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WASHINGTON POLICY STRATEGY

Potomac Perspective

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Picking sector winners and losers is not as clear cut in this election as in the past. 2024 is not 2016 or even 2020. Political rhetoric aside, the economic policy differences between the two presidential candidates and the two political parties are narrower than in the past, Congress is likely to be even more evenly divided than in the past two administrations, and the fiscal situation will likely limit policy outcomes. Some sectors could see more of an impact than others from differing approaches to regulation. The following is a cheat sheet for several possible sector winners and losers based on the election outcome.

Both Vice President Kamala Harris and former President Donald Trump have proposed economic policies that could increase the deficit and contribute to inflationary pressures. Some economists have opined that Mr. Trump's policies are more inflationary than Ms. Harris's proposals. Neither candidate, however, is likely to be able to get most, or even much, of their major policy initiatives enacted. Even if one party gains control of Congress, we think the margins for the majority party will be quite narrow. This will limit the legislation that either candidate might be able to pass.

In addition, the national debt currently is \$35.8 trillion. While Congress may not make serious efforts to reduce current deficits, the debt situation will probably influence what either candidate can (or cannot) get through Congress.

Also, unlike 2016 when a major tax cut was on the ballot, this year's election is primarily about how much of the 2017 tax law will be extended. The upcoming tax debate will be nibbling around the edges rather than passing a transformational tax cut. This reality will limit the economic impact and the market's reaction to the election.

We list several sectors we think could benefit from a Harris win, others from a Trump win, as well as areas where we see limited differences between the parties and, thus, limited policy changes.

Conviction if Harris Wins

- **Clean energy** – The tax credits passed as part of the Inflation Reduction Act would probably survive if Harris is elected. Also, we expect her regulatory agenda would aim to boost the clean energy sector. Even though Harris has backed away from positions to crack down on oil and gas, we expect her administration would still aim to boost clean energy over traditional energy. Note: despite expectations, the sector lagged during Biden administration and outperformed during the Trump years. This is the cautionary tale that pro-industry policies do not always correlate to stock performance. See below for the inverse – oil and gas.
- **Health care** – A Harris victory could be a slight plus for health care insurers. She would likely push for greater subsidies under the Affordable Care Act, while Medicare for All (a risk to private insurers) seems off the table at least for now.
- **Retail** – Retail could benefit from a Harris win simply by avoiding the tariffs Trump has proposed, which could negatively impact volumes and profit margins.

- **Cannabis** – As with other sectors, a lot would depend on the outcome of the congressional elections, but we expect a Harris administration would continue to push for the declassification and, ultimately, legalization of cannabis at the federal level.

Conviction If Trump Wins

- **Financials** – In Trump 1.0, financial regulators were generally insulated from the populist impulses of the rest of the administration. Even though we think a second Trump term could be more populist, we would expect the financial regulators will remain protected from these influences. We would expect a deregulatory approach to financial regulation. This would be expected to lift the sector. A potentially steeper yield curve could likewise be beneficial. Bank M&A could pick up as the merger application process could become more efficient if Trump wins. We note, however, that broader M&A activity might not increase as much as some anticipate. While the banking regulators might not follow the populist path of other agencies, the Department of Justice and the Federal Trade Commission could be led by populists who might not deviate significantly from the Biden administration’s approach to antitrust policy. This could limit the upside for M&A advisors.
- **Crypto and Digital Assets** – The Trump campaign has signaled that it would be more crypto friendly than the Biden administration has been. Harris has also signaled a possible shift in policy but less directly than has Trump. Trump appointees to the Securities and Exchange Commission and the Commodities and Futures Trading Commission would likely be crypto friendly. Also, Trump appointees to the Federal Reserve Board would probably oppose any moves towards a central bank digital currency.
- **Oil and Gas** – We think Trump would likely expand exploration and production opportunities, as well as favor less onerous environmental policies which could positively impact the sector. That said, it is worth noting that, contrary to conventional wisdom, the sector’s stock performance lagged during Trump 1.0 and rallied during the Biden administration.

No Conviction or No Man’s Land

We do not anticipate major changes in several areas, either because the sector has little support on either side of the aisle, or, despite campaign proposals, the federal government’s fiscal situation will limit policy outcomes. We list these sectors here.

- **Tech/Social media** – The sector has few close allies in Washington. Policy makers, however, are wary of overregulating emerging technologies like Artificial Intelligence (AI). Trump would likely reverse Biden’s Executive Order on Artificial Intelligence but would push tech companies on how Diversity, Equity, and Inclusion and political content moderation is embedded in AI. Otherwise, a Trump administration would probably take a hands-off approach. Harris is likely to support more federal research for AI, which could benefit the sector, but in return she would probably want more regulation of the technology. However, Harris’s connection to Silicon Valley from her time as one of California’s U.S. senators might also make her wary of overregulating the evolving technology. There will be some political risks for social media, as Washington, D.C. is likely to continue to focus on privacy and child protection, but we think the political risks on this matter are equally weighted from both parties. Also, as policy differences on antitrust regulation have narrowed, we do not see major shifts in ongoing and possible future litigation regarding the tech sector.
- **Pharma** – We see more regulation and possible antitrust enforcement actions regarding pharmacy benefits managers from a Harris administration, as well as more aggressive price negotiations by Medicare. Trump might not be quite as aggressive as Harris on drug price regulation, but there is some risk that he also pushes for prices caps and could support insulin price caps for private insurance plans. Also, if Trump were to nominate someone like Robert F. Kennedy, Jr. for a policy position in public health, it could be a negative for pharma.

- **Defense** – Some people might be surprised that we do not include defense as a “winner” if Trump is elected since he is seen as more supportive of bigger defense budgets. We think defense spending will rise regardless of which candidate wins the election, but the fiscal situation will probably limit the size of the increase. Defense stocks could see a pop from a Trump win, and the defense budget might increase more if he wins than under a Harris presidency, but we think some caution is warranted. Fiscal deficits will not allow significant increases in spending.

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