



Video Transcript

Willem Sels: Welcome everyone to this Think Wealth Client Connect webcast where we have a look ahead at the US midterm elections. Now, those elections are being held against the backdrop of quite a lot of news – stubborn inflation, ongoing Middle East conflict, ever higher government debt, the growing debate around the effects of AI – with concerns ranging from high electricity consumption by data centres to concerns over AI breakouts, and the need for global coordination between the US and China on AI.

Today's webinar will cover the key issues that could determine the election outcome, how markets typically trade ahead of the elections, and what different scenarios around the election outcomes could imply for markets and policies.

And to do all of this, I'm delighted to sit down with our two speakers today. Clarke Camper is our guest and he is the Executive Vice President and Global Head of Government and Regulatory Affairs at Capital Group, one of our key fund house partners. Prior to joining Capital Group, he was at the NYSE Euronext and at GE Capital. And to be close to the action, Clarke is based in Washington, although today he's in London, he tells me.

And I hope that you all know our second speaker, Jose Rasco, who is our very own US Chief Investment Officer. He is based in New York, so he has woken up very early to be with you. You've probably seen him on Bloomberg or in the US Financial Press. Thank you, both gentlemen, for joining me in this webinar.

Now before I start, just a few practical comments for our clients. Today you are joining both from Zoom and from Streamlink. So, for clients joining from Zoom, there is an option to listen to this webinar in two languages, English and Mandarin. Please select your language preference using the options available on Zoom, but please note that the official versions are in the English version. Also, for clients joining through Zoom, you will notice a Slido QR code on the bottom right, which you can use to ask questions anonymously. And Streamlink clients should have a Q&A button on your screen on the bottom left and a Slido QR code on the bottom right.

So do send us your questions and we will try to answer all of them in the second part of the call. This call is by invite only, it's not constituting any public offering or

advertisement for products and services. The information is not a recommendation or advice.

All opinions expressed by our guest, Clarke, are of course also his opinion and do not necessarily reflect the opinions of HSBC. The webinar will be recorded. The meeting is held under Chatham House rules, which means that you can use the information received, but without revealing the identity of any speaker. And so with that out of the way, let's start.

Now Clarke, I think all clients want to know whether the Democrats will take back the House and/or the Senate. And to assess the chances of that happening, we first need to know what really matters to voters. So, what are in your view the main issues which will determine this election? Is it the cost-of-living crisis? Is it the Middle East conflict? Is it the deficit or is it just a matter of money? Which party can spend the most on the elections?

Clarke Camper: Well, thank you Willem and hi everybody.

The way I think about the election is slightly different and I believe that it hinges on the answers to three big questions. First question is who's more unpopular, President Trump or Congressional Democrats? Clearly, as Willem said, President Trump is unpopular for many reasons. His approval rating in many polls sits in the low 30s, which is historically low.

However, as the old saying goes, you can't beat something with nothing. And Democrats brand is also toxic. For the most part, its brand is about the same in terms of approval, about 30%, which also is historically low going back to the 1990s for any political party.

Second question on which I think the election hinges is the extent to which wave elections are still possible. The idea of a wave, you know, is one party overwhelming the other party. In 2010, for instance, President Obama, his first midterm election, Republicans won 63 seats.

Flash forward to today, there are only about 20 seats, 20 toss-up seats available. And that's largely because of gerrymandering, the idea of manipulating congressional districts in the House to create an outcome, favorable outcome for one party or another. So again, it's unlikely that a wave election by historical standards is going to be all that notable.

The third question I think on which the election hinges, and you mentioned it, Willem, is the extent to which Republican cash matters at this stage. As a general matter, Republicans have about twice as much cash to spend at this point than Democrats. They're pouring money into competitive races, \$200 million, for instance, in Texas alone, which again is historic.

But as we know, cash does not always ensure victory. Famously in 2016, President Trump had much less cash than Hillary Clinton, and yet we know the outcome there. So, when do we know the answer to these three questions? I think it's still a bit early.

I'd rather it be Democrats at this point, particularly in the House, but give it a couple more weeks. Let's see how this plays out by mid-October, then I would start feeling like many of the polls are meaningful.

Willem Sels: So very interesting, because I've heard a few commentators mentioning that there is a higher rising probability of that wave. And when you look at prediction markets as well, betting markets, they seem to suggest that it is almost a done deal, which you are saying is not the case, and so be a little bit more prudent. So, what are the states to watch?

Clarke Camper: Sure. Yeah, I would say, particularly in the House, as I mentioned, there are only about 20 toss-up seats. However, it almost certainly goes Democratic, because Democrats only need to have a net win of three seats. So again, House goes likely Democratic.

However, the Senate is much more interesting and more susceptible to a wave. That's because, as you may know, senators are elected by entire states, so you don't have the ability to gerrymander a particular state. Just by luck of the draw, the map is very favorable to Republicans this time.

I would say, in terms of your question, Will, about states, I would say watch two states, both of which Democrats should win. One is Maine, where you have a very vulnerable Republican incumbent. The other is Michigan, where you have a relatively weak Democrat, in terms of a candidate. Democrats should win both those seats. And also, by the way, we'll probably get to this later, both of those states sit right next to Canada. So, President Trump's trade activities against Canada do not help Republicans in those cases.

But if Democrats lose both Maine and Michigan, they have to win at least four seats across the country in which President Trump, and those are four states in which President Trump won by double digits in 2024. So those are predictably red states, as we call them, Alaska, Ohio, Iowa, etc. Texas, as I mentioned before.

So again, watch those two states, their bellwethers, Maine and Michigan. So given that it is still a tight race and an unpredictable race, the temptation may be for Trump to try to come up with some grand announcements and still do something ahead of the election. And I wonder what that could be.

Willem Sels: So, Jose, do you want to take that question first? Do you expect any sort of, you know, market moving announcement still to happen before the election?

Jose Rasco: Well, thanks, Willem. And welcome, everyone. Look, I think, number one, it's important to keep in mind, you know, I remember years ago, Willem, sitting and watching the Brexit polls with you.

And so let's be careful about what we predict with polls. But more importantly, I think it's pretty clear that, you know, like Clarke said, both parties are suffering with some very unpopular views currently. So I think President Trump has talked about potential stimulus checks, if they win both houses of Congress, right, which would be tremendously costly.

I mean, that's a lot of money, and it would not be a good thing for fixed income markets, right? He's also talked about data centre energy taxes, which is an interesting new wrinkle. So as you mentioned, Willem, a lot of states, we have seen that where there are hyperscalers being built, we're seeing that electricity prices are going through the roof and consumers are pushing back on that. So President Trump has talked about forcing the hyperscalers to either pay for their own energy, or to put a tax on them to lower electricity prices in the state in general, right? Now what I know they're also trying to do some co-location stuff with energy, where they will put the energy in the data centre complex.

But that's a little, that's going to take more time to build out. So I think those are the two biggies. But remember, historically, the key metric is, there are two, right, from the economics perspective, it's the unemployment rate and wages, and wages are still growing at a healthy rate above 3%.

The problem is that inflation is now rising faster. So he may also try to do something to reduce gasoline prices. There has been talk of that as well.

Yeah. So, yeah. Yeah.

Willem Sels: So, the misery index, indeed, as we call it, is the sum of unemployment and inflation. The unemployment is good, it's at a low rate, but the inflation is the issue. Clarke, anything that you still expect ahead of the elections or, you know, grand announcements that could come and move markets here?

Clarke Camper: I'd say two things come to mind. One is, Jose, you hit it. One is budget busting proposals. It was interesting to me, this idea that, as Jose mentioned, that President Trump said every adult in the US would get \$5,000 if Republicans won both the House and Senate.

That, by most estimates, that'd be \$1.2 trillion or more. And it was interesting to me that markets didn't seem to react. Now, that may reflect the fact and understanding that would have to be passed by Congress and is exceedingly unlikely.

But again, I think we might see more of where that came from. The second thing that I would watch is some kind of election-related activity that could unsettle markets. For instance, President Trump has hinted that he might call the military or ICE or the National Guard.

I'm not saying those things will happen, and opinions vary about the credibility of those kinds of threats. But smart people that I respect do think that there's some chance that that would happen, and I think that could possibly have market impacts. Yeah.

Willem Sels: So, let's turn to the market analysis, Jose. You've done analysis of historical patterns and what happens to markets ahead of the election. So, let's look at that first.

What are those typical patterns, and are they likely to repeat themselves in the cycle given the discussion that we just had?

Jose Rasco: Well, extremely likely, right? Because historically, when we go through election cycles before the election, we see a fair amount of volatility. Everybody knows that September tends to be a tough month for the equity markets, and it has been so because mostly that's the end of the fiscal year for the federal government, and we

tend to have budget battles. Those have been delayed till after the election, thankfully, but we do expect to see some volatility here as we head toward the elections.

But remember, we're also seeing some uncertainty, and this is partly a political debate, right? A lot of people have pushed back on the growth of AI, which President Trump has come out vehemently opposed to. And most smart people are saying, look, we need to put guardrails up, but don't limit the speed at which it grows. But that's become a political debate now as to whether you want to go full bore on AI or if you want to scale it back.

And in many states, that may have an impact because a lot of states, like New York State, has put a one-year moratorium on the building of any data centres, which isn't necessarily probably the smartest thing to do in a business that's going to provide a great deal of growth, but to each his own. So I think from the market perspective, look for volatility after the election. We'll reprice markets depending on how the election shakes out, and then I think we should look for a year-end rally.

And don't forget, as we go towards the third year of a presidential cycle, it tends to be the best year for equity market performance. So we'll look later on at what happens after the election.

Willem Sels: So I'm still looking here at the main topics, and indeed you highlight AI.

So Clarke, how is the policy on AI different between Republicans and Democrats? I know that Trump wants to leave it quite free and has his opinion, but how do Democratic senators and Republicans feel? Is it very different or is there a consensus, really?

Clarke Camper: It's a very interesting issue because it's one where the response is not as clearly delineated along partisan lines as you might expect. Up until a couple months ago, Democrats generally were the ones who were concerned about growth of AI, wanted to have some kind of guardrails or limiters. Republicans, by and large, are with President Trump in terms of let the market freely operate.

You're seeing that scramble, though, as Democrats are particularly pushing, continue to push the issue, and it's coming through with what many Democratic consultants are saying, talk about AI, talk about people's fears, voters' fears, talk about the need for protections. And though now you're seeing some Republicans, particularly in Ohio, there's a situation where a Republican senator incumbent who's running for reelection

is scrambling because in the past he's been very pro-data centre, and now he's scrambling with the help of the Republican Senate to try to pass some kind of legislation that would show, again, at least a little bit of restrictions. So going forward, my guess is this becomes relatively bipartisan.

You'll have a centrist group of both Democrats and Republicans who actually do want to do something on AI. At this point, it doesn't look like the president will go along with them, and he would likely have the veto authority, but it's a fast-moving political landscape.

Willem Sels: Bipartisan, that sounds very interesting because we don't often get that. So, it brings me to the situation after the elections, right? So, you have a number of scenarios, I guess the three main scenarios, given that the president remains in place. So then the question is, if we assume that the House has the highest probability to shift to Democrats, that could shift, or you could have the House and the Senate shift to the Democrats. Jose, do you want to talk us through the market implications of those three scenarios?

Jose Rasco: Well, I think if you look at the market implications for the status quo, let's call it, if the Republicans were to keep both houses of Congress, which as Clarke mentioned is not likely, they're probably going to lose the House.

But I think if that were to take place, I think you'd continue to see a pro-business environment from President Trump. And I think Congress would probably be supportive of that. And then you'd continue to see a great deal of work around tariffs and trade, which have been somewhat unsettling in terms of markets, obviously.

There are rumors, and this could also be a wildcard. Well, there are rumors that there is better news coming on the Mexico side of the USMCA conversation. And then even Canadian talks, it looked like they're going better.

So, and if, you get gridlock, I mean, clearly not a lot will take place. President Trump will have to resort to executive orders on certain issues where that can be used. And I think Congress will do their best to try to reduce deficit spending, although they do want spending on some social issues.

So, I think for the bond market, I think gridlock would be good news, because it might result in the expectation of lower deficits, which could be somewhat, you know, alleviating for the bond market woes about where the deficit has gone.

Willem Sels: And so when you get in the extreme scenario where Democrats have both houses, the House of Representatives, as well as the Senate, does that then change anything vis-a-vis just the situation where the Democrats only have the House?

Jose Rasco: I think for the markets, you know, the Republican sweep would be good for equities, whereas gridlock would be good for both markets, right? Because I think you have less noise. And I think the same would be true if the Democrats were to sweep both houses.

I don't think it allows them to do more, right? But of course, President Trump, as Clarke mentioned, has the veto behind him. So they'd have to have sweeping legislation, which in Congress has been really tough to do in the last, God knows, 20 years. And so I think for the markets, the gridlock would probably be the best scenario.

Willem Sels: Yeah. Okay. Clarke, do you want to add anything here? Any sort of different views or additional points you want to make?

Clarke Camper: Yeah, thanks.

So I'd say two things. One is, look at the lame duck session. If Republicans lose one or both houses, you know, will that cause Republicans to decide to kind of go for broke in the lame duck session? And that's the session between the election and when the new Congress is sworn in at the beginning of the year.

Is it possible, excuse me, is it possible that Republicans do things like pass a debt ceiling limit, for instance, or pass a spending bill that has a gigantic Pentagon increase? And I'm not saying, you know, a defense spending increase, not making a political comment, just an analytical one that you could see more activity than you might otherwise expect. However, the bigger point, and here I'm a bit of a contrarian, is I don't think it really matters at the macro level, if Democrats control one or both houses of Congress. And I say that because so far, as Jose reflected, Congress has been largely irrelevant, particularly during this Trump term.

Trump is also never so powerful as when he has a defined enemy. And so I think if he has Democrats to really shoot at, again, if anything with his base, it makes him more powerful. I also think that as a general matter, so much activity, particularly, Willem, you're sitting in Beijing, I'm here in London, outside the US, I think Trump will become

maybe more Trumpy, if you will. That's where his activity can be mostly unfettered in trade, tariffs, whether things actually happen, his, the proposals and disruption will continue, in my view.

Willem Sels: Yeah, let's get to that. And you mentioned that I'm sitting in Beijing. So we certainly want to address also for the many international listeners that we have on the call, the foreign policy topic, where obviously, the President has been very active on trade, on military action, on geopolitical moves.

So how could the elections influence these points, knowing that the President typically has most of the power and Congress has limited power here? Does the election outcome matter at all?

Clarke Camper: Yes, sure. It matters around the edges, I think, but largely for domestic consumption. So from an international perspective, my view is it doesn't matter a whole lot.

One way I think about President Trump is I call it the Trump leverage model. He is amazing at getting leverage over a counterparty. So whether that's a person, a country, a party is phenomenal.

And so that part is, you know, it's very transactional, that part is what most people know well. However, what I think oftentimes gets lost is, in the Trump leverage model, it never stops. You know, people say, where does this end? And my view is with President Trump, it doesn't end because the leverage model has to continue, which is why you see constant disruptions, and you see returns to some of President Trump's greatest hits, I like to call them Greenland, I think that's probably going to come back at some point, NATO, etc.

So in my view, that's where I think the international landscape does not change a whole lot. Will Democrats, if they are in control of one or both houses have more of a platform to criticize? Absolutely. Will they try to investigate the administration? Absolutely.

But again, I think that President Trump will ignore most of those efforts and outside the US, the macro level will see few changes.

Willem Sels: Jose, do you share that view?

Jose Rasco: I, more or less status quo because you know, no agreement on the fiscal side that is easy to find. And then on the foreign policy side, he would just continue.

Well, don't forget, Willem, I think President Trump probably knew this was coming. He probably knew he had two years of functional presidency and two years, you know, midterms, we tend to go the other way in this country. That's how we do it.

So I think he knew he had two years, he got most of his legislative agenda on the table early, which probably was smart politically, right. But I think if you, as Clarke said, I think a lot of the international and we didn't touch about on geopolitics. One of the things that Democrats have warned about is the War Powers Act and trying to put an end to some of the American involvement in different geopolitical events and wars around the world.

So that could also come into play now. So I think that that's something to keep an eye on.

Yeah, but mostly his effect would be international. Yeah. Yeah. So and a continuation there, but maybe some limits on the spending on wars and so on.

Willem Sels: So let's turn back to the markets and make it practical. We published our fourth quarter investment outlook just a few weeks ago and we called it AI-celeration, and with a risk on tone clearly with an overweight in the US in technology, and then believe that earnings will continue to drive equity markets.

And also thanks to the structural trends, including AI innovation, the build-out of energy security and resilience, re-insuring and so on. When you look at those drivers for our optimism, does the election matter? Does it in any way, shape or form affect those pillars of support?

Clarke Camper: You're asking me?

Willem Sels: Yes. Yeah.

Clarke Camper: OK. Yeah. So I think, you know, I think if you look at the American economy right now, we're in a situation where given higher interest rates and we've seen higher interest rates in four of the five big debtor regions, right? The US, Europe, EU and Japan.

China has been the lone exception. But I think we've seen higher interest rates, especially at the long end. And I think that will continue to affect markets.

But if you look at where the economy is, those higher rates should mean slower cyclical spending, right? That means the consumer and washing machines and cars and things like that.

Right. But, overall those large themes, those secular themes of reindustrialization of the US and the AI and tech revolution, those remain very hot, Willem. And I would argue those are not just US themes.

In Europe, they're reindustrializing. In parts of Asia, they're reindustrializing. So I think both those themes really do fit across the globe.

And I think they continue to drive growth and they're both good for markets.

Willem Sels: Yeah, absolutely. And Clarke, do you share those themes generally? And are they affected, in your view, by the election outcome, the different scenarios?

Clarke Camper: No, I broadly agree with Jose.

I do think looking at one of the macro issues, obviously, is US debt levels, something that is no surprise to anybody, I think, but bears repeating, which is that no one in Washington is really serious about reducing the debt. I have a good friend who runs an organization called Fix the Debt.

And she's been doing this for like 15 years. And I keep saying, how's that going? So that's just something to be aware of. One other thing I wanted to mention with regards to the Fed and Treasury, we all have a lot of concern around Fed independence.

Thankfully, I was fortunate, I went to law school with Kevin Warsh. And he is a really solid person, as you've seen. I believe he's going to navigate the politics with President Trump, as well as doing what he thinks is right.

And so I feel like we're going to have an appropriately independent Fed. I do worry, interestingly, about Treasury capture, if you will, because Secretary Besant, not again, trying to make a political comment, but it does seem that he is doing, you know, market interventions that some people are not comfortable with.

Willem Sels: So is there any upside in terms of the credibility of the government's debt trajectory in any of the different scenarios, Clarke? And I will come to Jose later.

Clarke Camper: I don't see a lot of upside. So, I want to be clear, Jose is, you know, the expert in markets, but politically, yeah, the, you know, it's an age-old story. Politicians everywhere do not want to give voters bad news.

There's no way to sort of fix the debt situation that doesn't involve bad news. I will say, I think the Trump administration doesn't get as much credit as they should. Sometimes people say, oh, they don't have an economic policy.

Well, I do think a through line is very much that their aim is to try to lower interest rates so that they pay less on the debt. And that allows us to lower the deficit. But bottom line is, there really is no free lunch here.

And I believe we're going to, it's going to take some kind of crisis. I hope not. I hope I'm wrong. But I think some kind of market crisis is what it's going to take to shake US policymakers into their senses.

Willem Sels: Jose, what's your view on that debt trajectory path? Is there a scenario that looks better than another scenario in terms of the debt profile?

Jose Rasco: The potential for the gridlock or the democratic sweep does offer some solace because they might push back on some of the spending. But, you know, a lot of the budget military spending is already baked in the cake.

You already got that 1.3 trillion dollar budget months ago. So, you know, I think part of the question is, as Clarke mentioned, it is a US problem, but it's not just a US problem. Like I mentioned, there are four other parts of the world that the markets have been punishing, those fixed income markets as well.

So bottom line is, yeah, if President Trump maintains the Republican sweep, then we run higher risk. And I think the markets could price that in. Other than that, the other two scenarios, I think we have some solace, but not a lot to Clarke's point.

Nobody wants to deliver bad news. It doesn't get you elected.

Willem Sels: Indeed. And post elections, people wouldn't get more courageous to deal with it because they have two years where they can be in office.

Jose Rasco: Yeah, I fear not.

Willem Sels: Yeah, it's an optimistic scenario. I want to weave in the first client question here and we'll come to the client questions. But the client question is as follows. Gridlock is often seen as a positive, as you've mentioned around risk appetite. But in the current environment, would the inability to address the debt be a major concern and therefore turn this into a bearish scenario? I think your view is that there is no chance really of addressing that debt pile anyhow in any of the scenarios.

Clarke Camper: Well, look, yeah, no, I think it's hard to see a deficit. Remember, one of the reasons we saw surpluses during the Clinton administration was because he was smart enough to recognize, let the Internet roll. Let's see what it produces. And the economy did very well.

We saw productivity go from a negative number to almost 5 percent by the end of that, you know, that period. Right. Valuations got out of control.

That's a different story. And we're not seeing that today. But I think deficit reduction is going to be hard.

But I think it's important to, one of the things the Trump administration has tried to do is be more business friendly, allow those wild spirits or those animal spirits in capitalism to roll. And we've seen a tremendous injection of capital. So that's a positive.

Those are all positives. Right. And to Clarke's point, and this was echoed by the Biden administration with the CHIPS Act and other things in investment into the US, which has all been positive.

The deficit is a problem, but I don't think it's enough to derail the secular drivers. And remember, during the 90s, the Fed funds rate averaged 5.3 percent. And, you know, these secular drivers just kept chugging along.

So. And AI is far more powerful than the Internet. There we go.

Willem Sels: So we've come to the client questions and the first, you know, the first client question beyond the bonds market question is around AI. So it goes like this, you know, data centre opponents are growing louder amongst the voting public with all of those concerns around electricity costs, not in my backyard, etc. So in case that, you know, it is seen as having had a major impact on the election results, can this become a real threat to the AI trade soon?

Clarke Camper: I would argue no. I think that the drivers of this are huge and it is heavily integrated. It's a global theme and it's not something that's going to be derailed by I don't, there may be some more guardrails put up and regulatory efforts put, you know, but look at what's happening in crypto.

They still can't get together on the Clarity Act or amendments to it to try to get it through, which we desperately need to get done, right? And that's been quite a while.

So I think AI will continue. You may see some more guardrails, but I think it continues to grow. And I think the trade, now, remember, we've repriced this trade several times. The biggest problem with the AI trade is it's too strong. It's too hot. That has created logistical bottlenecks in terms of energy, the regulatory environment, utilities, materials like copper and cement, not to mention workers. You don't have enough people to weld. And so we see a bunch of logistical problems that have really caused a slowdown in the market.

And remember, the chairman of NVIDIA, the CEO of NVIDIA came out two years ago and said, you will not see accelerating growth rates forever. They will top out and slow. And that's what we've seen.

So I think that no, I think it continues. But I think you'll see more regulatory help. And it's not a bad thing to regulate something, right? Especially AI, which, but I think in general, I think the trade continues. The adoption continues.

Willem Sels: But as you're saying, there is a bottleneck in some areas, especially the data centres, the chips and the electricity, which are therefore areas that we like because we're in a strong position as a company or as an investor in that area. I wanted to bring you in, Clarke, because, you know, Jose has given his view already on another client question, which is very similar. And it goes like this. In case of a blue sweep, can Democrats realistically slow the data centre approval or construction?

Clarke Camper: Yeah, I agree with Jose. I think unlikely. There may be some changes around the edge. But I love Jose, your analogy to crypto, where you have a lot of people who want to do something. But as I said, that might be bipartisan in terms of both Democrats and Republicans.

Deciding what that something is, is exceedingly difficult. Getting enough of a coalition behind any particular approach, getting something that President Trump can sign is very, very challenging. So I don't think that Democrats would meaningfully change the regulatory landscape.

One thing that is important to note, I think, is that the AI companies have become smarter about the way they are engaging with policymakers. Some cynic might say that the recent call for more regulation falls along the lines of what I just described, where, hey, everyone jump in. We need to do some regulation.

That takes some of the political steam away from those who are worried about the situation. But actually getting something done is another story. One subjective data point, but I have a friend who lives in Texas, who was just hired by OpenAI to try to work with community groups and see the ground, literally, for growth of data centres.

Now, again, that friend has a challenging job, more challenging by the day. But to me, it reflects an understanding with OpenAI, and I'm sure the other firms too, hey, we need to work this much more like, you know, in terms of community engagement, much more like other companies do over time. And that has been missing here before.

Willem Sels: Yeah, indeed. In terms of the topics that matter for investors, so we mentioned the cost of electricity, the inflation and so on. One question is around the current situation in Iran.

And so, Clark, what is the, the question goes like this, what is the perception amongst the voting population about the current situation in Iran? You know, with Trump claiming things that the client says have not happened. So, you know, he was talking about a quick war, US control of Hormuz, etc. You know, how much does the voter focus on this? And how aware are they? Do they have a clear picture of it?

Clarke Camper: Yeah, I think President Trump's decision to enter this phase of the war with Iran is the most consequential of his first and second terms. So far, American public is wildly against it. I don't think you know, the question, how much are people really aware of the specifics of what's happening or the actual consequences? Maybe not so much. But various polls show, you know, 70% of the public disagrees with the with the decision to go to war.

Interestingly, the Wall Street Journal had a piece a few days ago, where they looked at MAGA friendly, you know, Make America Great Again, friendly podcasters. And up until the Iran war, this phase of it in February, President Trump was mentioned, you know, numerous times, as you would expect, since that point, mentions of his name have dropped off precipitously showing that it really has fractured a lot of the MAGA base. And, you know, they understand, the podcasters understand that the more you talk about it, the worse it will get in terms of support for President Trump.

So again, I think the public is broadly opposed to the war. Yes. So clearly, given that we have described many of the three scenarios and are actually putting, you know,

seeing limited impact in a certain way, because foreign policy continues, you know, the gridlock as well.

Willem Sels: Continuation, obviously, of the current situation, in case the Republicans are remaining in control, looks for continuity. But even in a gridlock situation, you also have a degree of continuity, certainly on the fiscal space, given that we've sort of tempered the expectations of the impact that clients are looking for tail risk scenarios. And so the question here is, you know, what is the best guess for an October surprise, so ahead of the elections, in terms of policy, in terms of announcements, maybe in terms of candidates as well, in particular states making certain announcements? Maybe I start with you, Clarke, and then I go to Jose.

Clarke Camper: Yeah, tail risk. I actually think it's very challenging to have an October surprise if you're President Trump, because he surprises all the time. So I don't know that there could be a surprise that would have any more impact than anything we've talked about here.

When you move to specific candidates, it is quite different. You're seeing individual Republicans, very strong supporters of President Trump, who are coming out against his terror policies, his immigration policies, the war. So there, I think you will see more of that.

But at the macro level, I think, your imagination is the limit in terms of what President Trump could say. But would it matter? I'm skeptical.

Willem Sels: Jose?

Jose Rasco: Well, yeah, I agree. And look, to have a surprise, Willem, you need to be able to keep a secret. And I think he's not good at keeping a secret. He says whatever's on his mind pretty often.

So that's a problem for him. And I think more importantly, I think he's floated some of those ideas already. And I think you could see some efforts to try to get those done in October, which is the energy tax on the hyperscalers, which is not inappropriate, because they're using an inordinate amount of energy.

And secondly, would be those stimulus checks, which, to Clarke's point, would really upset the fixed income markets, as that's between 1.2 and 1.8 trillion in deficit spending that is not going to do a heck of a lot to keep the cyclical side of the economy floating or doing well. But it's important to remember the other side of this.

Well, on the consumer side, they've done well with the markets, and they've done well with IPOs.

And we've seen that consumer incomes, and if you look at second quarter flow of funds data, it was a great quarter for household incomes, huge. And household net worth in the US is one of the best quarters we've ever seen. And that inflow of capital from abroad has resulted in job growth.

So whether the economic policies are discernible or not, they seem to be working at a ground level, at least, and that could help mitigate some of that. But I don't see a lot of surprises other than those two.

Willem Sels: Final question from clients to you, Clarke, which is around the cost of living crisis. Who and what do they blame? Do they blame mostly the war, or is it you know, the tariffs? And do they blame Trump directly? Or is it do they see it as, you know, global events that affect, as we said before, you know, other countries in the world as well?

Clarke Camper: You know, I saw another Wall Street Journal poll over the weekend, I noticed it really crystallizes for me. 70% of respondents said that President Trump's policies had made the economy worse. So, which is an astounding number, when you dig into that. Again, I don't know that that the average voter understands a lot of the specifics, although truly more than you might expect. Tariffs make, have made a big difference the cost of gas, and running that through to the impacts from the Iran war.

So I do think that there's a general understanding, which leads to that 70% number I mentioned, it is so interesting, when you dig in more, the MAGA base still is more likely to support President Trump, even with regards to economic policies. I've seen that more of the MAGA base, again, these are his strong supporters, believe that he has done good for the economy, rather than hurt the economy. So again, he has a solid base of support that I personally don't think is going to go away.

We didn't touch on what's to come in the future. But I'm bullish on JD Vance in 2028, for instance, because I think there is a strong floor of supporters from President Trump that will stick with him. But again, overall, yes, there's a general understanding that President Trump's policies have been very harmful in terms of cost of living.

Willem Sels: Fantastic. And just now you've volunteered JD Vance for the Republican side who will be on the Democratic side.

Clarke Camper: Oh boy, yeah. You know, so I would look at the usual suspects, the governors, for instance, Bashir in Kentucky, you know, Pritzker in Illinois, Shapiro in Pennsylvania, however, and then you also have some others like Rahm Emanuel, you may know, not as well known, certainly a dark horse.

But the most important thing is, if you look historically at who would be president, if you looked at who was ahead in the nominee race at this stage of an election, you would have thought people like Rudy Giuliani would be the Republican nominee in I believe, like 2005, 2006, Newt Gingrich. So again, I think it's, you know, I always call it bar talk, but it's fun to sit around with friends over drinks and talk about who might be the nominee. But that's about what it's worth, because at this stage, it's not meaningful to make real, you know, assessments.

Willem Sels: Exactly. Fun, but way too early. So let me summarize, you know, the messages that I have taken away.

You know, firstly, as you say, there is a solid block of support in MAGA and other areas for support for Trump and for the Republican Party. So don't jump to conclusions on the election outcome. Elections are important for domestic policy, but the gridlock may mean that there is not a huge amount of change there that can impact the markets.

As for foreign policy, we may get also continuation of the uncomfortable and surprising headlines. But as we've seen, markets are getting used to this with progressively less and less impact on markets. So our strategy continues to be driven by the analysis of earnings momentum and of those longer-term trends, such as AI, re-ensuring energy independence, which Jose has confirmed will remain in place regardless of the election outcome.

So that's our view. The headlines will create some volatility, probably, but markets have been facing a lot of headlines and uncertainty recently, and they have been resilient in spite of that. So they should probably be able to weather some election uncertainty as well without seeing a very pronounced dip.

And finally, keep in mind that the clarity after the elections, as Jose mentioned, historically leads to strong markets. So we don't think it's a good idea to significantly reduce risk ahead of elections as you could then miss the rebound. Now, with all of that, all that remains to me is to thank you, Jose and Clarke, for all of your insights and for sharing your very deep experience.

It's been very timely and gives us some direction in this fluid situation. And to our clients, thank you all for listening. I hope this was helpful, and please do contact your RM, your IC, your investment teams, so we can help you during these uncertain times.

This concludes the call. Thank you very much and goodbye.