

**US presidential elections outlook:  
Implications for policy and markets**

**Goldman Sachs Exchanges**

**Alec Phillips, chief US political economist,**

**Goldman Sachs Research**

**Joe Wall, managing director, Office of Government Affairs**

**Allison Nathan, senior strategist, Goldman Sachs Research**

**Date of recording: January 8, 2024**

**Allison Nathan:** 2024 is likely to go down as the year of elections as more than half of the world's population head to the polls. Of course, one of the most watched elections is the US presidential election, which takes place on November 5th. So what should we be watching as the primary season kicks off next week? And what might be the market and economic implications of this consequential race?

**Alec Phillips:** In presidential election years, in general, what you see is some weakness at the start of the year, and that's probably reflecting just the fact that you have uncertainty ahead of the election. And then you tend to see more strength at the very end of the year following the election in particular.

**Allison Nathan:** I'm Allison Nathan, and this is Goldman Sachs Exchanges.

To provide a road map of what lies ahead and explain the issues at stake, I'm sitting down with Alec Phillips, chief US political economist in Goldman Sachs Research, and Joe Wall, a managing director in our office of government affairs. Alec, Joe, welcome back to the program.

**Joe Wall:** Thank you for having us.

**Alec Phillips:** Thanks.

**Allison Nathan:** Let's dive in. The US presidential race kicks off in earnest with nominating contests in each state and territory, starting with Iowa on January 15th, but there already seems to be a strong consensus that President Biden has locked up the Democratic nomination, as is typically the case with the incumbent, and former President Trump will be the Republican nominee. How important is the primary season really in this election? And when will we effectively know who the candidates are? Joe, start us off.

**Joe Wall:** Sure. So Allison, as you mentioned, Iowa kicks off next Monday, January 15th, at the caucuses, and then New Hampshire goes eight days later. And then we have Nevada, which also holds a caucus on February 8th. And then I would say the next big contest, which there's a little bit of lull between, is South Carolina on February 24th. And of course that's we'll go to in a second, but that's Nikki Haley's home state. So as we think about the Republican primary right now, it's a foregone conclusion that Donald Trump is going to win Iowa. I think the big underlying questions are will he be above 50% of the vote, because he's hovering there in the polling? And then secondly, who's going to get second place?

Right now, it feels like Governor DeSantis is primed to get second place. He's invested a lot of time. His super PAC has also invested in sort of an unprecedented door knocking and voter contact effort over the last several months.

Nikki Haley, who is I think undoubtedly the momentum candidate right now in terms of having some latitude in her numbers, doesn't have the infrastructure in Iowa that

DeSantis does. DeSantis also is benefiting from having the governor of Iowa behind him, who is quite popular.

So I think the big question is: Does DeSantis get second place and how far behind is Haley next week? There's been speculation that if DeSantis does get a distant second, he may drop out of the race before New Hampshire. If that does occur, that could further shake up the New Hampshire numbers. But right now I think the big question is really around New Hampshire. That's the state where Nikki Haley has been definitely climbing in the polls much more so than in Iowa. She has the support of the governor of New Hampshire, Chris Sununu, who is incredibly popular. Important to understand that the Iowa electorate and the New Hampshire electorate are quite different.

Iowa is a very conservative state. In particular, there's a very vibrant socially conservative community in Iowa that has a really big impact on the caucuses. Just to put it in perspective, if you look back at the 2016 exit polls from the Republican presidential primary in those two states, New Hampshire has twice as many Independent voters voting in the Republican primary and they have twice as many

moderates, self-identified moderate voters. And so New Hampshire is a much more favorable terrain for Nikki Haley, and that's where we could potentially see an upset. And if she's able to pull off an upset there that could at least extend the race for a bit longer.

So I think that's kind of the important thing to watch in the Republican primary in the immediate term is not only the margin in Iowa where DeSantis and Haley fit in but, more importantly, probably New Hampshire to see if Nikki Haley can extend the race and pull off an upset there.

**Allison Nathan:** So Nikki Haley is in focus right now, as you just said. What would it really take for her to be a real genuine threat to Trump's nomination?

**Joe Wall:** So she has to win in New Hampshire, first and foremost. And then from there, she has basically a month between New Hampshire and the South Carolina primary, which of course is her home state. Of note, Haley has not been on the ballot in her home state of South Carolina since 2014. That was her reelection race for governor, and then of course she got appointed in 2017 to be the UN ambassador for President Trump.

So while from South Carolina, a decade is a long time to not be on the ballot. And Trump benefits in South Carolina from having the support of the current governor, Henry McMaster, and in addition to that also Senator Lindsey Graham, both of whom hold a lot of weight in the state. So his political infrastructure in South Carolina is arguably stronger than hers, despite the fact that she was once the governor of the state. But in order for her to change the trajectory, a win in New Hampshire followed a month later -- a long time in politics, right? -- but by a win in her home state. If she can't win in her home state on February 24th, she's probably out of the race at that point.

And by the way, Super Tuesday follows quickly on March 5th, where 15 states go, including California and Texas. But in order for Haley to stretch I think into Super Tuesday, she not only has to win New Hampshire but also her home state.

**Allison Nathan:** And if Haley does not have a convincing win in New Hampshire, this primary could effectively be decided in weeks?

**Joe Wall:** Yeah. If Haley does not win New Hampshire, it's probably over. The question for her is does she stay in for her home state? We saw Rubio do this in 2016, and Trump handily won Florida. It was a little bit of an embarrassment. So that's always the risk candidates have to weigh when they get to their home state. Jeb Bush got out before Florida. Do you want to run in a situation where you're probably going to lose and it could be by a margin that appears to embarrass you in your home state? And so that's something obviously the candidates have to weigh.

But if she's rolling into her home state with a strong win in New Hampshire, which will be viewed as an upset, as we've seen in politics before, momentum is a powerful thing. And her numbers my guess in South Carolina where she currently trails by a pretty wide margin to Trump, but that could change over the ensuing weeks. And then the question becomes, when it's really a two-person race, is Trump forced to the debate stage to try to draw more direct contrast, or does he continue to skip debates?

**Allison Nathan:** And this race also seems unusual because of course the likely Republican candidate, former

President Trump, is facing several serious legal cases. This is something I don't think we've everyone seen, correct me if I'm wrong. It seems somewhat unbelievable to me that that won't have an impact on this nominating process and this election in general, but everything I'm reading and hearing, Joe, seems to suggest that it won't. So talk to us about why that's the case or whether there are implications to these legal cases for this nomination contest and this race.

**Joe Wall:** I think there's no doubt from a Republican primary perspective that it's, in some respects, the 91, I believe, indictments have helped him to some extent because he's been able to characterize it as being a political martyr. And his numbers ever since the indictments started to flow in have improved in the Republican primary.

Now, that's not to say that's helping him with Independent voters in a general election environment, but I sort of buy into the argument that most people have made up their mind on former President Trump one way or the other. So I just don't think it's moving the needle in a material way, at least yet.



I would say, however, where it is having a big impact -- and Axios actually had a really good story Sunday about this, and the headline was, "Trump's Nightmare Calendar." So if you just take this week, for instance, Tuesday, former President Trump will be in Washington, D.C., for the court arguments regarding his claim of presidential immunity in the 2020 election interference case. Wednesday, he's in Des Moines for a Fox News town hall. Obviously just days before the Iowa caucuses. And then on Thursday, he's in New York for the closing arguments in a civil fraud trial over his family business.

His calendar, just in terms of having to kind of flow in and out of the courtroom on a weekly basis, is undoubtedly having an impact on the race. Not to mention just the scale of legal bills and most of which his campaign is paying for, obviously that's taking a toll on the finances of the campaign. Those two dynamics, just in terms of his calendar and his campaign's accounting, are for sure taking a real hit.

That said, from a pure political perspective, to your point, Allison, at least so far, it's not showing up in the polls, both

in terms of the Republican primary and, if you look at the general election polling right now, which we'll get to in a second, the race between former President Trump and President Biden, by all accounts, is a pure toss-up at this point, even with the mountain of legal challenges that the former president is facing.

**Allison Nathan:** Alec, let's dive into the issues that will define this year's election. There's a lot of focus on the economy, the border, crime, abortion. What are the key issues that you are seeing voters focus on right now?

**Alec Phillips:** I think if you look at the polling, you would generally see the economy and then specifically inflation as probably the top issue, as usual. Crime is much higher in most of the surveys this year than it typically is. And then the other one I would point out would be immigration. And on all of those right now, Republicans seem to be doing better in the sense that you have a lot of surveys where they'll ask essentially which party do you trust on the issue? And on those, Republicans have a pretty clear advantage.

Abortion obviously is also very relevant, and that's one

where Democrats do have an advantage. I'd say overall, though, my sense -- and maybe it's because of the seat I'm in -- is that ultimately this is probably going to be more about the economy and voter concerns about inflation and more the direction of the country and maybe a little bit less about some of those specific issues.

**Allison Nathan:** On the economy side of things, we obviously have seen growth holding up okay. We have avoided the very feared recession, and inflation is coming down. So will Democrats or are Democrats getting credit for that? Or how is the electorate perceiving the economy at this point?

**Alec Phillips:** If you look at consumer confidence surveys, the answer is not very well, and I think there's been a lot of discussion of confidence and consumer sentiment lagging the fundamental indicators. And I think the bottom line on that is that it is likely the fact that, when we talk about inflation, we're talking about the rate of change in prices. So how much are prices going up, how quickly? And I think when most voters look at inflation, they're thinking about the level of prices. They're thinking about how much is a gallon of gasoline cost or a gallon of

milk? And the challenge is that, while inflation has clearly slowed and is almost normalized at this point, it's not as if things have become cheaper for the most part.

And if we then look at what individual economic statistics tend to have the strongest relationship with election outcomes, it's the ones that actually should favor President Biden. So it's real consumption growth. It's real GDP growth. It's things like that. It's payroll growth. And yet I think what we're seeing is that, at least right now, those things have not swayed voters the way that they might in a typical election.

From here, I think the best guess is that we probably will see some improvement in consumer confidence and probably some improvement in voter sentiment around the economy, only as those higher prices become more normalized and the strong inflation that we've seen is further in the rearview mirror.

With that said, I think a lot of these things have a long shelf life, and there's clearly still going to be some concern about inflation by Election Day, I think.

**Allison Nathan:** And so let's put this all together. Joe, Alec just talked about the issues at stake here, most of which seem to be leaning more in the direction of the Republicans, even the economy. And you just said that the race seems to be somewhat of a toss-up. So talk to us through that a little bit more and what we are eyeing at this point in terms of the outcome of the general election.

**Joe Wall:** Ten months is obviously an eternity in politics, so we still have a long ways to go. I think as we think about the Electoral College the way that we see it, Biden basically starts off with 226 electoral votes, Trump has 219. Of course, 270 is the magic threshold. There are seven toss-up states that are hyper competitive. Those are North Carolina, Arizona, Georgia, Wisconsin, Michigan, Pennsylvania, Nevada, that will ultimately going to decide the outcome of the race.

Just to drill it down a bit in a more simple way, the three states of those toss-ups that I really think are going to determine the outcome of the presidential race are Arizona, Georgia, Wisconsin. If you go back to 2020, Biden won those three states by cumulatively just about 44,000 votes, so super narrow. And 44,000 votes is obviously not much

across three states.

Though the one dynamic that I think is going to be much different from not only 2020 but also 2016 is the influence of third-party candidates. So we already have Robert F. Kennedy, Jr., who's running as an Independent. We have Cornel West and Jill Stein and potentially a candidate from the No Labels ticket, if they decide to field a ticket. But three for sure, maybe four.

And if you go back to 2016 and if we just hypothetically look at Georgia, Wisconsin, and Arizona, what was noteworthy as third-party candidates in 2016 in the Trump vs. Clinton race, in Georgia, Wisconsin, and Arizona, were anywhere from 3 to 5.5% of the vote. If you go to 2020, they went down to basically 1.5% or so across those three states. So that difference, when you think about just 44,000 votes separating the two candidates, the kind of collapse of the third-party vote between '16 and '20 was very noteworthy.

So if you look at the current polling -- and again it's early and I will preface this with it's easier for voters to kind of park with third-party candidates ten months out from

Election Day as a protest that they don't like either of the major party candidates. Typically, as you get closer to Election Day, you see the third-party candidate support decline, just as a lot of voters realize that may be considered a wasted vote of sorts.

But if you look today, I think what's noteworthy -- and this is just *New York Times* polling from November, so it's one poll. But RFK, Jr., across Georgia, Arizona, Wisconsin, in a three-way matchup -- again, we really have two other candidates -- but in a three-way matchup, he's in the low to mid 20s in terms of his support level. Really noteworthy. We haven't seen a candidate that high really since Ross Perot, who ended up getting just underneath 20% of the vote in 1992. Now, remains to be seen if Kennedy can maintain that level of support, and other polls have seen him lower. But nonetheless, he's attracting a real base of support.

So we're in a circumstance with the third-party dynamic where the winning candidate, if you just want to think about the national vote, very well may be in the low 40s, high 30s. Not near 50% like we're used to. And so in that dynamic, I think that worries Democrats a lot, just given

that Trump's base of support is very sticky, and you can count on him getting at least in the high 30s, if not right around the 40% just automatic. And so I think that's why there's a lot of worry on the Democratic side, particularly about the presence of the multiple third-party candidates.

One other dynamic to note -- and this is something that we've been tracking and a lot of political analysts have been tracking for the last 16, 17 months -- is that there is an atypical trend happening among voters who say they somewhat disapprove of President Biden, and that's about 10% of the electorate. Typically, voters who say they somewhat disapprove of the sitting president, in a midterm election, which we observed of course in 2022, those voters typically swing the other direction towards the other party.

For instance, in 2018, voters who said they somewhat disapproved of Trump voted Democratic down ballot by a margin of 29 points. In '22, voters who said they somewhat disapproved of Biden ended up actually voting for Democrats down ballot across the country by a margin of four. You look at the current polling and for the general election, voters who, again, aren't terribly warm on Biden and somewhat disapprove of him but even by low double



digits say they're supporting him over Trump in the general election. So there's that pocket of voters who may be a little bit disguised but, at the end of the day, could end up being the swing voters and put Biden over the top if they continue to stick with him.

**Allison Nathan:** Interesting. Okay. A lot to be watching out for over these next ten months. Let's talk about the congressional races, which are also quite important in thinking about the future of policy in many areas. So what's at stake in the House and Senate races? What are you most focused on?

**Joe Wall:** Both chambers are very closely divided. The House, where we're currently down to a two-seat majority with a few members, including former Speaker Kevin McCarthy departing early, which obviously creates vacancies in the House. And so razor-thin majority. When the Republicans are full strength, they have a 5-seat majority. I think the House election, the reality is the outcome is going to be significantly dictated by the top of the ticket. I would say on paper right now, Democrats probably have a slight edge to win control of the House, mostly because they are going to benefit from the fact that

a handful of states are redrawing their congressional maps in the aftermath of the redistricting process that occurred that in 2021 and 2022. And the net effect is that Democrats are going to gain a handful of seats just because of the map drawing being revisited. So I think they start off with a slight edge, but ultimately I think it's a little bit too fluid right now with the top of the ticket uncertain in terms of the presidential race. But I think the House is going to be really close either way.

The Senate is different in that the map in 2024 just could not be any better for Republicans. Democrats are defending three seats in hyper red states -- West Virginia, Montana, Ohio. And meanwhile, Republicans aren't defending any states that are in real jeopardy. And so Republicans are very much on the offense. Off the top, they're going to win West Virginia. Joe Manchin, the incumbent Democratic senator is not running for reelection. Democrats are basically ceding that to Republicans, so now the Senate's 50/50 if you assume Republicans take that seat. And then the next two most gettable seats for Republicans would be Montana and Ohio. And then the next layer down, where they also have opportunities, would be Pennsylvania, Michigan,

Wisconsin, Nevada, or you could potentially see, who knows, a surprise in one of those states. But I think if you look at the map right now, you would say Republicans have the advantage to win control of the Senate. What's unknown, are we going to end up with a very slight Republican majority? Or on a good night, they could pick up a few seats and end up with a little bit more of a 52- or 53-seat majority. But the map is just so good for Republicans, it's hard to see them not winning control.

But I would note there are states, including Montana, where we could see very competitive primaries. And if Republicans end up nominating fringe candidates, as we've seen before -- we've seen this movie before where they nominate a rather unelectable general election candidate. Things can shift quickly and Democrats can end up holding on if a couple of these primaries go the wrong way for Republicans.

**Allison Nathan:** Alec, what do you see as the implications of the scenarios that Joe just laid out?

**Alec Phillips:** If you have everything controlled by one party, then you can see some pretty substantial policy

changes on fiscal policy in particular. Any other scenario, whether it's divided congress or divided government, it becomes harder to see big things happen simply because everything's going to have to be bipartisan. So at that point, you're operating under sort of more of a consensus approach where the winner of the White House matters but doesn't matter quite as much.

And so when we think about the big issues in 2025, the one that's sort of staring people in the face right now is the expiration of the Trump tax cuts from 2017. So that's basically all of the personal tax cuts. A lot of the corporate stuff was permanent. But that's worth a bit more than 1% of GDP, and I think if you have an all-Republican scenario, you probably see all of that extended plus maybe even a little bit more. Under a divided scenario, whether that's a divided congress or something else, I think it's a little harder to see all of that extended. Our take is that you probably still see a lot of it extended as far as just the aggregate amount. But probably tilting toward middle and lower income a little bit more. And maybe some risk of at least small increases in corporate or business taxation just because some things are allowed to expire around the edges.

The other thing I would point out is that, under a Trump scenario in particular, I think there's a really interesting question on what he would do with regard to tariffs and where that money would end up going if you did see tariffs increase. So he's proposed essentially a 10% across-the-board tariff. It's a little unclear what exactly that would apply to. But just to put that in perspective, if that were to happen on today's trade numbers, that would raise a little bit more than \$300 billion. So that's actually probably a little bit more than the total value of the expiring tax cuts. And in theory, if elected, he could do that unilaterally, at least for a time -- probably couldn't be done on a permanent basis unilaterally -- but he could do that unilaterally and then raise a substantial amount of money.

And the interesting question is: Where does that money go? I think there's a lot of discussion right now about potentially recycling tariff money into domestic subsidies one way or another. But that would probably take congressional support. And so that's one way where you could see even a divided congress, if you got this influx of money coming in, congress ultimately deciding that they want to do something with that.

I think even in a divided government scenario, there are still some interesting possibilities, but the range of outcomes is a lot narrower all together than if you had, let's say, a President Trump with a Republican House and a Republican Senate. And I think Joe would probably agree that, at this point, a Democratic sweep and an all-Democratic government is probably a little less likely than either divided or an all-Republican, although obviously all three scenarios are possible.

**Allison Nathan:** Got it. Let's take a step back for a moment and talk about how markets are likely to evolve in this important election year. So Alec, you've done some work on what election years typically look like in markets. Tell us what you've found.

**Alec Phillips:** You know, the funny thing is, for as much as we spend a lot more time as a country and as analysts thinking about presidential elections than congressional elections, the strongest patterns actually are, if you look over sort of the four-year presidential cycle, are actually more around midterm elections where you have a lot of weakness going into the election and then, like, pretty

consistent strength coming out of the midterm.

In presidential election years, in general what you see is some weakness at the start of the year, and that's probably reflecting just the fact that you have uncertainty ahead of the election. And then you tend to see more strength at the very end of the year following the election in particular. And compared to all election years, returns in the S&P, for example, are a little bit weaker. So 8% on average versus 11% overall, if you go back to the mid '70s.

**Allison Nathan:** But markets didn't react typically in 2020 because of course we had the events of January 6th. And that really just begs the question of what the reaction of the public might be to the election outcome this time around. Joe, what do you think? Do you think that we could see more volatility of that nature in this upcoming election?

**Joe Wall:** Obviously we hope not, but I think the reality is that we live in a very divided country. Our system has grown more and more toxic over time. Given the reality we live in, I don't think anyone would be surprised under either outcome. If we have a close election that

Biden narrowly wins or if it's a close election and Trump wins, it's going to be close one way or the other, right? That's just the way that we've observed elections, at least in recent history.

And so given that and the fact that every state has their own process in terms of counting and has their own early voting processes, someone is going to call into question on the legalities and there's going to be recounts. And all of those things are probably just predictable to happen, right? Are we going to see another January 6th? Of course we hope not. But I think everyone is hoping for the best, but at the same time, just given what we've observed over the last several years, I think we have to be probably prepared for the fact that there's going to be disgruntled people on either side that may protest.

You know, it's one thing to peacefully protest. It's another thing to violently protest. Hopefully, it doesn't lead to the latter.

**Allison Nathan:** Joe, Alec, thanks for joining us.

**Joe Wall:** Thank you.



**Alec Phillips:** Thanks.

**Allison Nathan:** That's for listening to this episode of Goldman Sachs Exchanges, recorded on Monday, January 8th, 2024. If you enjoyed this show, we hope you'll follow us on Apple Podcasts, Spotify, or Google Podcasts, or wherever you listen to your podcasts and leave us a rating and comment.

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