LRA Market outlook – U.S. presidential election

November 2024 election potential implication for Liquid Real Assets classes

IN A NUTSHELL

– There is no clear frontrunner to win the U.S. Presidential election.
– The outcome will have an effect of Real Assets and the broader markets, but perhaps less than prior elections.
– Tariffs, taxes, and renewable energy projects are likely see the greatest impact.

No clear consensus winner for the President or either chamber of Congress

- Policy status quo is typically the least impactful to broader markets. This election brings a great deal of uncertainty and many plausible outcomes. Either party could win the executive office; odds currently tilt towards a Republican Senate and a Democratic House, but either party could sweep, or we could see a Congress split in either direction.
- This election may have less of an impact on the markets than the past few given competing issues for the markets' attention such as the U.S. Federal Reserve starting an easing cycle and the geopolitical conflicts in Ukraine and the Middle East. It's also important to remember that while the U.S. President can set some policy through Executive Actions, it's the U.S. Congress that enacts legislation. A party sweep (which seems unlikely) is more likely to see the President's proposed policies turned into law.
- Below, we highlight the potential impact on equity markets under different scenarios, but largely limit it towards either a Kamal Harris win for the Democrats or a Donald Trump win for the Republicans with a divided Congress, as it ap-pears unlikely either party could take full control of the Senate and House. We then dive deeper into possible ramifications for real asset classes, specifically infrastructure, real estate, and commodities.

Presidential big picture expectations

Kamala Harris	– Corporate tax rates likely to increase. – Tax cuts for lower- and middle-income individuals/families, new homeowner incentives. – Clean energy policies and renewed push for electric vehicles (EVs).
Donald Trump	– Corporate tax rates could decrease, and individual tax cuts extended. – Reduced regulations, pro-growth, pro-business agenda. – Protectionist policies (e.g. tariffs), geopolitical uncertainty, and strict immigration policy.

Global Infrastructure – U.S. election impact expectations

We believe the upcoming U.S. presidential election could potentially create uncertainty and a long-lasting impact on infrastructure investors and citizens. Stable, "pure-play" infrastructure companies that own physical economic assets may prove to be winners over the long-term.

Kamala Harris – Democrat	Donald Trump – Republican
– Corporate tax increases would likely have the greatest negative impact on U.S. rail companies and those related to the energy sector such as pipelines.	– Corporate tax decreases would have the greatest benefit to those sectors exposed to corporate taxes such as U.S. rail and the U.S. energy sector and related pipeline companies.
– Regulated utilities could marginally benefit as they are allowed to pass increased taxes through to their customers, but this could trigger regulatory review if bills increase too much or too quickly.	– Tax decreases likely to be a marginal negative to regulated utilities although end-customer bills likely would go down, potentially granting the utilities more leeway with regulators in the future.
– Continued push expected towards clean energy initiatives and tax breaks on electric vehicles (EVs).	– Likely to see less incentives or tax breaks for renewable energy and EVs.

Potential impact on infrastructure spending

Energy and Pipelines

No major changes expected under a Harris administration; fewer new pipelines being built could lead to a scenario where existing pipelines become in more demand (i.e. scarcity of goods). Under Trump, likely to see less permitting needed for the drilling of new wells or the building of new pipelines. More oil and gas would likely be produced domestically, but there would be more competition for contracts if more pipelines are built in tandem.

Utilities

Under Harris, expect a push towards spending on renewable energy projects and continued tax breaks on electric vehicles (EVs). Could favor U.S. regulated utilities through incentivizes to increase capital expendi-ture on renewable energy projects and electrical grid modernization needed to support larger fleets of EVs. Certain European utilities that develop renewable projects in the U.S. could benefit as well. Under Trump, less incentives or tax breaks expected for renewable energy and EVs, which could be a slight negative for regulated utilities as there would be less opportunity to increase capital expenditures and existing electricity generating plants could be kept in service longer.

Transportation

Under a Harris administration, increased regulation could increase expenses for U.S. rail companies via extra staffing and compliance. Under Trump, marginal likelihood that regulations could be decreased but could be offset by increased tariffs on imports which could shift patterns of the flow of goods across the country, likely reducing shipments to West Coast ports.

Water

Under Harris or a Democratic sweep, investments in energy efficient technologies would likely be accelerated and older, lead-based water pipes replaced where every citizen has clean drinking water; this could boost growth rates of U.S. water utilities. Under Trump, clean water would remain a priority, but existing regulations and Environmental Protection Agency (EPA) mandates would likely be rolled back.

Communications

Any change in corporate taxes would generally be net neutral to the tower companies which have elected REIT status and generally do not pay taxes at the corporate level.

Global Real Estate – U.S. election impact expectations

Over the coming months and years, the impact of the 2024 election on U.S. real estate is likely to hinge on three main factors the impact on economic growth, changes in inflation, and the impact of tax policies on property types and regions.

Kamala Harris – Democrat	Donald Trump – Republican
– Listed real estate should remain mostly insulated from the election, although spending policies under Harris could be inflationary and impact certain property types and regions.	– The starting valuations of REITs are different this election cycle and tax cuts on corporations may not have the same negative affect on REITs as they did under the prior Trump administration.
– Pressure could arise on residential rental property if rent control is enacted, which could come in var-ious forms both direct and indirect, and/or new home buyer incentives are introduced.	– Potential regulatory relief could assist business creation and confidence and therefore support demand for real estate.
– Prior personal income tax cuts would likely expire in 2025, and/or higher corporate tax rates could put REITs on a more level playing field with other stocks.	– New tariffs on imports could shift logistical patterns. New manufacturing and warehouse facilities could be needed to support onshoring demand, but major coastal ports (Los Angeles, Seattle, Oak-land, New York, Houston, and Miami) could see lower volume throughputs. Positive overall from onshoring.

Potential impact on real estate investing

We anticipate minimal impact overall on the apartment sector. Rent control or home buying incentives from Harris administration could be a headwind. Easing of regulation by a Trump administration could be tailwind, although could be partially offset by stricter immigration policy.

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Office & Industrial

Industrial could benefit from onshoring demand. Global trade patterns could be affected by new tariffs and supply routes would be altered, but there would be winners and losers. Industrial could benefit if tensions with China are eased which could help economic activity and increase demand for industrial space.

Healthcare

Minimum staffing requirements for skilled nursing facilities are likely to go away under either administration, easing cost pressures. Any significant movement away from private pay towards Medicare/Medicaid rates could test profitability and solvency for many skilled nursing facilities and hospitals.

Retail

Higher minimum wages or higher personal income tax rates could hurt retail sales and place pressure on retail properties, but generally the election is unlikely to have a direct or meaningful impact on retail and mall property owners.

Other

Data Centers and Cell Towers should continue to benefit from long-term secular tailwinds and are likely to see minimal impact from the election outcome.

Commodities – U.S. election impact expectations

We expect fundamentals to drive performance as external factors subside. With no clear favorite to win the presidency, we highlight potential differences of the candidates within the commodities and natural resource equities market.

Kamala Harris – Democrat	Donald Trump – Republican
– Most likely that the status quo for policies are maintained and less radical new actions are taken.	– Tariffs would serve as bargaining chips and could be very relevant for agricultural commodities, as new import quotas for American agricultural and livestock commodities are likely to occur
– U.S. crude oil production grew and hit new all-time highs under both the Obama administration and then again under Biden. Likely that a Harris admin-istration could see the same.	– Would likely support policies of encouraging U.S. production and export of crude oil and natural gas, with more stringent policy on Iranian exports of crude as a punitive measure for Iran's nuclear and foreign policy.
– Under Harris, regional carbon cap and trade schemes could continue to grow, but unlikely to see a national scheme without a Democratic sweep; a "Carbon tax" could pose risks for energy sector.	– New administration likely would de-emphasize conversion to electrical vehicles (EV) and investments in renewable energy. Vehicle fuel efficiency requirements and environmental regulations likely to be curtailed as well.
– Carbon-free goals by 2035 likely to continue, but the EPA's ability to make rules is significantly lessened by the Supreme Court's recent decision to strike down the Chevron precedent – Reduced emissions through public transit, electric car adoption, modernize electric grid systems	– Expansion of the "natural resources nationalism" policy for strategic material such as copper and steel would increase isolation towards competing economic powers such as China, or even Europe.

Potential impact on commodities investing

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Metals & Mining

Given the uncorrelated nature to equity markets, precious metals could benefit under a Harris win, and even more so under a Democratic sweep, supporting commodity prices as well as mining stocks. Tariffs under a Trump administration could serve to promote domestic steel production. However, the IRS provides tax benefits for domestic steel demand, and the additional demand could disappear if Trump and the Republican party cut funding to the IRS, offsetting the benefits from tariffs.

Energy

The trajectory of oil prices remains uncertain, though a Harris win may initially be perceived negatively for oil and energy-related equities given the continuation of the clean energy agenda. A Harris administration would also be less likely to implement new punitive measures against Iran. Permitting requirements under a Trump administration would likely be eased, although crude production did not experience significant growth under Trump prior presidency despite public sentiment and political rhetoric.

Agriculture

Under a Harris administration, we expect continued funding programs to support farm businesses, though the focus may shift towards small and medium sized farms. During the prior Trump administration, U.S. and China reached an agreement for more U.S. grains to be shipped to China and we believe similar measures may take place again. Regardless of the election outcome, agriculture commodities are likely to remain under pressure.

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