*Anima*Insight

US ELECTION

The Harris Case

Macro scenarios, policy and cross-asset implications

*In this analysis, **we assess the macro and cross-asset implications of the forthcoming US elections, provided that Vice President Kamala Harris wins the election**.*

With trade and immigration policies not at the forefront of the Democratic agenda, investors are likely to assess the election results primarily in terms of fiscal and monetary policy impacts. In a nutshell:

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In terms of macroeconomic impacts, in the event of a Democratic sweep, we anticipate that a modest increase in the budget deficit will have a neutral effect on growth and inflation through 2026. In this case, we would still expect the Fed to reduce rates by 200-225bps by 2026. However, with a split Congress, fiscal policy is expected to be marginally more expansionary than under current legislation, which would increase slightly inflation risks, resulting in a somewhat less dovish Fed, with a 25bp reduction in rate cuts compared to the current baseline.

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If we approach the US presidential elections with yields at their current levels and Kamala Harris wins, we would tactically extend our exposure at 4.20% in a split Congress scenario and at 4.0-4.10% in a Democratic sweep scenario. Our more cautious stance in the event of a split Congress is due to expected increases in the budget deficit in 2025 from higher public expenditure not matched by tax increases, especially at corporate level, coupled with anticipated growth and inflation risks that might lead to a slightly more hawkish Fed. Strategically, we would maintain an OVERWEIGHT position in both scenarios, although the potential for yields to fall below current levels is limited unless growth weakens more than expected.

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A Harris victory is expected to be marginally negative for US equities, as corporate fundamentals may weaken due to a higher tax burden, especially in a Democratic sweep scenario. However, we remain strategically OVERWEIGHT; raising corporate taxation aggressively is likely to be politically challenging even in a Blue wave scenario, and it will likely take some time to be implemented. Under Harris's presidency, we anticipate the S&P 500 could rise by up to 10% over the next 12 months, driven by single-digit EPS growth and softer multiple expansion. Against this backdrop, we view any market weakness as a buying opportunity.

Under a Harris administration, we expect minimal significant effects on the USD relative to our long-term EUR/USD forecast. This is because: 1) Harris's trade policies are expected to have a limited effect on the USD, 2) the Fed's monetary policy is anticipated to weaken the USD in the medium term, and 3) Harris's fiscal agenda in 2025 is expected to affect the US macroeconomic situation only marginally, with growth predicted to progressively fall below potential by 2026.

FISCAL POLICY

Since Biden stepped down at the end of July and Kamala Harris was named as his successor much has been said about whether the Vice President will bring fresh aspects to Biden's existing proposals. So far, Harris has yet to formally announce her political agenda, and her policies are largely based on those put forward during Biden's campaign. Both campaigns align in their objectives, focusing on progressive tax reforms, wealth redistribution, and increased government expenditure, though there are some differences in scale and implementation.

However, Kamala Harris's ability to implement her measures will depend significantly on the outcome of the Congressional elections. Regarding fiscal policy, a divided Congress would necessitate bipartisan agreements, as fiscal measures require congressional endorsement.

Commonalities

According to recent public statements, Harris is likely to endorse several policies from Biden's manifesto. Their approach is largely aligned, especially in terms of spending policy, though on the revenue side, she has only formally confirmed her plan to increase the corporate tax rate.

So far, the following measures have been jointly proposed by both Harris and Biden campaigns:

- **Increase the corporate income tax rate from 21% to 28%:** this would partially reverse 50% of the corporate tax rate reduction implemented by the Trump administration in 2017.
- **Expanding the Child Tax Credit (CTC):** both campaigns plan to raise the CTC to $3,600 for younger children and $3,000 for older ones.
- **Permanently extending the Earned Income Tax Credit (EITC) expansion for workers without children:** Currently, workers without children receive an EITC that phases in at 7.65% over the first $8,260 of earnings. This proposal would change the phase-in rate to 15.30% for the first $11,430 of earnings.
- **Permanently extend enhanced premium tax credits:** This policy would reduce the household income contribution percentages, used to calculate the premium tax credit under the Affordable Care Act (ACA), permanent, as set out in the American Rescue Plan (ARP) and Inflation Reduction Act (IRA).

Other proposed measures:
Alongside the shared measures with Biden, Harris has put forward new aspects of her spending programme:

- **Increase CTC to $ 6,000 for newborns:** Families with newborn children would receive an extra $2,400 fully refundable credit in the first year of the child's life, raising the total maximum credit amount to $6,000 for newborns.
- **Providing down payment support to qualified first-time homebuyers:** under this proposal, an average of $25,000 will be provided in support to eligible first-time homebuyers, with the benefit available over a four-year period.

As for the other remaining proposals from Biden's programme, Harris has yet to make an official statement. These additional measures mainly focus on tax policy for corporations and high-income taxpayers:

- Increase the corporate alternative minimum tax (CAMT) rate to 21%.
- Raise the excise tax rate on corporate stock buybacks to 4%, up from the current 1%.
- Revise the structure of the global minimum tax regime.
- Introduce a net investment income tax (NIIT) on the pass-through income of high-income taxpayers.
- Increase both the net investment income tax (NIIT) and the additional Medicare tax rates for high-income taxpayers.
- Raise the top marginal income tax rate for high-income earners to 39.6%.
- Revise capital income tax rules for high-income earners with taxable income exceeding USD 1mn.

FISCAL POLICY IMPACT

To assess the growth impact of Harris and Biden's proposed fiscal policies, we apply Fiscal Multipliers (FMs) that are frequently cited in academic literature[1]*. This is done through a two-step process:*

1. **Multipliers are assigned to the fiscal proposals from Harris and Biden** under these key assumptions (**Table 1**):
    - Compared to income taxes on individuals, increases in corporate taxes usually result in slightly lower multipliers.
    - During periods of positive economic growth, the strength of business and household finances, combined with available credit, can soften the impact of increased taxes.
    - Accommodative monetary policy can mitigate some of the negative effects associated with a tax increase.
    - Fiscal Multipliers in the second year often exceed those in the first year as the full impact of the tax increase becomes apparent, including crowding out effects and the cushioning influence savings from the previous year.
    - Multiplier effects are generally higher for direct spending on infrastructure or public goods than for transfer payments.
    - Fiscal multipliers for spending generally decrease during economic expansions when compared to their levels in recessions.

[1] Reference literature:
- Blanchard O., & Perotti R. (2002). "An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output". The Quarterly Journal of Economics, Vol. 117, No.4, 1329-1368.
- Blanchard O., & Leigh D. (2014). "Learning about Fiscal Multipliers from Growth Forecast Errors". IMF Economic Review, Vol. 62, No.2, 179-212.
- Alesina A., Favero C., & Giavazzi F. (2019). "Effects of Austerity: Expenditure – and Tax-based Approaches". The Journal of Economic Perspectives, Vol. 33, No. 2, 141-162.
- Caggiano G., Castelnuovo E., Colombo V., & Nodari G. (2015). "Estimating Fiscal Multipliers: News from a Non-Linear World". The Economic Journal, Vol. 125, No. 584, Conference Papers, 746-776.
- Auerbach A.J., & Gorodnichenko Y. (2011). "Fiscal Multipliers in Recession and Expansion". National Bureau of Economic Research, Working Paper 17447, Working Paper Series.
- Auerbach A.J., & Gorodnichenko Y. (2011). "Measuring the Output Responses to Fiscal Policy". National Bureau of Economic Research, Working Paper 16311, Working Paper Series.

2. **We project the growth impact under various Congress scenarios** (**Table 2**).
   The extent to which Harris's measures are implemented will largely depend on the results of the Congressional elections.
   In a Democratic sweep with full Congressional support, Harris could potentially implement most of the spending proposals and tax increases from both her and Biden's agendas, including those not yet officially addressed. These measures would target corporations and high-income earners, aligning with Biden's tax plan. Our projections suggest a potential GDP decline of about -USD 186bn in 2025 and -USD 340bn in 2026. However, if Harris successfully enacts all of Biden's proposals alongside her own, we anticipate a positive GDP impact of USD 294bn in 2025 and USD 275bn in 2026, resulting in a net effect of USD 108bn in 2025 and -USD 66bn in 2026.
   Conversely, with a split Congress scenario, Harris's ability to implement her policies would be limited, with only a few measures likely to pass. Tax cuts for high-income earners would probably expire, and advancing corporate-related policies would be challenging. This scenario is projected to result in a GDP impact of -USD 55bn in 2025 and -USD 67bn in 2026. However, there could be some bipartisan support for spending initiatives like the Child Care Tax Credit, which has received backing from Republicans despite not being part of their official agenda. If these spending measures are enacted, they could boost GDP by USD 184bn in 2025 and USD 168bn in 2026, leading to a net GDP effect of USD 129bn in 2025 and USD 101bn in 2026.

TABLE 1.

Fiscal multipliers associated with the fiscal plans put forward by Harris and Biden.

Proponents	Proposals	2025		2026	
	Revenues	**USD bn**	**Multiplier**	**USD bn**	**Multiplier**
Harris + Biden	Raise the corporate income tax rate to 28%	50	-0,5	98	-0,7
Biden	Increase the corporate alternative minimum tax (CAMT) rate to 21%	9	-0,5	8	-0,7
Biden	Increase the excise tax rate on repurchase of corporate stock from 1% to 4%	10	-0,5	10	-0,7
Biden	Revise the global minimum tax regime, limit inversions, and make related reforms	35	-0,5	25	-0,7
Biden	Apply net investment income tax to pass-through business income of high-income taxpayers	25	-0,8	26	-1,1
Biden	Increase net investment income tax rate and additional Medicare tax rate for high-income taxpayers	23	-0,8	24	-1,1
Biden	Increase the top marginal income tax rate for high-income earners from 37% to 39.6%	51	-0,8	23	-1,1
Biden	Changes in capital income tax treatment	18	-0,8	28	-1,1
Biden	Other revenue provisions	50	-0,8	115	-1,1
	Total	**271**		**357**	
	Spending	**USD bn**	**Multiplier**	**USD bn**	**Multiplier**
Harris + Biden	Expand the Child Tax Credit (CTC) to $3000/3600, and make permanent full refundability and advanceability	-94	1,3	-135	0,8
Harris + Biden	Restore&make permanent ARP expansion of the earned income tax credit (EITC) for workers w/o children	-14	1,3	-15	0,8
Harris + Biden	Permanently extend enhanced premium tax credits	0	1,3	-2	0,8
Biden	Other spending provisions	-89	1,3	-167	0,8
Harris	Increase CTC to $6,000 for newborns	-3	1,3	-13	0,8
Harris	Down payment support for first-time homebuyers	-26	1,3	-34	0,8
	Total	**-226**		**-366**	
Net Effect on primary deficit (+) or surplus (-)		**45**		**-9**	

Source: University of Pennsylvania – Penny Wharton Budget model, ANIMA Research

TABLE 2.

Projected GDP Impacts Across Various Congressional Scenarios

		Democratic Sweep					Split Congress				
Proponents	**Proposals**	**Policy implem.**	**2025**		**2026**		**Policy implem.**	**2025**		**2026**	
	Revenues	**%**	**USD bn**	**% of GDP***	**USD bn**	**% of GDP***	**%**	**USD bn**	**% of GDP***	**USD bn**	**% of GDP***
Harris + Biden	Raise the corporate income tax rate to 28 percent	100	-25	-0,1	-69	-0,2	0	0	0,0	0	0,0
Biden	Increase the corporate alternative minimum tax (CAMT) rate to 21 percent	100	-5	0,0	-6	0,0	0	0	0,0	0	0,0
Biden	Increase the excise tax rate on repurchase of corporate stock from 1% to 4%	100	-5	0,0	-7	0,0	0	0	0,0	0	0,0
Biden	Revise the global minimum tax regime, limit inversions, and make related reforms	100	-18	-0,1	-18	-0,1	20	-4	0,0	-4	0,0
Biden	Apply net investment income tax to pass-through business income of high-income taxpayers	100	-20	-0,1	-29	-0,1	20	-4	0,0	-6	0,0
Biden	Increase net investment income tax rate and additional Medicare tax rate for high-income taxpayers	100	-18	-0,1	-27	-0,1	20	-4	0,0	-5	0,0
Biden	Increase the top marginal income tax rate for high-income earners from 37% to 39.6%	100	-41	-0,1	-26	-0,1	80	-33	-0,1	-21	-0,1
Biden	Changes in capital income tax treatment	100	-14	0,0	-31	-0,1	20	-3	0,0	-6	0,0
Biden	Other revenue provisions	100	-40	-0,1	-129	-0,4	20	-8	0,0	-26	-0,1
	Total		**-186**	**-0,6**	**-341**	**-1,2**		**-55**	**-0,2**	**-67**	**-0,2**
	Spending	**%**	**USD bn**	**% of GDP***	**USD bn**	**% of GDP***	**%**	**USD bn**	**% of GDP***	**USD bn**	**% of GDP***
Harris + Biden	Expand the Child Tax Credit (CTC) to $3000/3600, and make permanent full refundability and advanceability	100	122	0,4	101	0,4	100	122	0,4	101	0,4
Harris + Biden	Restore&make permanent ARP expansion of the earned income tax credit (EITC) for workers w/o children	100	18	0,1	11	0,0	70	13	0,0	8	0,0
Harris + Biden	Permanently extend enhanced premium tax credits	100	0	0,0	2	0,0	70	0	0,0	1	0,0
Biden	Other spending provisions	100	116	0,4	125	0,4	40	46	0,2	50	0,2
Harris	Increase CTC to $6,000 for newborns	100	4	0,0	10	0,0	80	3	0,0	8	0,0
Harris	Down payment support for first-time homebuyers	100	34	0,1	26	0,1	0	0	0,0	0	0,0
	Total		**294**	**1,0**	**275**	**1,0**		**184**	**0,6**	**168**	**0,6**
Net Effect on GDP			**108**	**0,4**	**-66**	**-0,2**		**130**	**0,4**	**101**	**0,3**

*Note: % of 2024 nominal GDP; ARP = American Rescue Plan. Source: ANIMA Research

MACRO

In this section we will explore how the implementation of fiscal policy may influence our baseline projections for growth, inflation, and monetary policy.

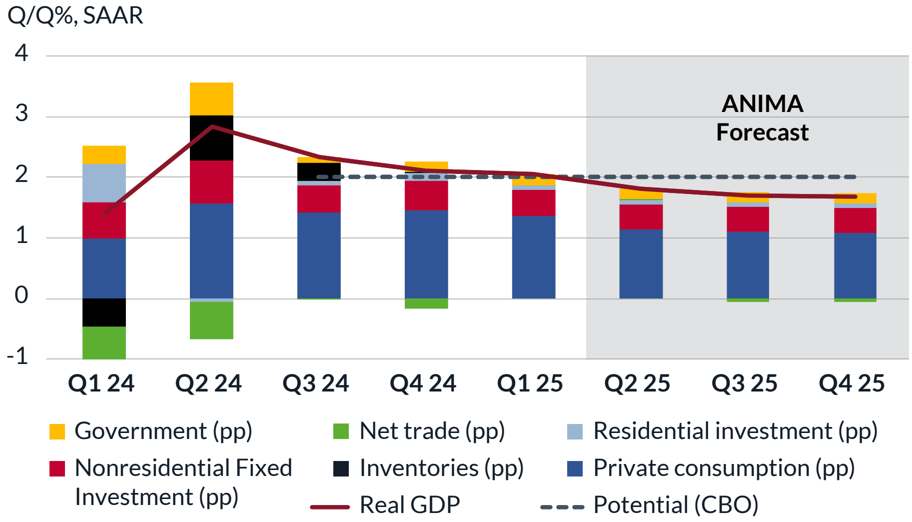
GROWTH

1. *ANIMA baseline under existing legislation*

We continue to predict that the US economy will experience a soft landing. Growth is forecasted to slow to 2.1% in 2025, down from the 2.7% projected for this year. This trend matches the slowdown in quarterly US economic momentum (q/q), which is likely to fall below potential from Q2 2025. In 2026, we anticipate further slowing of economic activity, with GDP growth declining to 1.5%. The end of the Trump-era Tax Cuts and Jobs Act (TCJA) and the depletion of COVID-related savings should place significant pressure on consumer spending (**Figure 1**).

FIGURE 1

ANIMA US GDP baseline



Source: Haver Analytics, ANIMA Research

2. *Democratic sweep scenario*

If the Democrats win both the White House and Congress, we expect fiscal policy to be enacted swiftly. Congress is expected to pass most of the proposed fiscal measures by the end of Q3, at the latest. Based on our assumptions for fiscal elasticity, this would likely lead to a temporary increase in GDP growth by +0.4pp in 2025, which could reverse to -0.6pp in 2026 (vs our baseline) (**Figure 2 LHS**).

3. *Split Congress scenario*

A divided Congress is likely to enact only those fiscal measures that are acceptable to both parties. As a result, we expect spending increases to outpace tax hikes, with the corporate tax rate likely to remain broadly steady. Meanwhile, Democrats are expected to deliver on major spending promises such as childcare, higher education, paid leave, and housing support, as outlined by Harris. This scenario would likely result in a net fiscal impulse throughout the forecast period, with a boost of 0.4pp to GDP growth in 2025, followed by a minor contraction of -0.1 percentage points in 2026. (**Figure 2 RHS**).

FIGURE 2 LHS

Estimated impact on US GDP under a Democratic sweep outcome

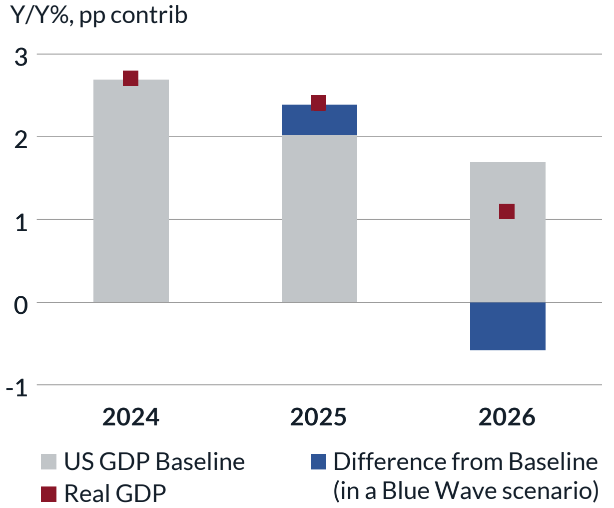
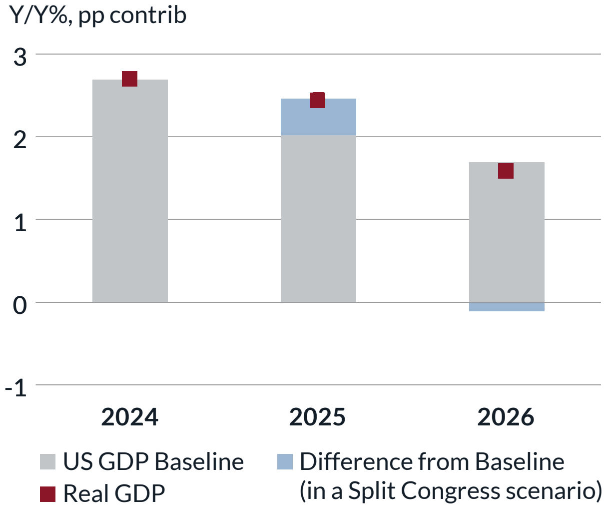


FIGURE 2 RHS

Estimated impact on US GDP under a Split Congress outcome



Source: Haver Analytics, ANIMA Research

INFLATION

1. *ANIMA baseline under existing legislation*

We expect US inflation to continue moving towards its target throughout the forecast period. Core CPI inflation is projected to average 2.6% in 2025, down from the anticipated 3.4% in 2024 (**Figure 3**). Based on our baseline forecast, core CPI inflation should reach 2.4% by the end of next year (Q4/Q4) and 2.2% by the end of 2026 (Q4/Q4).

2. *Democratic sweep scenario*

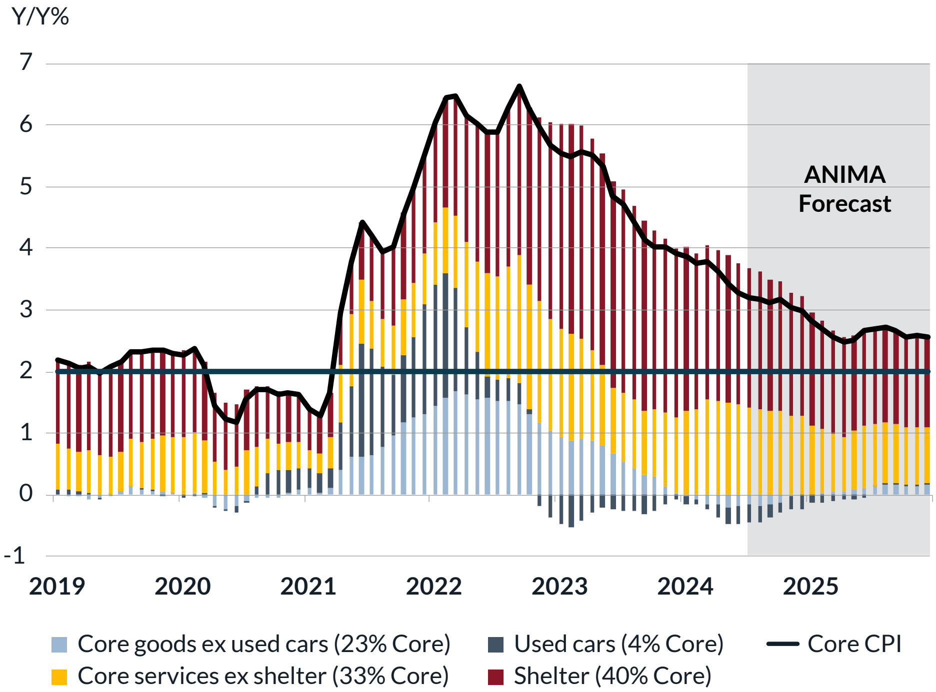
In the event of a Democratic sweep, we do not foresee significant deviations from our inflation baseline, with core inflation expected to converge towards the target by 2026.

3. *Split congress scenario*

In the case of a split Congress, we anticipate moderate upward pressure on super-core inflation (i.e., core services prices excluding housing), which may slightly delay the disinflationary trend.

FIGURE 3

ANIMA core CPI baseline



Source: Haver Analytics, ANIMA Research

MONETARY POLICY

1. *ANIMA baseline under existing legislation*

Consistent with our macro baseline and following the recent Fed's meeting, we anticipate two additional 25bp rate cuts to the Federal Funds Rate (FFR) this year. Beyond that, we anticipate 100bp of additional rate cuts next year.

2. *Democratic sweep scenario*

We anticipate that the Fed's monetary policy will remain largely unaffected in the event of a Democratic sweep, for the following reasons:

- In the event of a Democratic sweep, we foresee an initial increase in growth, which will be followed by a minor reduction. Our estimate of the total impact of post-election policy changes on our GDP baseline is +0.4pp in 2025 and -0.6pp in 2026, resulting in a slightly negative effect on GDP growth over 2025-2026. Against this backdrop, our baseline expectation of a soft landing for growth remains largely unchanged. In this scenario, inflation should continue to converge towards the target as projected.
- The fiscal deficit is expected to align closely with the CBO baseline, providing no positive fiscal impulse in 2025 and 2026.

Accordingly, we expect the Fed to deliver two additional 25bp rate cuts in 2024 (November and December) and four additional quarterly cuts in 2025, reducing the Federal Funds Rate to 3.25-3.50% by the end of 2025 (**Figure 4**).

3. *Split Congress scenario*

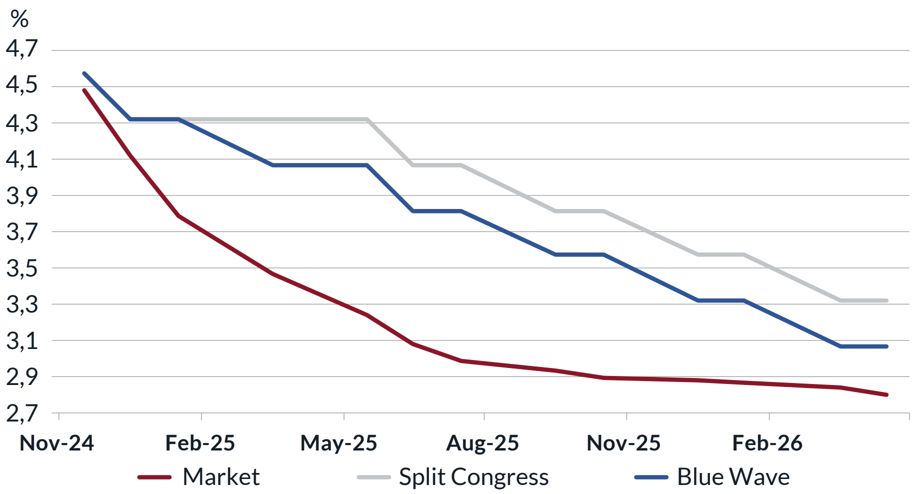
Should Harris win and Congress be split, we foresee a slightly less dovish stance from the Fed than in our baseline scenario, due to the following reasons:

- From a growth perspective, we expect this scenario to be positive, especially in 2025, as tax increases are likely to be modest while a substantial part of the spending programme is likely to be approved.
- We project a marginally more expansionary fiscal policy compared to existing law, with the effect being most pronounced in 2025, when the TCJA remains in place and public spending is likely to increase.
- This scenario presents moderate upside risks to inflation.

In this scenario, the Fed may make one less rate cut in 2025 than the four cuts projected in our baseline. (**Figure 4**).

FIGURE 4

Fed: Market pricing vs Democratic Sweep and Split Congress scenarios



Source: Bloomberg, ANIMA Research

RATES
US ELECTION: POLITICS CHEAPS IN

Our position remains tactically NEUTRAL. Assuming yields stay at around current levels ahead of the US presidential elections and Harris wins:

1. We would look to tactically increase our exposure:
   - **At 4.20%, in a split Congress scenario**
   - **At 4.0-4.10%, in a Democratic sweep scenario**

   Our more cautious tactical stance in the case of a split Congress scenario is informed by:
   - A higher deficit in 2025, resulting from a rise in public expenditure not offset by higher taxes.
   - An increase in growth in 2025 coupled with risks of heightened inflationary pressures, which might prompt a marginally more hawkish position from the Fed.
2. Strategically, **in both a split Congress scenario and a Democratic sweep scenario, we would remain OVERWEIGHT, with the caveat that the potential for yields to drop below current levels is limited, unless growth weakens more than anticipated.**

   Starting from 2026, we believe growth will fall below potential even in a split-Congress scenario, and the Fed will maintain a disinflationary rate-cutting cycle, reducing the Fed Funds Rate to a neutral level.

A word of caution on the timing of the rates market reaction: Following the first presidential debate between Kamala Harris and Donald Trump, which polls suggested Harris won, UST yields declined further. While this might reflect an immediate Treasury reaction to a potential Harris victory, we view it as a temporary movement driven by the market's assumption that Trump would pursue inflationary policies and increase the deficit, whereas Harris is expected to be less pro-growth, less business-friendly, and less inflationary. We anticipate that, if Harris wins and UST yields fall post-election, a retracement is likely in the subsequent weeks, even with a Democratic Sweep outcome.

This is due to two reasons:
1. In any political scenario, we are NOT forecasting a recession, despite monetary policy expectations trending towards a recessionary rate-cutting cycle.
2. In any political scenario, we do NOT foresee an improvement in the fiscal outlook, as the deficit is expected to remain at least 5.5-6% of GDP over the next few years, and the debt-to-GDP ratio is projected to reach new highs.

Scenario 1: Harris wins + Congress split

We remain tactically NEUTRAL. Assuming yields stay at these levels ahead of the US presidential elections and Harris wins:

- **If 10-year yields hit the 4.20% level, we would consider to tactically re-extend our exposure.**
- **Strategically we would remain OVERWEIGHT, but with the caveat that the potential for yields to decrease from current levels is very limited.**

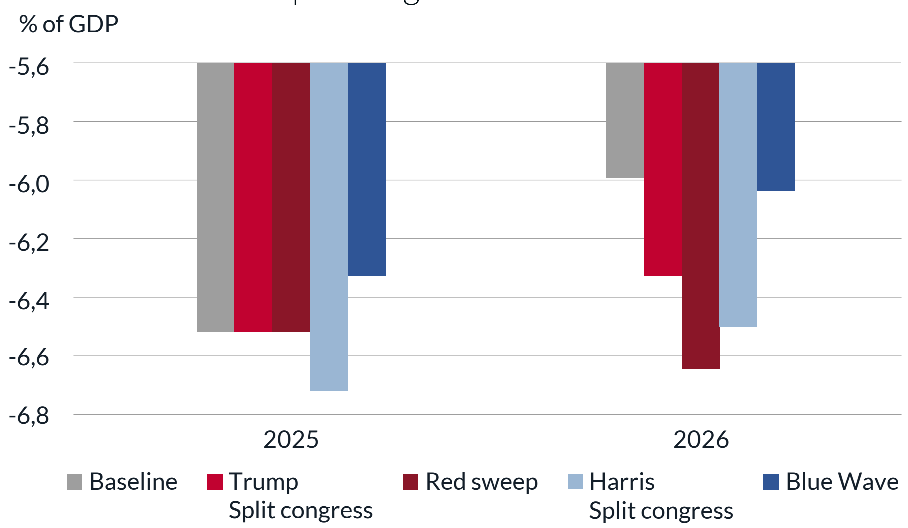
→ Tactical positioning – NEUTRAL with an increase in exposure at 4.20%

We recommend increasing exposure to USTs in the event of a 10-year yield increase to 4.20%. For the following reasons:

1. **Deficit increases in 2025.** In a split Congress scenario, we project the deficit/GDP ratio to rise to around 6.7-6.8% in 2025, up from 6.5% in the baseline (**Figure 5**). This increase is attributed to the higher probability that Republicans will endorse a significant portion of the Democratic spending plan rather than agreeing to tax increases.

FIGURE 5

The most significant increase in the deficit is projected in 2025 if Harris wins with a split Congress

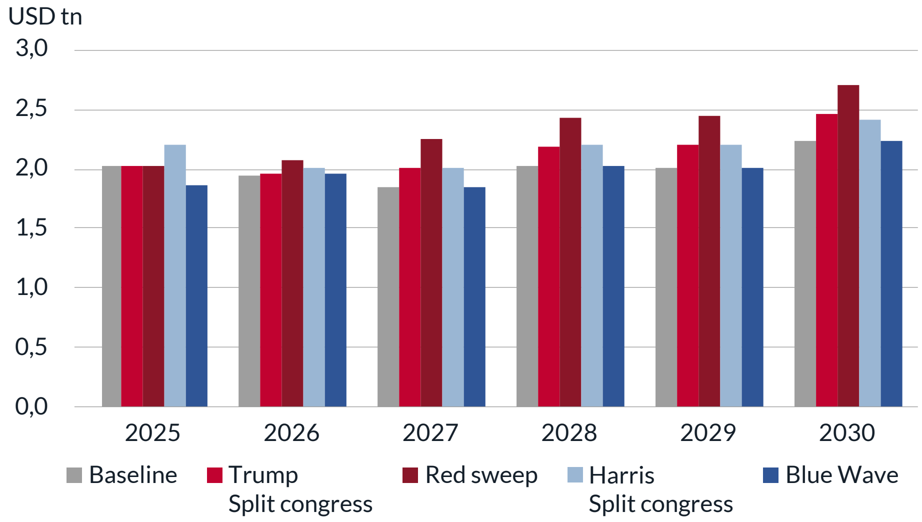


Source: CBO, Anima Research

...and beyond 2026. While we anticipate the deficit will decrease in 2026 in this scenario, thanks to an increase in revenues of over USD 300 billion from the TCJA expiration, it could rise again in the following years if increased outlays are made permanent (as we expect). Markets will need to factor in that, in this scenario, the public finance outlook may initially reflect that of a Republican sweep until 2026, and then shift to a scenario akin to a Trump victory with a split Congress (**Figure 6**).

FIGURE 6

UST issuance in the Harris-plus-split-Congress scenario is comparable to that of a Trump with split Congress scenario in the medium-term



Source: CBO, Anima Research

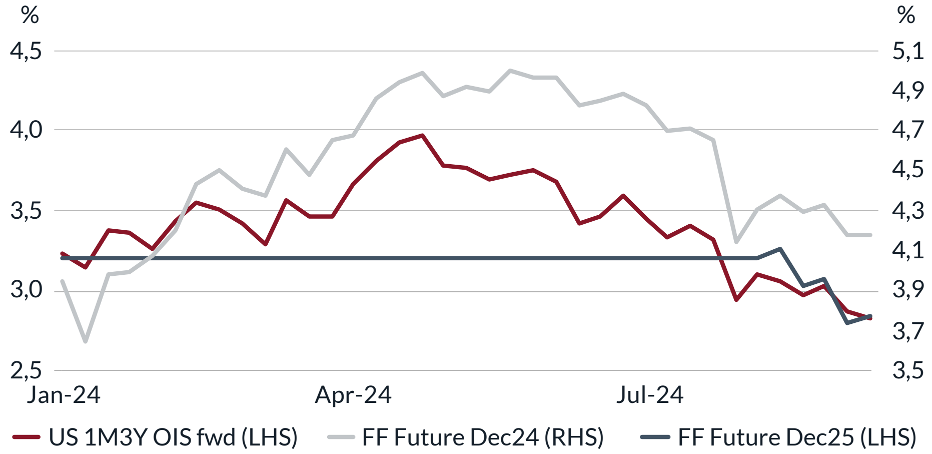
2. **Increased Growth in 2025 and Potential Inflation Risks.**
   Should Harris win with a split Congress, real growth is anticipated to increase by roughly 0.4pp in 2025 relative to our baseline. This positive effect is likely to diminish in 2026, with growth expected to decelerate slightly below potential due to increased taxes (as the TCJA will not be extended) and a reduced impact of public spending. In 2025, the higher growth might present inflationary risks, particularly in the services sector.

3. **Monetary policy: More Cautious Approach in 2025.**
   Considering the higher growth, inflationary pressures, and more relaxed fiscal policy in 2025, the Fed is likely to be more cautious with rate cuts, especially in the first half of the year. In the second half, businesses and, to a lesser degree, consumers might cut back on investment and spending due to anticipated tax increases in FY 2026[2]. As a result, the Fed could implement one fewer rate cut in 2025 than the four rate cuts currently projected in our baseline scenario. Currently, markets are pricing in about 250bp of rate cuts, with Fed funds rates projected to fall to 2.80% by the end of 2025. Given the potential for stronger-than-expected growth and inflation risks, we anticipate a significant re-pricing of both near-term monetary policy expectations and the neutral rate.

[2] FY 2026 runs from October 2025 to October 2026.

FIGURE 7

Markets have aggressively re-priced both near-term monetary policy expectations and the neutral rate



Source: Bloomberg, Anima Research

Why choose 4.20% as a bar for adding exposure?
Last month, we indicated that, according to our fair value models, 10-year UST yields should trade near 4.40%. We set this level as our entry point to re-add duration exposure if Trump won with a split Congress. For a Harris victory with a split Congress, we are lowering the entry point by 20bp. Although the public finance outlook could be marginally worse than under a Trump-win scenario with a split Congress, there are offsetting factors that are more positive for rates:

- **No inflationary pressures from tariffs and immigration policies.**
  We expect Harris to keep existing tariffs in place without adding new ones, in contrast to Trump's approach. Furthermore, while immigration flows are not expected to increase under Harris, we do not anticipate a decline in the labor force, which could potentially happen under Trump.
- **Risks tilt towards reduced public expenditure.**
  In a split congress scenario, there is a risk that the anticipated rise in public spending could be more modest than expected, leading to a smaller rise in the deficit for 2025 than we have projected.

→ Strategic positioning – OVERWEIGHT with limited decline potential for yields

If Harris wins and Congress is split, **we recommend maintaining an OVERWEIGHT strategic positioning**. For the following reasons:

1. **Beyond 2025, growth is expected to fall below potential.**
   The benefits of higher growth and the associated inflation risks are expected to be limited to FY 2025. Beyond this period, growth is projected to fall just below potential, reflecting the impact of a sharp tax increase.

2. **Term premium (TP) set to increase, but gradually.**
   Similar to the Trump scenario, the rise in UST issuance will not significantly increase UST free-float compared to the baseline, which is key for TP. Consequently, we expect TP to rise, but at a gradual pace.

3. **Reduced rates volatility.**
   Trump's potential policies introduce considerable uncertainty, which would usually lead to higher rates volatility, especially with a Republican sweep. In contrast, if Harris wins, we expect lower volatility, as her policies are anticipated to be more predictable, even with a split Congress.

Scenario 2: Democratic sweep

We remain tactically NEUTRAL. Should we approach the US presidential elections with yields around these levels and Harris secures a Democratic sweep:

- **We would be looking to re-extend our exposure tactically if 10Y yields reach the 4.00-4.10% level.**
- **Strategically, we would maintain an OVERWEIGHT position, with the understanding that the potential for yields to decline from current levels is quite limited.**

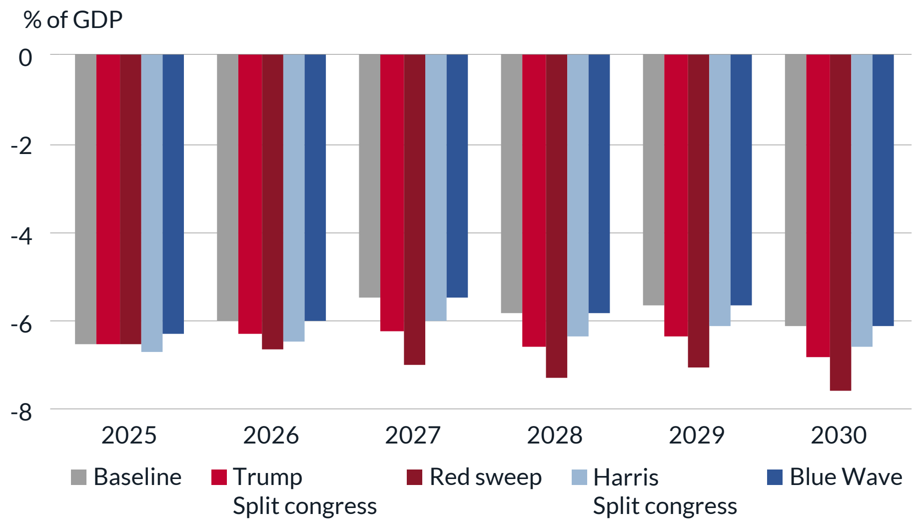
→ ***Tactical positioning – NEUTRAL + increasing exposure at 4.00-4.10%. Strategic positioning – OVERWEIGHT***

Our more dovish tactical and strategic positioning in case of a Democratic sweep compared to split Congress reflects:

1. **A lower deficit in 2025 compared to other political scenarios, with a deficit trajectory aligning with the CBO baseline thereafter.**
   In a Democratic Sweep scenario, Harris would offset increased public expenditure with higher taxes, particularly from 2026 onwards. This would result in a deficit path beyond 2025 that aligns with the CBO baseline. Although the deficit/GDP ratio would remain at least 5.5-6% in the coming years and the debt/GDP ratio would reach new highs, this trajectory is still more favourable compared to other political scenarios (**Figure 8**).

FIGURE 8

In the Democratic Sweep scenario, the deficit/GDP ratio is more favorable compared to all other political scenarios



Source: CBO, Anima Research

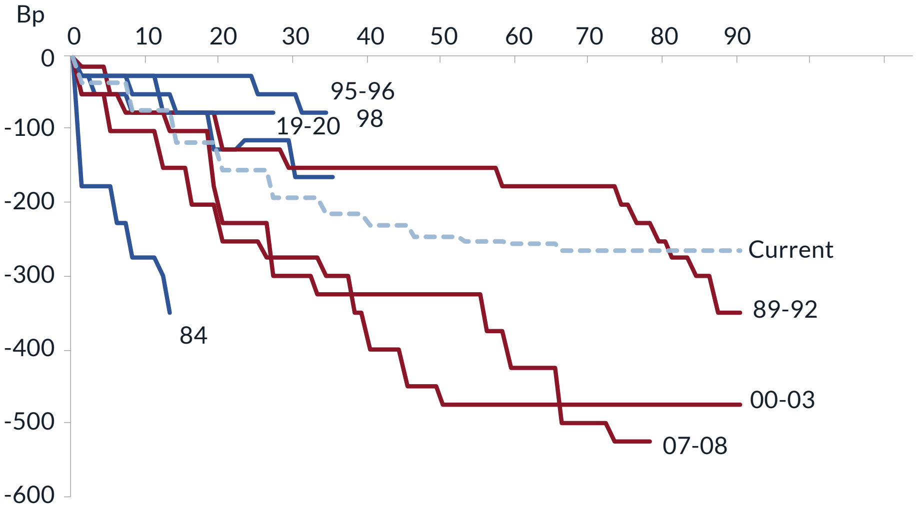
2. **A neutral to slightly negative impact on growth.** While the Democratic Sweep scenario could result in a moderate boost to GDP growth in 2025 compared to the baseline, its impact is likely to turn mildly negative starting in 2026. This is due to the combination of the TCJA expiring and anticipated increases in both corporate and individual taxes under Harris.

A word of caution on the timing of rates market reaction. After the first presidential debate between Kamala Harris and Donald Trump, which polls suggested was won by Harris, UST yields declined further. While this may suggest an immediate reaction in the Treasuries market following a Harris victory, we believe it would be short-lived. The market assumes that Trump would implement inflationary policies and raise the deficit, while Harris is seen as less pro-growth and inflationary. Should yields fall following a Harris victory, we expect them to retrace in the subsequent weeks, even in a Democratic Sweep scenario. This is due to two factors:

- Regardless of the political scenario, we are NOT anticipating a recession, although monetary policy expectations are increasingly reflecting a recessionary rate-cut cycle (**Figure 9**).
- Regardless of the political outcome, we do NOT expect fiscal conditions to improve, with the deficit expected to remain at 5.5-6% of GDP in the coming years, and the debt-to-GDP ratio projected to reach new highs (**Figure 8**).

FIGURE 9

Monetary policy expectations are aligning with a recessionary rate cycle



Source: Bloomberg, Anima Research. Note: Red denotes recessionary rate cutting cycles, while blue denotes disinflationary rate cutting cycles.

EQUITY
MARKET VOLATILITY WITH A DEMOCRATIC SWEEP

Marginally, Harris's victory is likely to be tactically negative for US equities. *We anticipate a decline in corporate fundamentals due to the increased tax burden. With a Democratic sweep, US EPS is projected to rise to $282, whereas the consensus estimate remains at $310 by the end of 2026, suggesting that the Net Margin might settle around 13% instead of the 15% predicted by analysts. Conversely, with a split Congress, EPS and Net Margin are expected to keep rising though to a lesser extent than analysts' forecast, as we anticipate the corporate tax rate will stay the same while spending increases.* ***That said, we maintain a strategic OVERWEIGHT position, viewing potential market weakness as a buying opportunity.*** *Under Harris's presidency, we anticipate the S&P 500 could increase by up to 10% over the next 12 months, driven by single-digit EPS growth and modest multiple expansion. Rising inflation risks may lead to a more hawkish market repricing.*

Tactical View

In the event of a Harris victory in the upcoming US presidential election, we would adopt a tactically bearish stance on US equities, and by extension, on global equities. We anticipate that a Democratic sweep would lead to a more negative market reaction, as the anticipated implementation of proposed corporate tax reforms could exert downward pressure on stock prices.

Harris's key action points are: raising the corporate tax rate to 28%, increasing the buyback excise tax to 4%, taxing capital gains as ordinary income, implementing a stock/bond transaction tax, introducing a 25% tax on unrealized gains for individuals with a net worth exceeding $100 million.

All these measures are net bearish for equities, affecting either corporate fundamentals or investors' allocation preferences.

Below is the effect of these measures on equities:

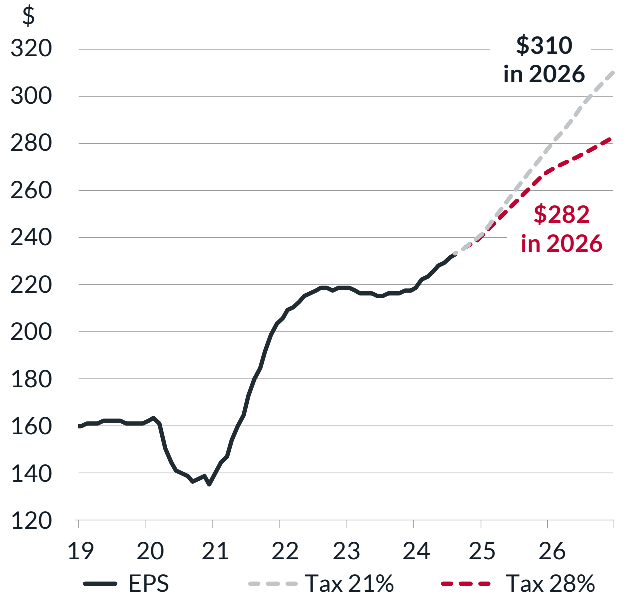
<u>CORPORATE TAX</u>**: raising the corporate tax rate from 21% to 28% will directly impact companies' profitability**. As a rule of thumb, a 1 percentage point increase in the tax rate typically reduces S&P 500 EPS by 1%. If the new measure is implemented from 2025, the consensus's bullish double-digit EPS growth forecasts for 2025 and 2026 would be reduced to around 9% per annum, representing an EPS decline to $282 compared to current expectations (see **Figure 10**). Our macro baseline offers a more conservative outlook: with a split Congress, we anticipate high single-digit annual EPS growth over the next two years, while a Democratic sweep and new corporate tax reform would likely result in a 5% EPS increase in 2025 and only a 2% rise in 2026 (see **Figure 11**).

The new corporate tax regulations will also impact profit margins. Analysts currently predict a steady increase in Net Income Margin to 14.6% by the end of 2026, up from the current 12.5%. However, with the anticipated tighter tax rate, the Net Margin is unlikely to rise in 2026 and will remain at the same level as in

2025. Thus, a 7 percentage point increase in corporate tax is expected to reduce the Net Margin by 130 basis points compared to the 2026 forecast (see **Figure 12**, **Figure 14**). Under our Democratic sweep scenario, we anticipate a modest improvement in Net Margin from the current level in 2025, followed by a decline in 2026 (see **Figure 13** and **Figure 15**).

FIGURE 10

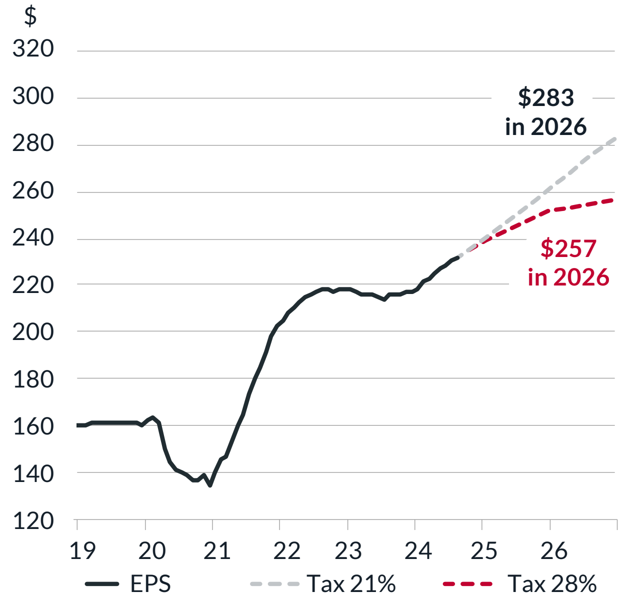
S&P 500 - EPS estimates by Consensus



Source: S&P, IBES, ANIMA Research

FIGURE 11

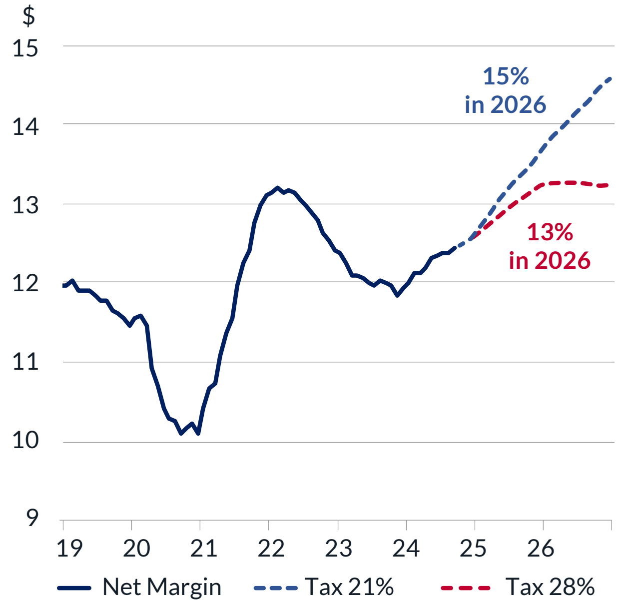
S&P 500 - EPS estimates by ANIMA



Source: S&P, ANIMA Research

FIGURE 12

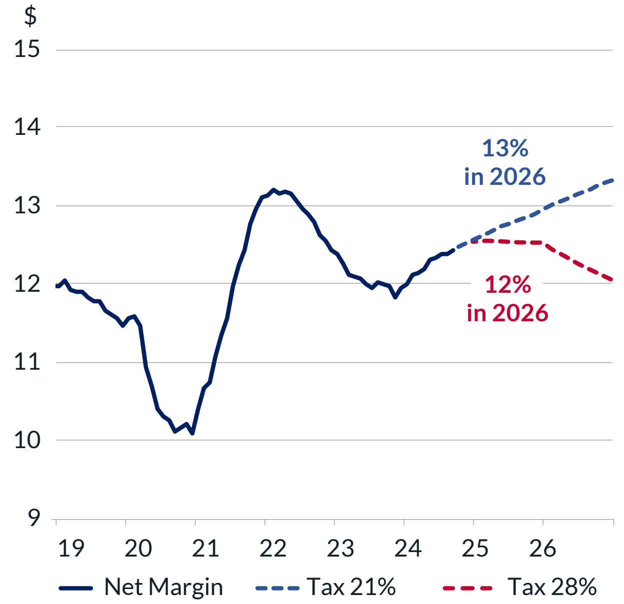
S&P 500 - Net Margin by Consensus



Source: S&P, IBES, ANIMA Research

FIGURE 13

S&P 500 - Net Margin by ANIMA



Source: S&P, ANIMA Research

FIGURE 14

S&P 500 – Consensus Estimates Summary Table

		2024	2025	2026
	Sales growth (%)	5	6	6
	EBITDA growth (%)	9	12	10
Corporate Tax Rate 21%	**Net income growth (%)**	10	15	13
	Net income ($)	238	275	310
	Net margin (%)	12,5	13,7	14,6
Corporate Tax Rate 28%	**Net income growth (%)**	10	12	6
	Net income ($)	238	267	282
	Net margin (%)	12,5	13,3	13,2

Source: S&P, IBES, ANIMA Research

FIGURE 15

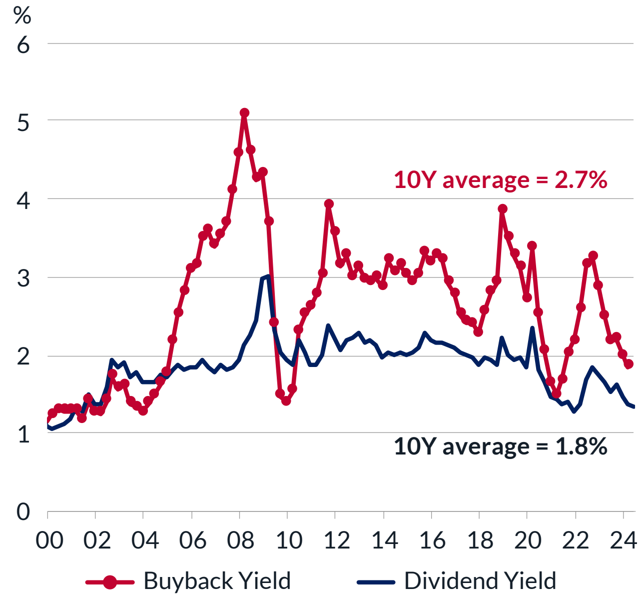
S&P 500 –ANIMA's Estimates Summary Table

		2024	2025	2026
	Sales growth (%)	5	6	6
	EBITDA growth (%)	9	12	10
Split Congress Corporate Tax Rate 21%	**Net income growth (%)**	10	9	9
	Net income ($)	238	260	283
	Net margin (%)	12,5	12,9	13,3
Democratic sweep Corporate Tax Rate 28%	**Net income growth (%)**	10	6	2
	Net income ($)	238	252	257
	Net margin (%)	12,5	12,5	12,1

Source: S&P, ANIMA Research

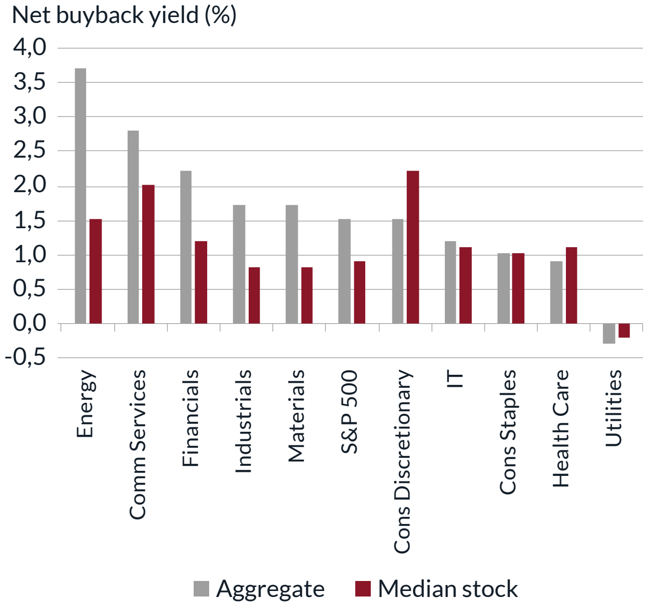
BUYBACK EXCISE: the proposed increase in the excise tax on stock buybacks from 1% to 4% will have a marginal impact on company profitability and could affect how companies prioritise capital allocation between investment in Capex and returns to shareholders. Over the past decade, US companies have returned approximately 2.7% per annum to their shareholders through buybacks and 1.8% via dividends (see **Figure 16**). Sectors with higher buyback yields include Energy, Communication Services, and Financials (see **Figure 17**), which are most sensitive to changes in buyback taxation. Currently, for every $1 invested in the business through Capex and R&D, US corporations return 86 cents to shareholders through buybacks (48 cents) and dividends (38 cents) (see **Figure 18**).

FIGURE 16
US Buyback and Dividend Yield



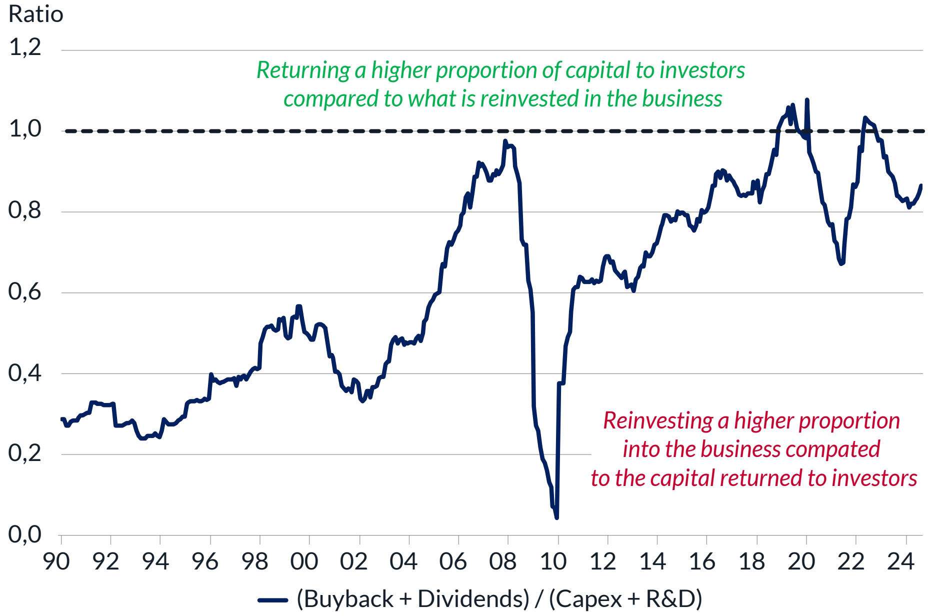
Source: S&P, Datastream, ANIMA Research

FIGURE 17
US Buyback Yield by sector



Source: S&P, Datastream, ANIMA Research

FIGURE 18
US Capital allocation by Pay Out and Investment ratio

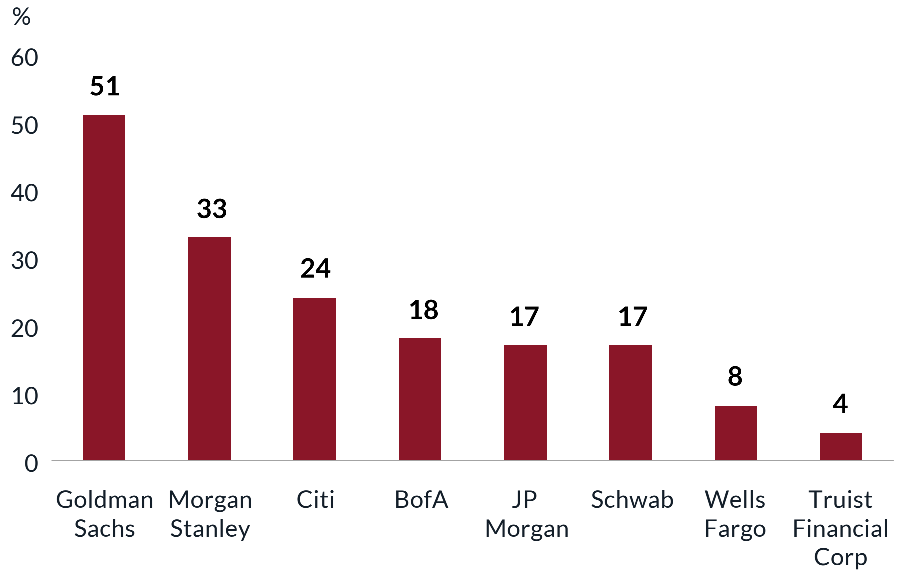


Source: MS, Datastream, ANIMA Research

<u>**TRANSACTION TAX**</u>**: a tax on stock and bond transactions will likely reduce trading volumes and could consequently impact the profitability of banking institutions that derive significant revenues from their Markets division.** In Italy, the Tobin Tax was first introduced in March 2013, targeting share derivatives with a market cap greater than €500 million. According to Consob, this led to a 31% decrease in OTC market volumes between March and August 2013 compared to the same period the previous year, while European volumes grew by 4.5%. Similarly, in Sweden, the tax led to a substantial decline in trading, with turnover for many stocks dropping by more than half. The derivatives market contracted by 90%, and over 50% of trades for Swedish company-related stocks were traded in London rather than Stockholm. In France, where the Tobin Tax came into effect in August 2012, early analyses indicated a decline in trading volumes for the taxed financial instruments. In the US, Goldman Sachs and Morgan Stanley, which derive over a third of their revenues from their Markets divisions, are among the companies most affected by this potential decrease in trading activity (see **Figure 19**).

FIGURE 19

Percentage of revenues generated from Markets
(based on the 2023 Annual Report)



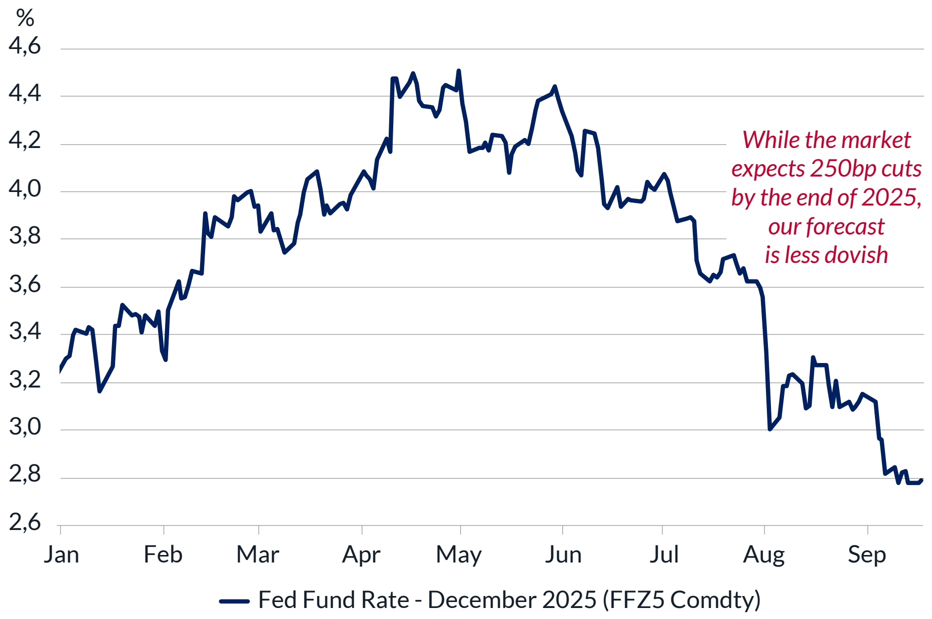
Source: Goldman Sachs, ANIMA Research

Strategical View

We maintain a strategic OVERWEIGHT position on equities, viewing the anticipated market weakness as a buying opportunity. With Harris as President, we anticipate the S&P 500 could rise by up to 10% over the next 12 months, driven by single-digit EPS growth and softer multiple expansion. Currently, Fed Fund Rate futures suggest a reduction of around 250 basis points by December 2025 (see **Figure 20**), but we expect a more modest cut of less than 200 basis points over the same period. If Harris fully implements her agenda, increasing inflation risks may lead to a slightly more hawkish market repricing, which could negatively impact equity valuations.

FIGURE 20

Market-Implied Fed Fund Rate at December 2025



Source: Bloomberg, ANIMA Research

USD
LIMITED IMPACT ON THE USD COMPARED TO TRUMP

A win for Kamala Harris is anticipated to have less significant consequences for the USD than a Trump victory. This is because trade policies are not central to the Democratic agenda, making a trade war unlikely. Her fiscal plans are expected to have a minor impact given our US economic outlook, with the main driver of USD weakness being growth falling below potential by 2026. Additionally, the Fed's anticipated rate cuts are set to weaken the dollar. Hence, we are maintaining our strategic long position on EUR/USD in the run-up to the election.

In this note, we conclude our analysis of various scenarios for the upcoming U.S. presidential elections, with a particular focus on the potential effects of a Kamala Harris win.
In our earlier analysis, we examined how a Trump victory—whether with a Republican sweep or a split Congress—might lead to a more aggressive foreign trade policy, potentially affecting the U.S. dollar (USD) through changes in the bilateral terms of trade (ToT).

Conversely, a presidency led by Kamala Harris is expected to have less pronounced effects on the USD, for three key reasons:

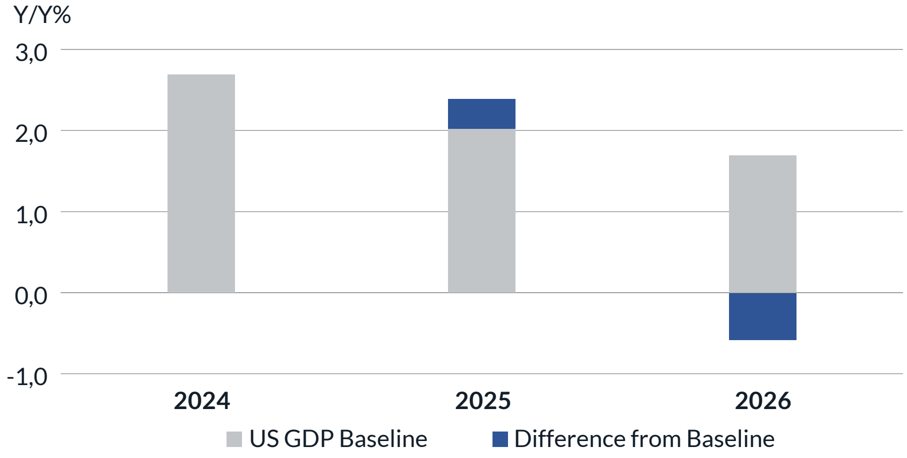
1. **Trade policies**: minimal impact on the USD. Trade policy is not a key priority for the Democrats. Kamala Harris has endorsed the trade policies of President Biden, which means a continuation of the current U.S. policy towards China. Regardless of whether the Democrats gain full congressional control, we do not expect a Harris administration to push for significant new tariffs. Biden's recent decision to impose tariffs on $18 billion worth of Chinese imports is relatively small compared to the $370 billion in tariffs during Trump's first term (and less than the additional tariffs Trump had proposed). As such, we expect limited changes in tariffs under Harris, resulting in a negligible effect on bilateral terms of trade and minimal impact on the USD. Domestic factors are likely to play a more significant role in influencing the USD.
2. **The Fed's monetary policy is expected to structurally weaken the USD next year.** We predict that in 2025, the Federal Reserve will take a more cautious approach to rate cuts, particularly in the first half, as economic growth remains robust, inflation risks persist, and fiscal policy becomes more relaxed. Nevertheless, the easing trend in U.S. monetary policy, which began after the aggressive rate hikes of 2022-2023, is set to continue, keeping downward pressure on the USD through 2025. Furthermore, as businesses and consumers brace for potential tax hikes in fiscal year 2026, we expect investment and spending to slow in the latter half of 2025, further encouraging the Fed's cautious approach and contributing to continued weakness in the USD.
3. **The overall macroeconomic environment in 2025 is expected to be only slightly influenced by Harris' fiscal agenda, with the key driver of USD weakness remaining the anticipated drop in growth below potential in 2026**. While Harris' policies might have a marginally positive effect on the economy in 2025, U.S. growth is still forecasted to fall below its potential in 2026, continuing to weigh on the USD. We conducted an analysis of Harris' fiscal policies under two growth scenarios and examined the corresponding implications for the EUR/USD.

Scenario 1: Harris wins + Democratic sweep

Strategic positioning: LONG EUR/USD. Under this scenario, we estimate that Harris' fiscal policies could contribute approximately +0.37 percentage points to GDP growth in 2025, followed by a reduction of -0.58 percentage points in 2026 compared to our baseline forecast (**Figure 21**). The expected increase in public spending, particularly through household transfers, should more than compensate for the drag on investment from higher corporate taxes. This would result in U.S. GDP growth rising to 2.4% in 2025, up from the baseline of 2.0%. While this slight improvement may temper the EUR/USD uptrend, particularly in the first half of 2025 we do not believe it will be enough to reverse the broader weakening trend of the USD throughout the year[3].

FIGURE 21

Estimated impact on US GDP under a Democratic sweep outcome



Source: Haver Analytics, Anima Research

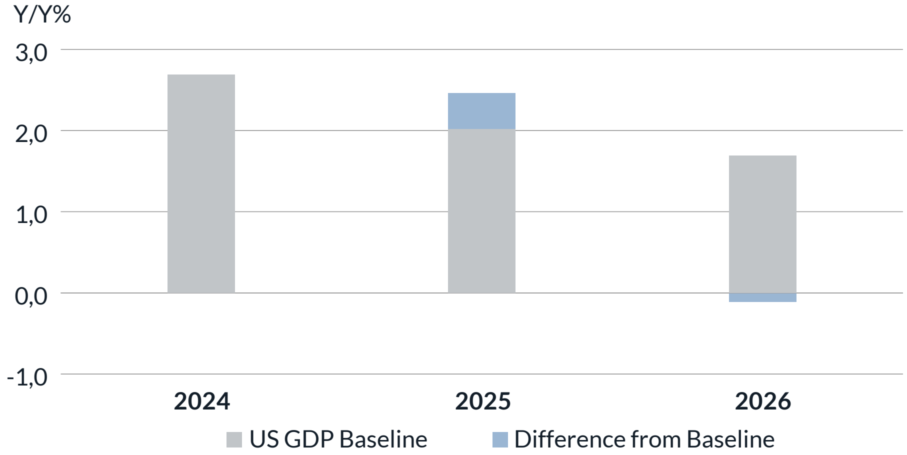
Scenario 2: Harris wins + Split Congress

Strategic positioning: LONG EUR/USD. Should Harris win with a split Congress—gaining control of the House but losing the Senate—we anticipate a GDP boost of +0.44 percentage points in 2025, with a softer decline of -0.11 percentage points in 2026 (**Figure 22**). While spending increases would be more modest than in Scenario 1, the smaller tax hikes, particularly on corporations, would result in a similar growth impact for 2025. However, we believe this additional macro factor would not be sufficient to reverse the broader USD weakness seen in Scenario 1.

3 Markets generally anticipate that, *ceteris paribus*, a 1% increase in U.S. GDP growth typically leads to a 2-4% appreciation of the dollar against the euro. In our scenario, an additional 0.4 percentage point growth could temporarily lift the dollar by around 0.7-1.5%.

FIGURE 22

Estimated impact on US GDP under a Split Congress outcome



Source: Haver Analytics, Anima Research

Bottom line. Unlike a potential Trump presidency, we anticipate that a Kamala Harris victory would have minimal direct impact on the USD, with trade policy playing only a minor role. Instead, the USD's trajectory is likely to be shaped by domestic factors, particularly the Federal Reserve's rate-cutting cycle and slowing economic growth, which is expected to push the U.S. economy below potential by 2026.