First Trust Portfolios Canada
Monday Morning OUTLOOK

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Finally, Election Eve

It's almost over! Unfortunately, those texts might not stop right away. Unless this election is an unexpected blowout, some key states won't have full counts of all their ballots for several days. That said, enough results from some hotly contested states like Pennsylvania should be in so by the wee hours of Wednesday morning we should have a good idea of who will be inaugurated next January. This will be true even if there has not been a concession speech by the other candidate yet (or ever!).

We should also have a good idea by then which party will control the Senate for at least the next two years. However, given the number of tight House races, the possibility of recounts, and how closely divided the House is already, it may take a week or more to sort out control of that chamber of Congress.

For investors, it's important to remember that the outcome itself (and whether it suits your beliefs or not) is no reason to act emotionally. That's how investing mistakes are made. If you don't like the outcome of this election, you will probably like the outcome of the mid-term elections in 2026 much better; whichever party loses the race for the presidency this year will likely win the House in two years, putting a major brake on the new president's legislative agenda.

Moreover, polls suggest neither party will obtain a super-majority. In other words, as the Founders intended, there will be compromise. So, for the economy, what does that look like?

Republican Sweep: Look for a temporary extension of the tax cuts originally enacted in 2017, but with a lower tax rate on corporate profits and some modest targeted tax relief for workers who earn tips. Because of budget rules, the only way to permanently extend the tax cuts is to make major cuts to spending and the bureaucracy. While it seems clear that massive government growth in the past two decades should be reversed, it remains to be seen whether Republicans are serious about it. So, we expect a reduction in green energy subsidies and a focus on reforming Medicaid. Without legislation, President Trump would also raise tariffs, particularly on China and substantially reduce net immigration flows into the US.

Harris/GOP Senate/Dem House: In spite of Harris's campaign positions, don't be surprised if a President Harris ends up temporarily extending the 2017 tax cuts, except at the very top. The same thing happened in late 2012 under President Obama, who wanted to rescind the Bush tax cuts. But he cut a deal with the GOP to permanently extend those tax cuts, except at the very top. Why? If he hadn't, tax rates would have gone up for everyone. We think Harris cuts a similar deal to avoid taxpayer pain in 2026. However, we don't see her reforming any entitlements or cutting discretionary spending, which means even larger budget deficits for the next four years. This is the scenario that the bond market should be most concerned about.

Trump/GOP Senate/Dem House: Look for a temporary extension of the 2017 tax cuts but only after the GOP shows a willingness to negotiate and make concessions, including letting the top tax rate go back up to 39.6% and raising the limit on the state and local tax deduction, now capped at $10,000, to $20-25,000, instead. That'd be the political price to get some Democratic House members to vote for an extension. Trump would raise tariffs and reduce net immigration flows, no congressional action required. In addition, in this scenario Trump would try to resurrect the presidential power of "impoundment," (a power to cut discretionary spending without congressional approval) which hasn't been used since the early 1970s, claiming the law passed in 1974 under Nixon to eliminate impoundment is ineffective, because it can only be eliminated by a Constitutional Amendment, not a regular law.

Democratic Sweep: Taxes would go up. The top rate would go back to 39.6%, the corporate rate to 28% (from 21%), and the long-term capital gains and dividends rates to 24% (from 20%). Meanwhile, estate tax deductions could fall and Democrats would try to pass a corporate carbon tax. Immigration flows would continue, deficits would not decline, and the US would likely get more involved with Ukraine.

As we all watch the returns tomorrow keep in mind that the current US constitutional system has survived 235 years. This is not going to be the last election and if the American people don't like the policies they get, more changes will be made in the years ahead. This is particularly true regarding the federal budget; the last two budgets have had unprecedented deficits considering we are not at war and unemployment is low. This issue must be addressed in the years ahead.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-4 / 9:00 am	Factory Orders – Sep	-0.5%	**-0.9%**	-0.5%	-0.6%
11-5 / 7:30 am	Int'l Trade Balance – Sep	-$84.1 Bil	**-$84.4 Bil**		-$70.4 Bil
9:00 am	ISM Non Mfg Index – Oct	53.8	**53.8**		54.9
11-7 / 7:30 am	Initial Claims – Nov 2	222K	**227K**		216K
7:30 am	Q3 Non-Farm Productivity	+2.5%	**+3.3%**		+2.5%
7:30 am	Q3 Unit Labor Costs	+1.0%	**+2.8%**		+0.4%
2:00 pm	Consumer Credit – Sep	$12.2 Bil	**$7.9 Bil**		$8.9 Bil