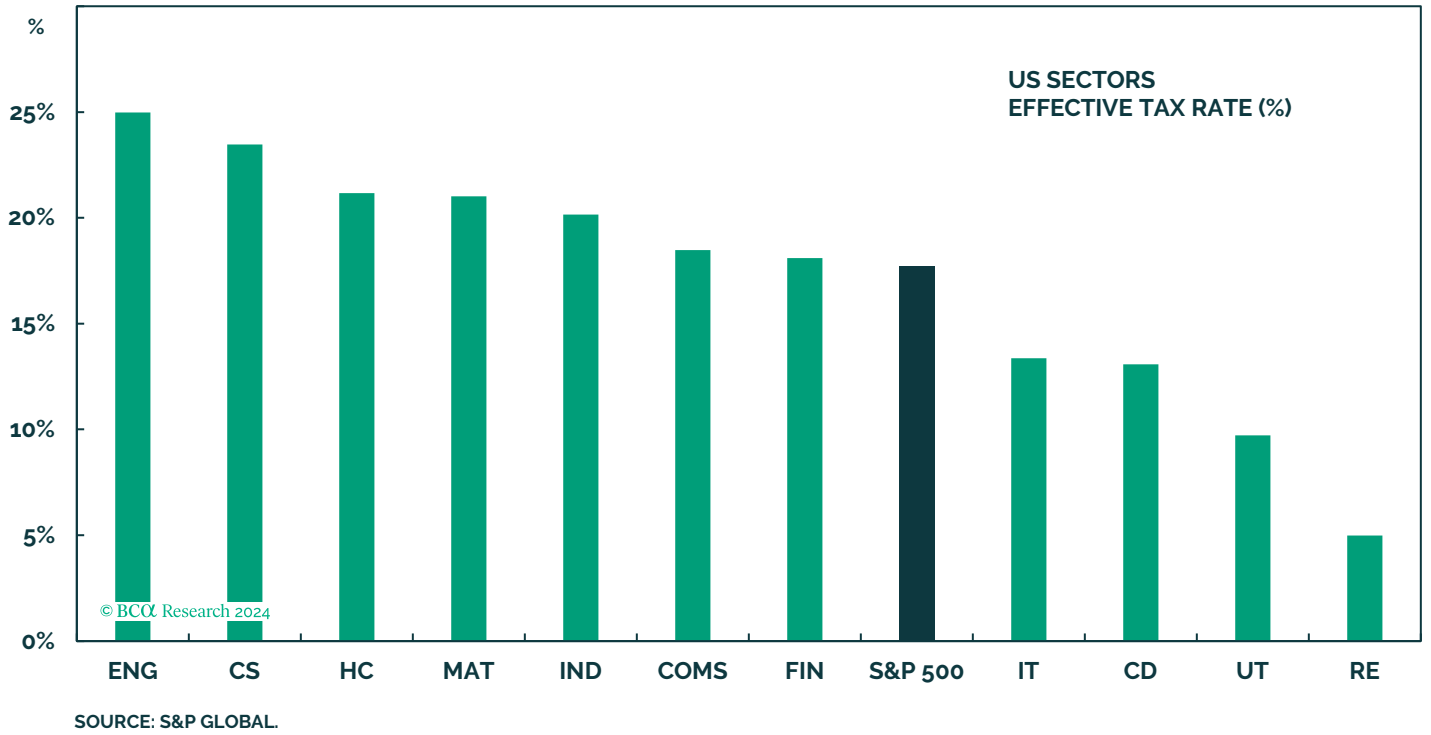
NOTE: EACH CALENDAR YEAR IS REBASED TO JUL. 1 = 100; DATA STARTING 1928.

Gridlock Is Good For Markets



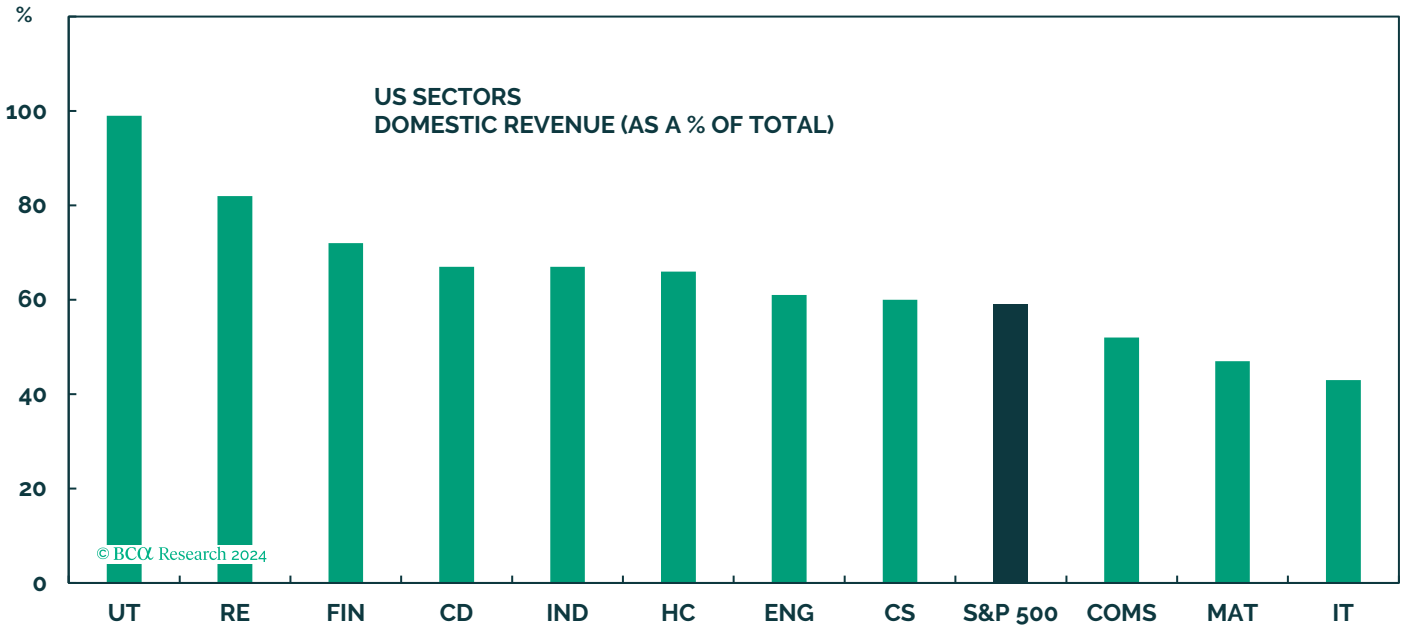
NOTE: THE SERIES INCLUDES DATA FROM 1900 TO 2024. 2024 DATA IS CALCULATED USING JANUARY TO DECEMBER AVERAGE. 2001 AND 2002 ARE CONSIDERED AS HAVING A GOP SENATE.
* CALCULATED AS THE PERCENTAGE CHANGE FROM JANUARY TO DECEMBER USING MONTHLY S&P 500 DATA.

Sectors Vulnerable To Higher Taxes



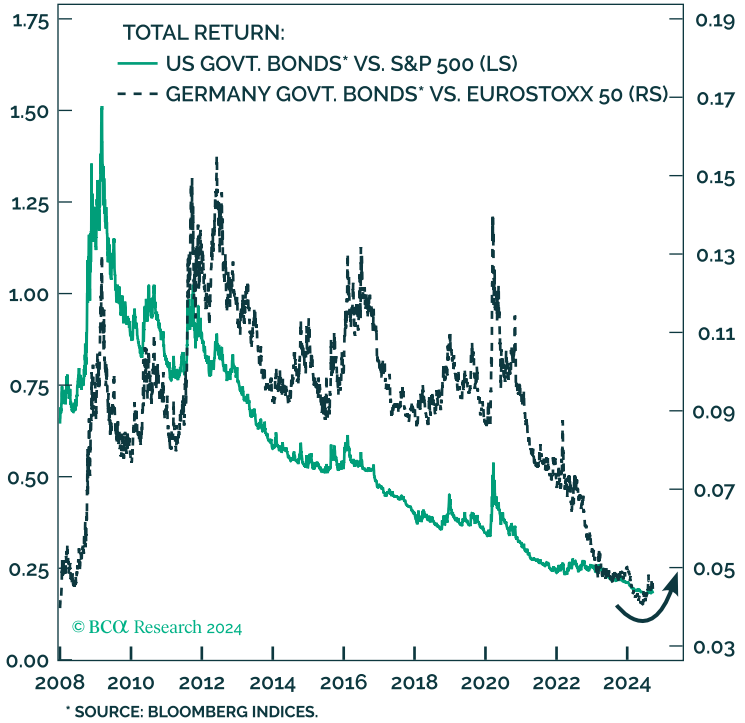
SOURCE: S&P GLOBAL.

Sectors Vulnerable To Trade Wars

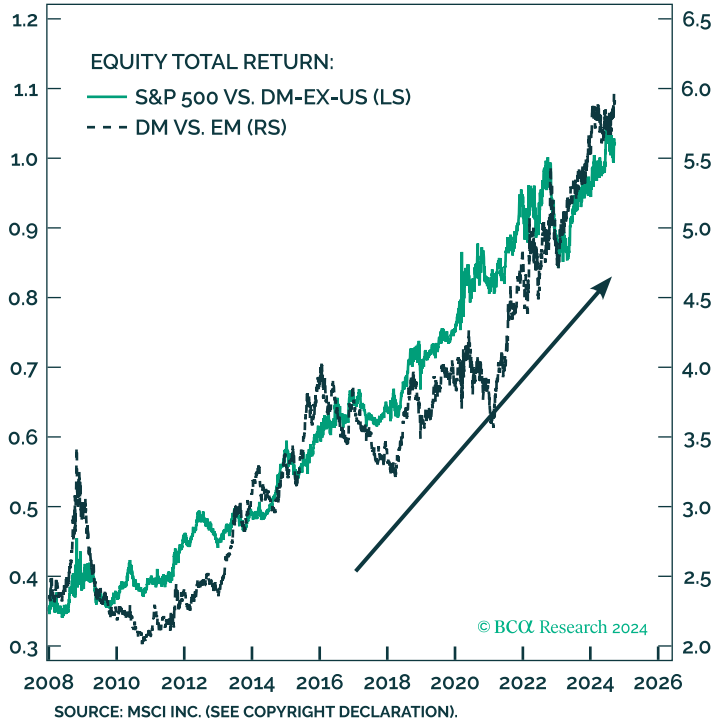


SOURCE: FACTSET EARNINGS INSIGHT, Q2 2024.

How Do You Win Either Way?



* SOURCE: BLOOMBERG INDICES.



SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).

How Do You Win Either Way?

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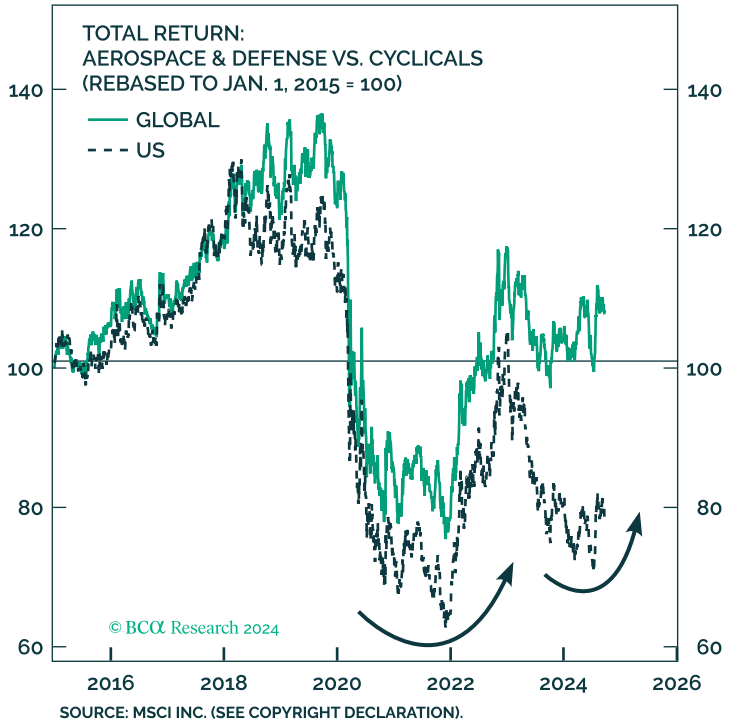
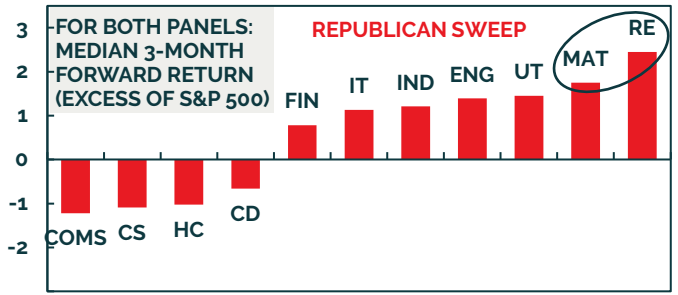
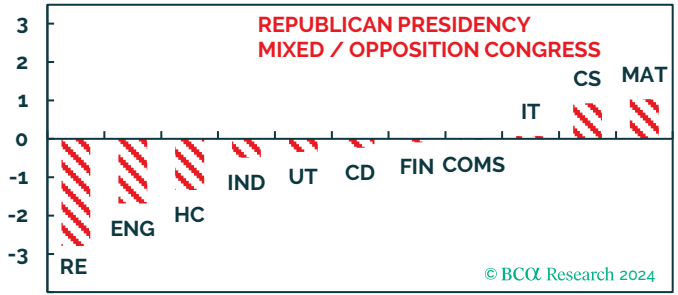
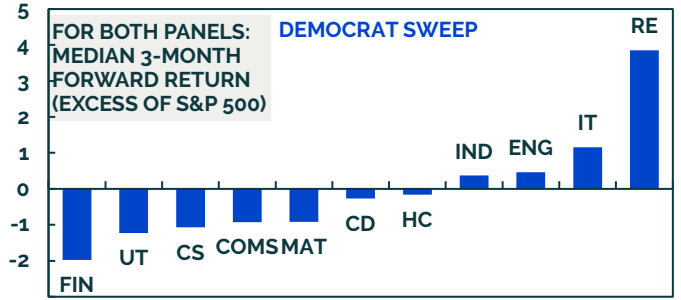


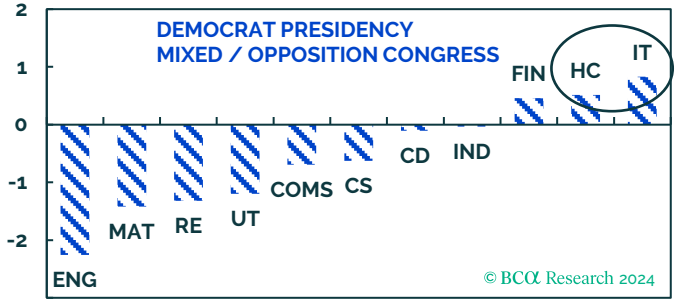
SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).

Do Equity Sectors Have Partisan Affiliations?









Investment Conclusions

- The US business cycle is turning down. Position defensively until recession is priced.
- History and our quant model slightly favor Democrats for the White House ...
- ... But Republicans have a clear path to victory.
- Republicans are highly likely to win the Senate, reducing downside policy risks from Democratic victory.
- Trump victory implies single-party sweep, fiscal stimulus, and immigration curbs.
- Trump poses credible threat on tariffs. Trade war would escalate before any de-escalation.
- Either party can replace Chairman Powell but moderate Senators will determine confirmation vote.
- The Trump trade means reflation, trade war, escalation in Mideast, and bond market turmoil.
- The Harris trade means disinflation, escalation in Ukraine, and bond market rally.
- Position for recession until major policy change triggers reflation.

Thank You

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