

# ConnText Podcast

October 2024

TRANSCRIPT

## 2024 Election Preview with Michael Mix, Portfolio Manager

Conning ConnText is a quarterly podcast that features our firm's view of capital markets, trends and investment strategies for the insurance industry, hosted by Rich Segal, Conning's Global Chief Investment Strategist.

### SEGMENT 1 – OPENING

[Rich Segal (RS)]

Hi all. Welcome to the Conning ConnText fourth-quarter podcast for 2024. I'm Rich Segal, and joining in our Hartford, Connecticut office today is Michael Mix, Managing Director and Portfolio Manager. We'll be discussing what portfolio managers are thinking as we head into the U.S. presidential election early next month.

### SEGMENT 2 – ECONOMIC/CAPITAL MARKETS OVERVIEW

[RS] (Time stamp - 0:36)

The big economic news last quarter was the 50-basis-point rate cut by the U.S. central bank. So many questions remain: Will they keep going or are they done for a while? Is growth steady or decelerating? Can the labor market sustain its strength or will unemployment creep upward? When will the consumer crack? Will there be a soft landing, or none at all?

Our view is for continued modest growth of around 2 – 2½ % in the U.S., some weakening in the labor market, and a risk that weaker consumer demand contributes to a slowdown - if not a true recession - early in 2025. We don't believe U.S. inflation will fall much below 3%, and certainly not all the way down to the Fed's target of 2 – 2½%. We don't see a strong call for further policy rate reductions this year. The biggest open question here and now for markets is of course, what's up in politics?

### SEGMENT 3 – ELECTIONS DISCUSSION

[RS] (1:34)

We're all bracing for a close election in just a couple of weeks, with most polls falling within their margin of error. Markets hate uncertainties and there are many involved here, from voter turnout to integrity of voter rolls and eligibility, to down-ballot performance, to post-election legal challenges; so much we don't know.

But when it comes to the likely policy paths forward and their investment implications, there are a few important things we do know. We know that these candidates have records; they've built careers running campaigns for office, signing bills into law as president, acting as border czar and vice president, voting on bills and debating legislation

in the Senate, choosing whom to prosecute (or not) as DA and attorney general in California. Neither seems likely in the next few weeks, based on opposition research, to change a core belief system they've constructed over a lifetime. So if we want to know what a candidate will likely do in the future, we should study their past.

Joining me now to hash all this out is my colleague Michael Mix, Managing Director and a member of the great Conning Portfolio Management team. Great to see you sir, welcome to the podcast!

**[Michael Mix (MM)]**

Thanks Rich! Happy to be here!

**[RS] (2:48)**

Mick, you are in touch with our clients constantly. What are they concerned about regarding the potential election outcomes?"

**[MM]**

Yes Rich, we are hearing a lot about this from our clients. They want to know what we think are the likely outcomes, the respective implications for policy of those outcomes, and what it all might mean for the economy and the capital markets, especially interest rates.

Let's start with a look at how Harris and Trump are polling.

Harris leads most national polls by about two points. However, when likely voters are polled in the top battleground states, Trump has a small lead. Trump leads convincingly in North Carolina and Arizona and just took the lead in Michigan, while Wisconsin, Nevada, Georgia and Pennsylvania all look like toss-ups. We always take polling with a grain of salt as the last few election cycles have shown that they are not always reliable – remember the Red Wave in 2022? - and of course Trump himself in 2016. I don't think that looking at the trajectory of the data is helpful either since, on the national level, Harris took the lead in early August and is still ahead by about the same amount that she was right after the Democratic National Convention at the end of August. What that probably says is that voters that are responding to polling have made up their minds – what it does not say is what the voters that are not responding to the polls are thinking. So at this point it looks like a very tight race.

So Rich, what are the major implications of a Harris win? The campaign has been fairly tight-lipped on policy details, except some early soundbites about price controls on groceries and more recently repeating the Biden mantra about "making the rich pay their fair share." Any insights on how Harris's plan may differ from the Biden years?

**[RS] (4:30)**

As you say Michael, Harris has been mostly quiet when it comes to policy specifics.

A couple of weeks ago (and a couple of hurricanes ago), President Biden, in a press conference discussing his Hurricane Helene response, outlined Vice President Harris's integral role in all the administration's policies, from the economy to disaster response, from immigration to climate and energy policy, to the Middle East. Yet candidate Harris portrays herself as a change agent. So how do we break that down for markets if she were to prevail in November? Will she shake things up or is it status quo ante?

Judging from her current and past positions as VP, California AG, and [U.S.] senator, one would have to conclude she is a fairly left-leaning Democratic politician. From the beginning of her political career in San Francisco, she has never deviated from the liberal party line. She was routinely compared to Bernie Sanders as the most liberal senator on the hill. So I don't expect to see much departure from the substantive policy positions of the past four years.

Temper that though with two things: as we know, personnel is policy so, with whom will she staff her administration? And looking at the down-ballot outcomes, what will be the complexion of the Congress she'll have to navigate? Let's assume she'll have supportive staff with many of the same Biden personnel behind the scenes, but a resistant Congress, at least in the Senate. It's not likely that her administration will be able to push very hard on the more extreme wish lists of the Biden agenda such as taxes and climate policy - gridlock is good. So I expect she'll have to settle into a pattern very similar to that which we've seen already in the Biden term.

**[MM] (6:14)**

And what about Trump's policy plans? The hot topic for him is tariffs, which pretty much everyone is interpreting as inflationary. Is that just Trump being Trump and talking loudly, or is that part of a larger push to deglobalize?

**[RS]**

I don't think this is a push to deglobalize and I don't believe Trump is isolationist. But it probably is Trump being Trump and certainly as Trump followers know from his first term eight years ago, tariffs are a hallmark of his approach to diplomacy. But tariffs, whether or not they actually are paid, will drag down output, slow production, and reduce demand. Then, if they are paid and there's enough monetary stimulus in the system to support higher prices, they could lead to stagflation. So they may or may not be inflationary, but either way they are effectively taxes and are always bad for growth.

But Trump - whether it's the 60% tariff on China or the 10% tariffs across the board - he's always liked tariffs. And he's now further proposed a 100% tariff on any country that so-called "dumps" or "drops the dollar" which would include at least all the BRICS (that's a currency alliance of Brazil, Russia, India, China and South Africa along with several Middle Eastern countries) and who knows who else. None of these statements are policy at this point; they are posturing, meant to set the tone for negotiations that eventually will set policy.

But I do think tariffs would play a role in both a Trump or a Harris presidency. Recall that Harris concurred in all aspects of Biden's foreign policy, including the economic positions, which largely maintained and in fact expanded the Trump Administration's tariff and non-tariff trade barriers. I expect that there is actually very little space between the two parties these days regarding trade policy, especially with respect to China, tech, and EVs.

So the material difference for me comes down to regulation, where a Trump administration would have a considerably lighter touch. That would foster innovation, which is and has been far more important to growth and will overwhelm

the meager difference between the parties' relative contribution from trade. I'm not saying trade is unimportant, only that the difference between the parties isn't that significant, compared to other policy areas, like defense, energy, and regulation.

[Music break]

**[RS] (8:47)**

We know that these policy decisions need to run through Congress, so Michael let's talk about the down-ballot races and who will control the House and Senate.

**[MM]**

In the Senate, there are 34 seats up for grabs. Again, looking at polling, the Senate looks like it will be Republican-controlled with 50 seats projected to go to that party. There are about five races that are toss-ups and too close to call but the Republicans would only need a few of those seats to gain a majority. They would still be a long way away from a potential Harris-veto-proof 2/3 majority if she does win.

From your Civics class, you recall that all 435 seats in the House are in play. Here, the Republicans look like that have an 11-seat advantage over the Democrats, but there are also about 32 seats that are too close to call.

Rich, any insight in how these races are leaning and how each could shape policy?

**[RS] (9:42)**

Here's a crazy idea I came across recently. Betting markets are calling for a "triple flip," that is, a change of control of the presidency and both houses of Congress. but with something that's never happened before. Polls, incidentally, aren't tracking this way as you've pointed out with Harris leading - that wouldn't be a flip - but for the moment, the betting public is.

Now what's odd about it is not that all three might change - that's happened before in wave elections - but that the Senate and House will flip in opposite directions in the same cycle. That's new! I think what it says is that people are profoundly unhappy with the way things are going and are frustrated. Biden's approval rating last week was 37%; disapproval, 57%. And for the first time since they've been asking the question, Gallup counted more Republican voters than Democrats. But at the same time, Democrat donors are outraising Republicans by a substantial margin. This kind of voter behavior, an anti-incumbency mindset, constantly realigning partisan control, makes policy inconsistent, markets less predictable, and long-term investing more challenging.

**[MM] (10:56)**

Great. Let's move on to an area where there is alignment between the two sides. It sounds like each candidate will expand the current budget deficit: proposals like reinstating the state and local tax deduction, and the expansion of child tax credits and, of course, neither wants to deal with entitlements. We have been talking about that for a few years now, but the bond market does not seem to be paying much attention. When does that start to matter?

**[RS]**

Yes Michael, that's right. The narrower electoral margins get, the more compromises candidates have to make to lure various constituencies into their camps, the fewer tough long-term decisions will get made. In fact even short-term decisions suffer for fear of losing special-interest support.

The 118th "do-nothing" Congress has left a ton of unfinished but essential business to the lame-duck session, which will probably be going on while many House races are being counted and/or litigated; there are already 135 election-related lawsuits already filed in 37 states regarding the elections. There will be fights over general

appropriations, the farm bill, the NDAA, which is the National Defense Authorization Act, and FEMA supplements for hurricane relief. When does it start to matter? As Hemingway once wrote: gradually, then suddenly.

So with all that's going on, what are the investment implications and opportunities that either of these scenarios might present?

**[MM] (12:17)**

On a high level, as we said, both candidates are likely to expand the deficit, which, if that requires the issuance of more U.S. treasuries, could be an upside risk to inflation and interest rates. If you combine that longer-term risk with the current inflation uncertainties, it sure looks like the interest rate volatility that we have seen lately is here to stay. The probability of being whipsawed out of a winning position is pretty large and we have seen sizable rate movements reverse course in just a few days during 2024. That sets us firmly into the camp of staying duration neutral within portfolios relative to long-term targets.

From a sector perspective, we have given some thought to which sectors within corporate bonds, usually the largest exposure for insurance portfolios, would be the most affected by either a Trump or a Harris win.

First, the Harris victory. Utilities could stand to benefit the most with the continuation of clean energy incentives that these companies have already received under the Inflation Reduction Act. A Trump win might hit a few more segments on the positive side. Banks may see the largest impact with regional banks in particular receiving some regulatory relief and there may be M&A in the segment which could increase profitability. Energy would also benefit via deregulation, support for fossil fuels and traditional energy projects, energy independence, supportive tax and trade policies. Technology may also benefit, if nothing else by the removal of the threat of the breakup of large tech players that the current administration is pushing.

On the downside, a Harris win would put pressure on the food and beverage segment. Harris has already talked about a federal ban on price gouging as a way to battle higher food prices – not sure that will have the intended effect, but that is the goal. A Harris win would also affect the technology segment, where, as I said, a second Democrat term may be a chance to increase breakup pressure. A Trump win could strain segments that are big importers like retail, food and beverage, and consumer products, if he follows through on his threat of increased tariffs.

It's worth noting that pharmaceuticals would be burdened regardless of who wins as both Trump and Harris have supported lower drug prices as that is the story they both can tie into the Medicare fix.

And by the way, our Conning [Insurance] Research folks just put a good summary of what the effects of a Harris or Trump win would be for the insurance industry. If you have not seen that, check for it in the Conning Library.

**[RS] (14:49)**

OK, Michael, last question. We constantly hear that the country has never been more divided and that democracy is at stake. My view is that it's still the best system in the world, but what do you think: Does democracy still work?

Yea, I agree - it's still the best way to give the power to the people. And as my grandfather used to say if you don't vote, you can't complain about decisions that impact you

So preserve your right to complain and get out and vote!

## SEGMENT 4 – CLOSE

[RS] (15:19)

Thanks Michael, for a great conversation. A couple of thoughts to wrap up.

First, we know that most folks in most places have already made up their minds about these candidates and are not likely to change them in the next couple of weeks, regardless of what claims either campaign might make. The past two national elections were decided by between 0.04% - 0.07% of the vote; that's 65,000 to 72,000 voters in three states out of 160 million votes cast. We will be watching and listening for clues in the swing states as to how potential election outcomes might affect capital markets and the portfolios we manage for our clients.

And for more specific implications for insurance, don't forget to look for that recent Election Special publication from our Insurance Research team in the Conning Library that Michael mentioned.

Thanks for listening in on our discussion.

We hope this information is helpful and we always welcome your feedback and questions. You can get messages to us through your relationship manager, your portfolio manager, or send them directly to us at [ConnText@Conning.com](mailto:ConnText@Conning.com) (that's ConnText w/ 2 Ns).

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