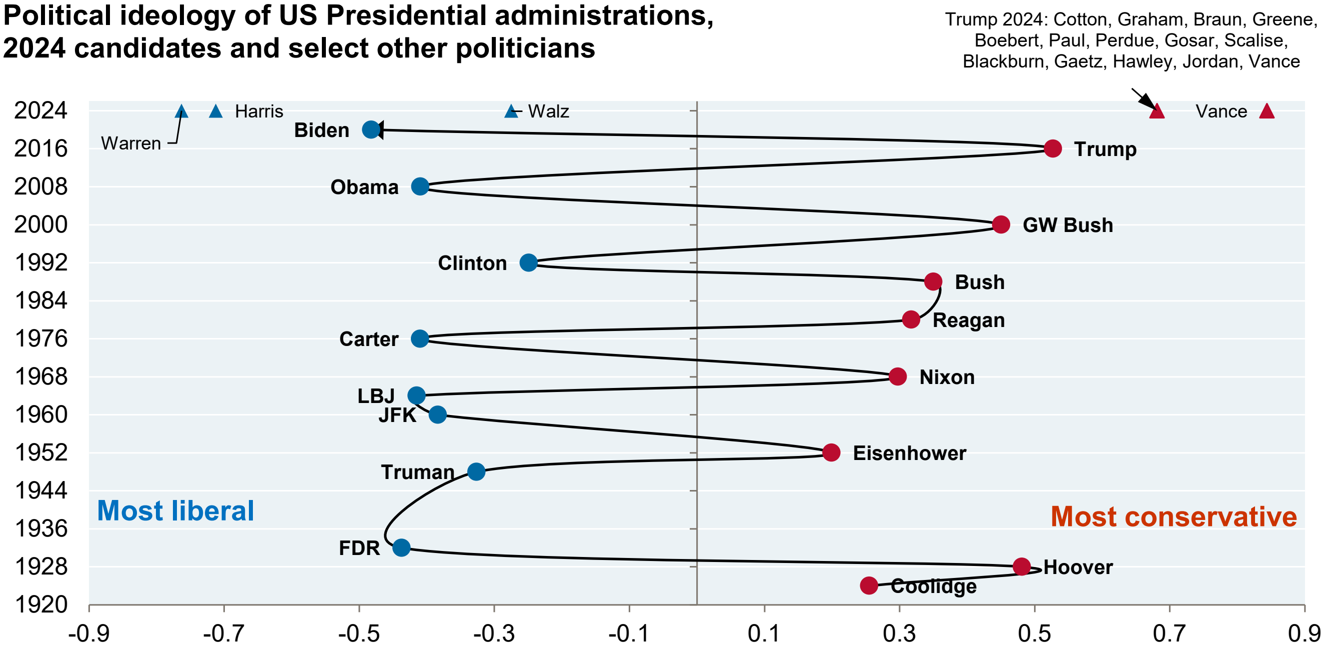
2024 energy paper / US inflation/labor monitor / US Federal debt monitor / US economic monitor

**Mind the Gap: candidate policy comparisons in a historically polarized US Election; China stimulus package**

Every time I think the ideological gap between Presidential candidates can't widen further, the electorate proves me wrong. The chart below is the best way I have to empirically assess how wide that gap is. I use VoteView data, a spatial estimation approach used by political scientists since the 1980's. Each politician's ideology is measured by looking at how frequently they vote with associated blocs. The circles show Presidential administrations while triangles show individuals[1].

**Political ideology of US Presidential administrations, 2024 candidates and select other politicians**




Source: Liberal-Conservative scores derived from VoteView Roll Call data on Congressional voting histories, JPMAM. 2024. See footnote 1 for administration composite details

Since WWII, Harris is the 6th most liberal senator and Vance is the 6th most conservative senator. Senators more conservative than Vance since WWII include mostly sitting members (Tuberville-AL, Paul-KY, Lee-UT, Schmitt-MO), while Senators more liberal than Harris are mostly former members with the exception of Warren-MA and Sanders-VT (when measuring his voting record in the Senate and not the House).

---

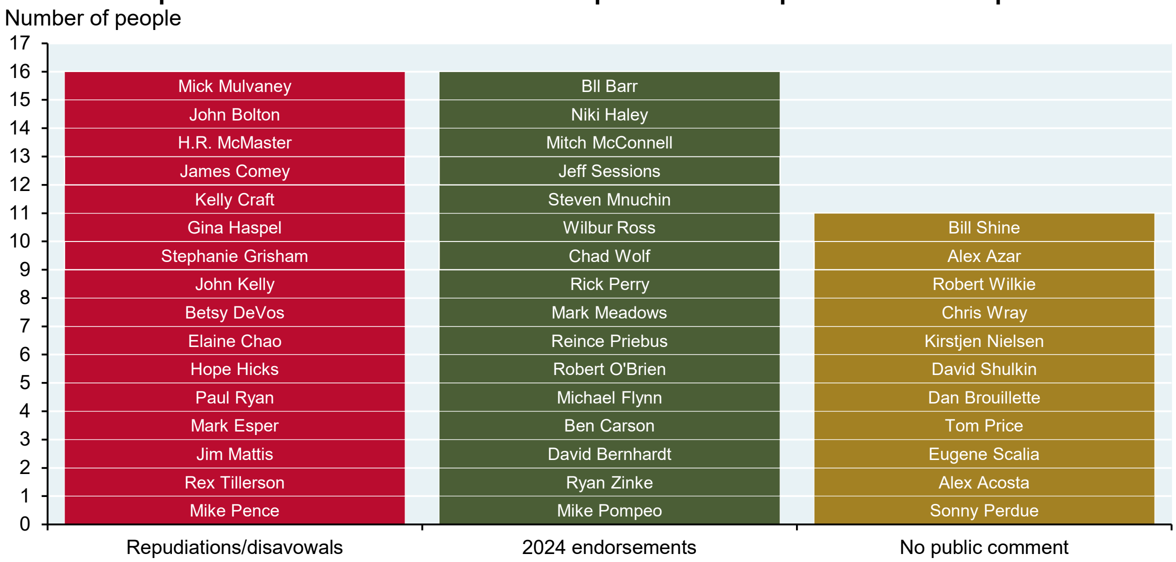
[1] **Presidential composites.** I based each administration's composite score on members of its Executive Branch with Congressional voting history; members of Congress that led passage of its major legislative initiatives; and members that served as proxies for its political and governing principles. Your mileage may vary.

| | |
|---|---|
| Coolidge: | Curtis, Kellogg, Slemp, Davis, Jones (Wesley), Moses, Jones (William) |
| Hoover: | Curtis, Hawley, Longworth, Moses, Tilson, Mills, Watson |
| FDR: | Barkley, Black, Byrnes, Garner, Guffey, McCormack, Robinson, Hull, Rayburn, Truman |
| Truman: | Byrnes, Truman, McCormack, Barkley, Vinson, Rayburn, Anderson, Schwellenbach |
| Eisenhower: | Dirksen, Dulles, Flanders, Nixon, Saltonstall, Adams, Taft, Lodge |
| JFK: | Bolling, Humphrey, Kennedy, Johnson, Mansfield, Kennedy, Udall, Ribicoff |
| LBJ: | Celler, Humphrey, Yarborough, Johnson, Mansfield, Pepper, Gonzalez, Brooks |
| Nixon: | Ford, Lott, Nixon, Sandman, Wiggins, Morton, Rumsfeld, Tower, Dole |
| Carter: | Bayh, Byrd, Hawkins, Mondale, O'Neill, Wright |
| Reagan: | Baker, Bush, Dole, Kemp, Roth, Laxalt, Lugar, Michel |
| Bush: | Quayle, Bush, Cheney, Madigan, Kemp, Martin, Michel, Simpson |
| Clinton: | Bentsen, Gore, Glickman, Gephardt, Ford, Nunn, Robb, Panetta |
| GW Bush: | Ashcroft, Blunt, Cheney, Delay, Kyl, McConnell, Santorum, Rumsfeld, Kempthorne, Abraham |
| Obama: | Biden, Durbin, Clinton, Kennedy, Kerry, Obama, Pelosi, Reid, Waxman, Hoyer, Clyburn, Waters |
| Trump: | Cotton, Graham, Hatch, McCarthy, Meadows, Paul, Perdue, McConnell, Scalise, Sessions, Ryan, Collins |
| Biden: | Bass, Biden, Clyburn, Coons, Hoyer, Pelosi, Richmond, Sanders, Schumer, Warren, Harris |

**What the chart cannot measure.** There are many aspects of a candidate's leadership and governance abilities that a polarization chart cannot measure. This may explain the unusual circumstance in which a large number of senior officials in Trump's first term now oppose his current candidacy, as illustrated below[2].

If you don't believe that political divisions and acrimony have reached new levels, watch this **video**[3] of debate moments between Gore, Bush, Obama and Romney. A lot has changed just in just 10 years. On the issue of political divisions, I have a modest suggestion. Banks often invite CEOs to address other CEOs at industry conferences. My suggestion: don't invite anyone to speak to your clients if you would fire your own employees for tweeting what that CEO has said publicly. Elon Musk is one example that comes to mind. With that, let's look at major policy differences of interest to investors, and at last week's China stimulus package.

**Former Trump Cabinet members and other senior positions: their positions on Trump 2024**




Source: JPMAM, March 11, 2024. Categorizations based on our interpretation of public statements. The information presented is not intended to be making value judgments on the preferred outcome of any government decision or political election.

Contents

Fiscal policy ..... 3
Tariffs and trade ..... 6
Energy ..... 7
Immigration ..... 8
Inflation and price controls ..... 9
NATO ..... 10
The regulatory state ..... 10
Some comments on the Electoral college ..... 11
The China stimulus package, an important turning point ..... 12

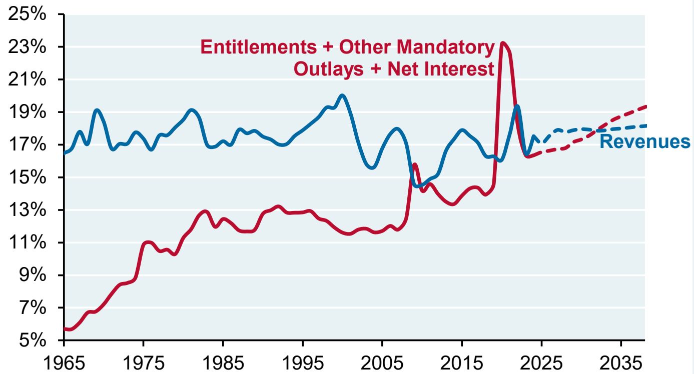
[2] The chart above includes all persons serving in the following positions from 2016-2020: Vice President and 15 department heads in the Cabinet, National Security Advisor, FBI Director, CIA Director, UN Ambassador, White House Chief of Staff, White House Communications Director, GOP House Speaker, GOP Senate Majority Leader. Minimum term: 9 months. **The senior officials in red from Trump's first term are not the only ones opposing his candidacy**: more than 700 former national security and military officials wrote an open letter in which Trump was described as impulsive and ill-informed [*National Security Leaders for America*, September 2024]

[3] Video sourced from @StartsWithUs/Builders, rebroadcast rights conveyed

## Fiscal policy

From a big picture perspective, neither candidate has addressed the crossover point in the early 2030's at which time entitlement spending plus interest will exceed Federal revenues. I have a hard time getting excited about market implications of fiscal proposals when they exist on the margin of a much bigger problem.

**Entitlement spending, mandatory outlays and net interest payments vs revenues,** % of GDP




Source: Congressional Budget Office, JPMAM, March 2024

**The Federal debt under Trump and Biden**

- Dead heat: had nominal GDP followed pre-pandemic projections, and after netting out starting cash balances, debt to GDP would have grown by 15% under Trump and 16% under Biden
- A separate analysis looks at debt approved via legislation and executive actions. Excluding the CARES Act and other COVID relief, Trump approved ~$4.8 trillion of borrowing; excluding the American Rescue Plan, Biden approved ~$2.2 trillion
- Source: Marc Goldwein, Committee for a Responsible Federal Budget

The challenge with fiscal proposals is that tight margins in Congress and the possibility of divided government make them unlikely to be enacted as designed. But let's start there, since such proposals are a good indication of where the country's fiscal position may be heading based on who wins.

**Harris proposals**. The table shows Harris spending proposals on the left and revenue-raising proposals on the right. Even with a Democratic sweep some of this would likely get scaled back, and any excess of spending over taxes would be financed via deficits. Even so, it's a good proxy for the Harris policy of redistribution: increase taxes on the wealthy by $1.3 trillion, increase taxes on corporations by $2.8 trillion and use the proceeds to preserve middle class tax cuts and increase entitlements for the poorest Americans, homebuyers and families.

**Harris spending vs tax/revenue-raising proposals**

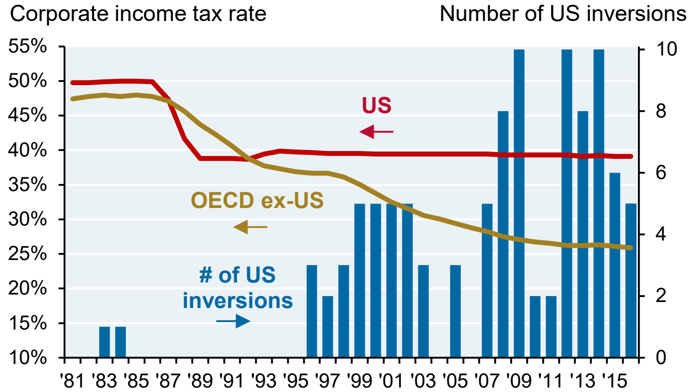
| Deficit increasing policies | 10 year cost (US$, bn) | Deficit decreasing policies | 10 year savings (US$, bn) | Policy type |
|---|---|---|---|---|
| Extend Tax Cuts and Jobs Act of 2017 under $400k | $2,600 | **Specifically proposed by Harris** | | |
| Make Child Tax Credit ($3k or $3.6k) permanent | $1,100 | Increase corporate tax rate from 21% to 28% | $978 | C |
| Child care and early learning | $600 | Unrealized capital gains tax on ultra high net worth individuals | $503 | H |
| Make ACA premium credit expansion permanent | $384 | Reduce cost of prescription drugs | $250 | O |
| Establish national paid family and medical leave | $325 | Raise buyback tax rate from 1% to 4% | $166 | C |
| Cancel medical debt for majority of Americans | $220 | Tax capital gains at death ($5mm to $10mm exemption) | $150 | H |
| Expand Earned Income Tax Credit for childless adults | $163 | 28% tax on capital gains for filers with $1mm+ annual income | $100 | H |
| Improve Medicaid home and community-based services | $154 | | | |
| Exempt tips from income tax | $150 | **Endorsed from Biden's budget** | | |
| $6k Child Tax Credit for newborns | $100 | Increase ACA Net Investment Income Tax to 5% >400k | $404 | H |
| $25k downpayment support for first time homebuyers | $100 | Apply Net Investment Income Tax to active business income | $393 | C |
| Other housing supports | $100 | Int'l bus tax: revise global minimum tax, limit inversions | $374 | C |
| Expand startup expense deduction to $50k | $8 | Limit excessive employee remuneration | $272 | C |
| | | Increased revenue from IRS investment | $237 | O |
| | | Loss limits on non-corp taxpayers, leverage deductibility limits | $144 | C |
| | | Raise corporate alternative minimum tax to 21% from 15% | $137 | C |
| | | Int'l bus tax: adopt undertaxed profits rule | $136 | C |
| | | Int'l bus tax: revise fossil income rules, interest allocation rules | $122 | C |
| | | Close estate and gift taxation loopholes (no basis step-up at death | $97 | H |
| | | Extend mandatory sequester | $90 | O |
| | | Enact excise tax on digital asset mining | $66 | C |
| | | Limit tax loopholes (carried interest, like-kind exchanges) | $63 | H |
| | | Modify energy taxes | $45 | C |
| **Total** | **$6,004** | **Total** | **$4,727** | |

Source: PSC, Don Schneider, September 2024. C = corporate taxes, H = high net worth taxes, O = other

**Some history on corporate taxes since raising them is a main focal point of the Harris approach**:

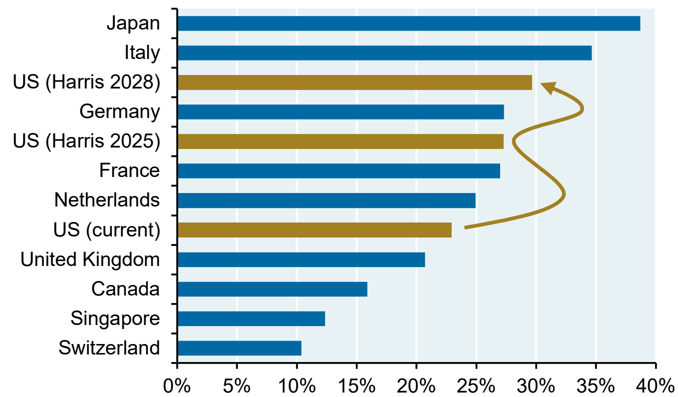
- US corporate tax rates were long seen as uncompetitively high. One illustration: as tax rates outside the US fell starting in 2000, US companies increasingly reincorporated elsewhere for tax purposes (inversions), while no companies inverted *into* the US. Both Bush and Obama administrations recognized this issue, and Obama proposed cutting the corporate tax rate to 28% from 35%
- After the TCJA was passed in 2017, US corporate tax rates (best measured by looking at the effective corporate tax rate on new capital investment[4]) declined relative to other major countries and US inversions effectively ceased when contemplated for tax reasons
- Harris proposals could increase US corporate taxes to their highest level as a share of GDP[5] since 1980, which could trigger another round of inversions

**Tax rates and inversions out of the US**



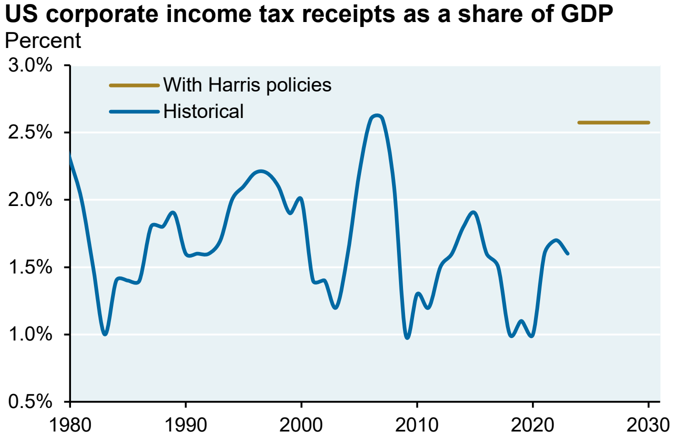

Source: Mercatus Center at George Mason University. 2016

**Effective corporate tax rate on new investment**



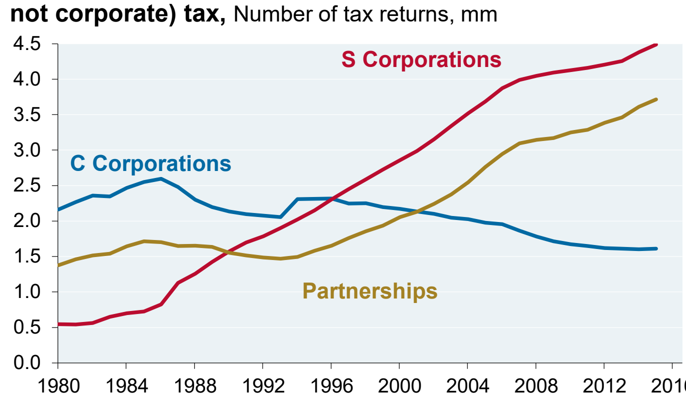

Source: Mintz and Bazel METR analysis, September 2024

**US corporate income tax receipts as a share of GDP**




Source: CBO, Piper Sandler, 2024

**The rise of pass-through entities subject to personal (and not corporate) tax,** Number of tax returns, mm




Source: IRS, 2015

[4] On corporate taxes: looking at one year in isolation can be distorted by tax carry-forwards or carry-backs, changing tax rules, etc. A further complexity: US companies receive credits for taxes paid overseas. As a result, if you divide US corporate tax payments by worldwide income, effective tax rates would be understated since they would exclude foreign tax payments from the numerator. That's why many tax economists use a "marginal effective tax rate on new investment" approach to compare corporate tax rates across countries

[5] As shown in the chart above on the right, the use of S corporations and qualifying partnerships has risen sharply since 1980. Both are subject to *personal* income tax rather than *corporate* income tax. As a result, the US corporate tax to GDP ratio does not include some business taxes other countries report as "corporate; this ratio is not comparable across countries

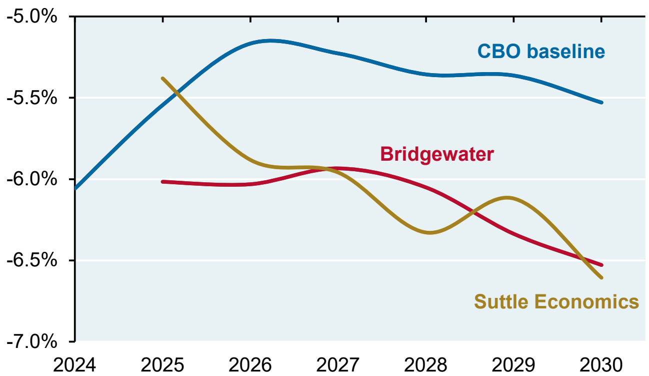
**Trump's fiscal agenda is harder to pin down since it keeps changing**. Trump proposes extending all TCJA tax cuts, raising the cap on state/local taxes that are deductible on Federal returns, exempting tips from income tax, cutting the corporate income tax to 15% for companies that "make products in America", and has floated the idea of ending taxation of Social Security benefits. I think at this point, the right question to ask is: what tax has Trump *not* proposed cutting?

**Spending cuts**. Trump has proposed cutting spending associated with the energy bill. All it would take is a simple GOP majority in both chambers, although there's a small GOP House contingent that has called for only modest cuts to the bill. What's most likely to remain: ITC/PTC tax credits for wind/solar, the nuclear PTC, carbon sequestration credits, clean fuel credits and manufacturing subsidies. What's most at risk: EV tax credits.

**The big question: tariff revenues.** Economists have modeled potential revenue gains from a 10% universal tariff and a 60% tariff on China[6]. But these estimates are *highly* uncertain, as they rely on elasticities of imports to tariff levels and estimated shares of importer/exporter tariff burden. They also usually exclude retaliation impacts and subsidies for US firms harmed by them, any trade diversion on China tariffs and growth impacts.

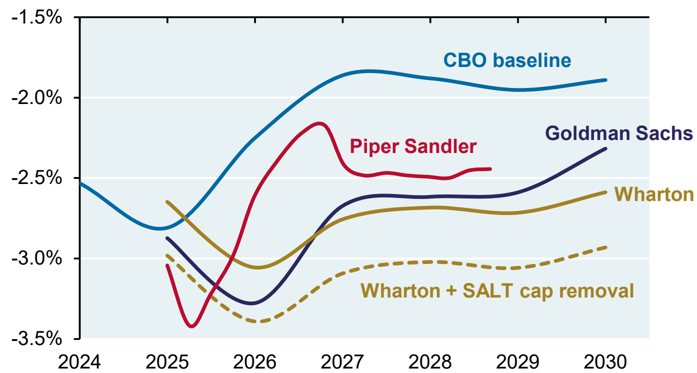
**All things considered, budget deficits would probably rise the most in a Trump victory/GOP Sweep**. The charts below compare assessments of Trump fiscal policies vs the CBO baseline; we adjusted when necessary to include universal tariff impacts. We then created the bottom two charts for purposes of comparing Trump and Harris. Taken at face value (again, I think that's a mistake since plans won't be enacted as proposed), the Harris primary deficit impact would be smaller than Trump's in almost all circumstances. I thought it was notable that the Wall Street Journal published an Op-Ed by Jason Furman with the tagline "*Harris Is the Safer Economic Choice: Both candidates have bad ideas but Trump's are worse, and likelier to find support in Congress*" [Sep 16, 2024].

**Nominal budget deficit estimates for Trump proposals**
Percent of GDP



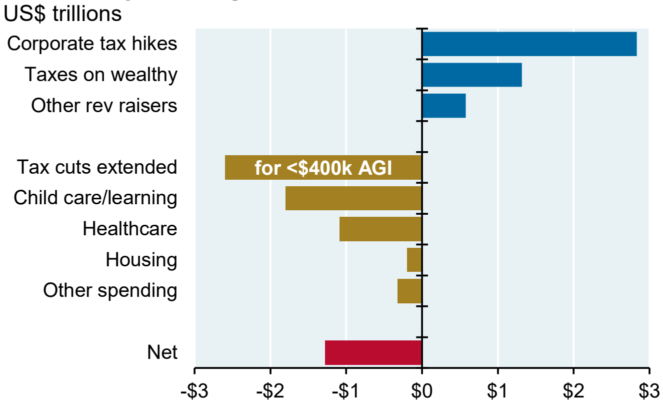

Source: CBO, Suttle, Bridgewater, CRFB, JPMAM, September 2024

**Primary budget deficit estimates for Trump proposals**,
Percent of GDP



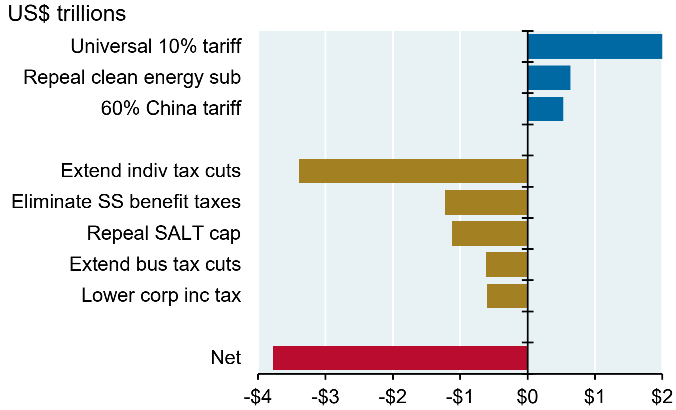

Source: CBO, Wharton, Piper Sandler, CRFB, JPMAM, September 2024

**Harris: 10-year budget deficit effect of proposed policies**
US$ trillions




Source: JPMAM, September 2024

**Trump: 10-year budget deficit effect of proposed policies**
US$ trillions




Source: JPMAM, September 2024

[6] "*Why Trump tariff proposals would harm working Americans*", Kim Clausing (UCLA), PIIE, May 2024; and "*Trump's Universal Baseline Tariff*", CRFB, September 2023

## Tariffs and trade

Trump proposals include a 60% tariff on Chinese imports and a 10% universal tariff on all imported goods. Trump and Vance insist that other countries pay for these tariffs, but it's hard to find credible sources that agree with them; almost every analysis comes to the opposite conclusion[7]. I have no doubt that Trump's campaign will dredge someone up to agree with them, but this appears to be settled science amongst economists.

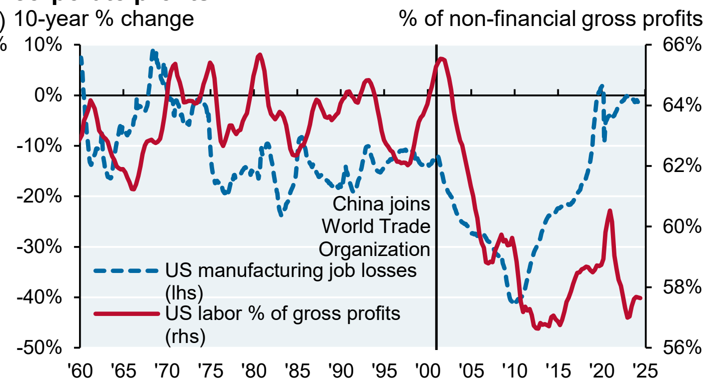
Goldman estimates that a 10% across the board tariff would increase inflation by 1% and decrease GDP growth by 0.5% on a one-time basis, while Barclays estimates a higher growth hit at -1.4%[8]. Even so, US voters appear increasingly willing to pay a price to partially dial back globalization. I can understand why: after China joined the WTO, US manufacturing job losses accelerated, the US labor income share declined and US opioid addiction rates rose, particularly in communities most affected by Chinese competition. As per the last chart, China is the most mercantile country in the world; isolating it seems to be one of the most bipartisan positions in Congress.

*Policies*. While Harris has not proposed higher tariffs on China or a universal tariff, both she and Trump support ending the De Minimis exemption for Chinese imports.

**After China joins the WTO, its FX intervention rises and US manufacturing job losses accelerate...**

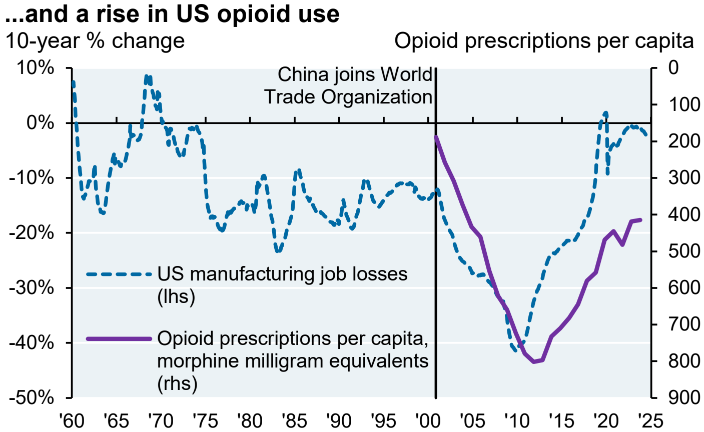

Source: IMF, People's Bank of China, JPMAM. September 2024.

**...coinciding with a sharp decline in US labor's share of corporate profits**




Source: BLS, BEA, JPMAM. September 2024.

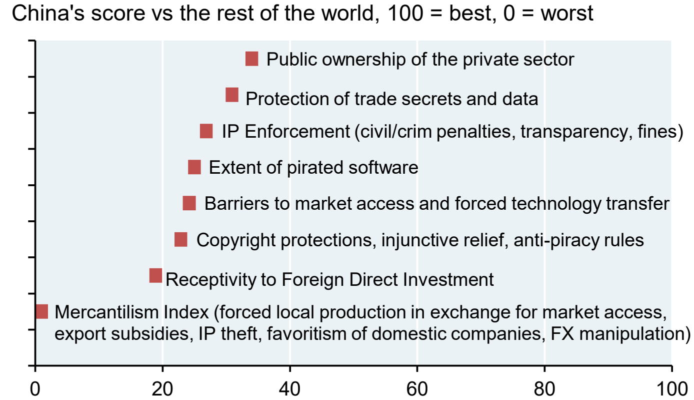
**...and a rise in US opioid use**




Source: BLS, Stanford SIEPR, DEA, JPMAM. September 2024.

**China: the world's most mercantile country**

China's score vs the rest of the world, 100 = best, 0 = worst




Sources: OECD, BSA, GIPC, ITIF, Fraser Institute, JPMAM. 2019.

[7] **All of the following conclude that US consumers end up paying for tariffs**: *"Who Really Pays the Tariffs? US Firms and Consumers Through Higher Prices"*, Tax Foundation, Dec 2021; *"The Economic Impacts of a US-China Trade War"*, NBER, Fajgelbaum et al, Dec 2021; *"Who Pays the Tax on Imports from China?"*, New York Fed, Matthew Higgins et al, Nov 2019; *"The US Economy Under President Trump: Take 2"*, Suttle Economics, Jul 2024; *"Who pays Trump's tariffs, China or US customers and companies?"*, Reuters, Rajesh Singh, Jun 2019

[8] *"The Election and the Economy: Estimating Immigration, Trade, and Fiscal Effects"*, Goldman Sachs, September 2024, and "*Tariffs: Counting the Costs*", Barclay's, September 2024

## Energy

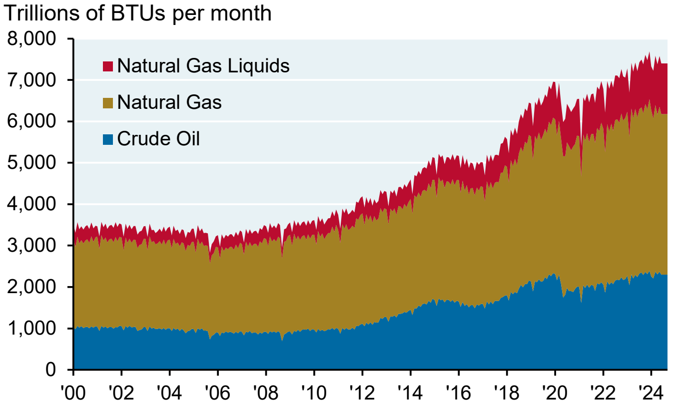
The two candidates differ on energy policy, although to be clear, US production of oil, gas and natural gas liquids *rose* under the Biden administration. Some analysts point to a decline in drilling permits on Federal land under Biden, but that's a pretty marginal issue at a time of all-time highs in US production.

Rather than restrain oil & gas, the Biden/Harris approach has been much more carrot than stick: the true cost of energy bill incentives and subsidies for renewable power, carbon capture, green hydrogen, battery storage and EV adoption may reach $1 - $3 trillion by the end of the decade[9]. As shown below, these costs are showing up in rising electricity prices, particularly when measured against places where energy-intensive production is outsourced to (China/India). And even though the journey to greater electrification of energy consumption has only just begun, the highest inflation category in the PPI report since 2020: transmission and transformer equipment. A progress marker: the renewable share of US final energy consumption is 8%, up from 4% in 2010.

On fracking which Harris reportedly no longer opposes: **this method of extracting hydrocarbons still accounted for 60% of US primary energy in 2023 (fourth chart)**. That may explain why Harris' position on fracking might have changed. On page 11, we superimpose party preferences in the 2020 election over a county map of oil & gas deposits in Pennsylvania. Biden won the state by ~70k votes, a narrow margin which could have been reversed by voters in a few oil and gas counties like Erie, which Trump won by 2% and which Biden won by 1%.

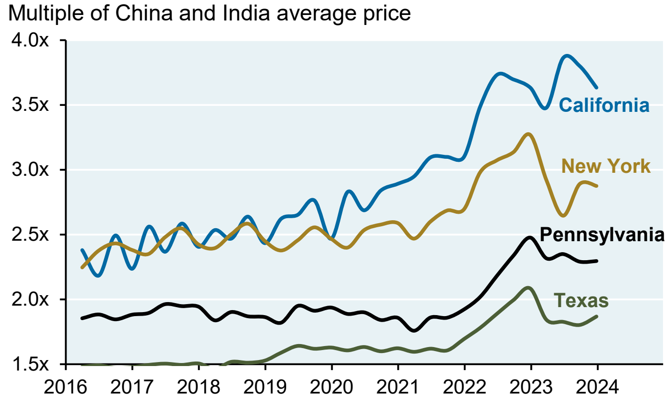
Harris supported a firm 2035 deadline for all new US vehicles to have zero emissions when running in 2019; she reportedly no longer holds that view, preferring the subsidy approach in the energy bill. As of Q2 2024, EVs were ~9% of US sales and ~1% of all US vehicles on the road.

**Production of crude oil, natural gas and natural gas liquids**
Trillions of BTUs per month



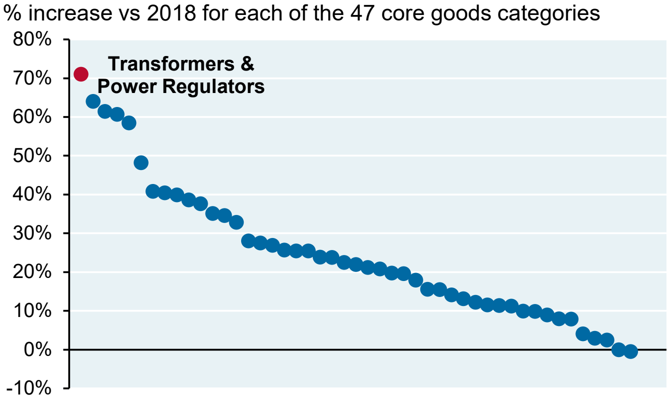

Source: EIA, JPMAM, September 2024

**Residential electricity prices**
Multiple of China and India average price



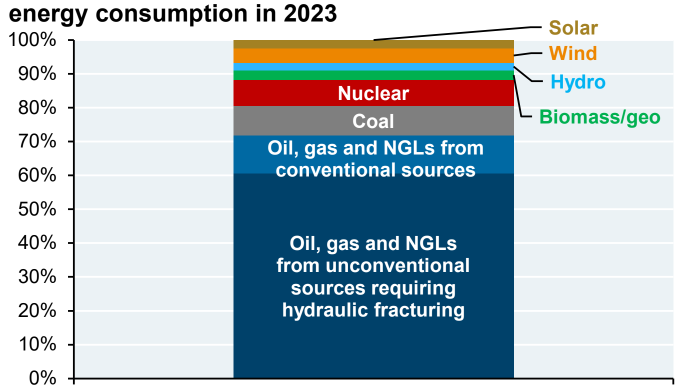

Source: EIA, IEA, JPMAM, Q1 2024

**Core goods PPI component inflation**
% increase vs 2018 for each of the 47 core goods categories




Source: Bloomberg, JPMAM, July 2024

**Hydraulic fracturing accounted for 61% of all US primary energy consumption in 2023**




Source: EIA, BP, Society of Petroleum Engineers, S&P Platts, JPMAM. 2023.

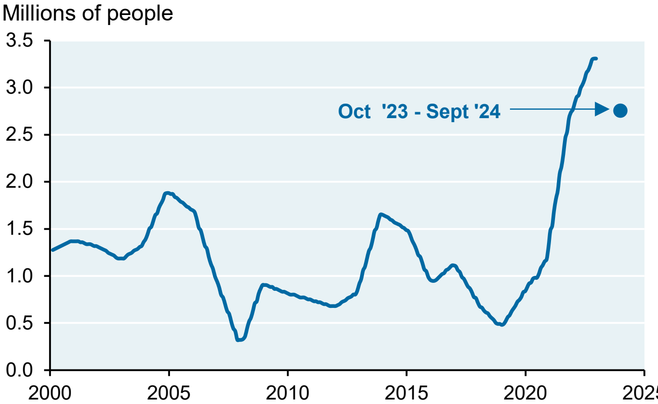
[9] "*A Year Into Biden's Climate Agenda, the Price Tag Remains Mysterious*", Bloomberg, August 16, 2023

## Immigration

"*No great nation can be in a position where they can't control their borders*", Senator Joe Biden in 2008

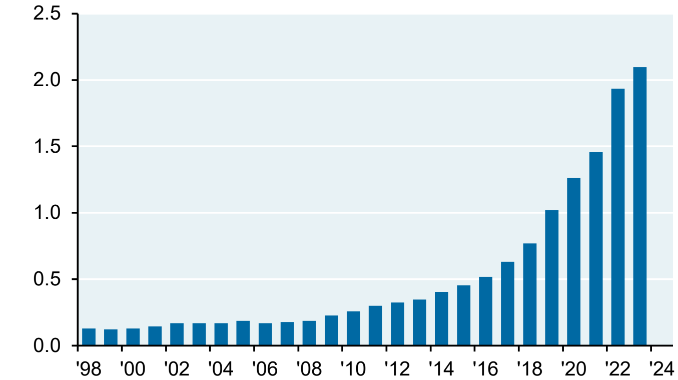
Immigration affects a variety of economic issues: it typically boosts growth, reduces pressure on the Fed to tighten policy rates and increases the workforce at a time of low US birth rates. But unmanaged immigration and surging asylum/migrant inflows also sharply increase budgetary pressures on US cities, straining their credit ratings and resulting in billions of dollars in offsetting budget cuts, and exacerbates housing shortages[10]. Before the migrant surge in 2023, illegal immigrants represented ~25% of the US foreign-born population.

**Net immigration by year**
Millions of people



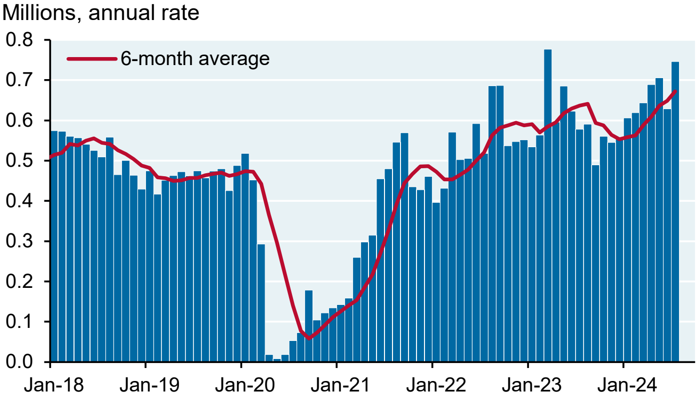

Source: CBO, CBP, 2024

**Pending immigration cases**
Number of cases, millions




Source: Brookings Institution, Elaine Kamarck, February 2024

**Immigrant (permanent) visa issuances**
Millions, annual rate

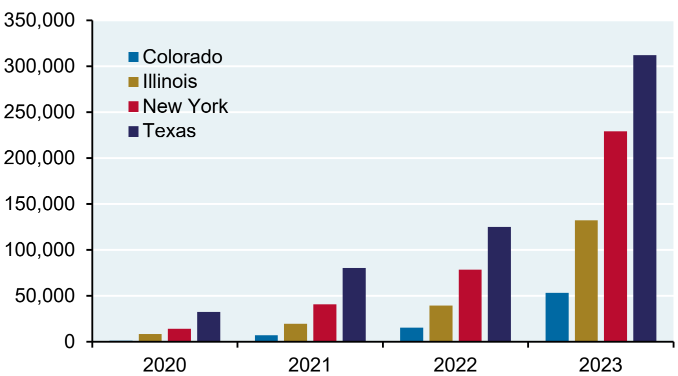



Source: US Department of State, JPMAM, July 2024

**Immigration and Customs Enforcement (ICE) removals by presidency,** Monthly removals

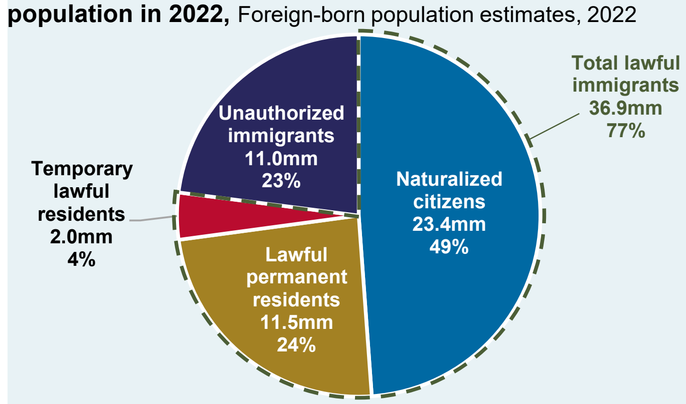

Source: TRAC, JPMAM, September 2024

**New proceedings filed in immigration court, 2020-2023**
Number of cases




Source: Transactional Records Access Clearinghouse, S&P Global, 2024

**Unauthorized immigrants were 23% of the US foreign-born population in 2022,** Foreign-born population estimates, 2022




Source: Pew Research Center, 2022

10 "*Migrants and asylum seekers pose budgetary challenges*", S&P Global Ratings, February 13, 2024

**The numbers behind the migrant surge**[11]. CBO estimates that the Biden administration released an extra 2.3 million immigrants into the US in 2023 (3.3 mm vs ~1 mm per year from 2004 to 2020), not including another 860,000 people detected crossing the border but not apprehended. According to Biden-appointed Border Patrol Chief Ortiz, the current surge differs from prior ones since most people now encountered at the border turn themselves in rather than trying to escape since they think they're simply going to be released. US Customs also reports that encounters with noncitizens on terrorist watchlists rose from 3 in 2019 to 172 in 2023. Even the Brookings Institute recommended in February 2024 that the border be temporarily closed to deal with the immigration backlogs shown on the prior page.

Part of the migrant surge stems from travel agencies in Senegal which advertise visa-free travel to Europe and then to the US; the packages include connections to smuggling organizations that facilitate movement to the US border via bus lines in Sonora Mexico that operate dozens of buses a day to random spots on the border.

*Policy differences*. Trump proposes finishing his "wall" and relying on deportation. Others have written about the practical difficulties of deportation programs involving local law enforcement and the National Guard[12]. Harris opposes deportations but has moved to the right on immigration, although to be clear I'm not sure there was much room for her to move any further left. In 2019, Harris' position was that illegal border crossing should be decriminalized into a civil offense; she reportedly now believes that existing laws should be enforced[13].

## Inflation and price controls

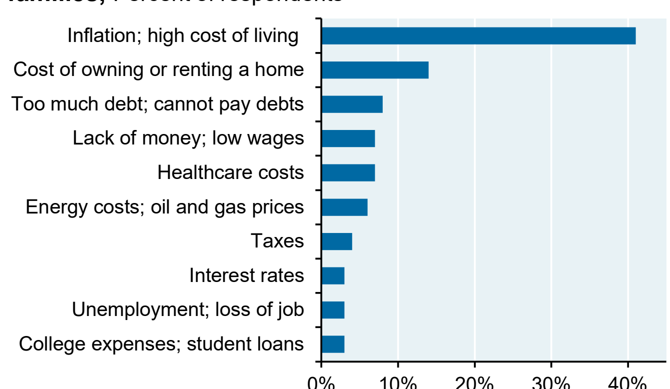
As shown below, Americans are upset about inflation of basic goods. Harris has proposed the first-ever "federal ban on price gouging on food and groceries". There's little detail about how it would work, how price gouging would be defined or how the FTC would police it. Even progressive reporters agree that the policy makes little sense. One example, from Josh Barro in the Atlantic: "*Harris's plan is economically dumb but politically smart: The vice president's campaign promises make no sense to people acquainted with supply and demand, but they might win elections*". In addition, evidence points to the White House and Congress regarding the inflation spike: MIT economists estimate that at least 40% of the inflation spike was attributable to Federal spending, while increases in producer prices accounted for only 10%[14].

Trump has proposed a cap on credit card interest rates of 10%, so a new era of price controls may be upon us. The last one in the 1970's turned out to work poorly, triggering even higher inflation[15].

**US families who believe inflation is the most important family financial problem,** Percent of respondents


Source: Gallup, April 2024

**Survey of most important financial problem facing US families,** Percent of respondents




Source: Gallup, April 2024

[11] Sources: CBO Demographic Outlook, Appendix B, Jan 2024; *State of Florida vs USA*, US District Judge T. Kent Wetherell, March 8, 2023; Bloomberg Law, June 17, 2024; CNN, Dec 20, 2023; Brookings Feb 29, 2024

[12] "*Trump touts historic deportation plans but his own record reveals big obstacles*", NPR, August 14, 2024

[13] PBS News, September 12, 2024

[14] "*The determinants of inflation*", June 2022, Kritzman (MIT) et al

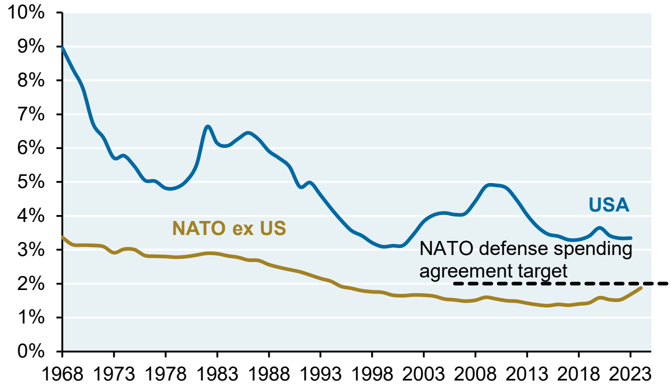
[15] "*Flaws and Ceilings: Price Controls and the Damage They Cause*", Coyne et al, February 2018

## NATO

Trump's comments encouraging Russia to "do what it wants" to NATO countries that do not honor their financial obligations to the alliance were startling to many people, myself included. That said, let's also look at the numbers. As shown on the left, the European defense spending gap vs the US was so wide that in 2006 NATO implemented an agreement requiring each country to spend at least 2% of GDP on defense. It took until 2024 for NATO to hit the 2% target, so I computed the cumulative amounts in today's dollars that Europe still "owes". The cumulative unpaid amount from the time of the 2006 NATO 2% agreement to 2023: $1.5 trillion. In other words, I understand why some voters question NATO's financial burden on US citizens.

**US vs European defense spending**

Percent of GDP




Source: NATO, World Bank, SIPRI, Federal Reserve, JPMAM, 2024

**Shortfall in NATO defense spending by country vs 2% of GDP defense spending target, billions of 2023 US$**

| | Joined NATO | Amounts owed since 2006 NATO defense spending pact |
|---|---|---|
| United Kingdom | 1949 | $5 |
| France | 1949 | $55 |
| Italy | 1949 | $255 |
| Netherlands | 1949 | $141 |
| Denmark | 1949 | $52 |
| Portugal | 1949 | $31 |
| Belgium | 1949 | $112 |
| Norway | 1949 | $44 |
| Germany | 1955 | $634 |
| Spain | 1982 | $212 |
| | **Total** | **$1,540** |

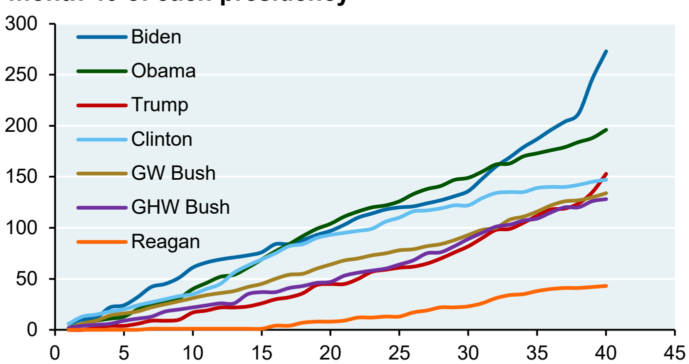
Source: World Bank, SIPRI, Federal Reserve, JPMAM, 2024

## The regulatory state

The sharp contrast between Trump and Harris on regulatory policy is made clear in the two charts below, using Biden as a proxy for Harris. What's notable irrespective of who wins the election: four decisions by the Supreme Court this year which may usher in the largest pushback on the regulatory state since the Reagan Administration. As we reviewed in detail in the July 9 EoTM:

- The end of Chevron deference: no more automatic deference to government agencies by courts
- Expansion of the Major Questions Doctrine: any agency action with "vast economic and political significance" requires clear Congressional authorization
- The statute of limitations for challenging Federal Regulations now starts at time of injury (not at passage)
- Right to a jury trial rather than by administrative law judges applies to many civil fines and penalties levied by Federal agencies

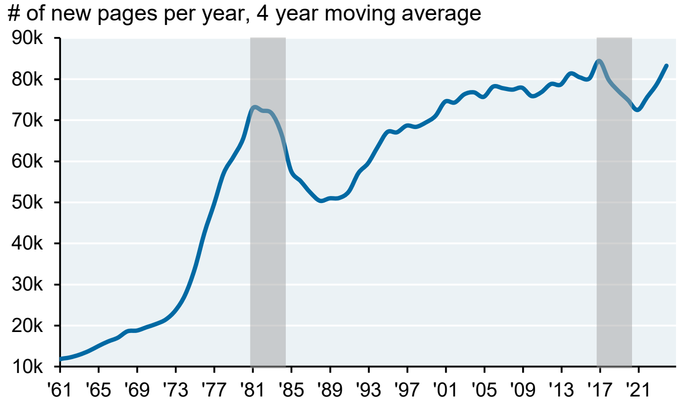
**Cumulative # of economically significant rules by month 40 of each presidency**




Source: GWU Regulatory Studies Center, May 2024

**Regulatory barometer: pages in the Federal Register**

# of new pages per year, 4 year moving average




Source: Federal Register, JPMAM, 2024

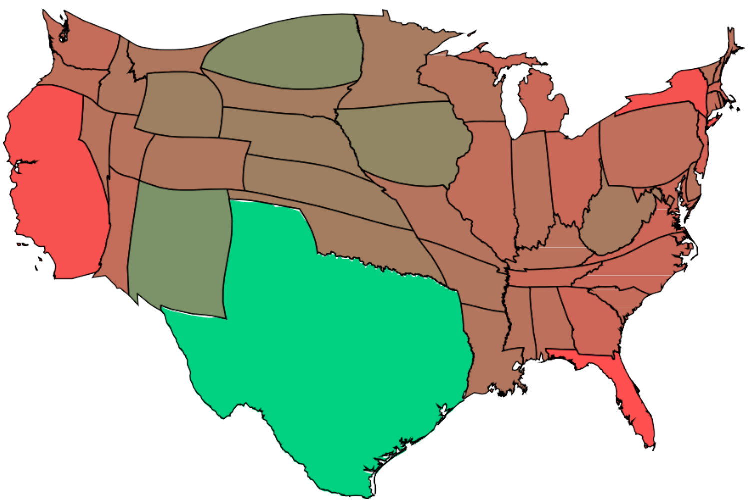
## Some comments on the Electoral college

Every four years there's plenty of criticism of the electoral college and its concentrated allocation of voting power to citizens in smaller states. For example, Wyoming has 144k people per electoral college vote while California has 472k. But there's something else that's very concentrated: US production of food, energy and minerals that allows heavily populated cities to thrive. The map below is reconfigured to show each state based on its production value of food, energy and minerals. New York and Florida shrink, while Pennsylvania, Texas, West Virginia and the heartland states grow in size.

The domestic content of US food and energy is ~80%, much higher than other manufactured goods (vehicles, chemicals, computer equipment, clothing etc), and nationalism of food and energy production is rising. In some entirely unintended way, the electoral college ends up imparting political power in excess of population alone to food/energy states, which seems reasonable to me given their critical role in national security and food/ energy independence.

**An energy, mineral and food weighted map of the United States**

States sized based on their 2022 production value of energy, food and non-fuel mining
Colors based on state production value relative to population (green = largest per capita surplus, red = largest per capita deficit)



Sources: EIA, USDA, USGS, Bloomberg, JPMAM, 2024.
Cartogram methodology adapted from Gastner, Seguy and More (Yale-NUS, PNAS, 2018).

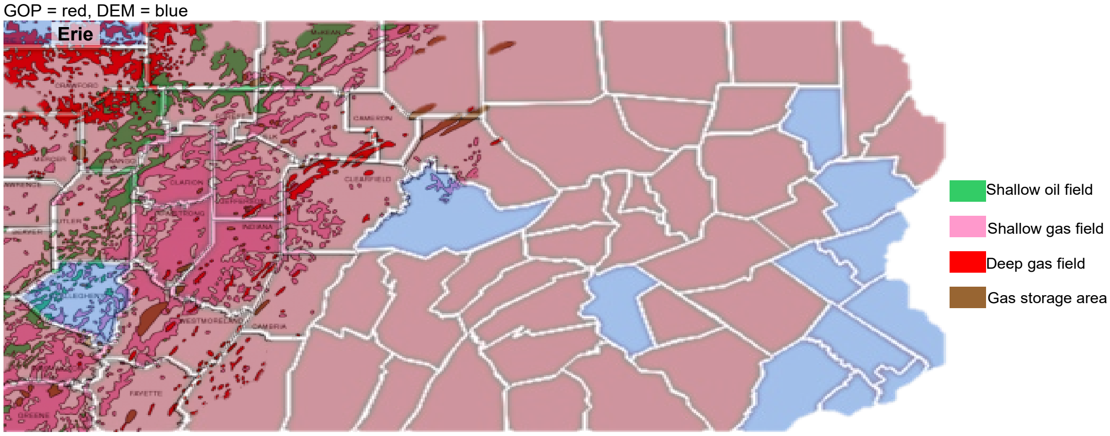
Production by state includes the value of:

- crude oil, coal and natural gas
- electricity generation from wind, solar, nuclear, hydropower, geothermal and biomass
- agricultural output from meats, crops, seeds and related products
- precious and industrial metals
- natural aggregates (sand, gravel, crushed stone)
- non-fuel minerals (cement, lime, silica, phosphate rock, potash, salt and clay)

Pennsylvania map cited on page 7

**PA 2020 election map overlayed with oil and gas fields**

GOP = red, DEM = blue




***See next page for discussion of China stimulus package***

## The China stimulus package, an important turning point

Summary: China's government is signaling a commitment to reflationary, which may be the only way out of its contraction that does not involve a deeper recession. Our sources tell us that Chinese economic officials have become more receptive to input from domestic and foreign investors, particularly after August's disappointing economic results and increasing economic parallels with Japan in 1990. I don't think it's an exaggeration to say that China is acting somewhat out of desperation given the severity of the declines shown in the charts below.

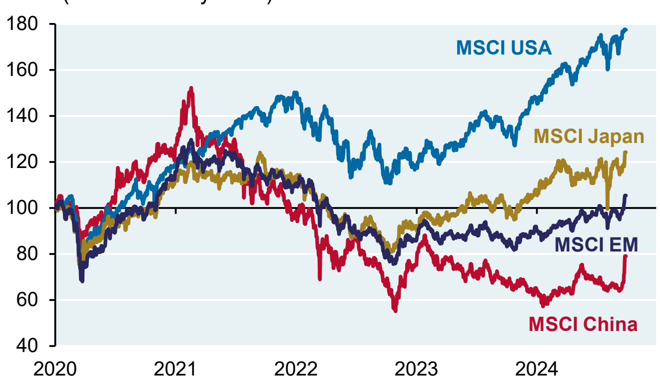
**The big issues on the table for domestic and foreign investors**: more firepower on the real estate crisis, steadier profit generation and consumption growth, improvement in listing conditions for companies going public (reduced fraud and disinformation) and opening up sectors like mining, construction, power generation and shipping to foreign investment. We'll see; this is a movie I have seen before in which China attracts foreign capital just before destroying it (the 1999 GITIC default and again in 2021 when MSCI increased China's weight in the EM equity index to 40%, only for Xi's "progressive authoritarianism" campaign to pummel the stock market). For now, the package appears to be a serious commitment to reflation. Fiscal stimulus may follow, perhaps after the National People's Congress in October and Central Economic Work Conference in December.

Below: why did China act now, what's in the package and the market impact so far. While Chinese equities have bounced 10%-15%, valuations have only risen modestly compared to the lows reached earlier this year.

**[1] Why did China act now: a lot of negative momentum heading into the stimulus decision**

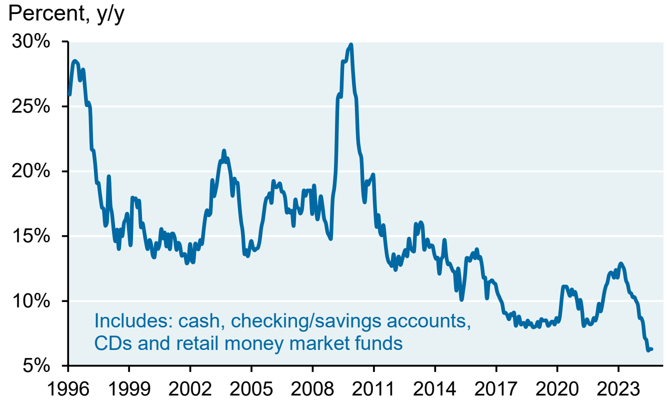
China equity markets retesting the lows of the last 2 years and large underperformance vs the rest of the world, money supply growth tumbling, PMI surveys weakening, residential real estate starts back to 2010 (!!) levels….

**China underperformance**
Index (100 = January 2020)



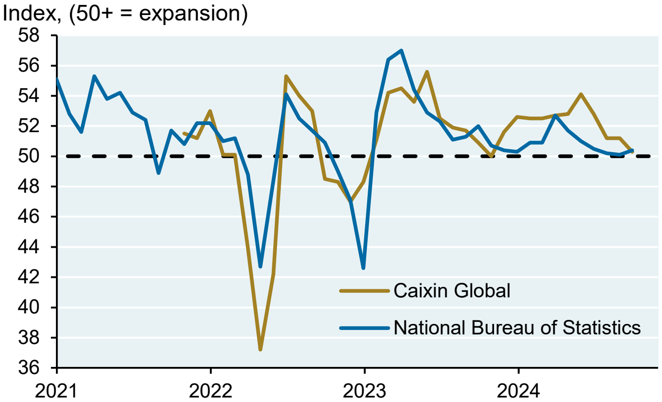

Source: Bloomberg, JPMAM, September 2024

**China's M2 money supply**
Percent, y/y



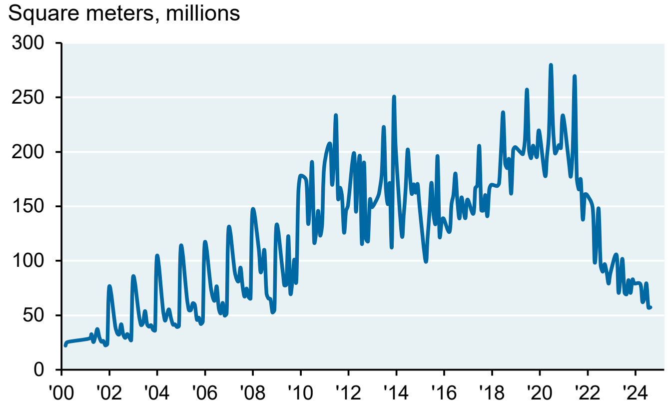

Source: Bloomberg, JPMAM, August 2024

**China composite PMIs**
Index, (50+ = expansion)




Source: Bloomberg, JPMAM, September 30, 2024

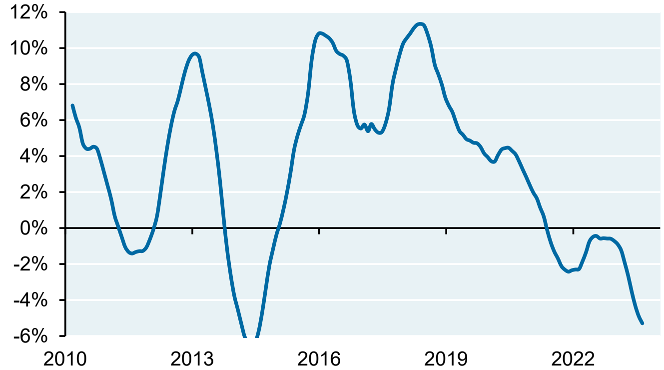
**China residential floor space starts**
Square meters, millions




Source: Bloomberg, JPMAM, August 2024

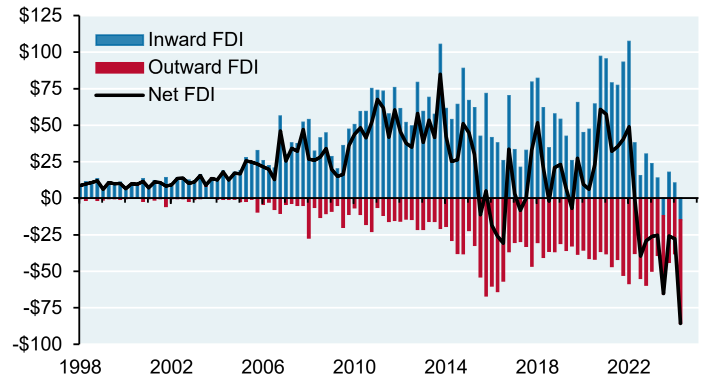
…commercial and residential property prices still falling, foreign direct investment fleeing China, dreadful consumer confidence, weak real-time economic tracking surveys [not shown but we could have included five straight quarters of deflation and for the first time, falling year on year wage growth]

**China commerical and residential property prices**
Percent, y/y



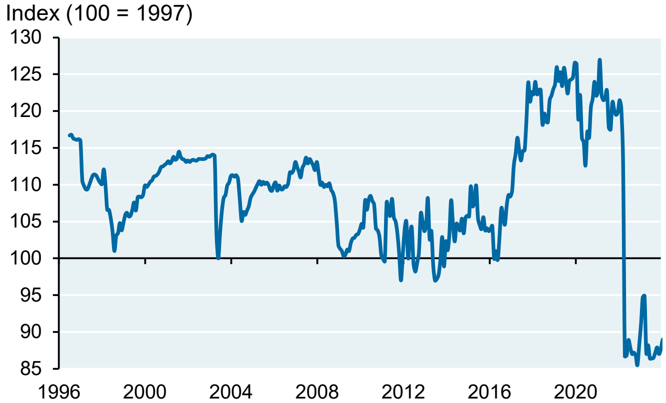

Source: Bloomberg, JPMAM, July 31, 2024

**China FDI monitor**
US$, billions



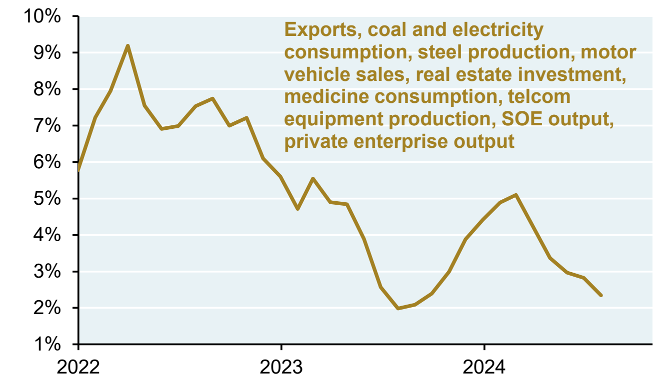

Source: Bloomberg, JPMAM, Q2 2024

**China consumer confidence**
Index (100 = 1997)




Source: Bloomberg, JPMAM, July 2024

**China economic activity monitor (Bloomberg)**
Percent, y/y change




Source: Bloomberg, August 2024

## [2] What's in the package

| Primary Target | Lever | Details |
|---|---|---|
| Economy | Monetary | 50bp cut to the reserve ratio requirement |
| | | 20bp cut to the short-term policy rate (PBoC 7d repo) |
| | | 30bp cut to the mid-term policy rate (MLF) |
| | Fiscal | One-off cash transfer to people living in poverty |
| | Macro | ~50bp cut to the interest rate on exisitng mortgages |
| | | Expand loan guarantees for a program that subsidizes state-owned enterprises to buy vacant homes for conversion to social housing |
| | | Lower down payment requirement on 2nd home purchases to 15% (previously 25%) |
| | | Expand the avalibility of loan extensions to more business |
| Markets | Monetary | Set up securities, funds and insurance company swap facility to allow more funding for equity purchases |
| | | Set up relending program for stock repurchases and holding increases |
| | Market Regulation | Advocate and refine the regulation for more mid- to long-term capital to invest in the stock market |
| | | Encourage mergers, acquisitions and restructuring |
| | | Request listed companies to perform market value management (e.g. encourage buybacks) |

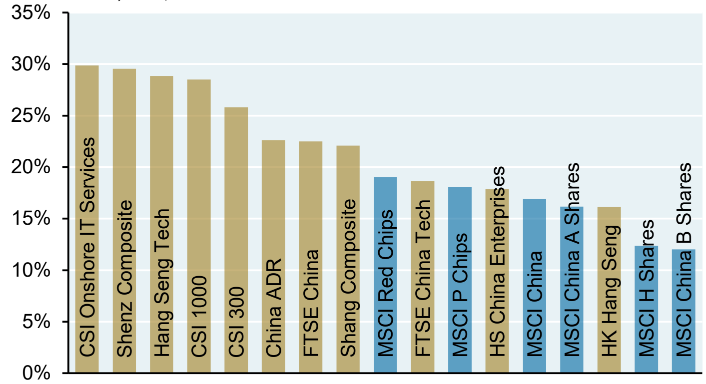
Source: Bridgewater, JPMAM, 2024

**[3] Equity market impact so far**

China skeptics have a point: over the past two years, China tried unsuccessfully to stabilize equity markets via scrutiny of quant trading, short selling restrictions, stamp duty cuts, ETF buying by state funds, a new securities chief and a 9-point plan to boost equity markets. **None of it worked**. So, what's different this time? The breadth of the package and the apparent commitment to do more. A key barometer to watch: will market participants take advantage of cheap funding to buy Chinese equities?[16]

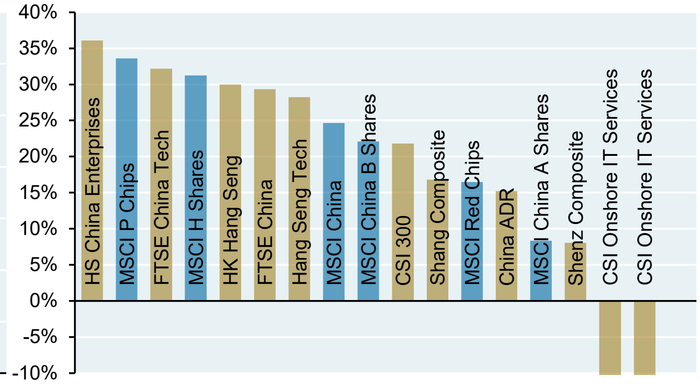
Since the package was announced Chinese equities have risen by 10%-30%, which pushed most categories into substantial YTD gain territory. Even so, valuations are still at the low end of the last 10 years. The broader question: is China is a "trade" or a "portfolio investment"? I think it's the former. For the latter to apply, more of China's nominal GDP growth has to start accruing to equity investors. As shown in the table, China has the worst pass-through from GDP growth to earnings and investor returns since 2010. All of those "BRIC" research reports from 20 years ago totally missed the point: **investors cannot live on GDP alone**.

**China equity returns since September 23, 2024**
Total return, US$



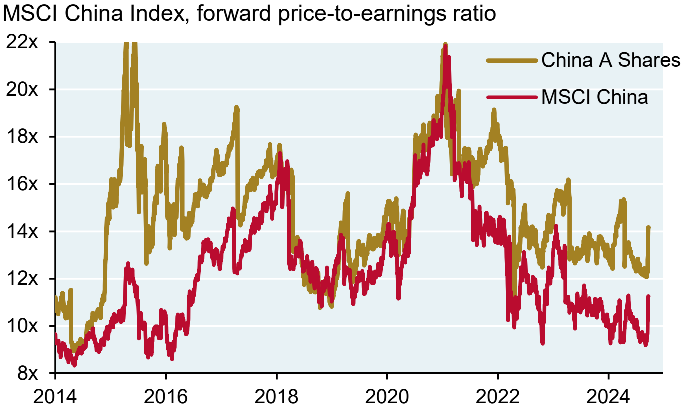

Source: Bloomberg, Sep 30, 2024. Blue: MSCI subcomponent. Gold: Index.

**China YTD equity returns**
Total return, US$




Source: Bloomberg, Sep 30, 2024. Blue: MSCI subcomponent. Gold: Index.

**China equity valuations**
MSCI China Index, forward price-to-earnings ratio




Source: Bloomberg, JPMAM, September 30, 2024

**Pass-through from nominal GDP growth to corporate earnings and equity market returns, 2010-2024**

| | Earnings growth multiple of GDP growth | | Market return multiple of GDP growth |
|---|---|---|---|
| US NASDAQ | 3.0 | US NASDAQ | 4.7 |
| US S&P 500 | 1.4 | US S&P 500 | 2.3 |
| France | 1.2 | Taiwan | 1.5 |
| Canada | 1.2 | France | 1.4 |
| Taiwan | 1.0 | Eurozone | 1.2 |
| Eurozone | 1.0 | Canada | 0.9 |
| UK | 0.9 | India | 0.9 |
| Australia | 0.8 | Korea | 0.8 |
| India | 0.7 | UK | 0.8 |
| Brazil | 0.7 | Australia | 0.8 |
| Korea | 0.5 | Brazil | 0.4 |
| China | 0.4 | China | 0.3 |

Source: Bloomberg, JPMAM, 2024. Japan excluded due to declining GDP

Michael Cembalest
JP Morgan Asset Management

[16] The PBoC announced two new lending facilities to support A-shares: a swap facility and a relending facility. Swap facility: insurers, securities brokerages and fund management companies can swap holdings of bonds and ETFs for government bonds and central bank bills, and then use those liquid assets to acquire funding to buy stocks. Relending facility: PBoC will lend to banks at 1.75%, and then banks lend at 2.25% to listed companies to fund share buybacks. Total potential support: RMB 2.4 trillion

**IMPORTANT INFORMATION**

**Morgan SE – Milan Branch**, with its registered office at Via Cordusio, n.3, Milan 20123, Italy, authorized by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and jointly supervised by the BaFin, the German Central Bank (Deutsche Bundesbank) and the European Central Bank (ECB); J.P. Morgan SE – Milan Branch is also supervised by Bank of Italy and the Commissione Nazionale per le Società e la Borsa (CONSOB); registered with Bank of Italy as a branch of J.P. Morgan SE under code 8076; Milan Chamber of Commerce Registered Number: REA MI 2536325. In the **Netherlands**, this material is distributed by **J.P. Morgan SE – Amsterdam Branch**, with registered office at World Trade Centre, Tower B, Strawinskylaan 1135, 1077 XX, Amsterdam, The Netherlands, authorized by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and jointly supervised by the BaFin, the German Central Bank (Deutsche Bundesbank) and the European Central Bank (ECB); J.P. Morgan SE – Amsterdam Branch is also supervised by De Nederlandsche Bank (DNB) and the Autoriteit Financiële Markten (AFM) in the Netherlands. Registered with the Kamer van Koophandel as a branch of J.P. Morgan SE under registration number 72610220. In **Denmark**, this material is distributed by **J.P. Morgan SE – Copenhagen Branch, filial af J.P. Morgan SE, Tyskland**, with registered office at Kalvebod Brygge 39-41, 1560 København V, Denmark, authorized by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and jointly supervised by the BaFin, the German Central Bank (Deutsche Bundesbank) and the European Central Bank (ECB); J.P. Morgan SE – Copenhagen Branch, filial af J.P. Morgan SE, Tyskland is also supervised by Finanstilsynet (Danish FSA) and is registered with Finanstilsynet as a branch of J.P. Morgan SE under code 29010. In **Sweden**, this material is distributed by **J.P. Morgan SE – Stockholm Bankfilial**, with registered office at Hamngatan 15, Stockholm, 11147, Sweden, authorized by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and jointly supervised by the BaFin, the German Central Bank (Deutsche Bundesbank) and the European Central Bank (ECB); J.P. Morgan SE – Stockholm Bankfilial is also supervised by Finansinspektionen (Swedish FSA); registered with Finansinspektionen as a branch of J.P. Morgan SE. In **Belgium**, this material is distributed by **J.P. Morgan SE – Brussels Branch** with registered office at 35 Boulevard du Régent, 1000, Brussels, Belgium, authorized by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and jointly supervised by the BaFin, the German Central Bank (Deutsche Bundesbank) and the European Central Bank (ECB); J.P. Morgan SE Brussels Branch is also supervised by the National Bank of Belgium (NBB) and the Financial Services and Markets Authority (FSMA) in Belgium; registered with the NBB under registration number 0715.622.844. In **Greece**, this material is distributed by **J.P. Morgan SE – Athens Branch**, with its registered office at 3 Haritos Street, Athens, 10675, Greece, authorized by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and jointly supervised by the BaFin, the German Central Bank (Deutsche Bundesbank) and the European Central Bank (ECB); J.P. Morgan SE – Athens Branch is also supervised by Bank of Greece; registered with Bank of Greece as a branch of J.P. Morgan SE under code 124; Athens Chamber of Commerce Registered Number 158683760001; VAT Number 99676577. In **France**, this material is distributed by **J.P. Morgan SE – Paris Branch**, with its registered office at 14, Place Vendôme 75001 Paris, France, authorized by the Bundesanstaltfür Finanzdienstleistungsaufsicht(BaFin) and jointly supervised by the BaFin, the German Central Bank (Deutsche Bundesbank) and the European Central Bank (ECB) under code 842 422 972; J.P. Morgan SE – Paris Branch is also supervised by the French banking authorities the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and the Autorité des Marchés Financiers (AMF). In **Switzerland**, this material is distributed by **J.P. Morgan (Suisse) SA**, with registered address at rue du Rhône, 35, 1204, Geneva, Switzerland, which is authorised and supervised by the Swiss Financial Market Supervisory Authority (FINMA) as a bank and a securities dealer in Switzerland.

In **Hong Kong**, this material is distributed by **JPMCB, Hong Kong branch**. JPMCB, Hong Kong branch is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission of Hong Kong. In Hong Ko.ng, we will cease to use your personal data for our marketing purposes without charge if you so request. In **Singapore**, this material is distributed by **JPMCB, Singapore branch**. JPMCB, Singapore branch is regulated by the Monetary Authority of Singapore. Dealing and advisory services and discretionary investment management services are provided to you by JPMCB, Hong Kong/Singapore branch (as notified to you). Banking and custody services are provided to you by JPMCB Singapore Branch. The contents of this document have not been reviewed by any regulatory authority in Hong Kong, Singapore or any other jurisdictions. You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. For materials which constitute product advertisement under the Securities and Futures Act and the Financial Advisers Act, this advertisement has not been reviewed by the Monetary Authority of Singapore. JPMorgan Chase Bank, N.A., a national banking association chartered under the laws of the United States, and as a body corporate, its shareholder's liability is limited.

With respect to countries in **Latin America**, the distribution of this material may be restricted in certain jurisdictions.

*Issued in **Australia** by JPMorgan Chase Bank, N.A. (ABN 43 074 112 011/AFS Licence No: 238367) and J.P. Morgan Securities LLC (ARBN 109293610).*

References to "J.P. Morgan" are to JPM, its subsidiaries and affiliates worldwide. "J.P. Morgan Private Bank" is the brand name for the private banking business conducted by JPM. This material is intended for your personal use and should not be circulated to or used by any other person, or duplicated for non-personal use, without our permission. If you have any questions or no longer wish to receive these communications, please contact your J.P. Morgan team.