

Biden's exit from the presidential race opens a phase of uncertainty



VINCENT MORTIER
Group CIO, Amundi



MONICA DEFEND
Head of Amundi Investment Institute



ANNA ROSENBERG
Head of Geopolitics, Amundi Investment Institute

Other contributors from the Amundi Investment Institute

LAURA FIOROT
Head of Investment Insights & Client Divisions

GUY STEAR
Head of DM Strategy

- **Biden exit from the race:** Current US President Joe Biden announced on Sunday that he will not seek re-election and endorsed Vice President Kamala Harris as the Democratic nominee. Senior members of the Democratic party have expressed their support for Kamala Harris. Donations for the campaign have begun to rise after Biden's decision.
- **Kamala Harris potential nomination:** The Democratic convention in Chicago from August 19th to 22nd is a potential venue for the nomination of Kamala Harris, which would draw attention to the party and the new candidate. If Harris becomes the official candidate, she would inherit the funds of the Biden campaign.
- **Investment implications:** With over three months remaining until the elections, there is a significant level of uncertainty surrounding the potential outcomes. It's too early to think of a Harris or a Trump 2.0 trade, as the change in the Democratic nominee somewhat resets the election path. Markets will continue to focus on the current earnings season and on the potential actions of the Fed, while the implications from the election could become more prominent after the summer when the campaign will enter its hottest phase.

What happened?

On Sunday, July 21st, the current US president Joe Biden announced that he will not accept the nomination, although he will remain president until the end of the term. He also endorsed the current vice president, Kamala Harris, to replace him as the Democratic nominee. Some senior members of the Democratic party, such as former president Bill Clinton, former Secretary of State Hillary Clinton, Massachusetts senator Elizabeth Warren, and Pennsylvania governor Josh Shapiro, also provided their support to Kamala Harris.

When is the potential nomination of the current vice president, Kamala Harris, going to occur?

With Biden exiting the race, it is likely that Kamala Harris would become the Democratic nominee. Her presidential campaign has seen rising donations after President Biden announced he will not seek re-election. However, it is important to note that Harris would still need to be selected by Democratic delegates and go through a process to become the official nominee. In the last week, senior Democrats, including Senator Nancy Pelosi, who supports Harris, have voiced support for an open selection process to strengthen Harris' democratic legitimacy. The official nomination could occur at the Democratic convention in Chicago to be held August 19th to 22nd, or earlier through "mini primaries," or a virtual vote. If Harris becomes the official candidate, she would inherit the funds of the Biden campaign.

What are the chances of Harris versus Trump?

Biden's decision has opened up an unprecedented phase in the election. While Harris' poll results are similar to the Biden against Trump poll results, her chances of winning will depend on various factors, including party unity, donor support, her choice for vice president, and her performance in the spotlight. It is worth noting that some notable competitors have already declined to run against her. Although Trump's chances of winning have increased after the presidential debate and the attempt on his life, a Trump victory should not be taken for granted. The choice of Vice President J.D. Vance does not appear to have increased Trump's potential to appeal to a greater number of voters. His VP choice and speech at the Republican Convention is likely to fail to attract more moderate voters.

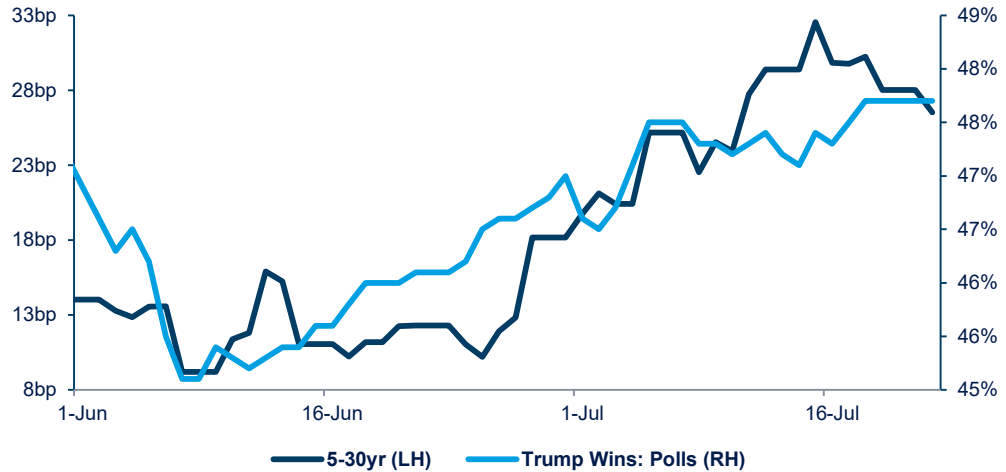
“Markets brace for election uncertainty, turning attention to the earnings season and the Fed’s actions.”

What are the market implications of this change in the Democratic nominee?

Market reaction to the news has been muted at the time of writing, with a fall in the US dollar in early trading on Monday (July 22nd), a marginal movement in 10-year US Treasuries, and an upward trend in equity futures. In terms of the implications on markets, the election outcome is still highly uncertain.

The polls have had a strong impact on the slope of the US treasury curve in recent weeks. Since the 1st of June, the correlation between daily changes in the polls and movements in the US Treasury curve between the 5yr and 30yr areas has been 86%.

Trump Wins polls versus US 30-year vs 5-year yield differentials



Source: Amundi Investment Institute on Bloomberg, data as of 22 July 2024.

It is too early to define a potential “Harris trade,” but even to have a specific trading strategy for a potential Trump 2.0 administration, as there is ideological uncertainty regarding its goals and policies. There are also significant ideological clashes that the Trump administration would need to address, such as the approach towards China, inflation, tariffs, fiscal expansion and the desire for a weaker dollar.

There are various schools of thought on Republican foreign policy that are currently trying to influence Trump. These competing groups include: the isolationists/restrainers who want the US to refrain from too much interference in foreign affairs; the prioritizers, who want US foreign policy to focus on China; and those who still believe the US should remain the main decision-maker in global affairs. Apart from these groups, Trump’s foreign policy will likely be shaped by individuals in key positions. It is as of yet unclear who he would nominate. Finally, his foreign policy will be shaped by his desire to cut deals and experiences from his first term.

Given this high level of uncertainty, the market will likely focus on the results of the second-quarter earnings season, which has just begun. The mega caps have been the great winners in the first half of this year, but investors are now expecting earnings growth to improve in other areas of the market outside the mega caps. This could help supporting a broadening of the rally that has begun in recent weeks. On the bond side, markets are now turning their attention to the September Fed meeting that could result in a rate cut.

As pointed out in our recent mid-year outlook, we currently favor a mildly positive allocation to risky assets, with a preference for equal-weighted and/or fundamental approaches in equity markets to address the current high concentration risk, and a positive stance on duration. We also look for additional sources of diversification in emerging markets, commodities (in particular gold) and real and alternative assets.

AMUNDI INVESTMENT INSTITUTE

In an increasingly complex and changing world, investors have expressed a critical need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios. Situated at the heart of the global investment process, the Amundi Investment Institute's objective is to provide thought leadership, strengthen the advice, training and daily dialogue on these subjects across all assets for all its clients – distributors, institutions and corporates. The Amundi Investment Institute brings together Amundi's research, market strategy, investment insights and asset allocation advisory activities. Its aim is to project the views and investment recommendations of Amundi.

Discover Amundi US Investment Insights at www.amundi.com/usinvestors/Insights/Research-Insights.

Definitions

- **Basis points:** One basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- **Volatility:** A statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

Important information

This document is solely for informational purposes. This document does not constitute an offer to sell, a solicitation of an offer to buy, or a recommendation of any security or any other product or service. Any securities, products, or services referenced may not be registered for sale with the relevant authority in your jurisdiction and may not be regulated or supervised by any governmental or similar authority in your jurisdiction. Any information contained in this document may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. Furthermore, nothing in this document is intended to provide tax, legal, or investment advice. Unless otherwise stated, all information contained in this document is from Amundi Asset Management S.A.S. and is as of **22 July 2024**. Diversification does not guarantee a profit or protect against a loss. This document is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The views expressed regarding market and economic trends are those of the author and not necessarily Amundi Asset Management S.A.S. and are subject to change at any time based on market and other conditions, and there can be no assurance that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, a security recommendation, or as an indication of trading for any Amundi product. Investment involves risks, including market, political, liquidity and currency risks. Furthermore, in no event shall Amundi have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages due to its use.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msccibarra.com).

Date of first use: **22 July 2024**.

Document issued by Amundi Asset Management, "société par actions simplifiée"- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GP04000036 – Head office: 91-93 boulevard Pasteur – 75015 Paris – France – 437 574 452 RCS Paris – www.amundi.com.

Chief editors

Monica DEFEND

Head of Amundi Investment Institute

Vincent MORTIER

Group Chief Investment Officer

Matteo GERMANO

Deputy Chief Investment Officer

Editors from Amundi Investment Institute

Claudia BERTINO

Head of Investment Insights and Publishing

Laura FIOROT

Head of Investment Insights and Client Division

Swaha PATTANAIK

Head of Publishing and Digital Strategy