



Make Politics Boring Again

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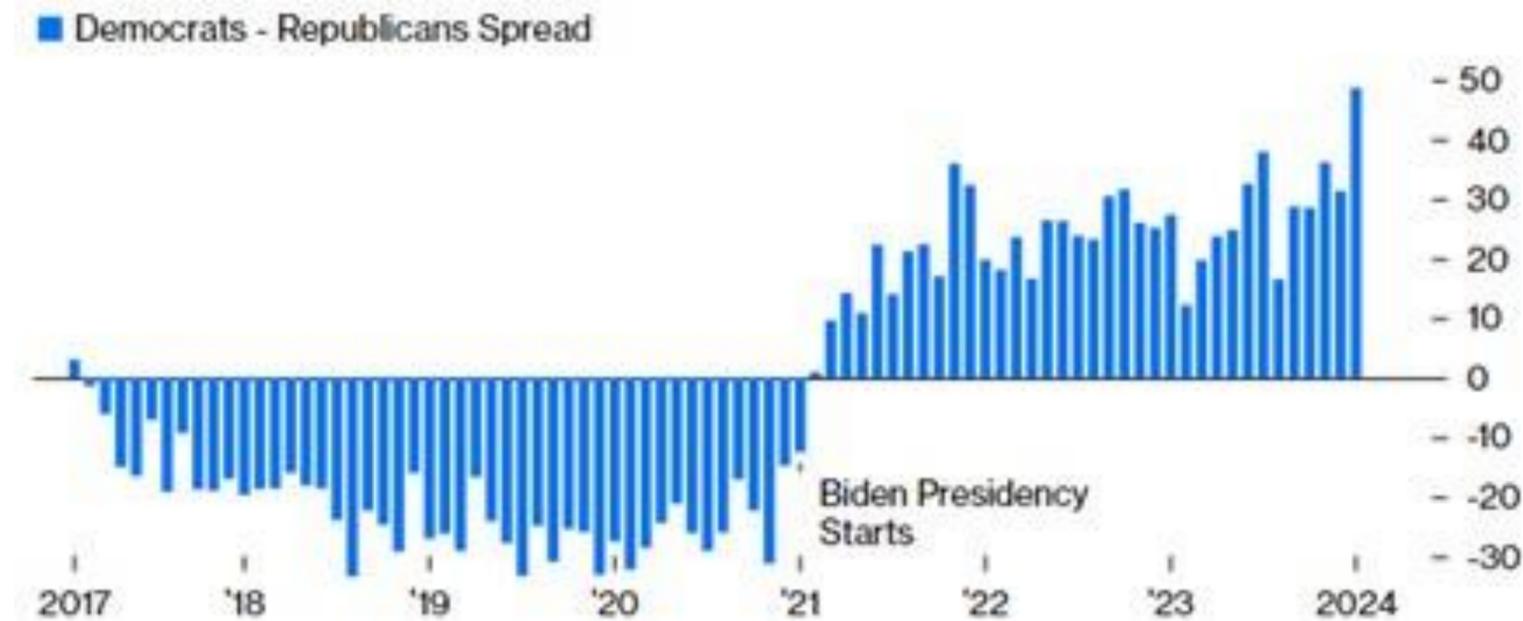
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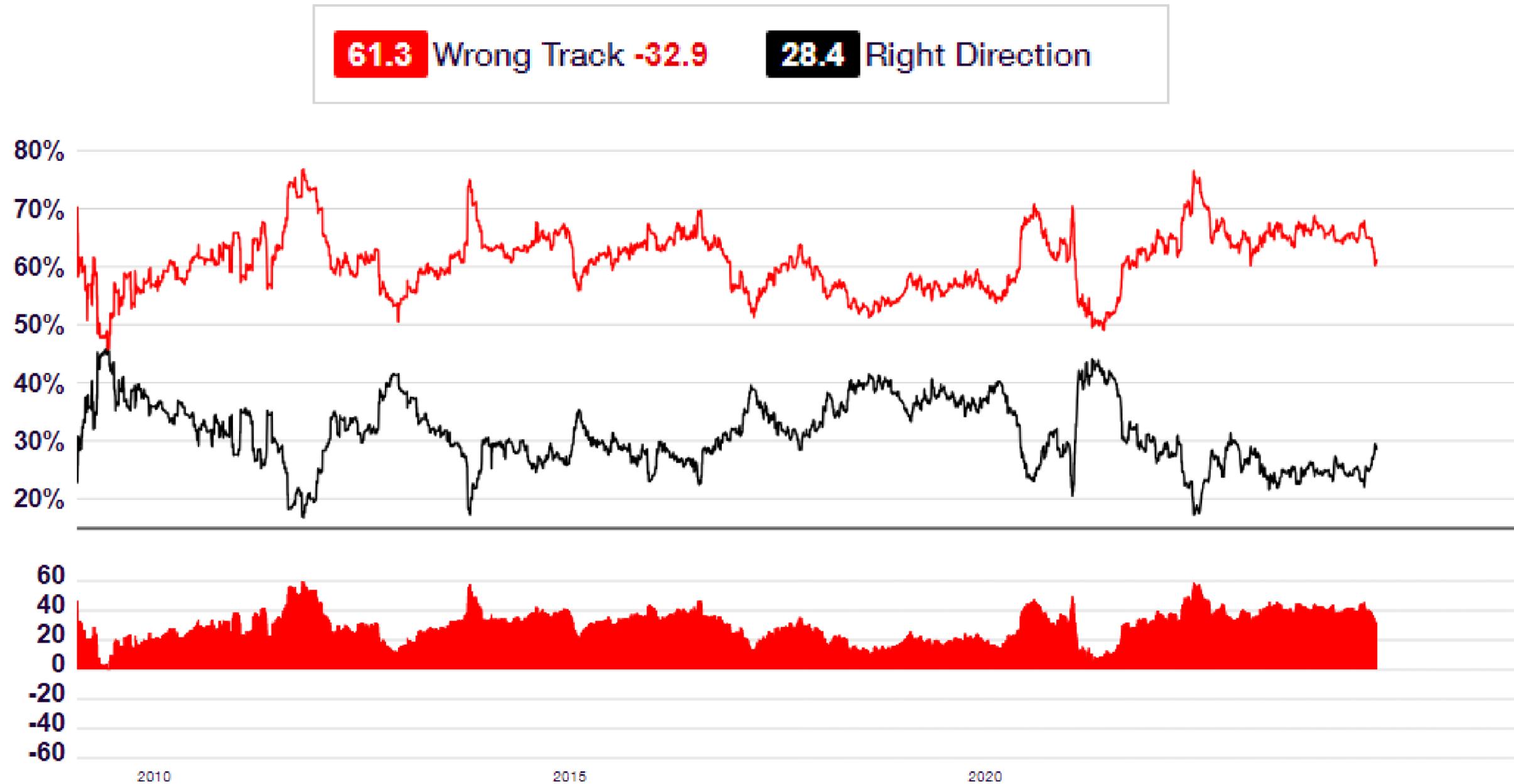


“How is our economy doing?” – Depends on whom you ask

The Gap Between Partisans’ Economic Perceptions Has Never Been Wider

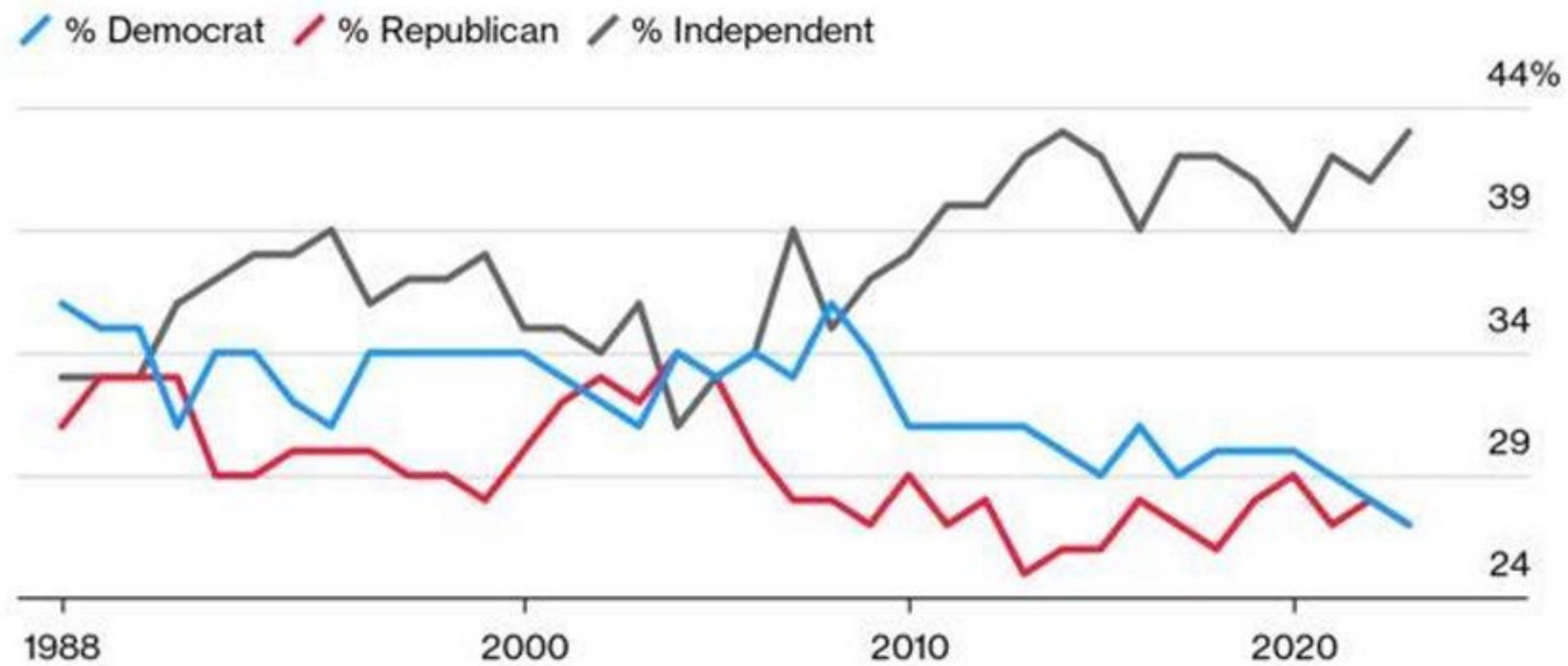


Something we can all agree on



Americans increasingly choosing neither political party

Independents Outnumber Supporters of Both Major Political Parties

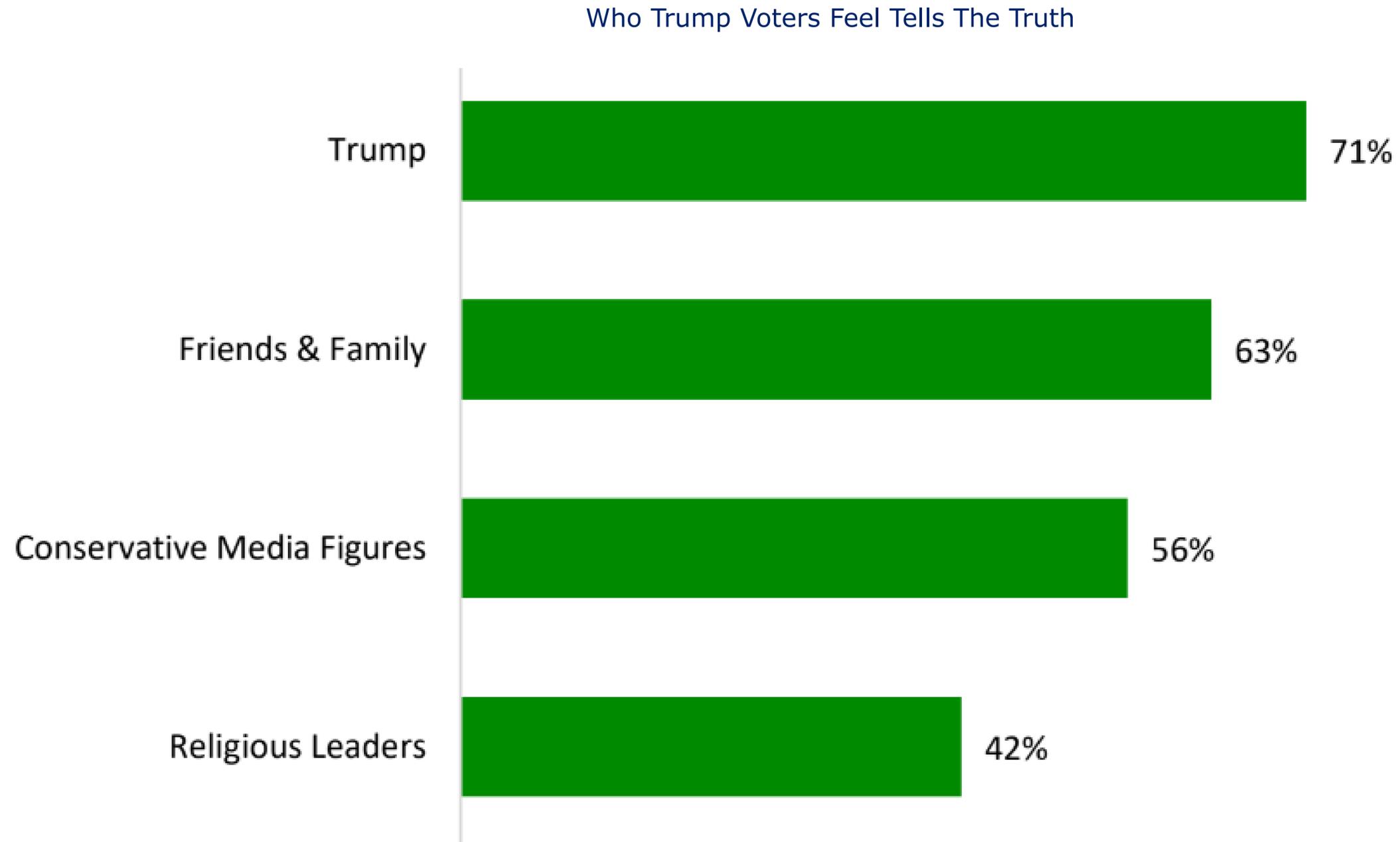


Should've been easy

The Predictive Power of Financial & Economic Indicators in Presidential Elections

| Election | Misery | S&P 500 | VIX | Dollar | % Correct |
|-----------------|---------------|--------------------|------------|---------------|------------------|
| '92 | X | X | X | X | 100% |
| '96 | X | X | X | ----- | 75% |
| '00 | X | X | X | X | 100% |
| '04 | X | X | X | X | 100% |
| '08 | X | X | X | X | 100% |
| '12 | X | X | X | X | 100% |
| '16 | X | X | X | X | 100% |
| '20 | X | ----- | X | X | 75% |
| '24 | Harris | Harris | Harris | Harris | 100% |

Trump's base turned out

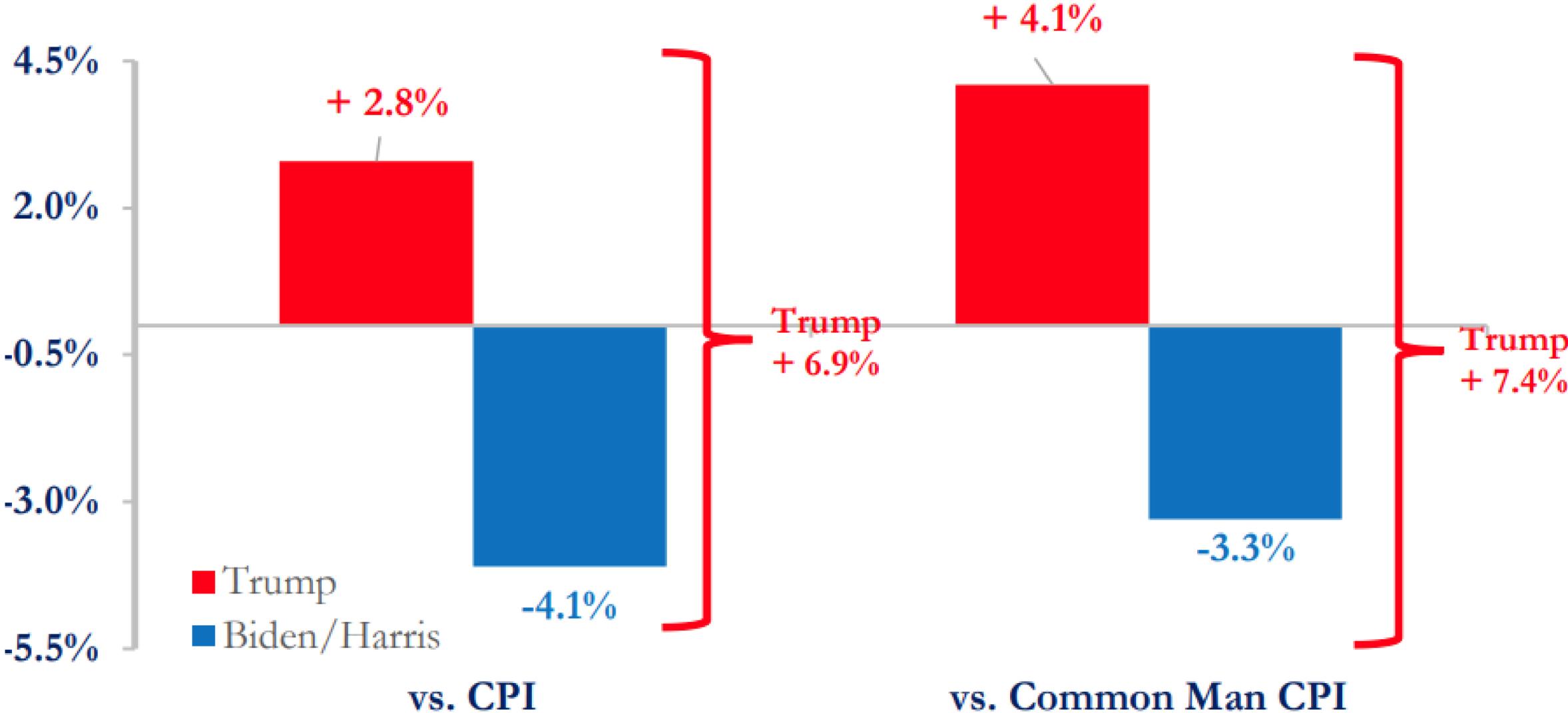


Source: CBS News, YouGov and TD Cowen. Note: This poll was conducted with a nationally representative sample of 2,061 U.S. adults which included 538 likely GOP primary voters with margin of error of +/- 7.2 percentage points. August 22, 2023
Survey taken: August 16-18, 2023

Perhaps this is why Trump won the popular vote

Change in Americans Standard of Living

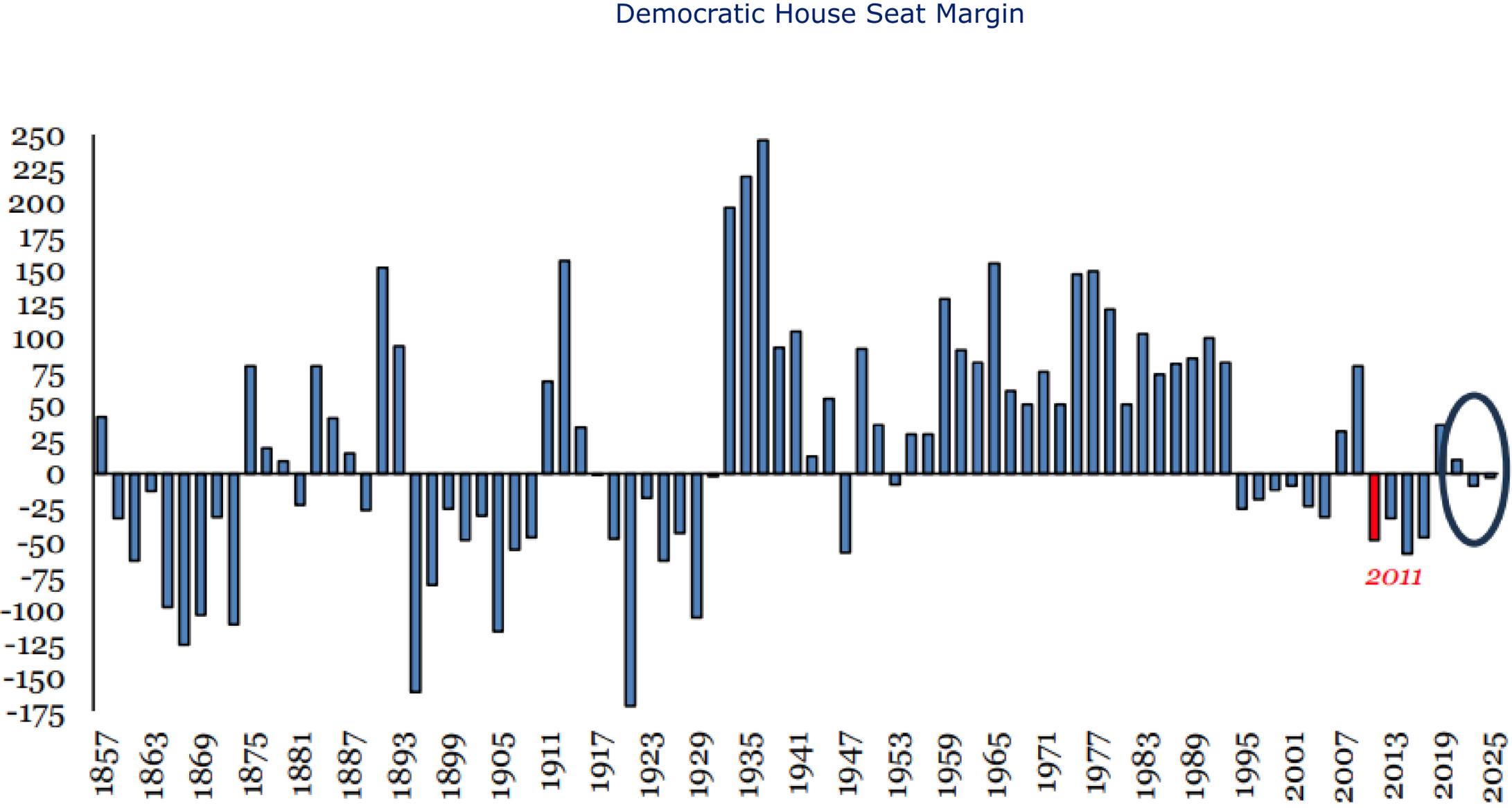
Trump vs. **Biden/Harris** (First 45 Months)



Source: BLS, Haver, Strategas Research Partners. November 14, 2024

Note: Standard of Living measures Employment Cost Index minus inflation. Common Man CPI measures items people want to buy regularly, such as food, energy, shelter, children's clothing, utilities and insurance.

Depends on what you mean by "landslide"



Source: Strategas Research. November 15, 2024

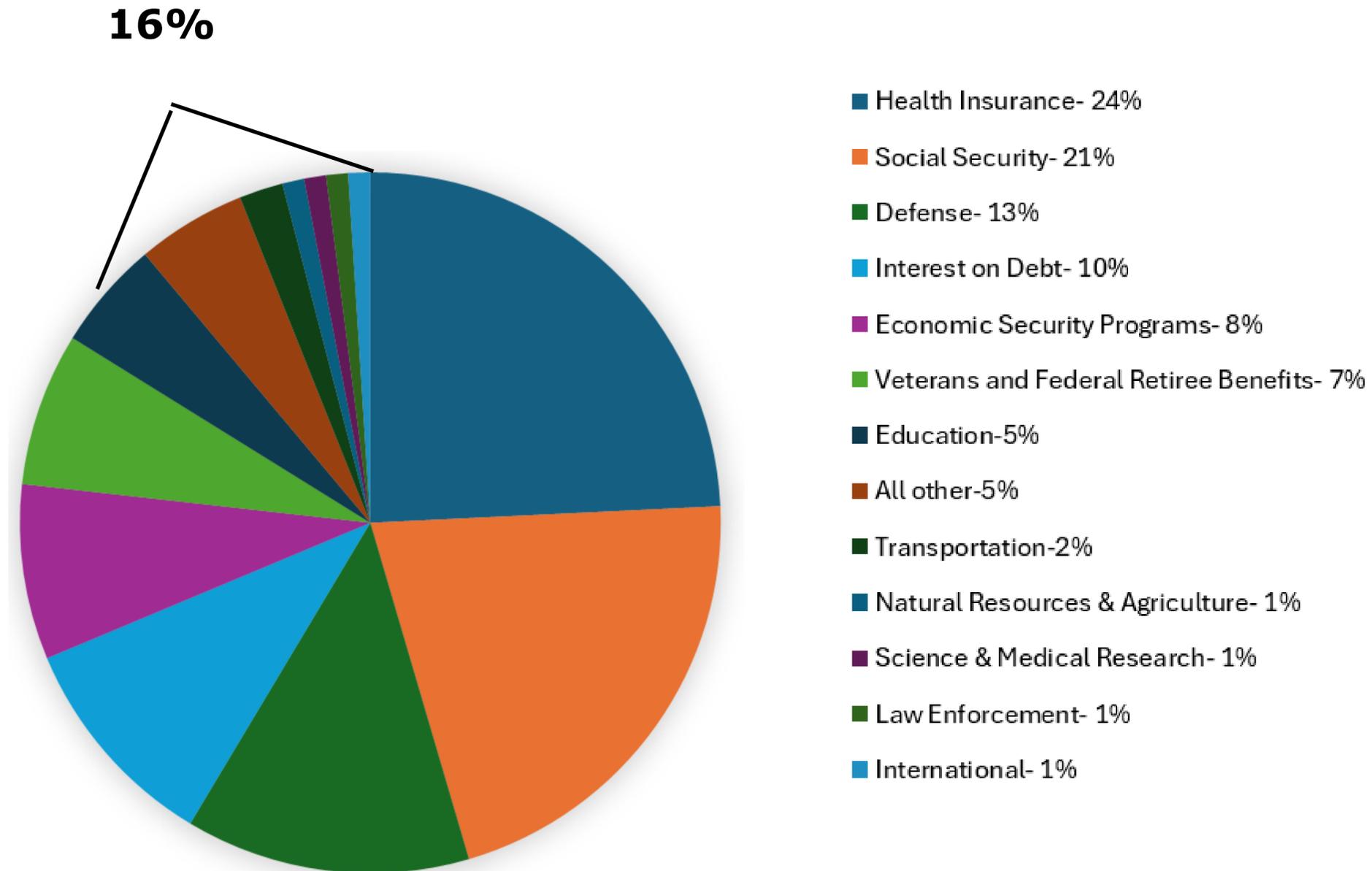
The Trump plan

In Billions 2026-2035

| Policy Proposals | Low | Central | High |
|--|-------------------|--------------------|--------------------|
| Extend and Modify the Tax Cuts & Jobs Act (TCJA) | \$ (4,600) | \$ (5,350) | \$ (5,950) |
| Exempt Overtime Income from Taxes | \$ (500) | \$ (2,000) | \$ (3,000) |
| End Taxation of Social Security Benefits | \$ (1,200) | \$ (1,300) | \$ (1,450) |
| Lower the Corporate Tax Rate to 15% for Domestic Manufacturers | \$ (150) | \$ (200) | \$ (600) |
| Exempt Tip Income from Taxes | \$ (100) | \$ (300) | \$ (550) |
| Strengthen and Modernize the Military | \$ (100) | \$ (400) | \$ (2,450) |
| Secure the Border and Deport Unauthorized Immigrants | \$0 | \$ (350) | \$ (1,000) |
| Enact Housing Reforms, Including Credits for First-Time Homebuyers | \$ (100) | \$ (150) | \$ (350) |
| Boost Support for Health Care, Long-Term Care, and Caregiving | \$ (50) | \$ (150) | \$ (300) |
| Subtotal, Tax Cuts and Spending Increases | \$ (6,800) | \$ (10,200) | \$ (15,650) |
| Establish a Universal Baseline Tariff and Additional Tariffs | \$ 4,300 | \$ 2,700 | \$ 2,000 |
| Reverse Current Energy/Environment Policies and Expand Production | \$ 750 | \$ 700 | \$ 550 |
| Reduce, Waste, Fraud and Abuse | \$ 250 | \$ 100 | \$0 |
| End the Department of Education and Support School Choice | \$ 200 | \$ 200 | \$0 |
| Subtotal, Revenue Increases and Spending Reductions | \$ 5,500 | \$ 3,700 | \$ 2,550 |
| Net Interest | \$ (150) | \$ (1,000) | \$ (2,050) |
| Total Net Deficit Impact | \$ (1,450) | \$ (7,500) | \$ (15,150) |

Good luck cutting expenses, DOGE*

Federal Budget Category Breakdown



Source: OMB and Center on Budget and Policy Priorities. TD Cowen Research. November 15, 2024

Note: Data from OMB as of March 11, 2024.

*DOGE-Department of Government Efficiency, led by Elon Musk and Vivek Ramaswamy

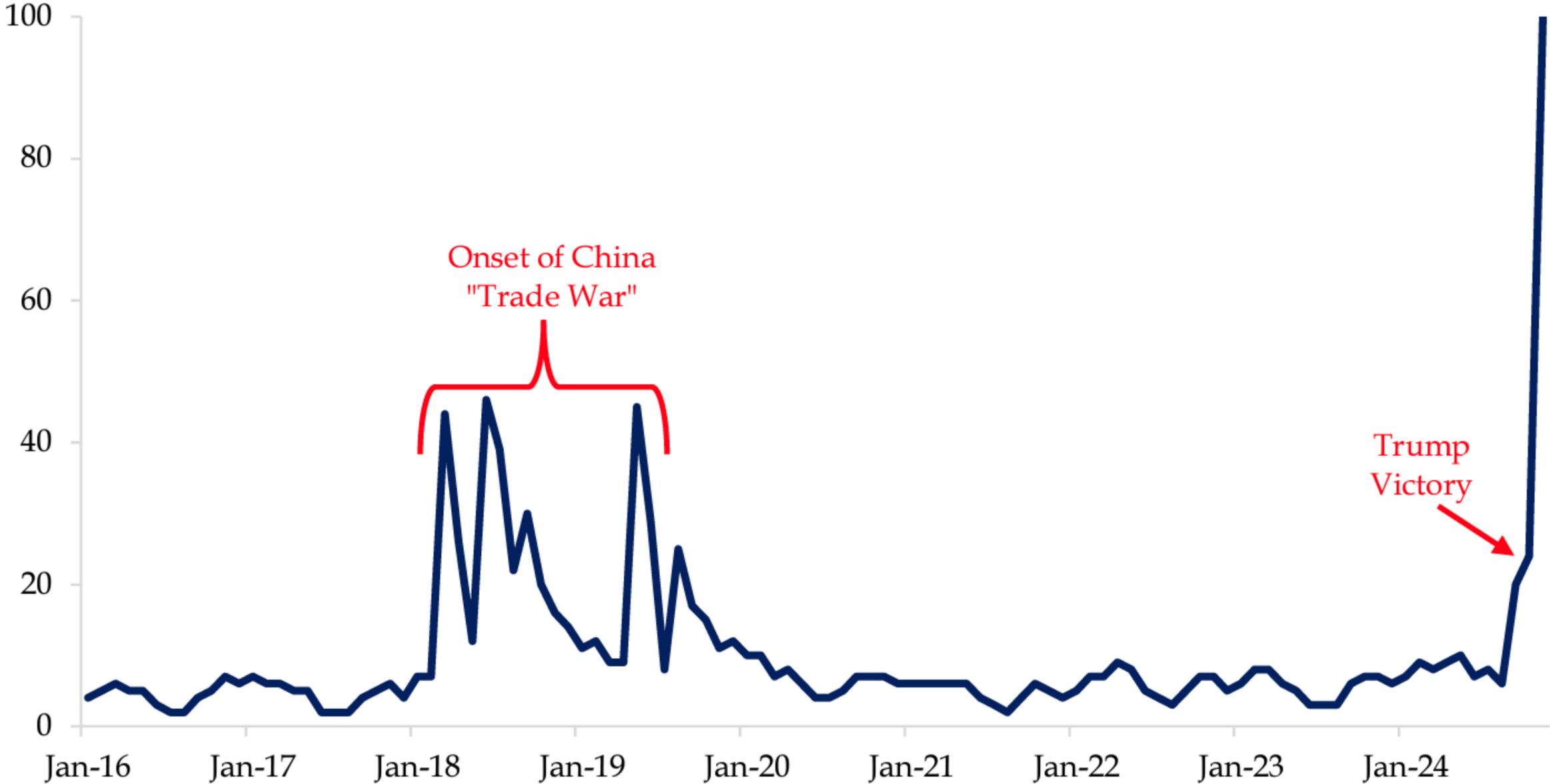
How to generate more income?



Source: RenMac Research. November 15, 2024

Which brings us to tariffs

Google Trends "Tariffs"



Source: Google Trends, Interest over time in the U.S., Strategas Research. November 13, 2024

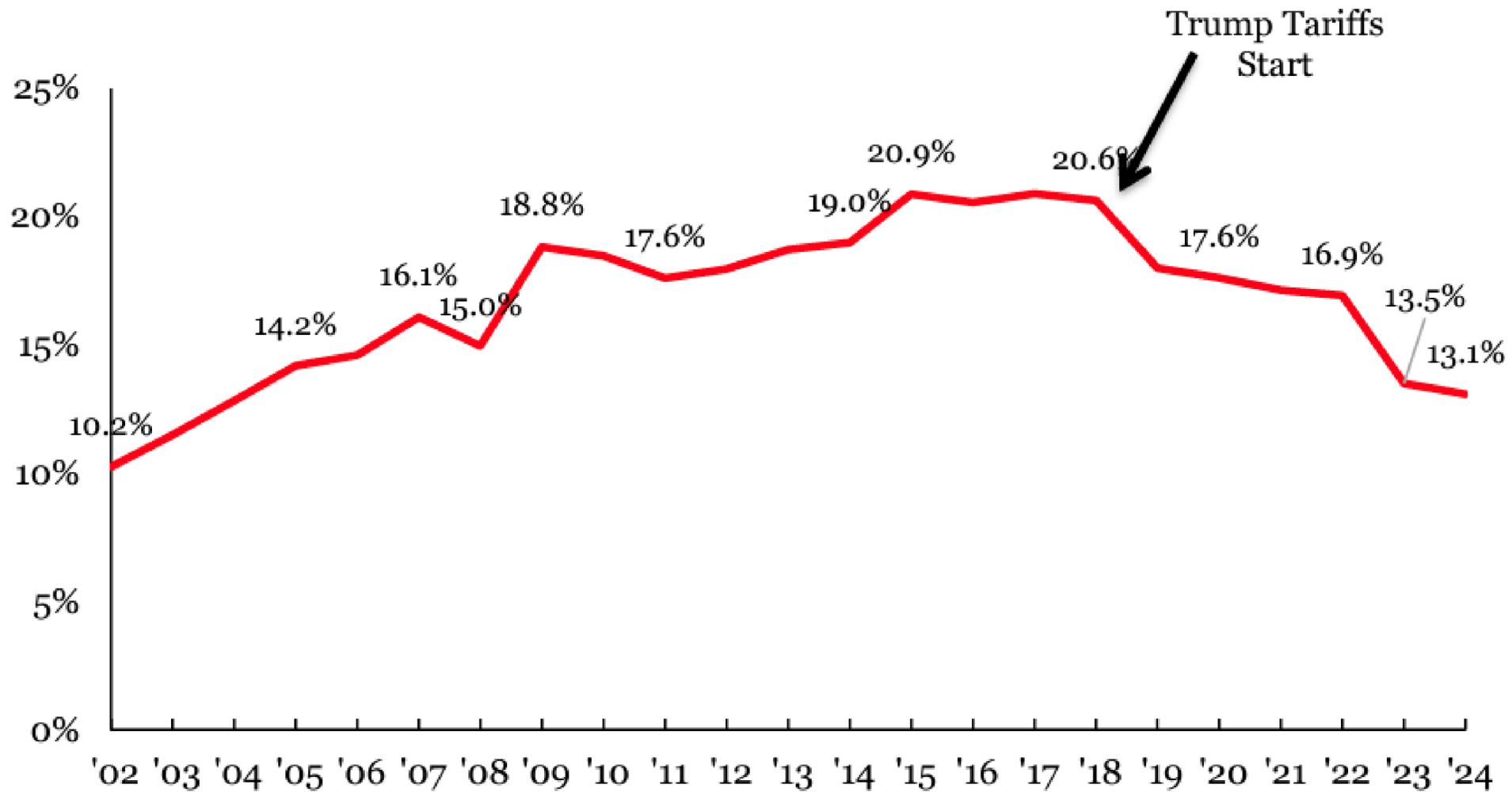
Top 10 countries with whom U.S. has largest goods trade deficit

| Country | Balance of Goods | Imports of Goods | Exports of Goods |
|-------------|------------------|------------------|------------------|
| China | -278 | 427 | 149 |
| Mexico | -161 | 484 | 323 |
| Vietnam | -104 | 114 | 10 |
| Germany | -83 | 160 | 77 |
| Canada | -72 | 427 | 355 |
| Japan | -71 | 148 | 77 |
| Ireland | -65 | 82 | 17 |
| South Korea | -51 | 117 | 66 |
| Taiwan | -47 | 88 | 40 |
| Italy | -44 | 73 | 29 |

Source: Census Bureau, Piper Sandler Research. October 8, 2024
 Note: In billions of dollars

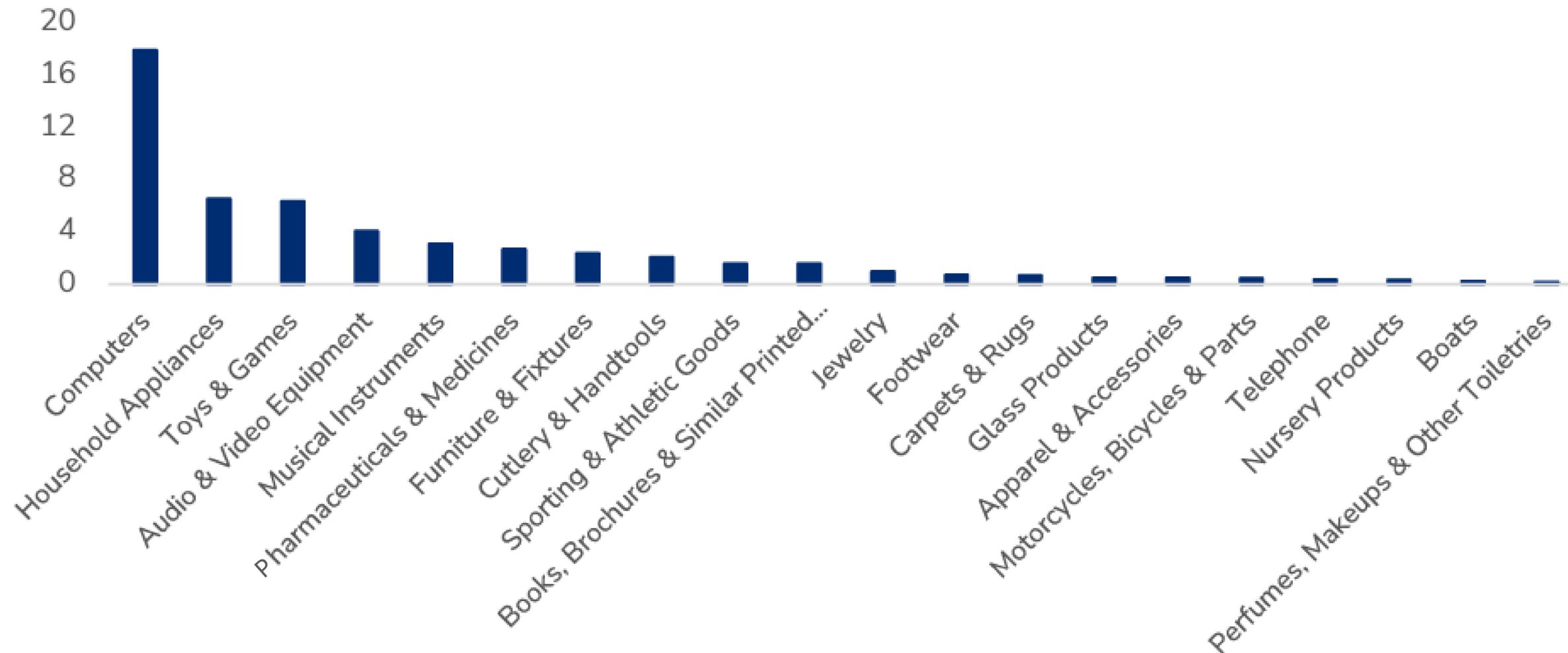
The percentage of U.S. imports coming from China has fallen from 20% in 2018 to 13% today

U.S. Imports From China, % of Total Imports, First 8 Months of Year (U.S. Census)



20% of U.S. consumer goods are imported

Est. Boost to Consumer Goods Prices in 2026, Trump Trade War #2 By Category, %*



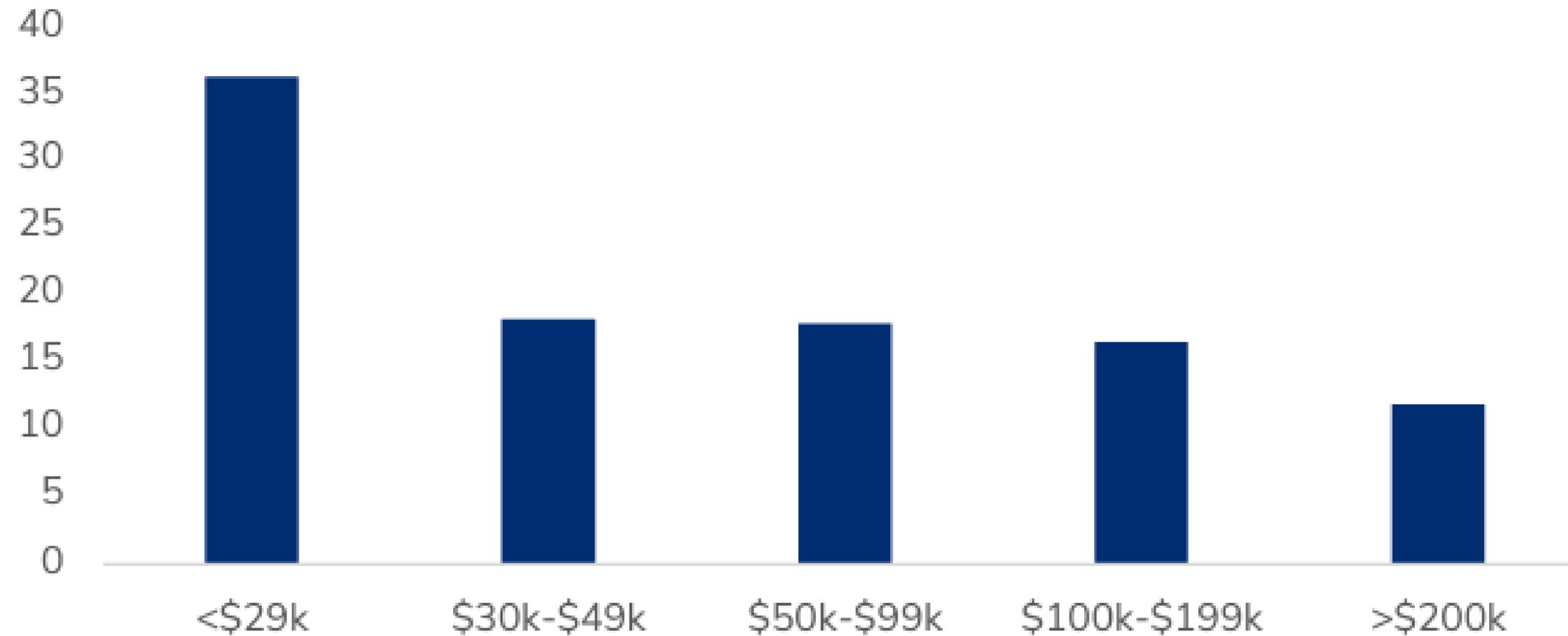
Source: Wolfe Research, PIIIE, Haver. July 30, 2024. Data as of May 31, 2024

*Estimates overall 50 bp boost to 2026 core PCE inflation

Note: Assumes 60% tariff on China, average effective tariff rate rises by 4% pts via UBT and imports from China fall 25%

Lower-income cohorts would be disproportionately impacted

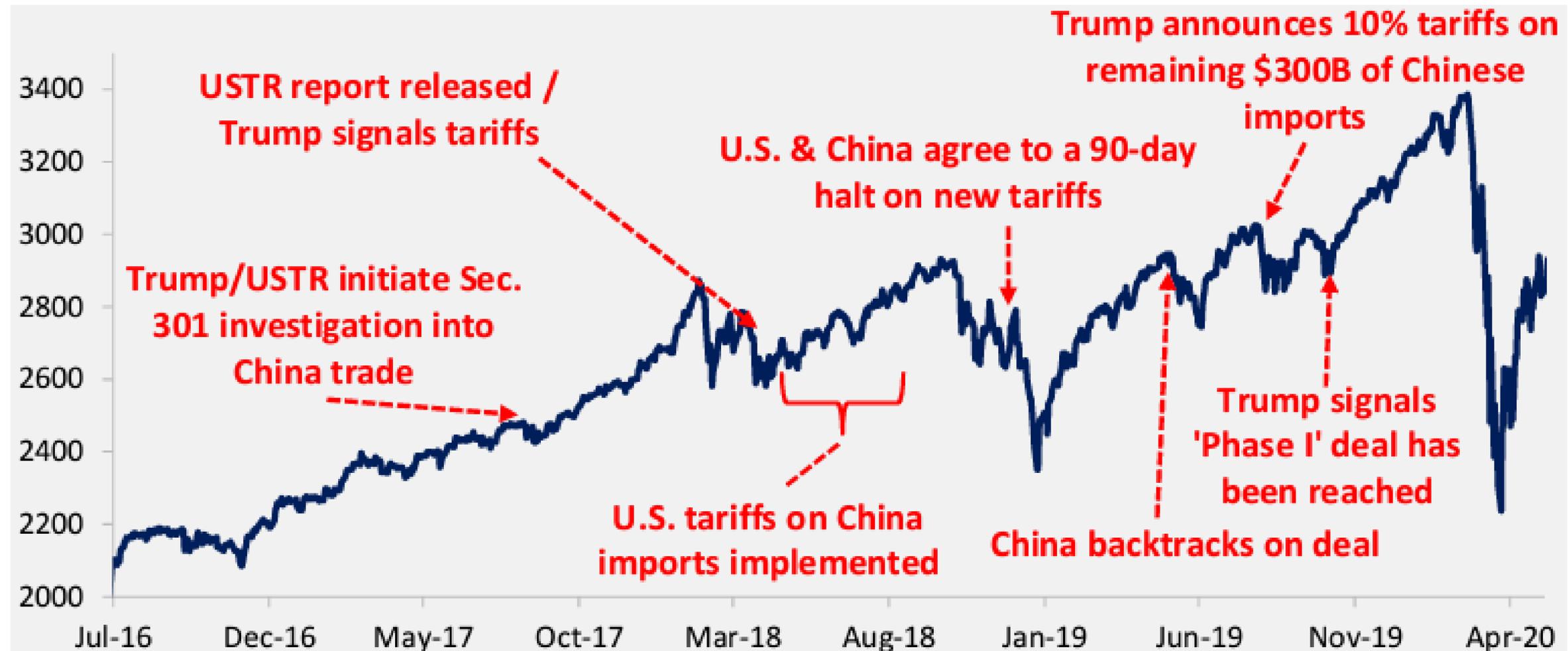
Consumer Goods Spending % After-Tax Income By Income Group



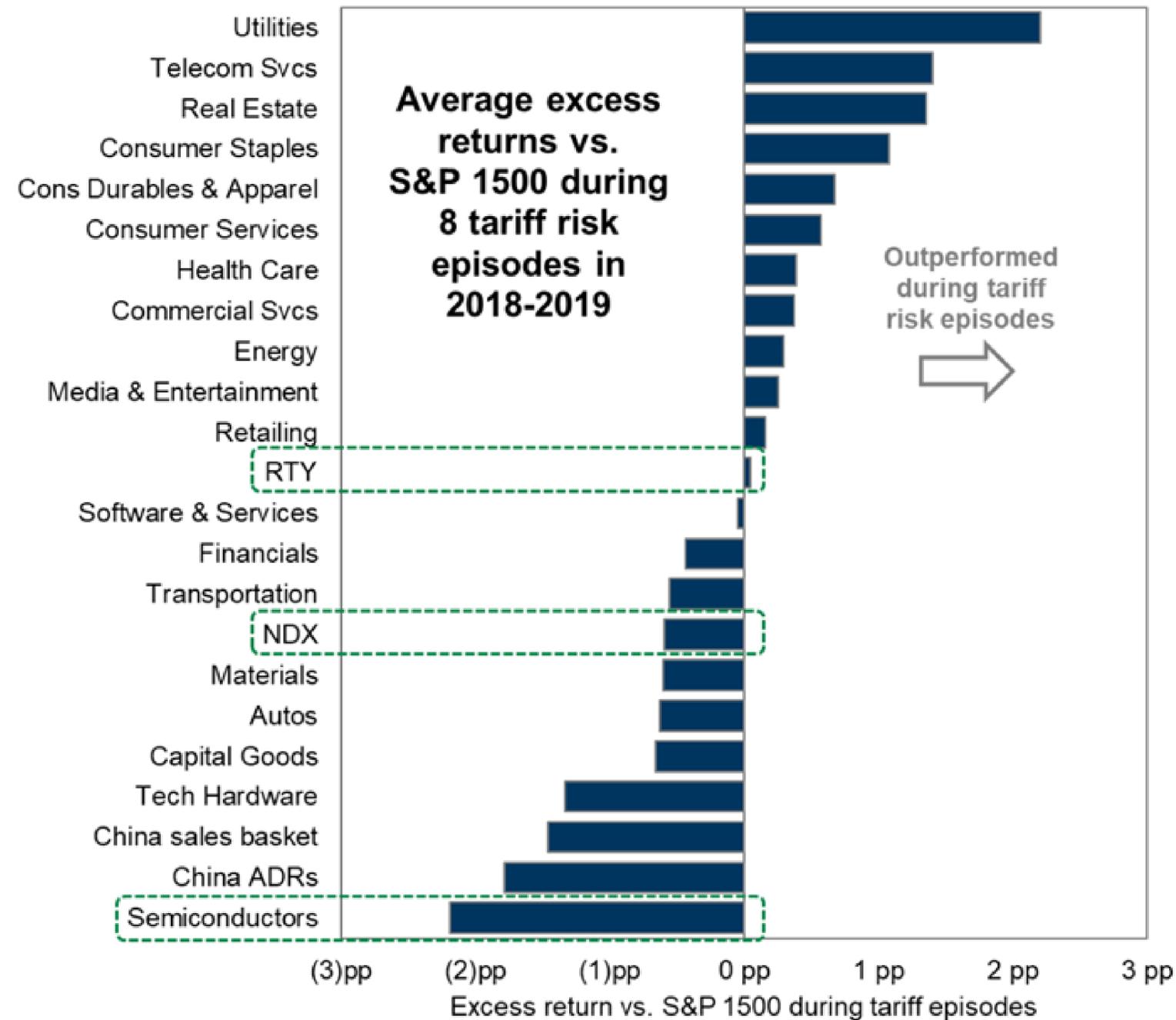
Source: Wolfe Research. Haver Analytics. July 25, 2024. Data as of December 31, 2022.

The S&P 500 during the first term Trump trade war

Key Trump Tariff Dates-S&P 500



In the event of Trump trade war #2



2025 could be the largest year for tax policy since 1913

Budget Impact of Extending The Tax Cuts And Jobs Act, \$BN (FY26-FY35)

| | Revenue Reduction |
|--|-------------------|
| 10%, 12%, 22%, 24%, 32%, 35%, and 37% Tax Brackets | -\$2,460 |
| Individual AMT Reforms | -\$1,568 |
| Expanded Standard Deduction | -\$1,425 |
| \$2K Child Tax Credit | -\$824 |
| Pass Through Business Deduction | -\$772 |
| Doubled Estate/Gift Tax Exemption | -\$193 |
| Opportunity Zones | -\$74 |
| Active Loss Limitation | \$24 |
| Other | \$20 |
| Limitation on Itemized Deductions (SALT and Mortgage Interest) | \$1,429 |
| Repeal of Personal Exemption | \$1,949 |
| Total Individual & Estate Provisions | -\$3,895 |
| Full Expensing For Equipment | -\$319 |
| Repeal R&D Amortization | -\$152 |
| Extend Lower GILTI/FDII Rates | -\$135 |
| Extend EBITDA Interest Limitation | -\$133 |
| Extend Lower BEAT Rate | -\$24 |
| Total Business Tax Provisions | -\$765 |
| Total Tax Reduction | -\$4,659 |

The big ones

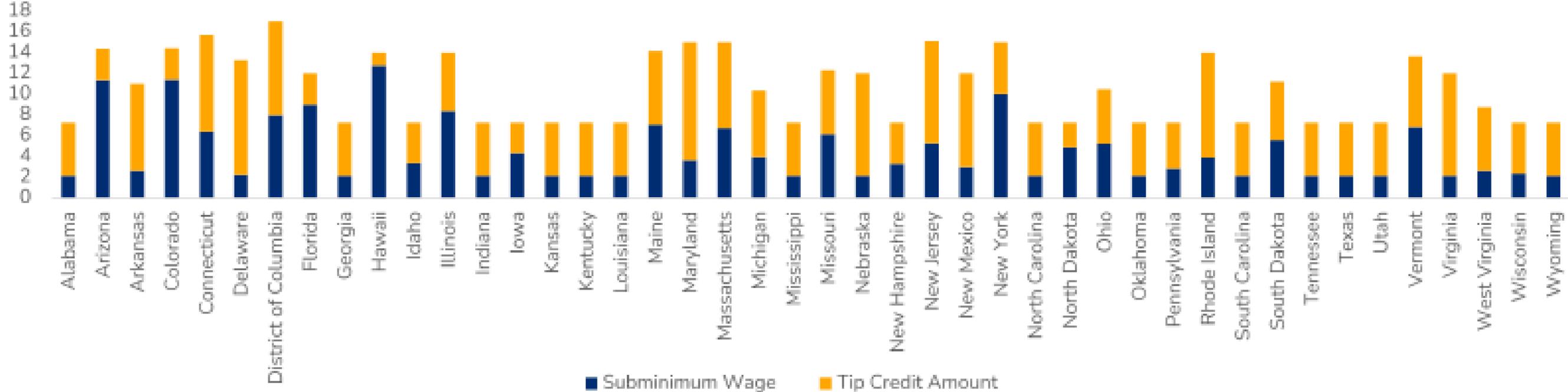
| <i>Individual & Estate Taxes</i> | Current | Reversion in 2026 |
|--------------------------------------|---|---|
| Individual Tax Rates | Top rate of 37% starting \$731k income (joint) | Top rate of 39.6% previously starting ~\$450k income (joint) |
| Alternative Minimum Tax | High exemption amount and capped itemized deductions reduces impact to most taxpayers | Would revert to lower exemption. Impacts individuals with high itemized deductions |
| Itemized deductions | <ul style="list-style-type: none"> -Cap mortgage interest deduction for new debt at \$750k; no deduction for home equity interest -SALT: Max \$10K for state, local income and property taxes | <ul style="list-style-type: none"> - Mortgage Int. Deductible up for \$1 million; interest on first \$100k home equity deductible - SALT: State, Local and Property taxes deductible - PEASE phaseout limitation on most itemized deductions |
| Personal Deductions | <ul style="list-style-type: none"> - Double standard deduction to \$24k - No personal exemptions - \$2,000 child tax credit, phaseout begins ~\$400k | <ul style="list-style-type: none"> - Standard deduction \$12.7k ex inflation - \$4k per person exemption from tax (ex. Inflation) - subject to PEP phaseout starting \$314k ex inflation - \$1,000 child tax credit, phaseout begins ~\$110k |
| Pass-Through Income Rate | 20% deduction for domestic 'qualified' business income from pass-through entities (effectively income taxed at top rate of 29.6%). | No 20% pass through deduction - all taxed at ordinary income rate |
| Estate Tax | Estate exemption amount of \$13.6 million | Would revert to ~50% of current level |

Trump's views on taxes

| Item | Trump |
|-------------------|---|
| Individual Taxes | <ul style="list-style-type: none">• Maintain TCJA Rates for all incomes• SALT Repeal• Exempt tip income, social security, overtime from taxes |
| Investment Income | <ul style="list-style-type: none">• Nothing noted |
| Corporate Taxes | <ul style="list-style-type: none">• Lower corporate income tax rate from 21% to 20%• 15% U.S. tax rate for companies that make products in America |

No taxes on tips

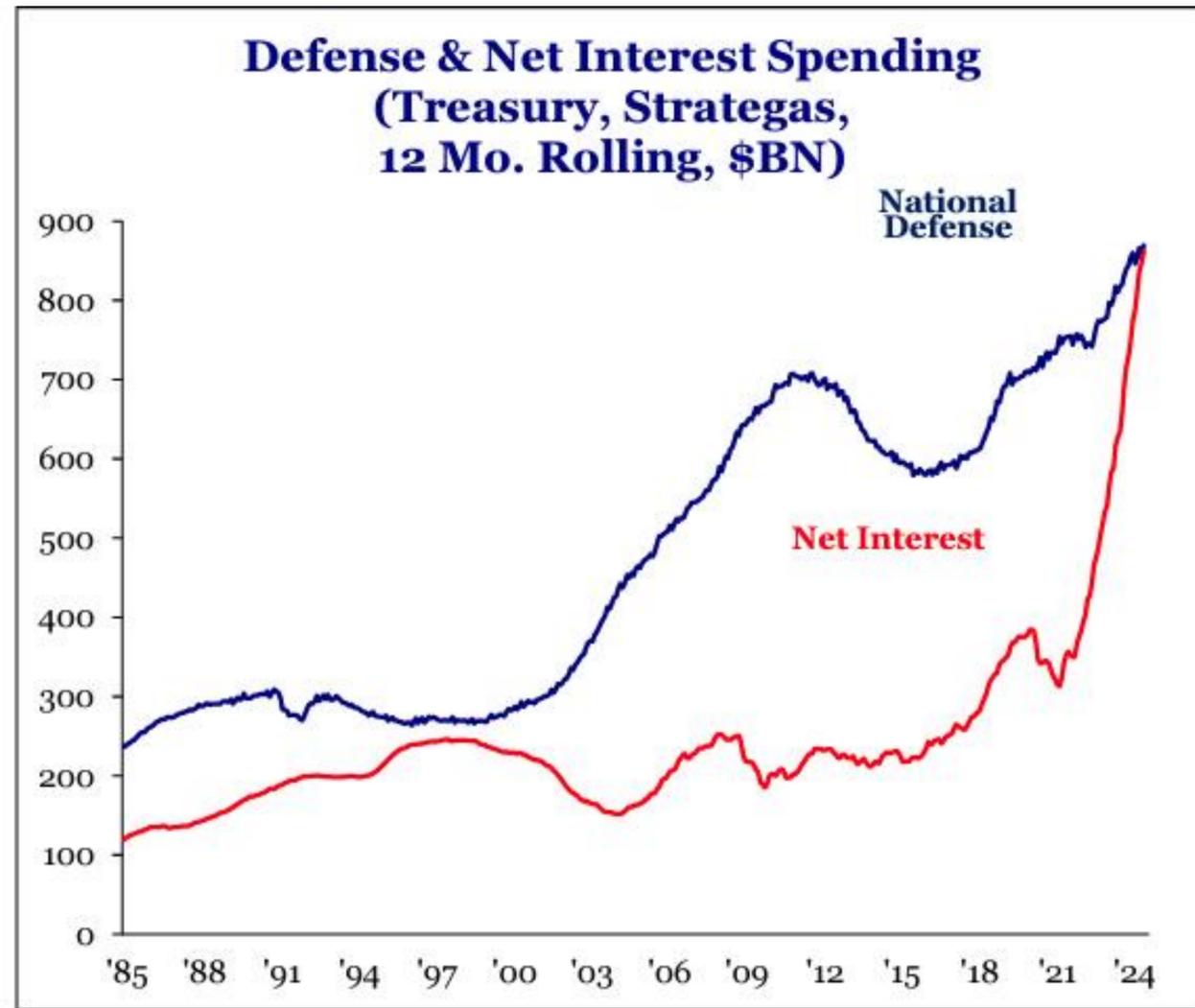
State Minimum Wages= (Subminimum + Tip Credit Amount) \$ Per Hour



- Only 2.6% of workers are in tipped occupations
- Only 5% of low-wage workers earn tips and stand to benefit
- Also, 37% of tipped workers earn so little, they don't pay a federal income tax

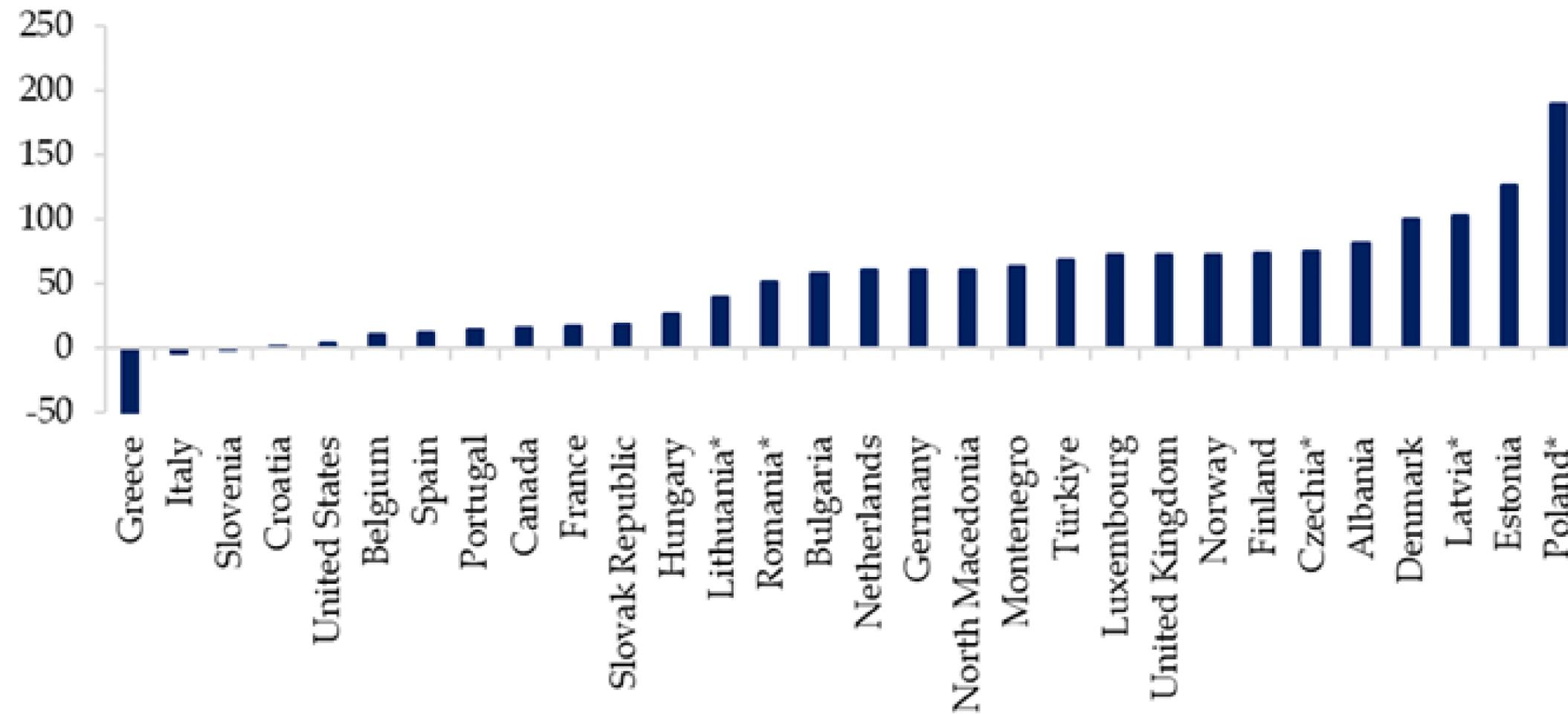
Source: Wolfe Research, Center for Economic and Policy Research. March 27, 2024

As geopolitical risks rise, interest costs are now colliding with national defense priorities

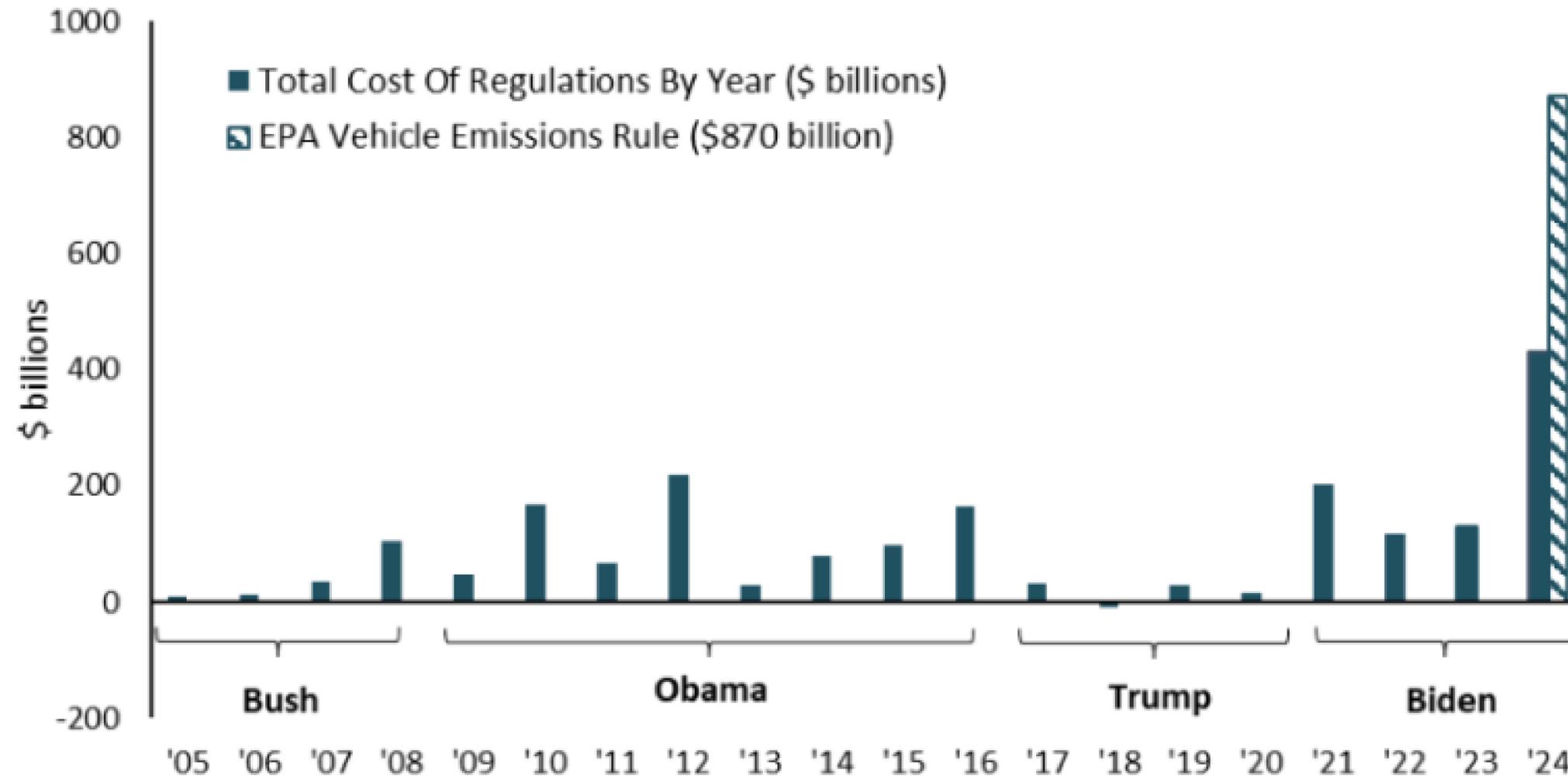


Countries are only now making an effort to increase defense spending

Change in Defense Expenditure as a % of GDP From 2022 to 2024 (bps)

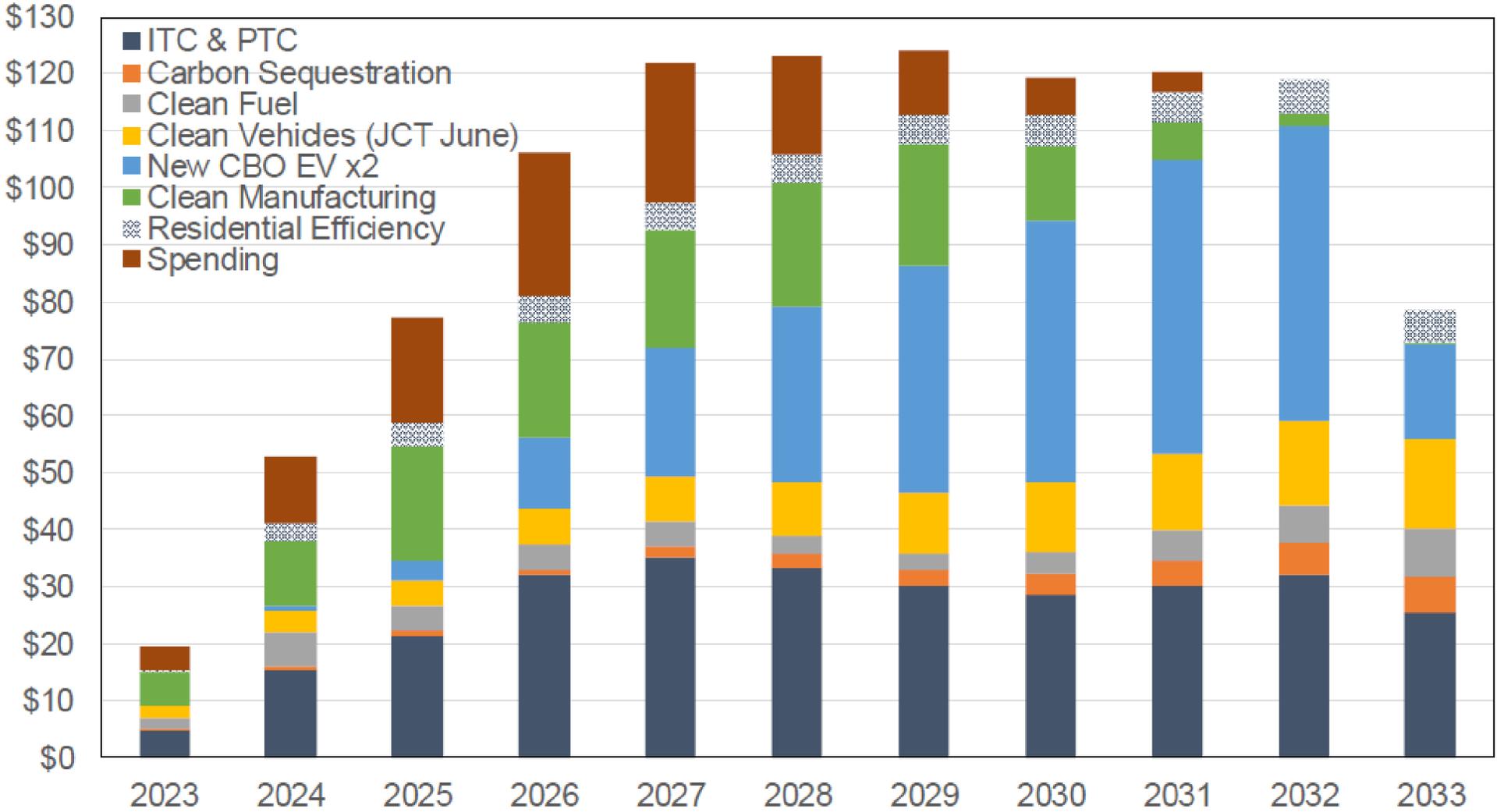


Regulation costs under each administration



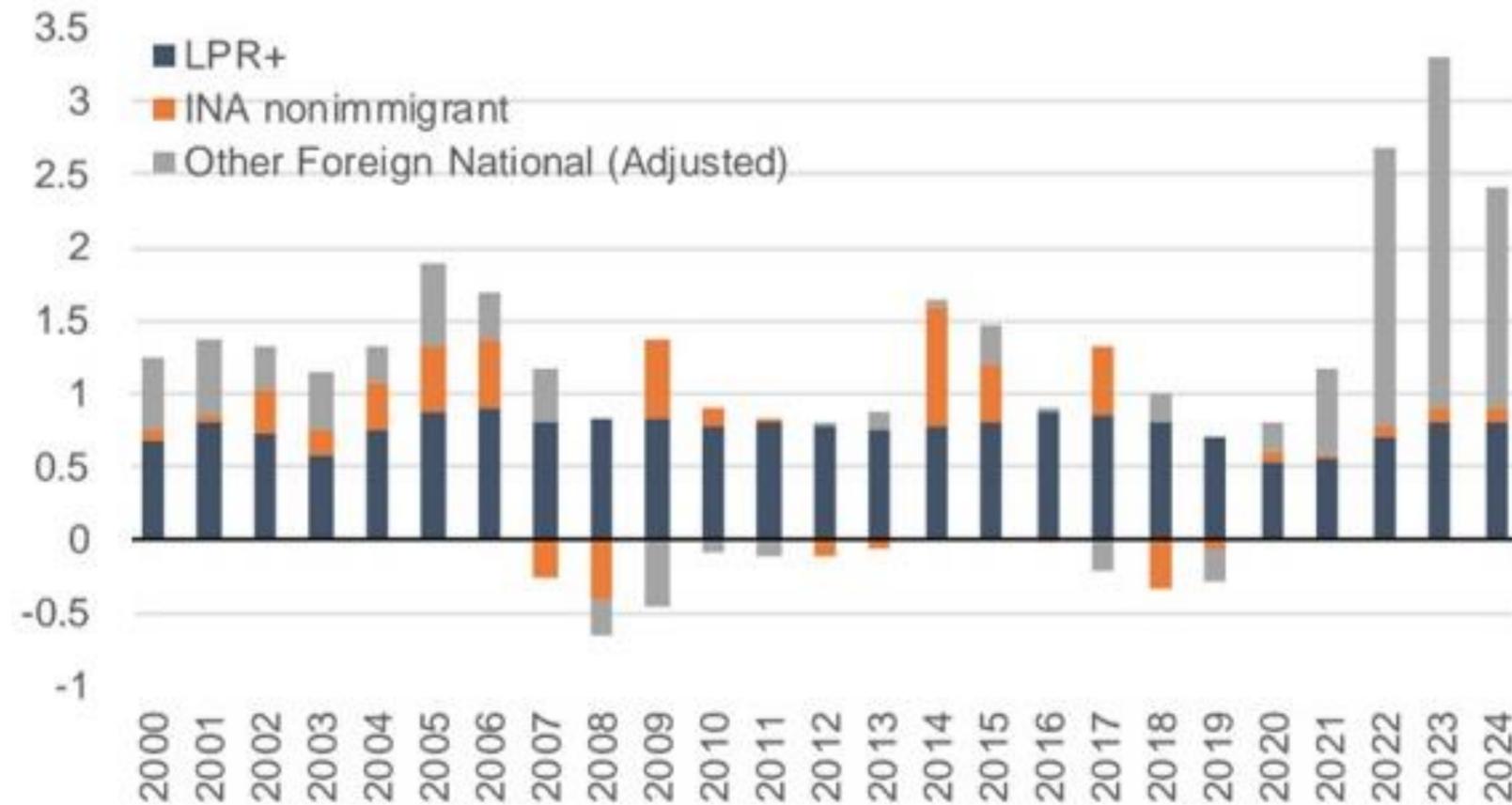
Wither clean energy spending?

The Cost of Green Subsidies in The IRA (\$BN)



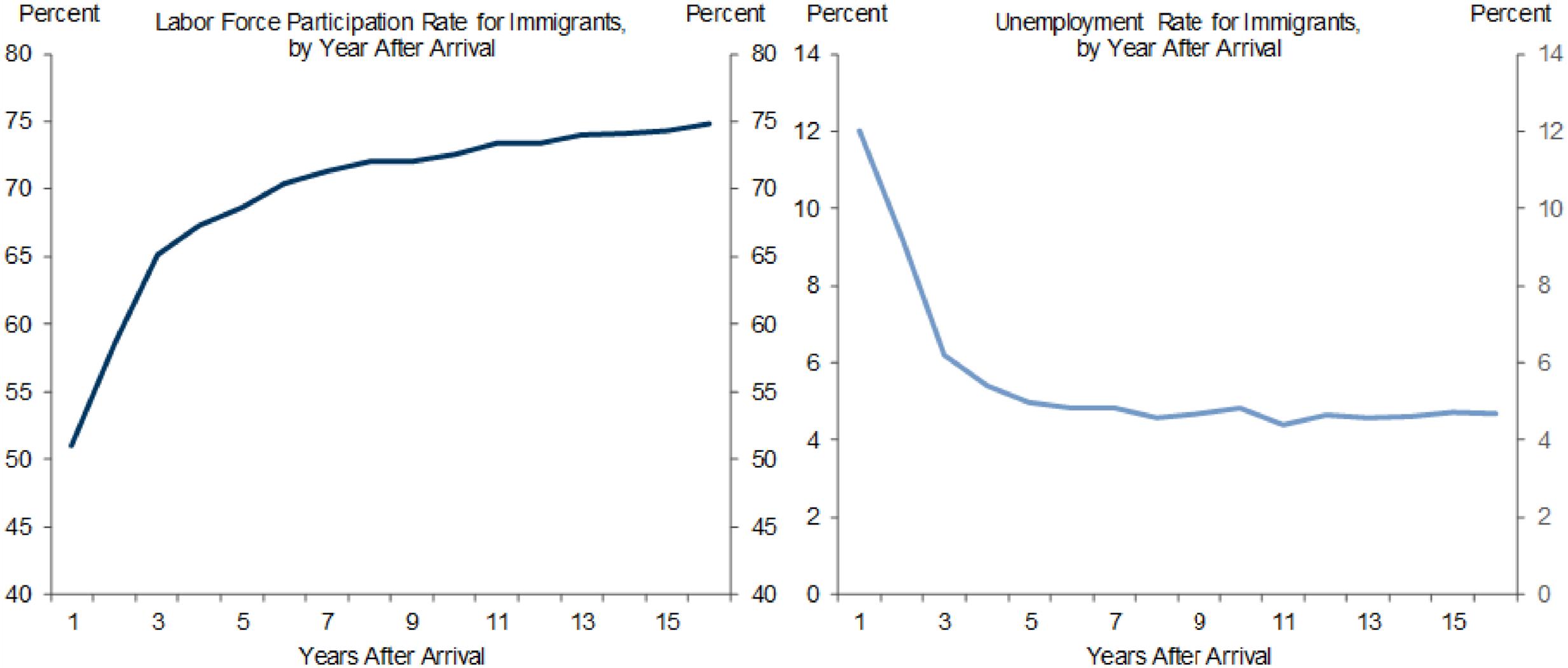
Source: CBO, JCT, and Piper Sandler Research. October 8, 2024
 Note: ITC is Investment Tax Credit. PTC is Production Tax Credit. JCT is Joint Committee on Taxation. CBO is Congressional Budget Office.

Composition of immigration to the U.S., 2001 to 2004 (Millions)



Undocumented immigration was a hot-button issue...

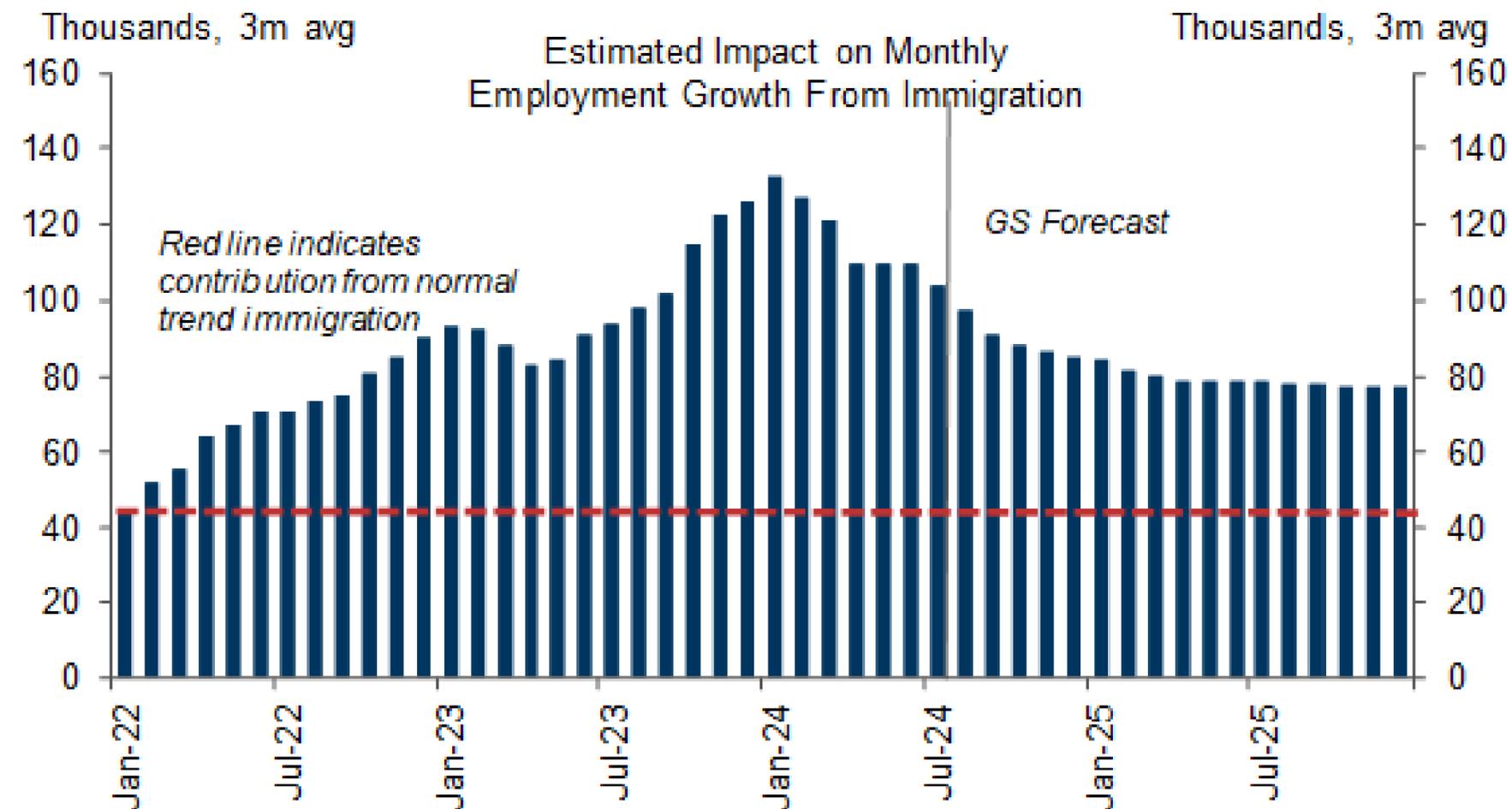
New Immigrants' Labor Force Participation Rate Rises Sharply and Their Unemployment Rate Falls Quickly During Their First Few Years in The U.S.



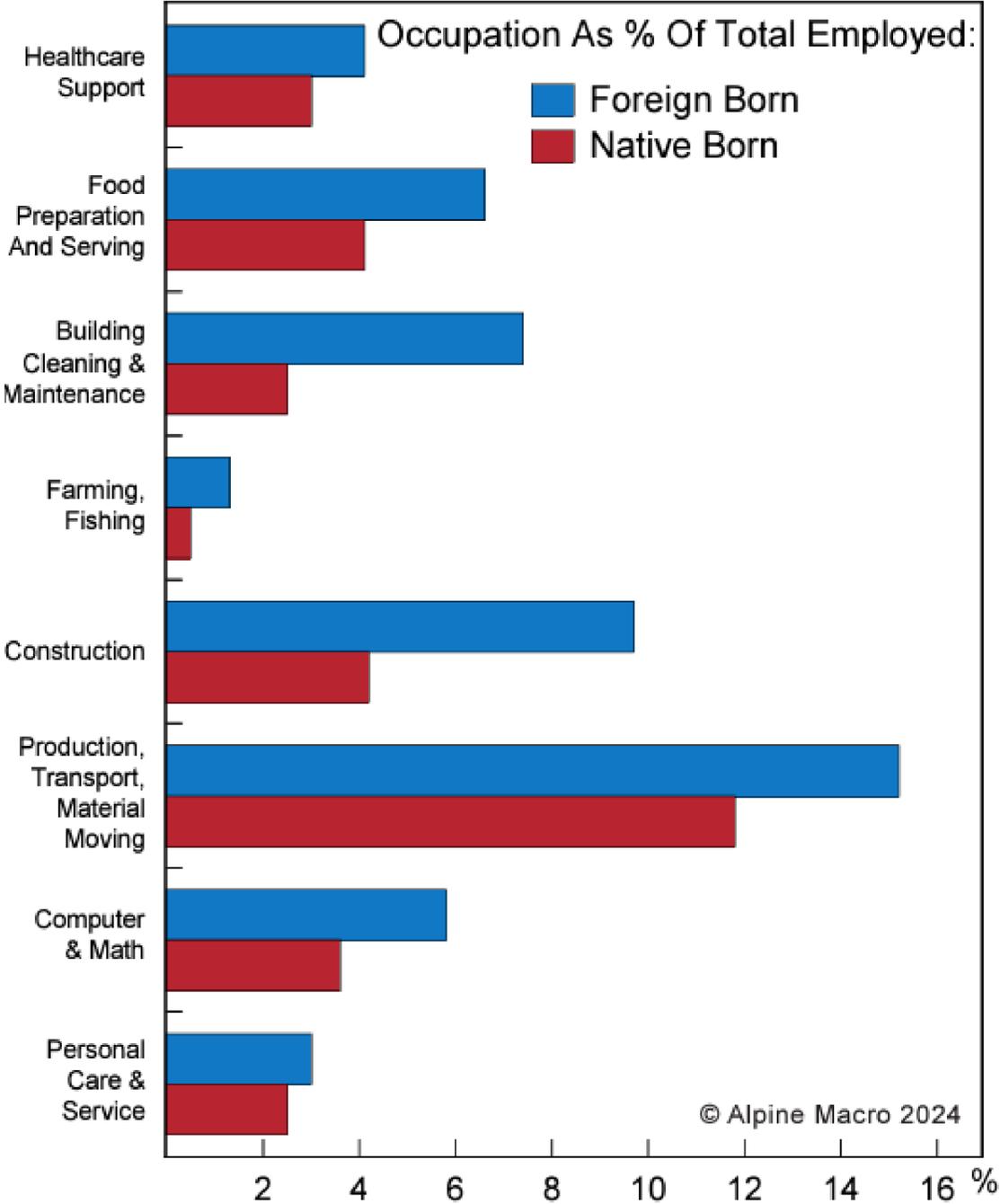
Source: Goldman Sachs Global Investment Research. August 14, 2024

...But we could use the workers

The Boost From Above-Trend Immigration to Labor Force and Job Growth Peaked at 100k/Month and 90k/Month, Respectively, in Early 2024, But Has Since Declined by Over 30k/Month and Should Decline Another 25-30k by Early 2025



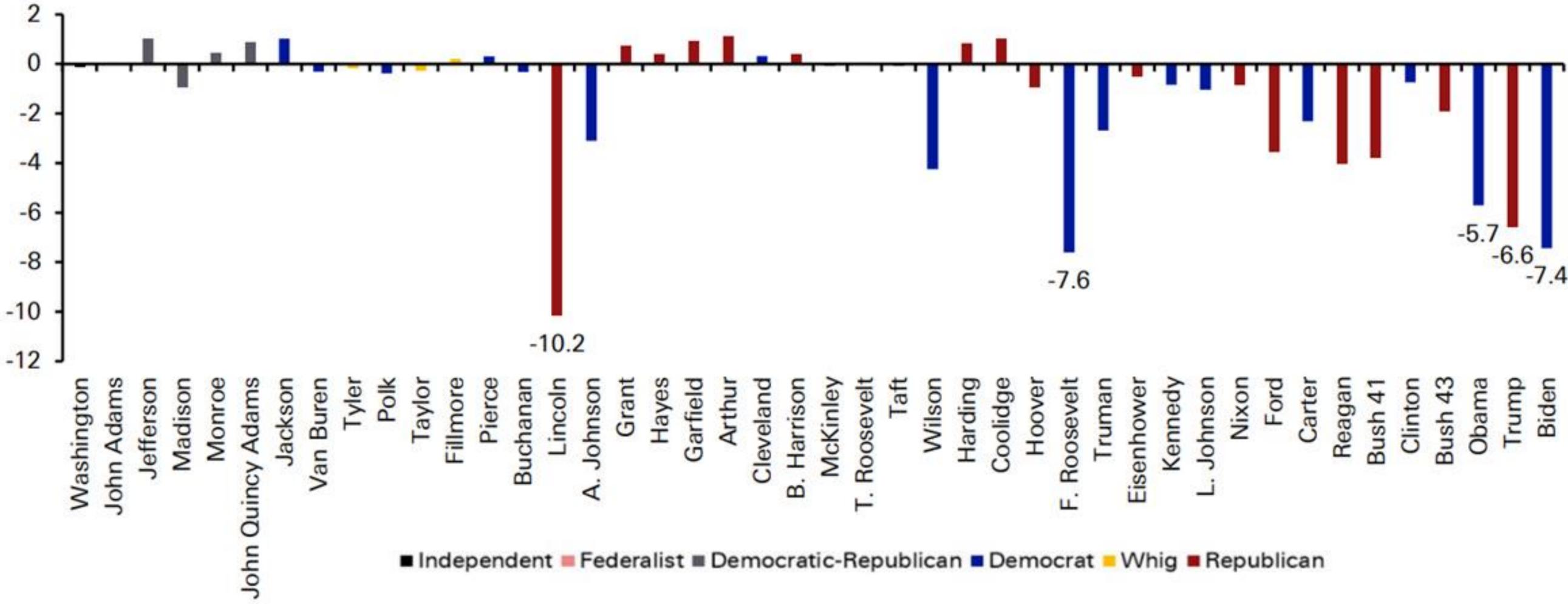
Foreign labor tilts towards services and building



Source: Alpine Macro Research. November 13, 2024

Bipartisan spending spree

Average Annual U.S. Budget Deficit (% of GDP) Under Each President Since George Washington.
Color Coded by Party and With Top 5 Annotated



Source: GFD, FRED, Deutsche Bank. October 24, 2024

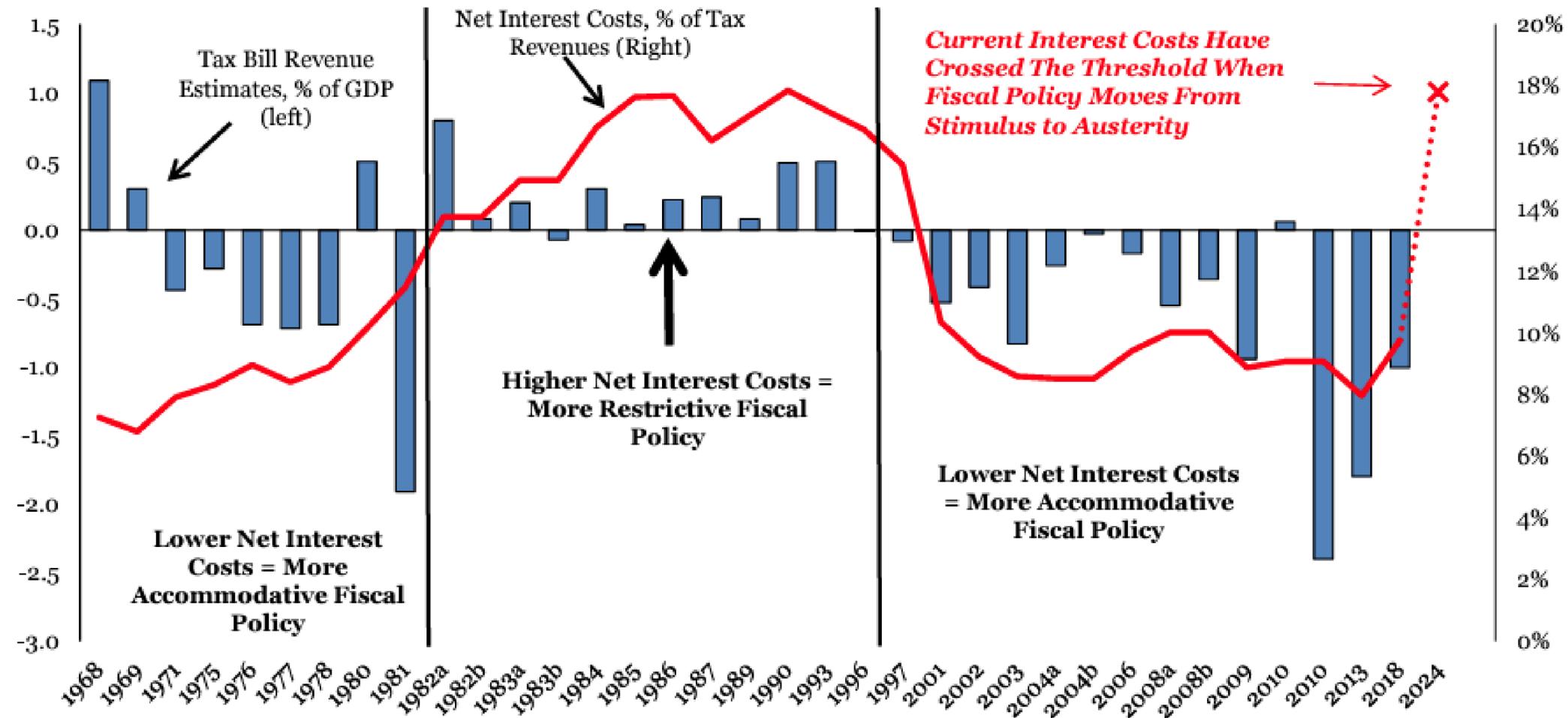
Biden Administration racing the clock to finish spending stimulus bonanza

A Lot of Unspent Fiscal Subsidies

- . \$1.9 trillion 2021 partisan pandemic relief package, known as the American Rescue Plan (ARP);
- . \$1.2 trillion bipartisan infrastructure law passed later that year known as the Infrastructure Investment and Jobs Act (IIJA);
- . \$280 billion bipartisan 2022 CHIPS and Science Act;
- . \$891 billion partisan Inflation Reduction Act (IRA).

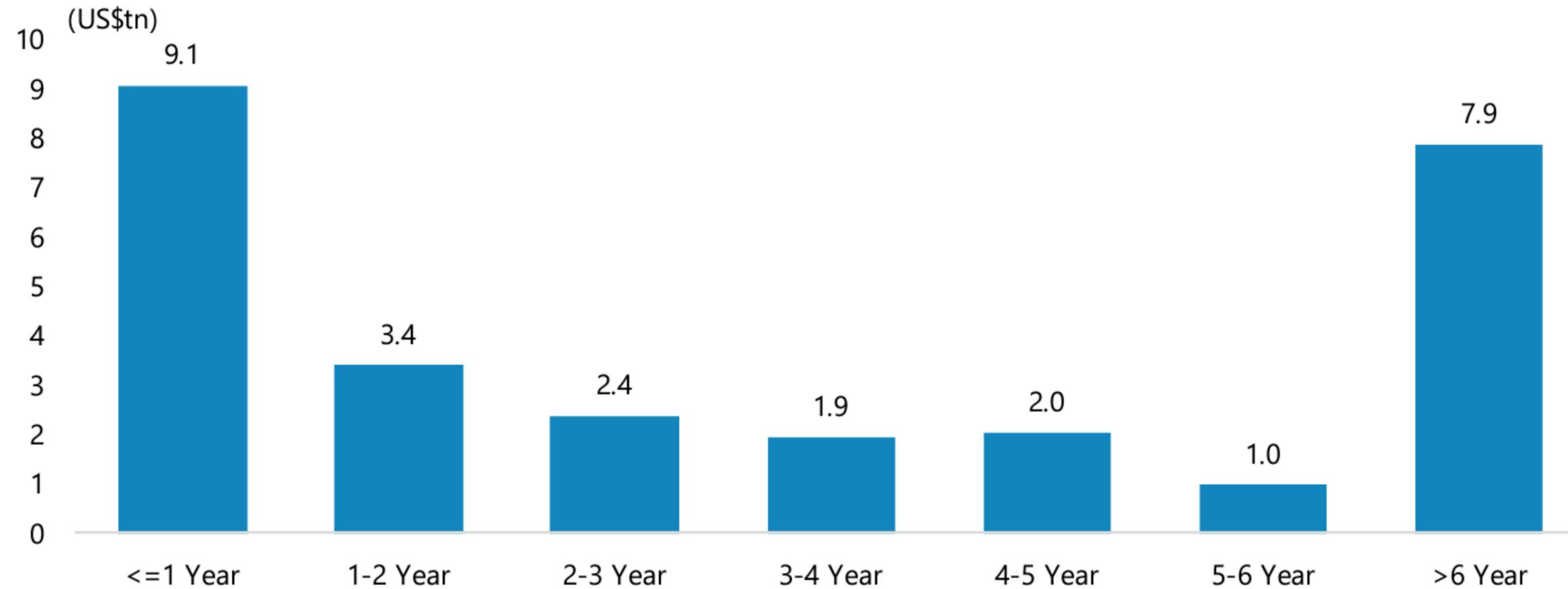
The era of unlimited fiscal policy is coming to an end

Tax Cuts and Increases, % of GDP, Since 1968
(Strategas, Treasury Department)



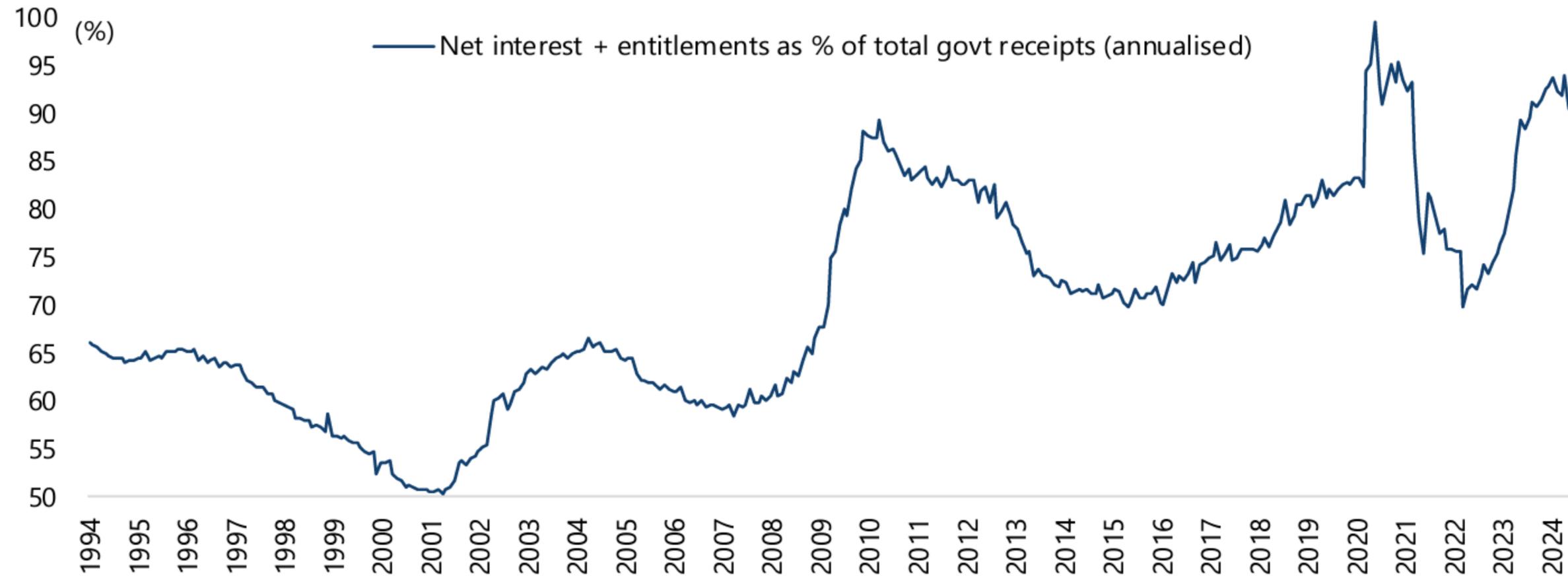
Only the government didn't term out its debt

U.S. Marketable Treasury Securities By Time To Maturity



Interest on debt is not “discretionary”

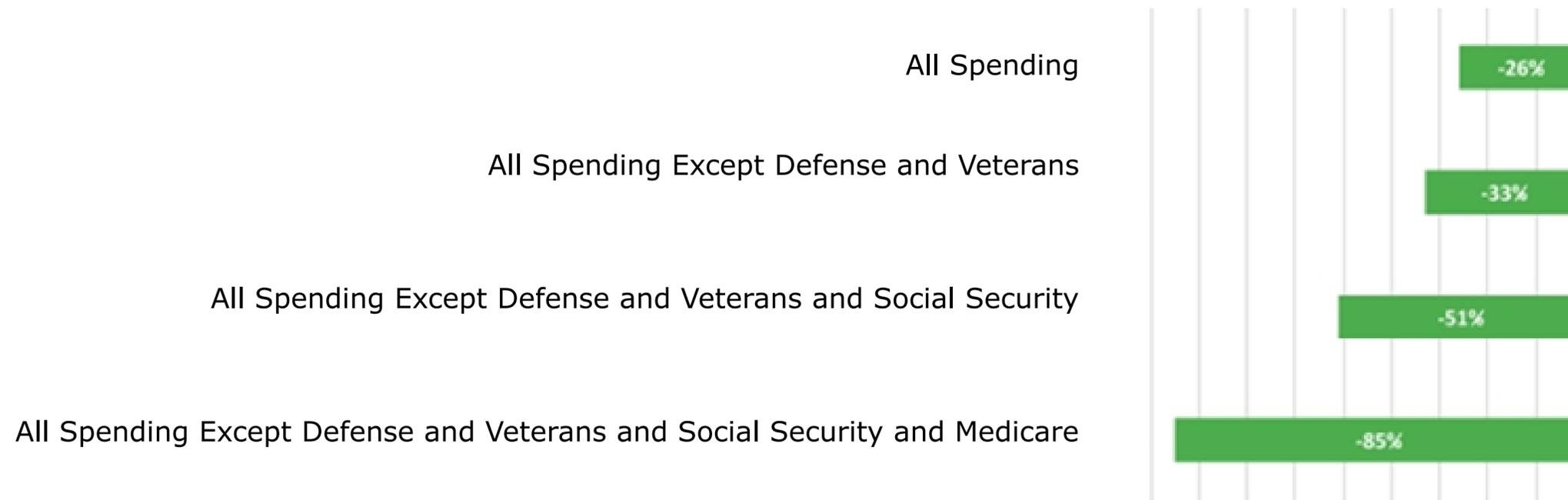
U.S. Annualized Net Interest Payments and Entitlements as % of Total Government Receipts



Source: Bureau of the Fiscal Service, CEIC Data, BofA Global Research. October 17, 2024
Note: Entitlements= Social Security, Medicare, Health Spending and Veterans' Benefits

No discussion about expense cuts...well, there is Elon

Percent of Spending Cuts Needed to Balance the Budget by 2032



2026 deficit implications

Increases (+) or Decreases (-) In The Deficit, % of GDP, CY2026

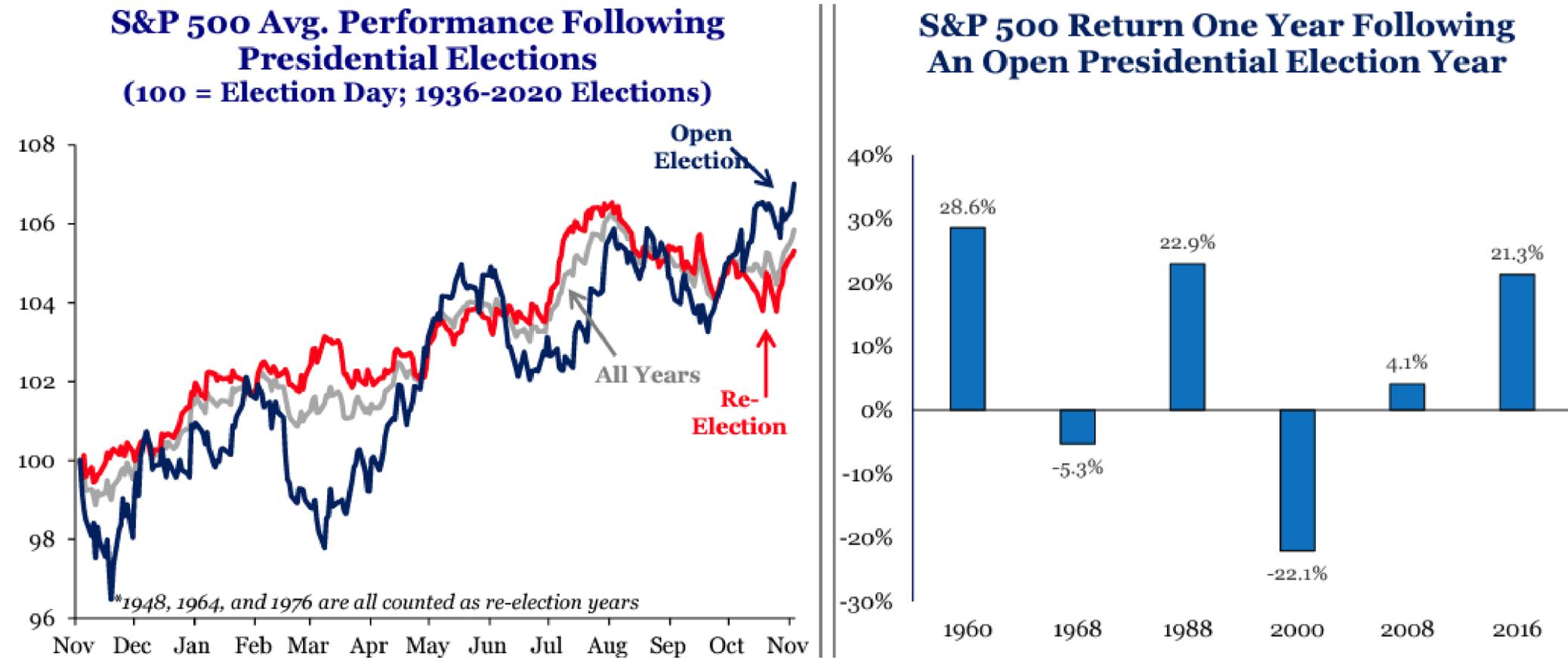
| | |
|---------------------------------------|-------------|
| TCJA Expiring Provisions | 1.3 |
| Individual | 1.0 |
| Corporate | 0.3 |
| ACA Expiring Provisions | - |
| New Democratic Priorities | - |
| Individual | - |
| Corporate | - |
| New Republican Priorities | 0.9 |
| Individual | 0.6 |
| Corporate | 0.3 |
| New Revenues | -0.4 |
| Individual | - |
| Corporate | - |
| Tariffs, Net of Rebates | -0.4 |
| Total, Expiring + New Policies | 1.8 |
| <i>Net New of Status Quo</i> | <i>0.4</i> |

Not to lose sleep over, yet

Fed Broad Trade Weighted Dollar Index

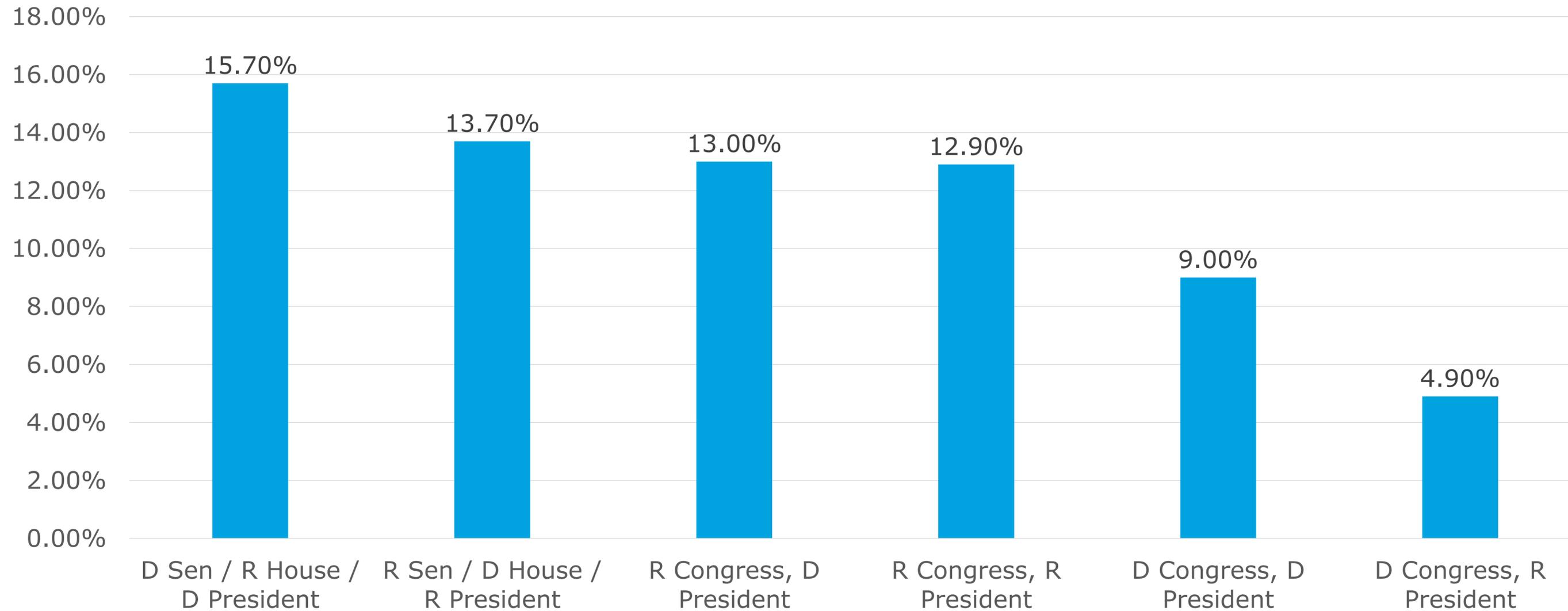


Open elections have been followed with strong equity market returns



The market prefers gridlock

Partisan Control, Average Annual S&P Earnings Growth
(1936 – 2023, Excl. 2001-02)*



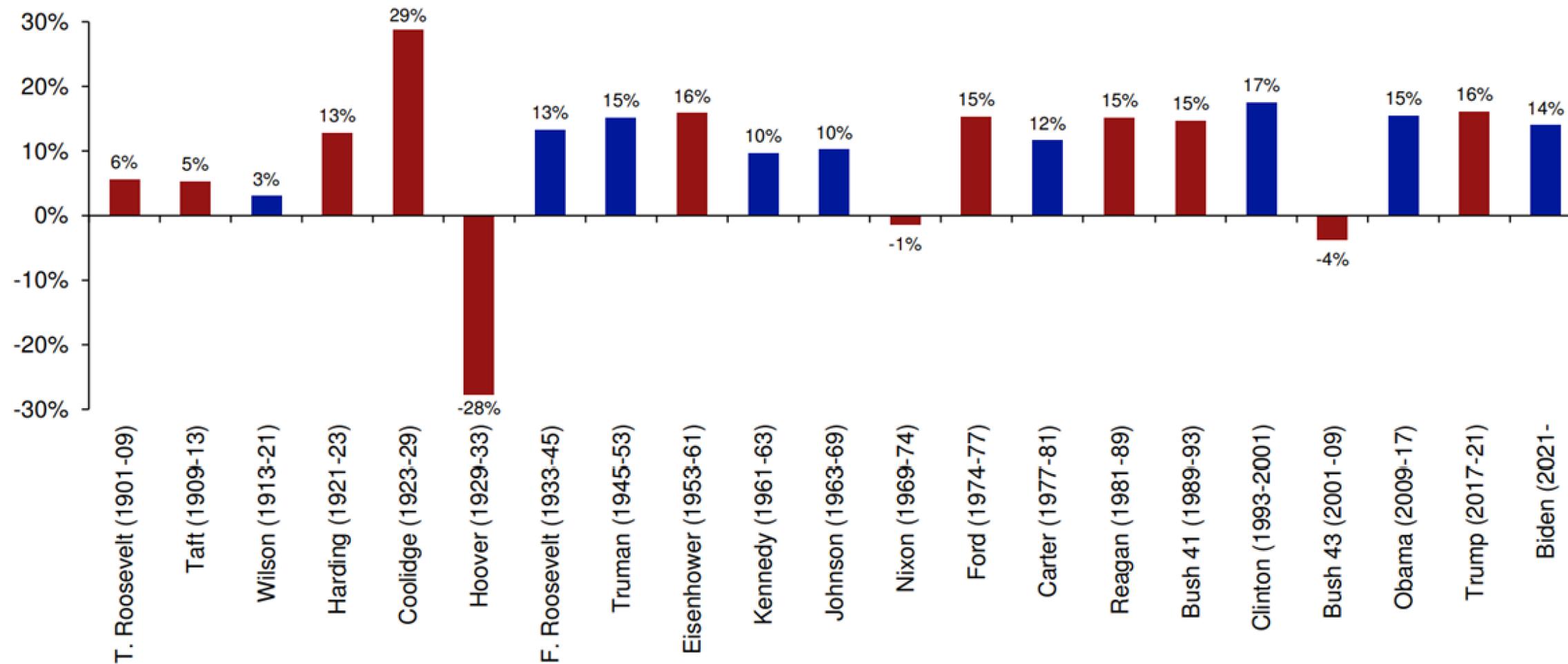
Source: Strategas Research Partners as of September 30, 2024. Past performance is no guarantee of future results.
* 2001-2002 excluded due to Senator Jeffords changing party mid-2001.

Policy implications for the markets

| Major Policy Issues: | |
|--|--|
| <ul style="list-style-type: none"> • IRA Repeal • Trade • Regulation • Small Business Sentiment • Tax Policy: Corporate • Individual Taxes • U.S. Economy | Yes, Partial China Tariffs Lower Rises 15% for U.S. Production Extend 2017 Cuts Reflationary |
| Market Impact: | |
| U.S. Stock Market Reaction <i>(Post Nov 5th to YE)</i> 10 Year Yield <i>(Post Nov 5th to YE)</i> Yield Curve <i>Sectors to Own</i> | Risk On to Year-End +50 bps Steepens <i>Financials (highest conviction)</i> <i>U.S. Industrials (e.g., Transports)</i> <i>Energy</i> <i>Crypto</i> |
| Thematics/Style/Factors | |
| Thematic Buys | U.S. Cyclical <i>(Industrials, Discretionary, Energy)</i> |
| Thematic Sells | Secular Growers Longer Duration Assets Defensive Sectors |
| Style (Leadership) | Value Small Caps (high conviction) |
| Factors | Worst Performing Stocks Lower Quality |

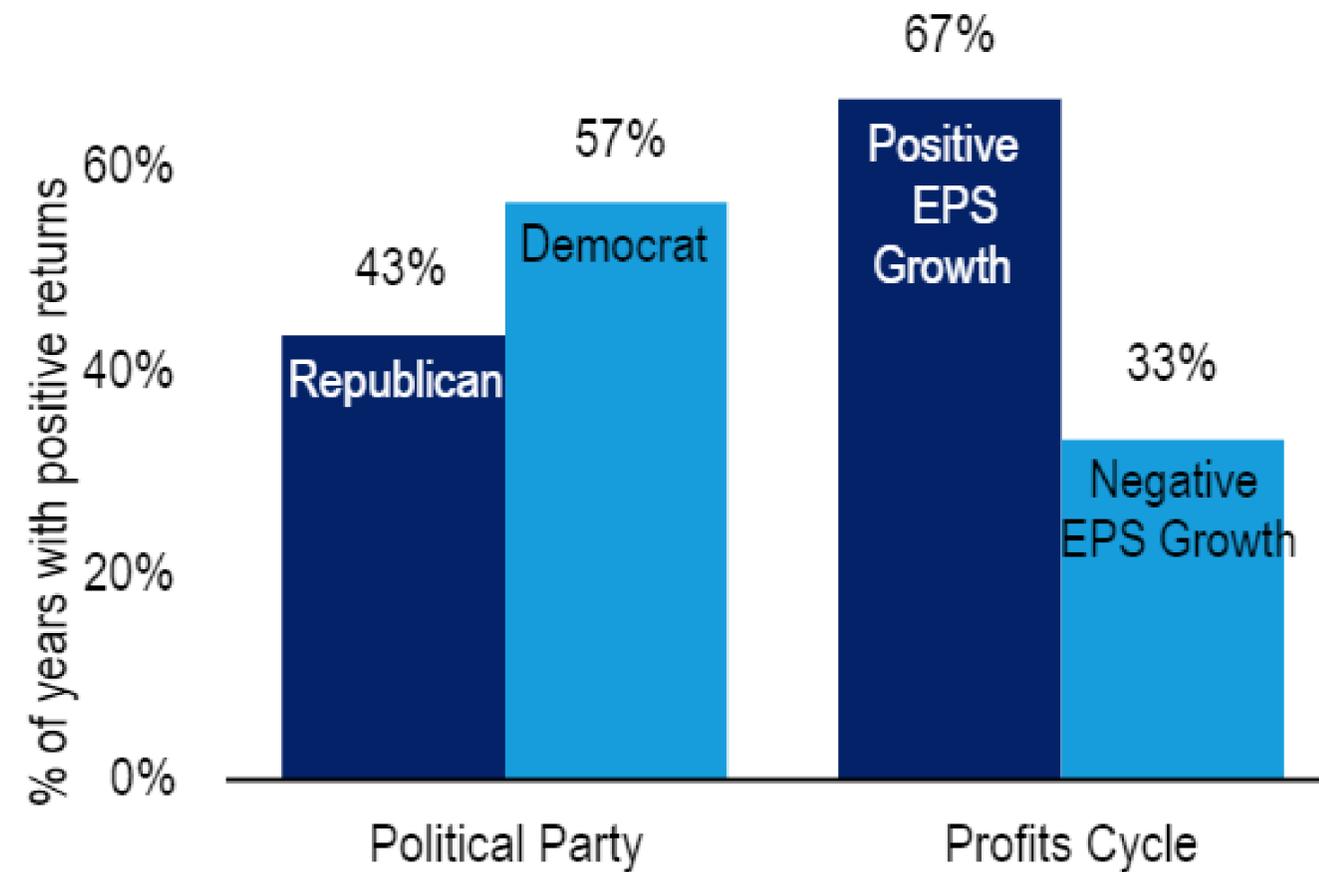
This is interesting, but...

Annualized S&P 500 Performance By President (Total Return Basis)



...In the end, profits matter more than politics

Percentage of Years From 1928 to 2023 Where Total Returns Were Positive Based on Political Party vs. S&P 500 Profits Cycle



Chill!

Historically, markets fare similarly under either candidate – the key is to stay invested

Growth of \$10,000 Since 1932 - Investment When Investing by Political Party of President
S&P 500 Price Return



Note: Investment horizon from 12/30/1932 – 2/29/2024

Source: Federated Hermes, Bloomberg as of 2/29/2024. Past performance is no guarantee of future results. For illustrative purposes only and not representative of any specific investment.

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LINDA DUESSEL



Mind on the Market

With more than 30 years of experience, Linda Duessel is nationally recognized for her expertise in analyzing equity market conditions. Linda discusses personal finance with investor groups across the country on topics of interest ranging from the impact of the alternative minimum tax to investing for retirement. Additionally, Linda has been extensively quoted by Associated Press, The Wall Street Journal and Barron's, as well as featured in the annual roundtable for USA Today.

As senior equity market strategist, Linda is part of the equity income team, which is responsible for formulating Federated Hermes' views about the market and the firm's positioning strategies within the equity income team. As senior client portfolio manager, she is responsible for articulating the strategy, process, positioning and performance of Federated Hermes' equity income products.

Like to keep an eye on her insights? Here are three ways:

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2 Read her weekly market views. Look for them on our [site](#) and in our [weekly email](#).

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