

“Kamilton”: the 2024 election and who tells your story

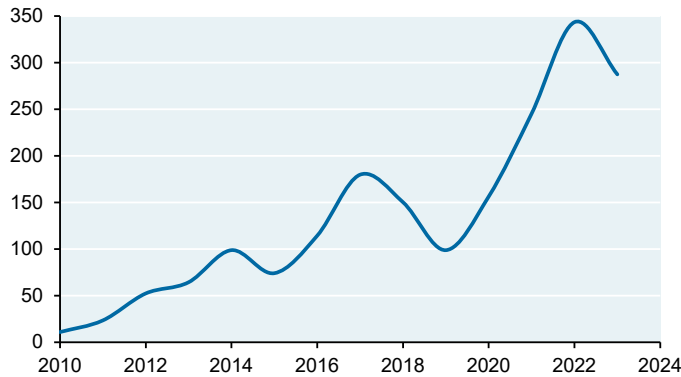
I will address the obvious economic and investment implications of the election outcome (most of which we covered on Sep 30), but first I’d like to do something a bit different. Every incumbent Presidential candidate is dealt a set of conditions they have to defend, and also has to make sure they’ve got the best people defending them. You play the hand you’re dealt, and you play it aggressively since politics is a full contact sport. What I find notable as an investments person about the 2024 election outcome is how the Biden and Harris teams were not able to convert the following into more substantial gains at the polls:

- Close to an all-time high in the labor force participation rate, a proxy for a very strong labor market
- A surge in reshoring activity of US manufacturing jobs after reshoring progress declined under Trump
- An industrial policy that overwhelmingly benefits GOP districts: ~75% of energy bill spending is going to GOP districts, many of which are located in swing states
- The largest surge in manufacturing-related construction spending on record, which appears directly tied to passage and implementation of the Chips bill; key locations include Arizona, Ohio and New Mexico
- Highest YTD equity gains in an election year since 1936, contributing to the highest solvency measures in over two decades for US corporate defined benefit plans
- On Trump’s proposed tariffs: of ten states with the highest shares of imports to state GDP, 8 are GOP states
- The inflation surge was painful but has subsided; wages are rising faster than rising rents; and the Fed was able to raise policy rates to stem inflation without triggering a recession for the first time in 60 years

And yet: Harris underperformed Biden in almost every single county in the US; Trump came closer to winning New York than Harris came to winning Florida; and Trump is currently ahead nationally by 5 million votes.

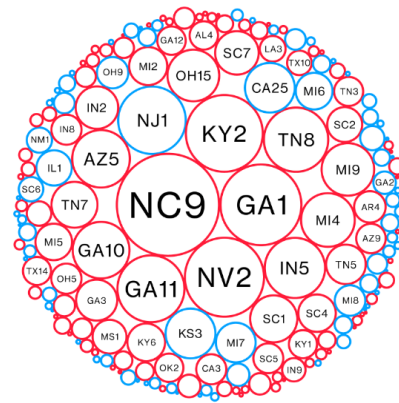
Reshoring and FDI job announcements by year

Jobs announced, thousands



Source: Reshoring Initiative, 2023

\$42B DEMOCRATIC DISTRICTS **\$161B** REPUBLICAN DISTRICTS

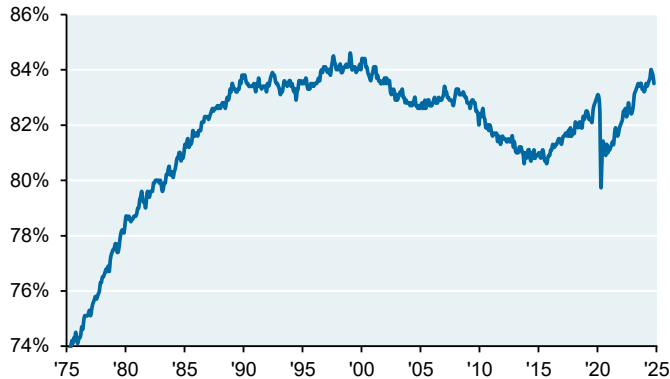


US energy bill spending by district

Source: Bloomberg

US labor force participation rate

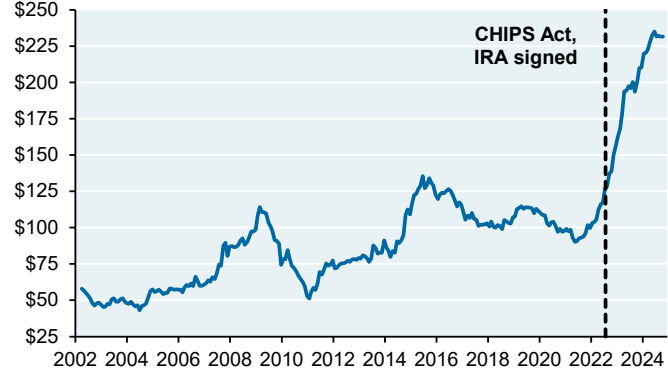
Total labor force as a share of population age 25-54 years



Source: Bloomberg, JPMAM, October 2024

Real total manufacturing construction spending

2022 US\$, billions



Source: Bloomberg, JPMAM, October 2024

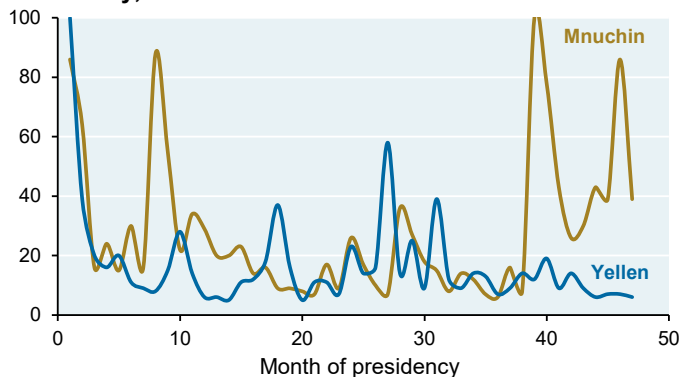
“Who lives, who dies, who tells your story” – Hamilton

In addition to the actual candidate, any incumbent’s campaign often relies heavily on the Secretary of the Treasury to unabashedly proclaim the successes of the prior administration. This is particularly the case when the prior President is no longer able to effectively campaign on an incumbent VP’s behalf, which is what happened this year. In contrast, in 1988 President Reagan campaigned effectively for Vice President George Bush, including lengthy remarks at a Bush campaign rally in August of that year¹.

Starting with Alexander Hamilton, the Secretary of the Treasury position has typically been filled by people with financial expertise **and** with the political skills to sell a message to the American public and members of Congress, even when conditions weren’t perfect. You could not go anywhere in the 1990’s without seeing, hearing or reading Bob Rubin on the achievements of the Clinton Presidency. The same goes for Don Regan and James Baker during the Reagan Presidency, and for Tim Geithner whose work on recapitalizing and restoring faith in the US banking system was a hallmark of Obama’s Presidency when Obama ran for a second term.

And so I ask myself the following question: was Janet Yellen the right person at the right time to tell the story of the Biden/Harris administration? Is a former Federal Reserve Chairman and economics professor the most compelling, relentless and tireless advocate for an Administration’s successes, and able to energetically explain away its failures on a variety of media platforms? Because that’s what the job requires, particularly in 2024. And while this is a very inexact way to measure such things, why does a Google Trends chart show Yellen having even less of a digital media footprint than Trump Treasury Secretary Steve Mnuchin heading into each respective Presidential election, even though most Americans probably could not identify Mnuchin in a police lineup?

Google Trends: Secretary of the Treasury by month of Presidency, Index



Source: Google Trends, JPMAM, November 2024

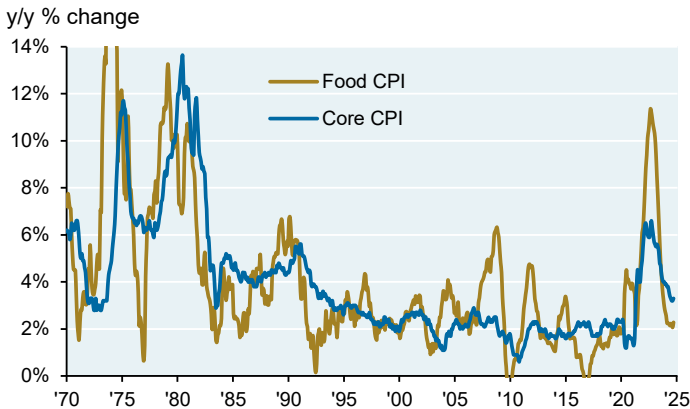
Do supporters of the National Vote Compact understand what might have happened?

If for whatever reason a National Popular Vote Compact were in effect in states that have adopted it, Trump would win the electoral college almost unanimously since the Democratic states would have to allocate their electors to him, and he won most of the remaining states. **But suppose for the moment that Trump won the popular vote with huge margins in Texas, Florida, Ohio etc but that on a traditional basis, Harris won the Electoral College with narrow victories in a few swing states.** If the Vote Compact were in place, would CA, NY and MA really allocate their electors to Trump since he won the popular vote, or would one or more states decide simply not to adhere to the interstate Vote Compact? This could have resulted in a severe constitutional crisis of some kind given the lack of precedent. If you don’t like the Electoral College, the best answer is to build the support for a constitutional amendment to eliminate it.

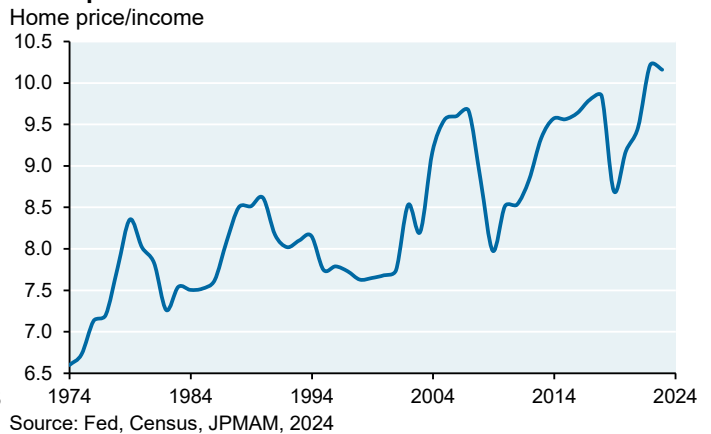
¹ <https://www.reaganlibrary.gov/archives/speech/remarks-presidential-campaign-rally-george-bush-los-angeles-california>

In any case, exit polls show that the GOP message on inflation dominated. Some history: in search of a new paradigm to replace neoliberalism, Biden/Harris chose the populist fiscal approach of reaching full employment as fast as possible. **A Magna Carta of this populist fiscal movement is a 2020 memo from the Hewlett Foundation which reads like a road map for crossing a bridge that’s actually out of service:** “If economic developments over the past decade show anything, it is that there is greater headroom for spending without causing undue inflation. Acknowledging this creates space for a new consensus permitting governments more room to spend on efforts that boost aggregate demand without worrying about inflation quite so frantically”². Actually, Biden and Harris should have been a lot more frantic. The subsequent inflation surge was the worst since the late 1970’s, and was accompanied by the worst housing affordability data on record as well (measured by home price to income ratios).

US core and food inflation

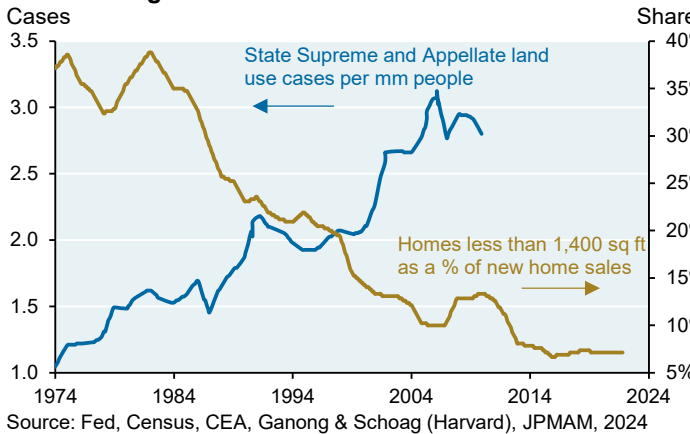


Home price to income ratio

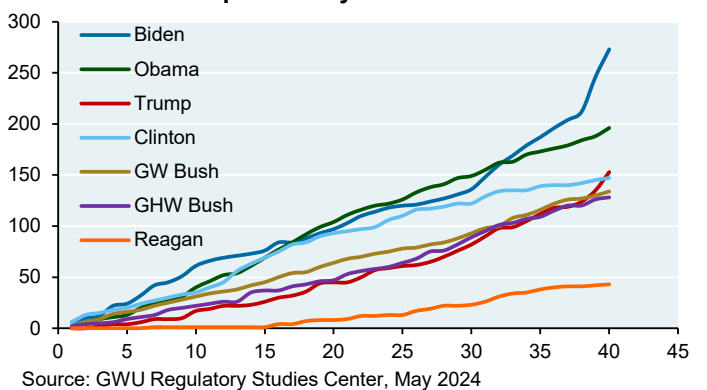


Did Harris have a compelling message on the issue of housing affordability? The right answer probably wouldn’t be more stimulus for homebuyers that Harris campaigned on; too much stimulus is what led to some of the inflation problems in the first place. As shown below on the left, worsening housing affordability is directly tied to a decline in “starter homes” as a share of new homes built, which multiple studies attribute to the rise of land use regulation and restrictive zoning in the US. I can understand why voters would be skeptical that a Harris administration would craft a nationwide deregulatory supply side solution for housing after Biden/Harris oversaw the largest surge in economic significant regulations on record.

Land use regulation vs starter homes



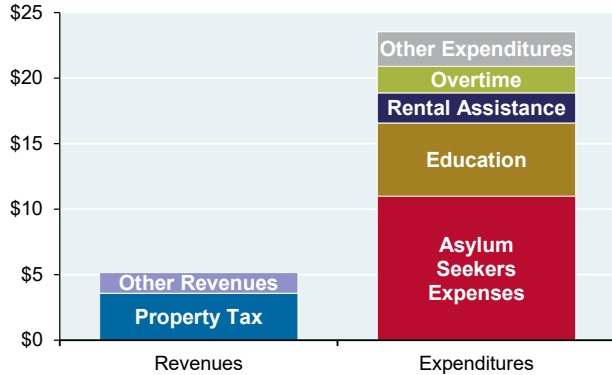
Cumulative # of economically significant rules by month 40 of each presidency



² “Economy and Society Initiative”, Hewlett Foundation, December 2020

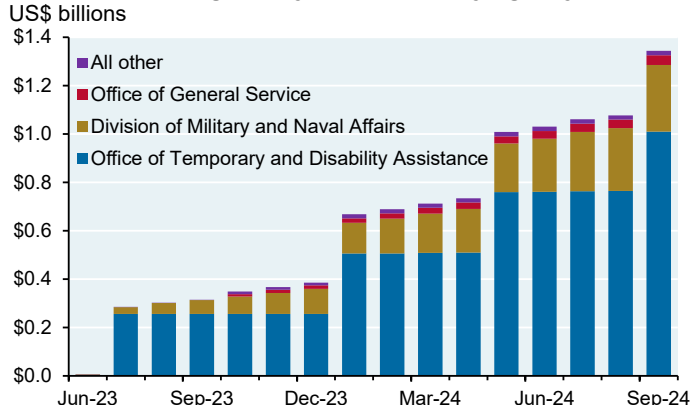
And then there’s immigration, whose political risks I believe many Democrats underappreciated. Consider the first exhibit below. In New York City, an independent Comptroller analysis of the Mayor’s budget identifies major differences and disagreements vs the official figures (much like how the CBO is a more reliable source on government spending and deficits than anything you’d see from the President’s Office of Management and Budget). The largest discrepancy according to the NYC Comptroller: **the massive underestimate of rising asylum expenses which threaten to undermine the city’s finances for years and jeopardize its capital spending and revitalization plans.** The second chart shows rising asylum costs at the state level as well. A country like the US with low birth rates needs immigrants to sustain growth, but not on an unmanaged and chaotic basis.

Components of Comptroller estimated revisions, 2023-2027, Differences vs City’s OMB budget, US\$, billions



Source: NYC Comptroller, August 2023.

NY state spending on asylum seekers by agency



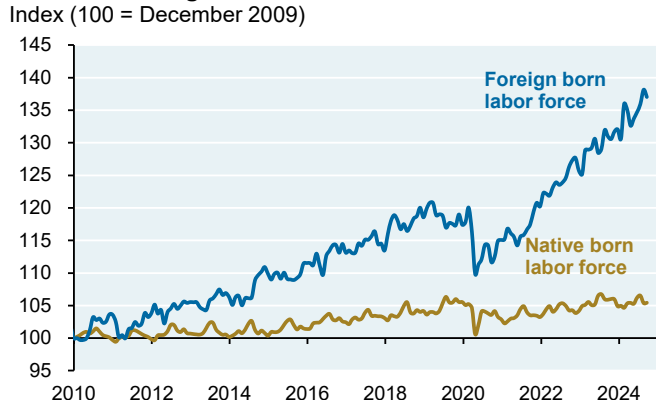
Source: Office of the NY State Comptroller, 2024

Immigration and Customs Enforcement (ICE) removals by presidency, Monthly removals



Source: TRAC, JPMAM, September 2024

US labor force growth



Source: Bloomberg, JPMAM, September 2024

Trump victory: equity markets rally and the experiments begin

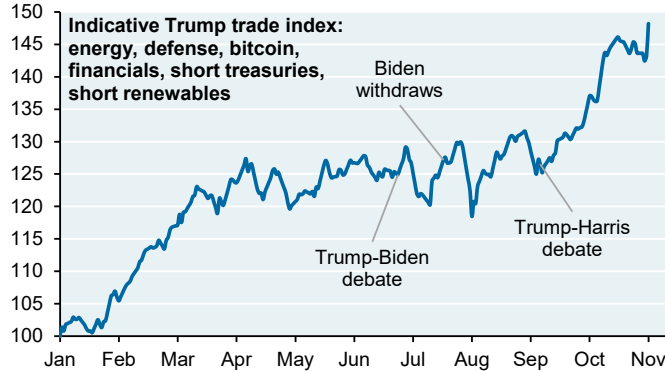
Markets are enthusiastic about prospects for a deregulatory agenda and the possibility of corporate tax cuts; or at least enthusiastic that Harris’ proposed \$3 trillion tax increase on the corporate sector will not be enacted. A lot of slicing and dicing is done in the investments industry to parse out the sectors and industries that are assumed to benefit or suffer from a given candidate. As shown below, a “Trump basket” of usual suspects started to pick up substantially in the fall as Trump’s election prospects improved. Most of the gains are related to financials and crypto. While my skeptical take on crypto in the 2022 “Maltese Falcoin” piece was on target for a while given its subsequent collapse, some crypto investments have come roaring back with both bitcoin (and gold) making new highs. I was right about much of the rest of the crypto world: Ethereum, Litecoin and Ripple are roughly flat since then with tremendous volatility along the way, and limited business use cases.

JP Morgan’s Investment Bank has created stock baskets [indices] that are designed to reflect certain investment themes that investors can use to manage their overweights and underweights in portfolios (their respective Bloomberg tickers appear in parentheses):

- US stocks that may benefit from pro-growth/deregulation policies (JPAMDOME)
- US stocks that may benefit from energy permitting reform and increased focus on energy security and independence (JPAMPERM, JPAMGNRG), and stocks that would be at risk of reduced emphasis on the renewable transition and climate (JPAMIRAG)
- US stocks at risk of heightened US-China tariff and trade restrictions (JPAMCREV, JPAMUSIM)
- US stocks sensitive to rising wage pressures resulting from tighter labor markets (JPAMWAGG)
- Note: it is not possible for an investor to invest directly in an index

The Trump trade in 2024

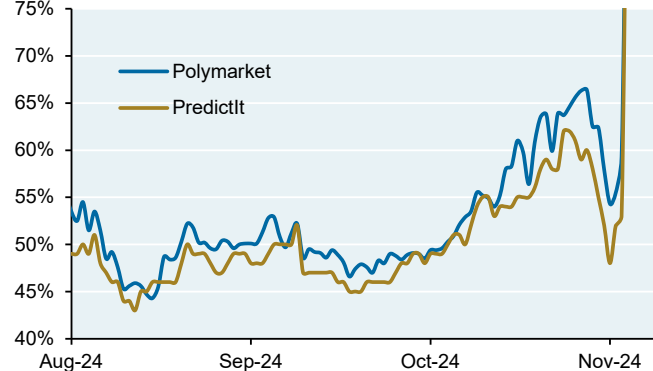
Index (100 = January 2024)



Source: Bloomberg, JPMAM, October 2024

Betting market odds of a Trump victory

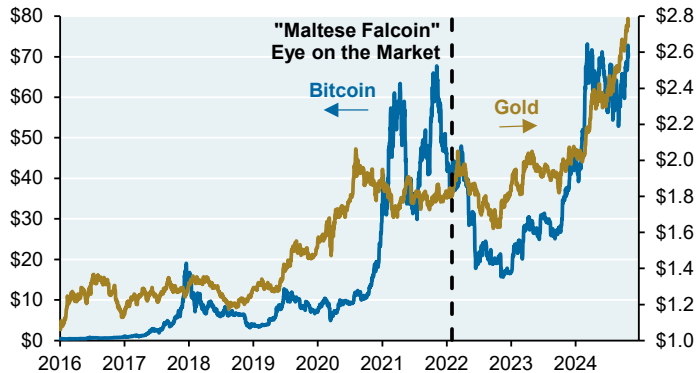
Percent



Source: Bloomberg, Polymarket, PredictIt, JPMAM, November 2024

Gold vs Bitcoin

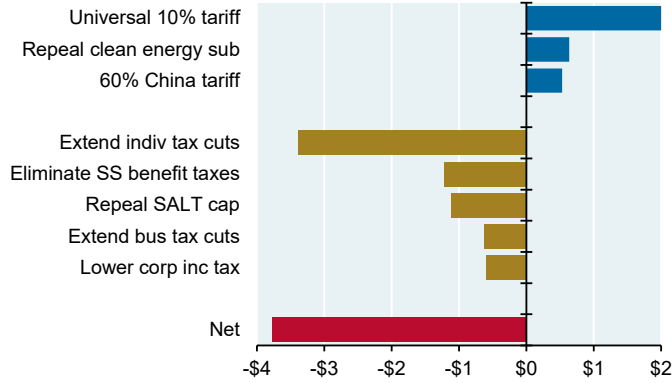
Spot price, thousand US\$ (both axes)



Source: Bloomberg, JPMAM, November 2024

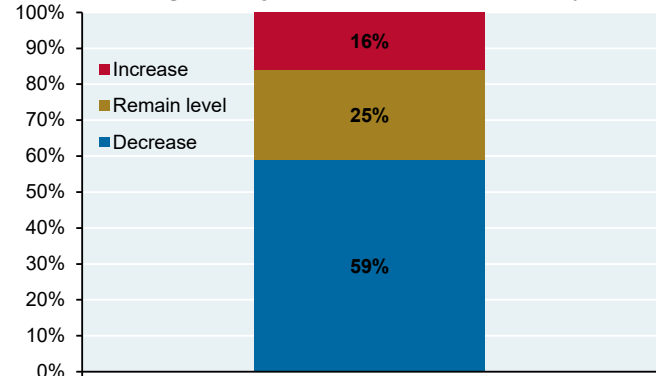
But now the experiments begin: how much of Trump’s proposed trillions in tax cuts would a universal tariff offset, even assuming the President has the authority to implement it? And what would be the consequences be for growth and employment? Most economists are not positive on the idea.

Trump: 10-year budget deficit effect of proposed policies
US\$ trillions



Source: JPMAM, September 2024

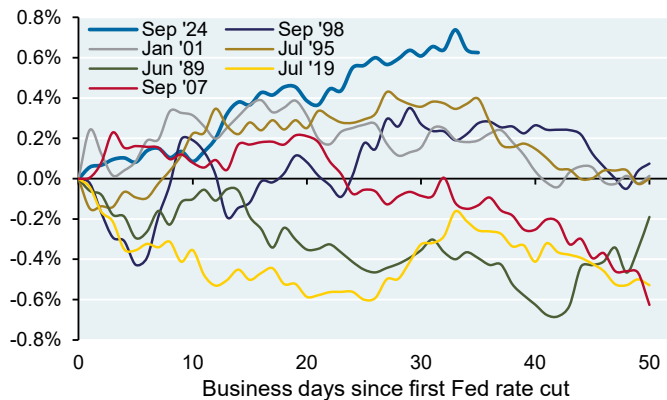
Survey of economists on the effect of Trump tariffs on manufacturing employment, 44 economists surveyed



Source: WSJ, JPMAM, October 2024

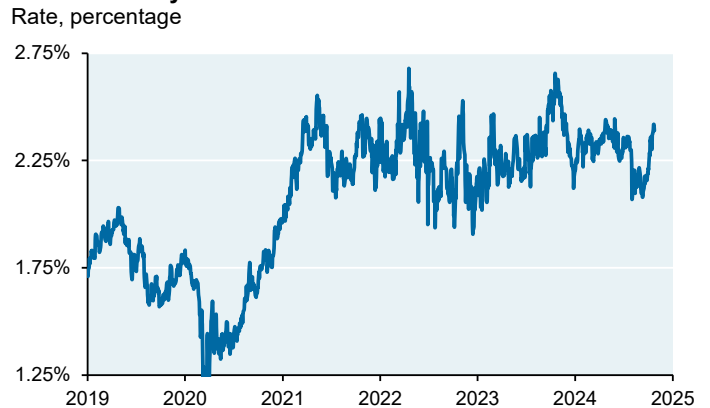
The 10 year US Treasury has already been behaving very strangely in the wake of Fed easing, as shown in the next chart. Part of the reason: inflation expectations have been rising again. If deportations cause a U-turn in the lowest quartile of wage growth, or if Trump’s other plans prove to be inflationary, the Fed may have to reconsider its easing plans. **The most important indicator to watch will be the 10-year Treasury, a bellwether for Trump’s tariff/deportation/loose fiscal agenda vs the supply side benefits of a less regulated economy.**

10-year note yield change after the first Fed cut



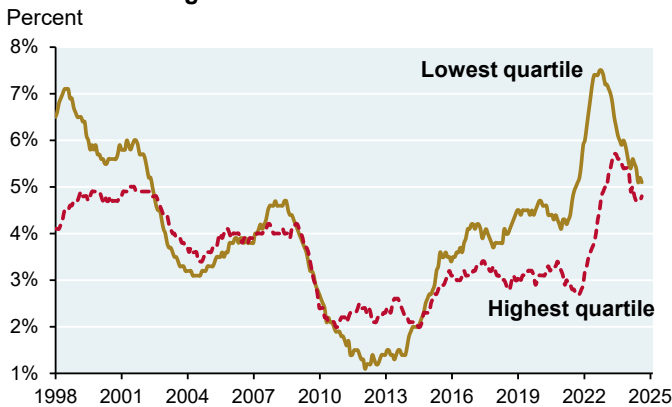
Source: Bloomberg, JPMAM, November 2024

US forward 5 year breakeven inflation rate



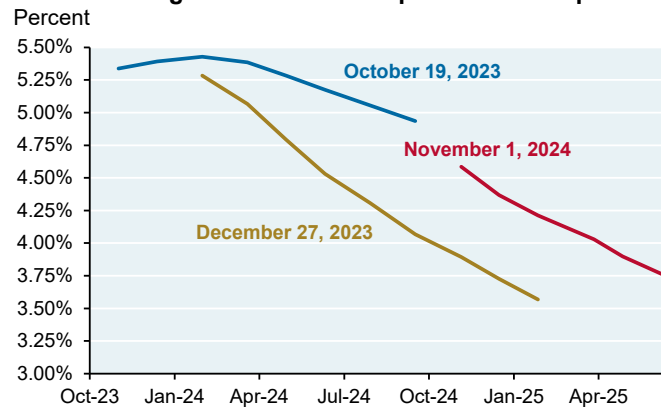
Source: Bloomberg, JPMAM, October 25, 2024

Atlanta Fed Wage Growth Tracker



Source: Bloomberg, JPMAM, September 2024

Fed funds target rate: current vs prior market expectations



Source: Bloomberg, JPMAM, November 1, 2024

Wrapping up: constraints on Trump’s agenda, partisanship vs portfolios, and RFK Jr

Major tax cut extensions may prove difficult to pass given the dire state of US public finances. Other Trump policies may be constrained by (a) tight governing margins in the House, (b) the enduring presence of the Senate filibuster...I’d love to ask certain Democrats how they feel today about their prior recommendation that Biden detonate it, and (c) some Supreme Court decisions over the summer that constrain executive rulemaking in favor of Congressional legislation (see our note from July 9 on the Supreme Court vs the regulatory state).

Also, try to avoid letting partisanship affect your portfolio investment decisions:

- During COVID, partisan mutual fund teams had lower returns and lower inflows than non-partisan teams. The non-partisan teams were quicker to react to the highs and lows of a volatile stock market³
- Individuals become more optimistic and perceive markets to be less risky and more undervalued when their preferred party is in power. Conversely, they tend to be structurally underweight when their preferred party is not in power, irrespective of market or economic conditions⁴
- After the 2016 election, a larger share of GOP-identified fund managers increased exposure to the markets than Democratic-identified fund managers. Similarly, retail investors in the most GOP-identified zip codes increased their equity allocations more than their Democratic counterparts⁵

One last thing. **Now that RFK Jr seems poised to take on some kind of advisory role⁶ in the administration with respect to public health, I want to share two things.** First, a table indicating how vaccines have been one of the most successful achievements in the history of human health, as confirmed by declining case counts after their introduction. And second, I include below a bibliography for those of you looking to learn more about what RFK is really all about. Please excuse me while I retreat to my undisclosed location given RFK’s potential impact on public health and the scientific method.

Michael Cembalest, JP Morgan Asset Management

Vaccine preventable diseases in the US

VPD	PRE-VACCINE			POST-VACCINE		
	Annual cases	Annual deaths	Vaccine decade	Cases (2006)	Deaths (2004)	Case decline
Diphtheria	21,053	1,822	1940's	0	0	100%
Measles	530,217	440	1960's	55	0	100%
Mumps	162,344	39	1940's	6,584	0	96%
Pertussis	200,752	4,034	1940's	15,632	27	92%
Polio (acute)	19,794	1,393	1950's	0	0	100%
Rubella	47,745	17	1960's	11	0	100%
Smallpox	29,005	337	1790's	0	0	100%
Hepatitis A	117,333	137	1990's	15,298	18	87%
Tetanus	580	472	1940's	41	4	93%

Source: Roush and Murphy, JAMA, 2007

RFK Jr bibliography:

- ["From Paul Offit at Children’s Hospital in Philadelphia: A Conversation with RFK Jr"](#)
- ["How RFK Jr. Falsely Denied His Connection to a Deadly Measles Outbreak in Samoa \[MotherJones\]"](#)
- ["RFK Jr. spent years stoking fear and mistrust of vaccines. These people were hurt by his work \[AP News\]"](#)
- ["The Anti-Vaccine Propaganda of Robert F. Kennedy, Jr \[McGill University\]"](#)
- ["Kennedy’s error-ridden piece on a vaccine-autism link \[The Nation\]"](#)

³ "Costs of political polarization: evidence from mutual fund managers during Covid-19", Vorsatz, June 2022

⁴ "Political climate, optimism, and investment decisions", Bonaparte et al, May 2017

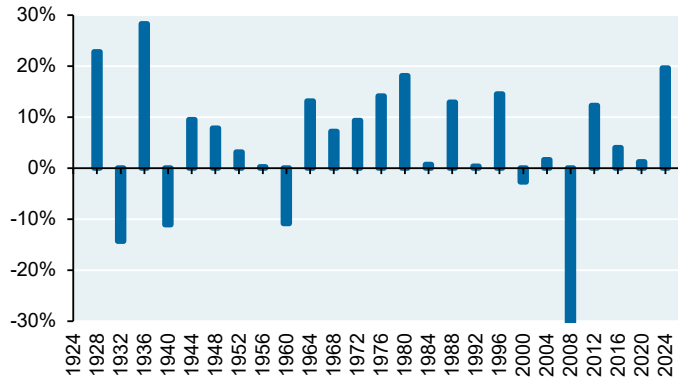
⁵ "Partisanship and Portfolio Choice: Evidence from Mutual Funds", Cassidy and Vorsatz, January 2024

⁶ The "RFK as a possible cabinet member" articles I’ve seen caused me to reflect on the worst two cabinet appointments of my lifetime, which I would consider to be Robert McNamara and John Mitchell

Appendix charts

S&P 500 YTD returns in election years

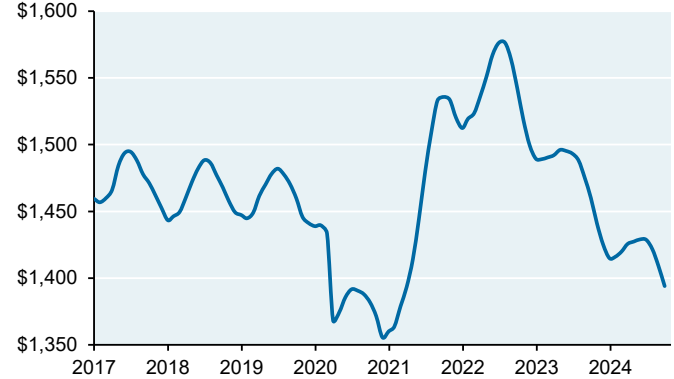
YTD returns through October 31, percent



Source: Bloomberg, JPMAM, November 2024

US asking rents adjusted for wage growth

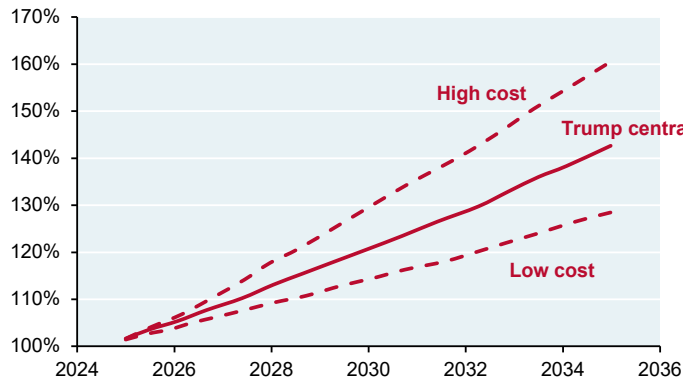
2024 US\$



Source: ApartmentList, FRED, BLS, JPMAM, October 2024

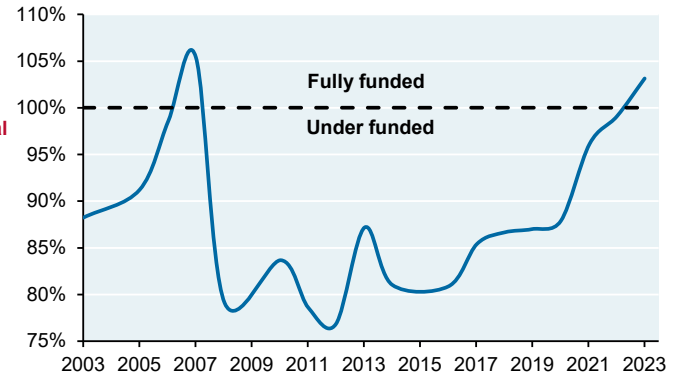
Projected US deficit under Trump proposed policies

Debt as a percentage of GDP



Source: Committee for a Responsible Federal Budget, October 28, 2024

Corporate pension funded ratios, Plan assets as a share of plan liabilities, based on 100 US firms with the largest pension plans



Source: Millman, 2023 Corporate Pension Funding Study, September 2023

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