



MARKET COMMENTARY

BERGOS
PRIVATE BANK



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As Bergos's Chief Investment Officer, Till Christian Budelmann regularly comments on events in the international capital markets and examines them in the context of economic and political trends. Budelmann is a member of the bank's executive committee and heads the investment committee.

US ELECTIONS: HOW THE OUTCOME WILL AFFECT THE CAPITAL MARKETS

On November 5, the presidential and congressional elections will take place in the US. In addition to electing a new president, all 435 members of the House of Representatives and 34 of the 100 senators will be up for election. The Swiss private bank Bergos has analyzed the probabilities for various election outcomes and assessed how each scenario could impact the capital markets. "A Democratic sweep, with Kamala Harris as president and a majority in both chambers of Congress, would be the worst election outcome for risk assets in our view. However, we currently consider the chances of this happening to be fairly slim," says Till Christian Budelmann, Chief Investment Officer and member of the Executive Committee at Bergos.

It is still completely open who will win the presidential election in the US. "It's a neck-and-neck race. We currently see a slight advantage for Republican Donald Trump. We put the probability of him becoming President of the USA again at 53%," says Bergos CIO Till Christian Budelmann. Accordingly, the probability of Kamala Harris winning is 47%. According to Bergos, there is a 75% probability that the Republicans will regain the majority in the Senate. The Democrats only have a 25% probability of retaining the majority. The outcome in the House of Representatives seems less clear. The Republicans have a 45% probability of retaining the majority here, while the Democrats have a 55% probability of winning it.

Tax policy, trade policy and (de)regulation: who is planning what?

In order to be able to assess the impact of any election outcome on the capital markets, it is important to understand the different programs of the parties and presidential candidates. "We consider three areas to be particularly important for the economy, and therefore for the capital markets: tax policy, trade policy, particularly the issue of tariffs, as well as regulation and deregulation," says Budelmann.

The views of the two candidates differ significantly, particularly on the crucial issue of taxes. During his time in office, Trump passed tax cuts as part of the "Tax Cuts and Jobs Act". Some were temporary and expire in 2025. As president, he would extend these and possibly reduce the corporate tax rate even further. Harris, on the other hand, intends to raise the corporate tax rate from the current 21% to 28%. Budelmann's verdict: "The Republicans are more stock market-friendly than the Democrats when it comes to tax policy, at least in the short term."

In terms of trade policy, the differences are now smaller. Both parties and their presidential candidates are protectionist, and no new free trade agreements are to be expected from either. “However, Trump is much more aggressive and has already announced high tariffs during the election campaign. Harris would probably implement her measures in a more targeted manner. Her approach would likely be more predictable, at least for befriended states, and certainly more agreeable in tone,” Budelmann concludes.

While the Democrats tend to favor more regulation, the Republicans prefer deregulation. Trump's deregulatory measures have not always proven to be beneficial. For example, the short-lived financial crisis in spring 2023, which brought down not only some US banks but also Credit Suisse, can be traced back to these measures. “Nevertheless, from a purely capital market perspective, deregulation is usually beneficial,” says Budelmann.

With this in mind, the Bergos experts have worked out possible short-term (until the end of 2024) and medium- to long-term (for the following six to twelve months) effects on the capital markets for five election outcomes. Other influencing factors were ignored, while being aware that certain surprising developments could completely overshadow the outcome of the US election.

5 scenarios and their impact on capital markets

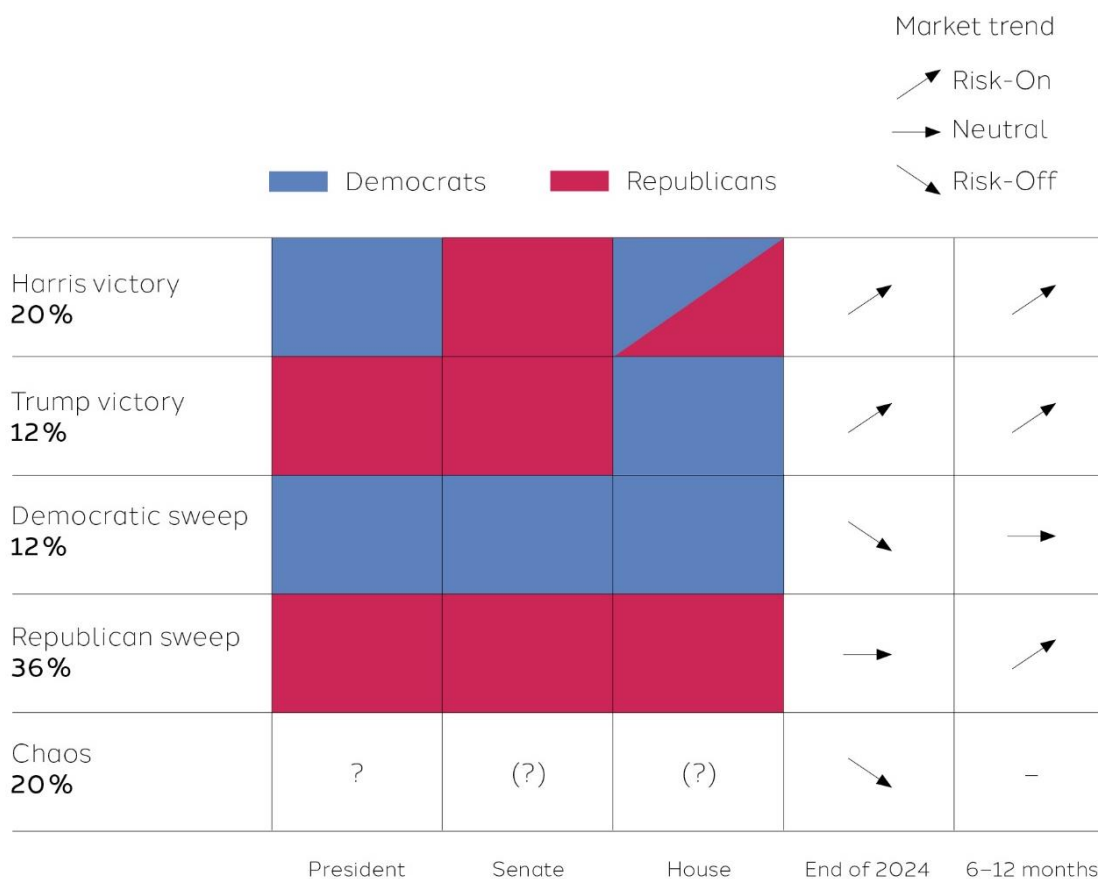
In **scenario 1**, for which Bergos sees a 20% probability, Kamala Harris wins the election. However, the Republicans have the majority in the Senate, and possibly also in the House of Representatives. “Here we see a positive backdrop for risk assets, such as equities, in the short and medium to long term, especially for Europe and the emerging markets,” says Budelmann.

In **scenario 2** (12% probability), Donald Trump wins. The Senate is in Republican hands, but the Democrats hold sway in the House of Representatives. Here, too, the signs for the capital markets point to risk-on. The US markets in particular could benefit from deregulation.

Things get more exciting in **scenario 3** (12% probability): Harris wins and her party holds a majority in both chambers. In this election outcome, Bergos sees the markets in risk-off mode in the short term. The situation on the financial markets should then ease somewhat in the coming year, but a risk-on mode is not to be expected as uncertainty remains, particularly with regard to tax policy measures. These would be much easier to implement as – unlike trade policy and regulatory decisions – both chambers of Congress would have to agree. “The markets would not respond well to tax increases. Higher taxes for companies, in particular, would be negative for US equities. With this election outcome, we would consider liquidating our long-standing US overweight,” says Budelmann. However, he also assumes that the rest of the world will not be able to escape a softening US equity market.

In **scenario 4** (36% probability), Donald Trump can govern as the new president with a Republican majority in both the Senate and the House of Representatives – as he did at the beginning of his first term. In this case, Bergos would expect an overall neutral impact on the financial markets in the first few weeks after the election, which would then turn into a risk-on sentiment in the coming year. “With such a mandate, Trump is likely to feel encouraged to impose high tariffs. This would weigh on the emerging markets and Europe and the outlook for their equity markets would be negative for the time being,” explains Budelmann. For US equities, on the other hand, he would be consistently positive in the event of this election result. In particular, falling taxes for US companies would be welcomed by the stock market.

Scenario 5 is the chaos scenario. In this case, the election result would initially be unclear, and the winner would not be known for weeks. Such a scenario already occurred in 2000, when the Supreme Court ultimately had to intervene and declared George Bush the winner over Al Gore. Bergos puts the probability of something like that happening again this year at 20 percent. “This uncertainty would be poison for the markets in the short term, especially in the US, but also in the rest of the world. After the long rally, the potential for a setback in the stock markets would be considerable. US bonds are also likely to suffer,” predicts Budelmann. However, he does not believe that the situation will escalate in the long term and has confidence in the American institutions, which should ultimately provide a solution and calm the markets.



Election Scenarios (Probabilities)

Source: Bergos AG. Own projection as of October 16, 2024



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