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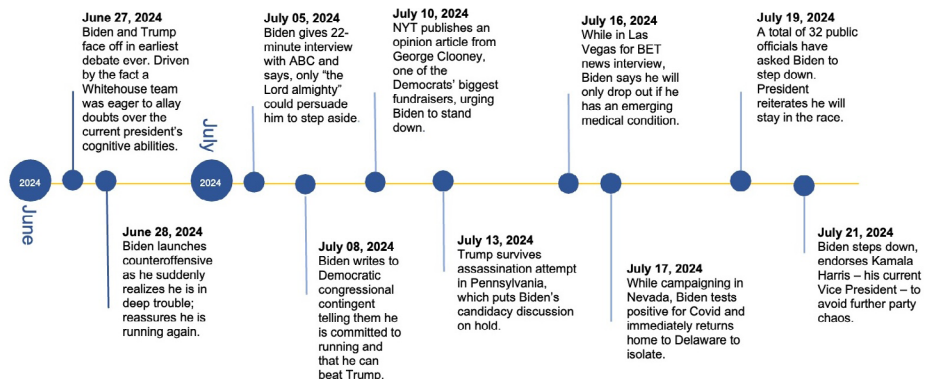
The 2024 U.S. elections: Trump vs. Biden Harris: Here we go!

“It has been the greatest honour of my life to serve you as your President. And while it has been my intention to seek reelection, I believe it is in the best interest of my party and the country for me to stand down and to focus solely on fulfilling my duties as President for the remainder of my term.”

~ Joseph Biden, 46th President of the United States of America

What a time to be alive!

Dizzying. Unprecedented. Fraught. These are just some of the forceful adjectives one might use to describe the recent series of events surrounding the historic (there’s another one!) 2024 U.S. elections that have whipsawed the world – and that’s just in the last month or so. Amazingly, the election itself hasn’t even officially begun – which is mindboggling (and there’s another one)!



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The GOP, under the leadership of Republican presidential nominee Donald Trump, has seemed more unified than it has been in decades, particularly following the frightening assassination attempt on the former President at a rally in Pennsylvania. The recent Republican National Convention showcased a party with a swagger that seemed to convey that they had all but sworn in Trump as the 47th president of the U.S.

Against such momentum and confidence, the deficit of hope within the Democratic party stood in stark contrast after President Biden’s stunningly poor debate performance compelled even his most ardent supporters and donors to withdraw or suspend support for his re-election campaign. That is until his game-changing and extraordinary withdrawal from the 2024 presidential race on July 21. The move marked one of the very few exits of a presidential incumbent in U.S. history, and the first since 1968 when President Lyndon B. Johnson announced he would not seek re-election amid considerable political and social unrest in the U.S. against the backdrop of the Vietnam War.

Biden’s immediate endorsement of Vice President Kamala Harris as the Democratic presidential nominee seemed to be the pendulum shift sorely needed for her party. In the short week that followed, the shift in energy was palpable, as the Democratic leadership and donors coalesced around their second chance candidate. Within one day of Biden’s fateful announcement, Harris had sewn up more than enough pledged delegates to secure the nomination. And within the first week of announcing her bid for president, Harris raised more than \$200 million – four times what the Biden re-election effort raised in the entire month of April, and far more than the \$112 million raised by Trump’s campaign in the month of June, according to [a report from National Public Radio \(NPR\)](#).

In the days and weeks ahead, we expect a barrage of information to be unleashed by both parties, but particularly the Democrats. This week, Harris announced Minnesota Governor Tim Walz to be her running mate. Walz had been seen as a dark horse contender for the

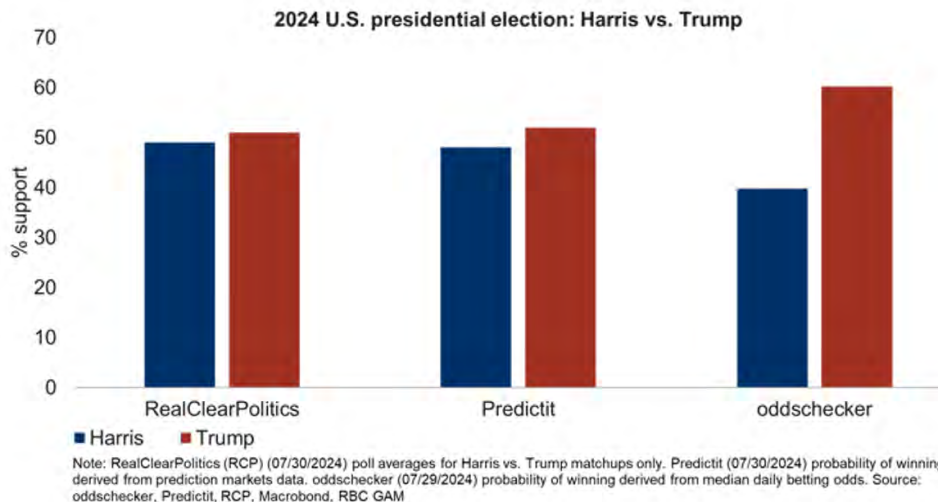
VP slot, with more chatter being directed to other high-profile names such as Gov. Josh Shapiro of Pennsylvania, and Senator Mark Kelly in Arizona. However, Walz’ profile saw a meaningful rise following a cable news interview that went viral in which he described some Republicans as “weird” – a line of attack that has now been adopted by many Democrats. Walz is also viewed as a safer choice in part due to his liberal leanings, and the fact that he hails from a Midwestern state. In 2020, Biden won Minnesota by 7 points, and no Republican has won the presidential race there in more than 50 years. However, both Trump and his running mate J.D. Vance have set their sights on flipping the state.

We believe Walz will be confirmed at the upcoming Democratic National Convention slated for Aug. 19 in Chicago. While “veepstakes” can be catnip for political junkies, political scientists have found that VP picks rarely make much of a difference when it comes to elections. However, we believe Harris’ historic candidacy – i.e., first female, Black and Asian – likely weighed on how she chose her running mate, as the Democrats want to broaden their appeal to a wider demographic and appear to have a more balanced presidential ticket. Taking the long view, Harris’ own candidacy demonstrates how much vice presidents matter as potential future leaders: close to one-third of U.S. presidents have served as vice presidents first.

Harris’ formal policy platform will likely be released over time, though with the election less than 100 days away, we do not expect her to deviate dramatically from what was laid out by her predecessor. We will be looking for any notable nuances in this regard.

Kamala renews optimism for the Democrats, but the GOP will look to exploit her vulnerabilities

Despite the renewed confidence of the Democratic party behind the Harris candidacy, this has hardly vaulted her into the lead in the race. As of the time of writing this commentary, Trump remains a favourite in betting markets. As the clock ticks cacophonously toward the Nov. 5 election date, Democrats have their work cut out for them.



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For their part, the Republicans have already started to draw attention toward several of Harris' vulnerabilities as a candidate. If the past is any indication of the future, opponents can easily point to Harris' failed presidential attempt in 2020 – a campaign that launched with considerable momentum but fizzled quickly, as she struggled to define herself ideologically and left questions on what she stood for largely unanswered.

That said, the gist of her commentary during the 2020 presidential debates suggests that her leanings – both with respect to social reform and the economy – were likely more progressive than those of Biden, an aspect that the Trump campaign has latched onto as they try to play offense. Whether such leanings will shape the contours of her 2024 presidential platform remains to be seen.

Given the limited amount of time until election day, we expect Harris to largely run on Biden's record. But this represents as much opportunity as it does risk. A recent GALLUP poll revealed that the president's approval rating has dropped to a new low of 36 percent. He continues to face criticism and discontent with respect to his handling of the economy, and he has recently generated growing divisiveness even within his own party regarding some of his key foreign policy decisions.

The weight of the economy and elections

Harris has begun to shape her own narrative around the economy, with a focus on ending child poverty, promoting labour unions, reducing the costs of health and childcare, and protecting people's "dignity" in retirement. As it stands though, these positions risk missing the mark, as the key economic concern among voters continues to be inflation, and historically high interest rates as a direct consequence. This issue represented the overwhelming pain-point that dogged Biden's re-election campaign, despite notably low levels of unemployment and strong wage growth, particularly in the last two years. And while inflation has receded meaningfully from the highs struck in the summer of 2022, prices remain significantly above pre-pandemic levels, leaving voters to cope with higher grocery, gasoline, housing and auto expenses. Harris may be hard-pressed to extricate herself from Biden's economic legacy.

As of the time of writing, global equity markets are being roiled by a higher-than-expected U.S. unemployment rate of 4.3 percent for the month of July – the highest since October 2021, and up nearly a percentage point from the low of 3.4 percent early last year. The slowdown in job growth triggered the worst sell-off of the year on Wall Street as fears of a recession were exacerbated.

Ironically, leading up to the July jobs report, the narrative of a soft economic landing was largely intact as other recent economic data pointed to continued expansion of the U.S. economy and a softening of inflation. In the second quarter of 2024, U.S. GDP expanded at an annualized rate of 2.8 percent, marking an acceleration from the 1.4 percent growth observed in the previous quarter. Consumer spending – the lifeblood of the American economy – on both goods

and services remained robust, as personal consumption remained on its upward trajectory of 2.3 percent in the second quarter following more tepid growth in the quarter prior. The core Personal Consumption Expenditures (PCE) price deflator (the Federal Reserve's preferred inflation measure) rose 2.9 percent at an annualized rate in the second quarter – down significantly from 3.7 percent in the quarter before – signaling relief in price pressures consistent with the last two favourable inflation results.

In our view, it is too early to say for certain that the labour market is rolling over or simply cooling. Still, we acknowledge the real risk of recession based on a number of key economic indicators in addition to the weakening labour market backdrop. Economic datapoints over the course of the next several weeks will be critical to shaping the narrative for the ultimate direction of the U.S. economy.

Perhaps the silver lining in all of this is that this should leave the door wide open for the U.S. Federal Reserve (Fed) to cut interest rates at its next meeting in September, or even before in the form of an emergency cut. Fed Chairman Jerome Powell has stressed in the past that the central bank will be ready to respond, "if labour markets were to weaken unexpectedly." With the Overnight Federal Funds rate currently sitting just above 5.25 percent, the Fed possesses ample "dry powder" to cut rates and potentially provide some relief to both the economy and the markets. Our guess is that the Harris camp believes that rate cuts cannot come soon enough. The selloff in markets and further weakening in employment certainly complicates the messaging from Democrats on the economic front.

But what do we know about elections that occur against the backdrop of an economic recession in the U.S.? It's worth noting that since World War II, an incumbent president has not failed to be re-elected if there was no recession in the lead up to the election. And recent history bears this out, as Trump lost the 2020 election in the wake of the recession caused by the Covid-19 pandemic. While we acknowledge that Harris not technically the incumbent, but rather Biden's replacement, to the extent that recessionary pressures continue to build leading up to the elections will hardly help the Democrats at the ballot box.

Election Year	Incumbent	Recession prior to election?*	Incumbent Win?
1948	Harry S. Truman	No	Yes
1956	Dwight D. Eisenhower	No	Yes
1972	Richard Nixon	No	Yes
1976	Gerald Ford	Yes	No
1980	Jimmy Carter	Yes	No
1984	Ronald Reagan	No	Yes
1992	George H. W. Bush	Yes	No
1996	Bill Clinton	No	Yes
2004	George W. Bush	No	Yes
2012	Barack Obama	No	Yes
2020	Donald J. Trump	Yes	No

Source: RBC Global Asset Management.

Nevertheless, the small sample size of datapoints is hardly sufficient to render this phenomenon statistically significant; and, as we have seen in just the last few weeks, anything is possible.

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Immigration & Crime

Immigration, and Harris' charge as vice president to curb migration, is another risk for the Democrats at the ballot box this fall. Her handling of this complex issue has been criticized by both sides of the political aisle. It seems that her campaign is acutely aware of this perception, given that little to nothing has yet been said by Harris, or those around her, on this issue.

Furthermore, the current vice president has leaned into her history as the Attorney General of California and a courtroom prosecutor during which time she took on "perpetrators of all kinds." This may be seen as a strategically sound move as Harris tries to win over more centrist and conservative voters, especially given the general perception amongst them that Trump is the stronger candidate on crime. Yet this same history could be a liability in Harris' campaign, particularly among progressives. She faced attacks during her 2020 presidential bid from within her own party for her 'tough-on-crime' stance, and her record on cracking down on truancy rates, which criminalized the parents of children that missed school. Going forward, we suspect Harris will attempt to thread a fine needle and position herself as a centrist on the issue of crime as she seeks to attract voters sitting on the sidelines.

We suspect Harris and her advisors are aware of these perceived weaknesses and are furiously crafting messaging around them. Still, often the criticism and scrutiny doled out to politicians over time can help them become better candidates. Whether voters believe this to be the case for the newly minted presidential candidate will be etched into the chads on Nov. 5.

Elections and the markets: short-term volatility, medium-to-long-term "Meh"

For those of us who are following the U.S. elections closely, the warp-speed pace of change feels as if we've lived through

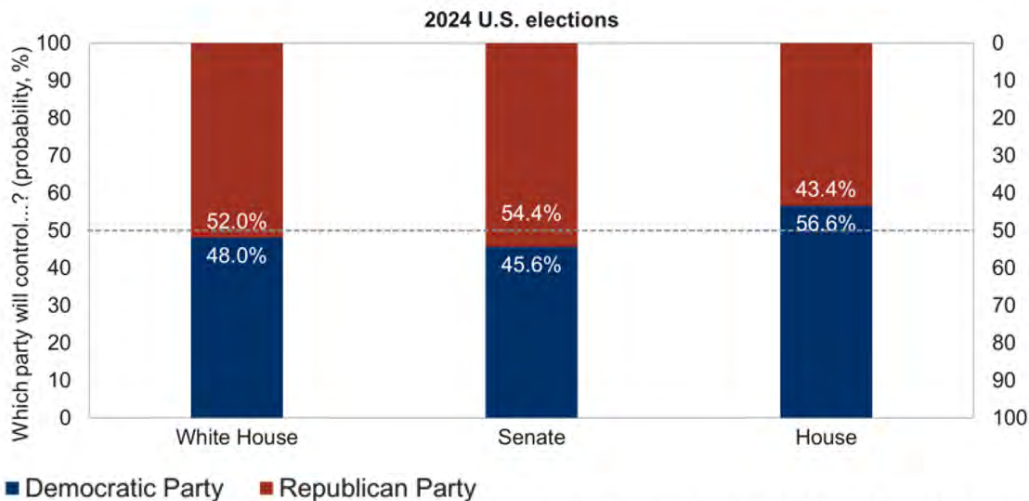
three election cycles already. But from a market perspective, volatility over the course of the last month has been relatively tame, picking up only more recently due to a broad sell-off in technology stocks against a backdrop of lower-than-expected earnings performance for the second quarter.

Still, as the election nears, we believe investors should be prepared to see an uptick in market volatility. Campaign-trail rhetoric is notoriously hyperbolic, with no shortage of sound bites around issues such as taxes, government spending and regulation, and trade, among others. Given an incongruous set of investor policy preferences, it would be reasonable to expect such political noise to lead to higher than usual market volatility over the short-term heading into the election. Despite being from within the Biden administration, Harris' presidential platform will have to be finessed, communicated and absorbed by the public (voters and investors alike) within a tightened window.

Congressional elections are consequential

In the medium to long term, however, there is often dissonance between campaign rhetoric and implemented policy. While the focus of the current election cycle has most recently been squarely on the Democratic presidential candidate, we would argue that congressional elections and party control over the two chambers of Congress (the Senate and House of Representatives) is equally - if not more - consequential than what a presidential candidate says they will do if elected, and what they can realistically achieve after being sworn in.

Currently, Congress is in a state of "gridlock" – i.e. the Democratic party controls the Senate, and the Republicans control the House of Representatives (however, the margins are razor thin, and the balances may well be tipped in one direction or another on Nov. 5). As such, passing legislation can prove challenging, as it must pass *both* chambers *and* be signed by the President to become law. That gridlock has become more common in recent decades is not too



Note: As of 07/30/2024. Probabilities for presidential election measured as the median probability of winning from oddschecker, Predictit, and RealClearPolitics (RCP). Probabilities for Senate and House are crowd forecast from Good Judgment. Source: oddschecker, Predictit, RCP, Macrobond, RBC GAM

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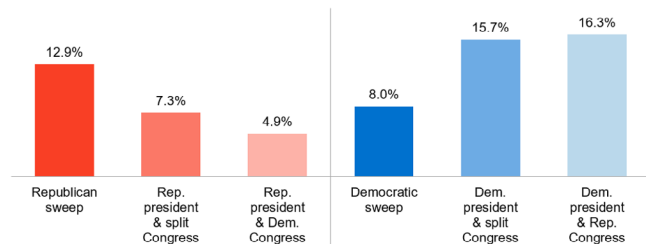
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surprising given the often-cited polarization within American politics. Since 1953, one party has controlled both chambers of Congress and the presidency 37 percent of the time, versus 85 percent of the time from 1900-1952.

Recent betting markets suggest expectations for gridlock to continue but with a twist as power is flipped to the opposing party (but only just) in both the Senate and the House of Representatives.

Market returns during past election cycles, would suggest a favourable bias toward this concept of congressional gridlock. A review of the S&P 500 Index's returns by political party control suggests that the strongest returns have been under a Democratic president and a Republican Congress. And the second-best returns when under a Democratic president and a split Congress.

Average annual S&P 500 returns since 1953 by party control



Source: RBC Wealth Management, Bloomberg; data from 1953 through to 2023. Returns are annualized, are price not total returns, and are expressed in U.S. dollars. Note: You cannot invest directly in an index. Past returns are not indicative of future returns.

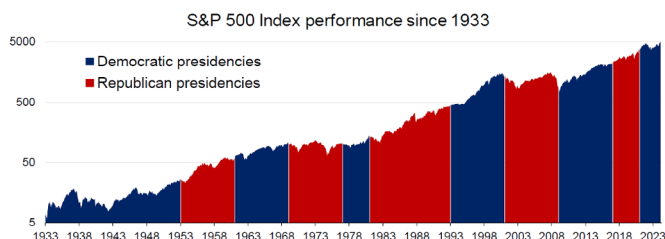
In essence, the market perceives this gridlock as a “checks and balance” system between the two entities that minimizes the overall risk of any sweeping legislation or regulation. Although market returns under a “Republican sweep” situation have also been reasonably robust, the data also challenges the general perception that the election of a Republican president is inherently a favourable harbinger for market performance versus a Democratic one - a view predicated on the (mistaken) belief that the former’s “business-friendly” policies (less regulation, lower taxes, etc.) are more favourable to economic growth. It should be noted, however, that these figures can change with time as the electoral base changes and key voter issues evolve.

Elections generally have little impact on investors with patient, long-term investment horizons

The concerns that investors have today – inflation, jobs and rising geopolitical risk - will likely persist beyond election day. **As a result, we believe such volatility connected to the election itself will prove transitory and has in the past presented attractive buying opportunities for willing investors.** Historically, it has been difficult for

any one party or president to implement transformative policy even across two terms, owing to the broad checks and balances between the three branches of government (executive, legislative and judicial).

The analysis of historical returns during election cycles and across various forms of government would suggest that elections generally have little impact on investors with patient, long-term investment horizons.



Source: RBC Wealth Management, Bloomberg; annual data of the S&P 500 Index from 1933 through to 2023. Note: You cannot invest directly in an index. Past performance is not a guarantee of future performance.

Ultimately, what matters more to markets, and subsequently for investors’ portfolios, is the outlook for U.S. Gross Domestic Product (GDP) and corporate earnings growth, which are currently forecast for 2024 to be in the low-single digits and low-double digits, respectively, based on consensus estimates.

“Keep calm and carry on”

Ultimately, investors’ anxiety around election time is understandable, and we believe it is reasonable to anticipate some market volatility in the lead-up to the November election given markets’ inherent dislike of uncertainty. There is no question that the unfolding election cycle will be discussed in the financial press ad nauseum and could very well impact day-to-day market sentiment. Yet, as we mentioned, over the medium to long term, elections matter far less to markets than the outlook for corporate earnings and GDP growth.

Our Investment Counsellors, many of whom have lived through several U.S. election cycles, have the experience and perspective to look beyond the noise that is so characteristic of the U.S. presidential campaign trail. This level-headedness is predicated in large part on the fact that they have constructed well-diversified portfolios based on a robust investment framework, geared toward long-term investment horizons that should help withstand transitory bouts of volatility. Against this backdrop, it is our view that staying the course is the best “vote” to cast in the coming months and beyond.

Sources

¹“Yelp coins the ‘Beyonce bump’ for the economic halo created by the pop star’s Renaissance Tour” – *Fortune Magazine*, July 19, 2023.

²“Beyonce’s Silvery, Shimmering Renaissance” – *New York Times*, September 27, 2023.

³“Women now outnumber men in the U.S. college-educated labor force” – Pew Research Centre, September 26, 2022.

⁴“Gender Pay Gap Statistics in 2023” – *Forbes Advisor*, February 7, 2023.



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S&P 500 Index: The S&P 500 Index includes 500 companies across many sectors of the U.S. economy. The index is weighted by market capitalization so bigger companies make up a larger proportion of the index than smaller companies. The index is designed to measure performance of the broad US economy through changes in the aggregate market value of the largest US companies.