



# Unprecedented: 2024's Wild Election Cycle—and Wildier Markets?



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**This election campaign for President has been the most unusual in modern (perhaps all of) U.S. history—the withdrawal of a properly chosen nominee less than four months before an election, the succession of a Vice President to presidential nominee without any competition, the attempted assassination of a major party candidate, and the endorsement of one candidate by a candidate from “the other” party (Robert F. Kennedy Jr. endorsing Trump).**

Historically, the public pays little attention to the election until Labor Day. This cycle, however, attention has come early due to 1) the Trump convictions, 2) a record early first debate, 3) Biden’s exit, 4) Harris’ meteoric rise, 5) the Obama/Pelosi coalition becoming public, 6) and the Trump assassination attempts.

Our beginning of the year Prediction #10 (made in December 2023) was that the White House, House, and Senate all change parties. If accurate, we will elect Donald Trump, a Republican Senate, and a Democratic House.

At this writing, the polls are close to even with swing states similarly indecisive. Donald Trump is the Republican party candidate—the third time in a row (very rare). Donald Trump (age 78) is seeking to portray his opponent, Kamala Harris, as weak and unqualified, while Kamala Harris is attempting to portray Donald Trump as an extremist unfit for presidential leadership. Donald Trump has also been charged and found guilty of multiple crimes—all on appeal, of course.

On the issues of the economy and immigration, Trump leads; on the contrary, Harris leads on the issues of abortion, democracy, healthcare, and senior issues.

Senate races have been much more “dignified” and consistent. The math for the Democrats to retain control of the Senate is significantly lacking, paving the way for the Republicans to take the Senate, likely with ≈52 seats. The House, currently with a razor-thin Republican majority, is for sure too close to call, with most pundits thinking it will go the way of the White House.

Prior to the Biden withdrawal and the ascension of Kamala Harris, the Trump campaign discussion revolved around the question as to whether Trump would win, or win by a landslide. The rise of the fresh face (Kamala Harris) has energized the Democratic Party (and many independents) as noted by the Democratic enthusiasm factor rising from the 20’s to the 80’s, an unprecedented swing. This has resulted in massive money raised by the Democratic Party. Harris’ odds have improved overall and in the swing states in particular as her support has grown among young people, Hispanics, African Americans, women, and moderates.

The swing states of Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania, and Wisconsin will determine the election outcomes. Prior to the Trump-Biden debate, Trump led in Arizona, Georgia, Nevada, and North Carolina with Michigan, Pennsylvania, and Wisconsin too close to call. At that point, Biden arguably needed to win all three of those states to have a chance of winning. Fast forward to this writing, of the swing states, Trump leads in Georgia and Arizona, with the remainder too close to call.

We believe this is Donald Trump’s race to lose. He continues to wage a largely negative campaign and is focusing on fringe issues. If he focuses on the issues—“This is what we did in our four years; this is what we plan to do in the next four years, if elected, and this is what you [Kamala Harris] did and didn’t do in your four years”—he can win. If he refuses to do that and simply calls Harris by demeaning names and adjectives, he will likely lose. For her part, Kamala Harris so far is playing the race from “the basement” as Joe Biden did four years ago—i.e., not facing the press and not doing any in-depth interviews. That strategy, of course, got Joe Biden elected in 2020.

## Prediction: Then and now

## Harris’ surprise rise

# Election odds

## Our odds

President: Harris	51%
Senate: Republicans	80%
House: Democrats	55%

Tariffs are being discussed on both sides, with Trump arguing for the largest tariffs. We believe (and hope) that extreme outcomes are for the purpose of bringing other countries to the table for serious discussion as distinct from actively positioning tariffs (that would likely be imposed by other countries as well, leading to a dire economic outcome).

## Market implications

Markets would struggle with a sweep by either party, and probably would struggle most with a Democratic sweep (and attendant higher tax concerns). Divided government (in any configuration) probably means fringe outcomes related to taxes and tariffs are unlikely. High on the list of impacts will be what is done about the expiring Trump tax cuts in 2025 as well as on corporate tax rates. (Donald Trump wishes to lower the current 21% corporate tax rate to 15%, while Kamala Harris seeks a 28% rate. Neither extreme is likely unless a unified government is elected.)

A Trump presidency would create a weaker dollar policy in an attempt to bring manufacturing back to the U.S., probably keeping inflation higher than it otherwise would be. A Harris presidency means less emphasis on dollar weakness.

## The problems to be dealt with regardless of the outcome

1. A massively divided country.
2. A slowing economy.
3. Inflation (while quiet now, has not gotten to Fed targets).
4. The expiring Trump tax cuts.
5. A near-term budget agreement for fiscal 2025 (starts Oct. 1, 2024).
6. Need for raise in debt ceiling.
7. Massive deficits, rapidly rising interest expenses (U.S. national debt is rising \$1 trillion every 100 days).
8. The border "problem" (and concerns about who enters our country).
9. Aging military supplies.
10. The Middle East powder keg (and Iran's agitation).
11. The ongoing Russia-Ukraine war.
12. The growing alignment of Russia, China, Iran, and North Korea.

# Priorities

## Historical predictors of elections

1. The performance of the S&P 500 for the three months up to the election have determined the winner 83% of the time (up market predicts incumbent party wins). At the moment, this favors Harris.
2. When the VIX peaks in the summer, the incumbent party almost always wins. When it increases into the election, the challenger party wins. At the moment, this favors Harris.
3. The Misery Index (inflation + unemployment) needs to be below 7.35% in October for Harris to win. (It is currently 7.02.)

### Democratic priorities

Top: Tax hikes on higher incomes

Raise taxes on wealthiest Americans; provide relief for middle- and low-income families

Raise minimum wage

Immigration reform

Investing in clean energy

Strengthen relationships abroad

Invest in healthcare and education

Large scale infrastructure investments

### Republican priorities

Top: Curbing immigration

Cut taxes

Cut federal regulation

Tough trade stance, esp. regarding China

Strict border controls, deportations

Increase American energy production

Rebuild military strength

Bring manufacturing back to the U.S.



# Fiscal policy 10-year impacts<sup>1</sup>

<b>Harris</b>		<b>Trump</b>	
<b>Deficit increasing policies</b>	<b>\$T</b>	<b>Deficit increasing policies</b>	<b>\$T</b>
Extend Trump tax cut under \$400k	2.6	Extend Trump tax cuts	3.1
Restore child tax credit	1.1	Exempt Social Security from tax	1.6
Child care and early learning	0.6	Extend Trump pass-through tax cuts	0.8
Other	1.7	External cost recovery and interest limits	0.6
<b>Total</b>	<b>6.0</b>	Lower corporate rate for "Made in USA"	0.5
		Other	0.4
		<b>Total</b>	<b>7.0</b>
<b>Deficit-decreasing policies</b>	<b>\$T</b>	<b>Deficit-decreasing policies</b>	<b>\$T</b>
28% corporate tax rate	1.0	Tariffs	2.8
25% tax on income of unrealized gains	0.5	Repeal Clean Air subsidies	0.9
Increase NIIT and Medicare tax	0.4	<b>Total</b>	<b>3.7</b>
Applying 5% to NIIT business income	0.4		
Revive global minimum tax	0.4		
Limit excessive employee remuneration	0.3		
Reduce cost of Rx drugs	0.3		
Other	1.4		
<b>Total</b>	<b>4.7</b>		
<b>NET</b>	<b>-1.3</b>	<b>NET</b>	<b>-3.3</b>

<sup>1</sup> Source: Piper Sandler

# Four scenarios

## Federal policymaking priorities under different electoral scenarios<sup>1</sup>

### Trump + GOP Congress

Reversal of many Biden administration regulatory actions

Rollback of certain Inflation Reduction Act (IRA) provisions

Expansive tax package reauthorizing most of the Tax Cut and Jobs Act (TCJA) provisions

Renewed effort to repeal/replace Affordable Care Act (ACA), with same hurdles present

Immigration and border security focus administratively and legislatively

Tariffs and hardline trade negotiations

Funding for Israel/Taiwan continues, but Ukraine aid would face headwinds

### Harris + Democratic Congress

Expansive tax package reauthorizing most of the TCJA provisions for those earning <\$400k, and materially increasing the tax burden for higher earners

Child care, housing, health, and climate proposals that were excluded from the IRA via reconciliation

Expanded Medicare drug-price negotiation

Infrastructure/CHIPS 2.0 Act

Student loan cancellation

Funding for Israel, Taiwan, and Ukraine continues

### Trump + divided Congress

Reversal of many Biden administration regulatory actions

Key provisions of the TCJA are extended, but it is ultimately a narrower package

Political risk around funding deadlines and debt ceiling X-date

Expansive use of executive orders

Focus on investigations/oversight if House flips to Democratic control

Funding for Israel/Taiwan continues, but Ukraine aid would face headwinds

### Harris + divided Congress

White House defense against efforts to reverse Biden-era regulatory actions

Limited extension of certain TCJA provisions with a pronounced focus on middle- and lower-income families

Political risk around funding deadlines and debt ceiling X-date

Expansive use of executive orders

Focus on investigations/oversight if Senate flips to Republican control

Funding for Israel/Taiwan continues, but Ukraine funding modestly more difficult to secure

<sup>1</sup> Source: BTIG Research

# Conclusion

## Final thoughts

1. Most voters would prefer different candidates, so most voters will be casting as anti- the other party.
2. This promises to be a close election where we may not even know the winner on Nov. 6 (especially for the presidency and the House).
3. Regardless of the outcome, the country will remain bitterly divided, making it difficult for a new president to govern beyond his or her own party.
4. One-party control would be bad for markets; otherwise, markets can cope as extreme legislation would be unlikely.
5. Regardless of the outcome, the list of issues is daunting and growing (e.g., rapidly rising federal debt and interest expense, and the growing geopolitical threats).

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