



2024 Election

A Review of Vice President Harris' Major Policy Proposals

Due to proposed tax increases, especially corporate taxes, VP Harris' policies are deemed less market friendly than former President Trump's. However, we question the degree of success either Harris or Trump will have in getting Congress on board to any significant policy changes.

Key Points

- ▶ We focus on the potential impact of the proposals but are unable to predict their chances of success
- ▶ We believe other factors such as monetary policy, existing economic trends, and valuations will eclipse politics
- ▶ The most concerning proposal is a corporate tax increase

In our previous analysis of former President Trump's policy proposals, we emphasized the importance of the Congressional party composition in determining the feasibility of their enactment. The same applies to Kamala Harris' proposals, which we will evaluate as if fully enacted, though we expect many to be modified, if not blocked entirely. Generally, the markets prefer legislative inaction. Notably, VP Harris' policy proposals mark a significant shift toward the center compared to her 2020 campaign, suggesting a pragmatic approach influenced by President Biden's tendency to compromise to pass legislation.

Taxation:

Key provisions of the 2017 Tax Cuts and Jobs Act (TCJA) will expire in 2025, requiring legislative action to either extend or modify these elements. VP Harris proposes to maintain current tax rates for households with incomes of \$400,000 or less, effectively preserving most of the 2017 tax law. The Tax Foundation estimates that 98% of taxpayers earn less than \$400,000. However, VP Harris also has several tax reform proposals targeting higher-income individuals and corporations.

For individuals, VP Harris proposes raising the top marginal tax rate to 44.6%, up from the current 39%, and increasing the capital gains tax to 28% for the highest earners. Households with incomes exceeding \$1 million would face

capital gains taxes at ordinary income rates, and the net investment income tax would rise from 3.8% to 5%. The Tax Foundation estimates that these increases could raise \$1.2 trillion in revenue over the next decade.

Another notable tax proposal is a levy on unrealized capital gains. We believe this has a very small chance of passing as it would require significant legislative backing and those individuals who would be impacted by this tax proposal are important sources of campaign funding for politicians.

VP Harris also supports expanding tax credits for individuals including tax exemptions on tips for service workers, reinstating the child tax credit (\$3,000 per child, and \$3,600 per child under six), and introducing a new \$6,000 tax credit for newborns. The current tax credit for dependent children (of any age) is \$2,000 per child and it will fall to \$1,000 in 2026 without legislative action.

Furthermore, she has proposed broadening eligibility for the Earned Income Tax Credit, although specifics have yet to be provided. The tax deduction for new businesses would rise from \$5,000 to \$50,000 under her plan. Combined, these tax credits will cost \$2.2 trillion over the next decade as estimated by the Tax Foundation.

The most significant tax proposal from a market perspective is to increase the corporate tax rate from 21% to 28%. This level of taxation would put U.S. corporations at a

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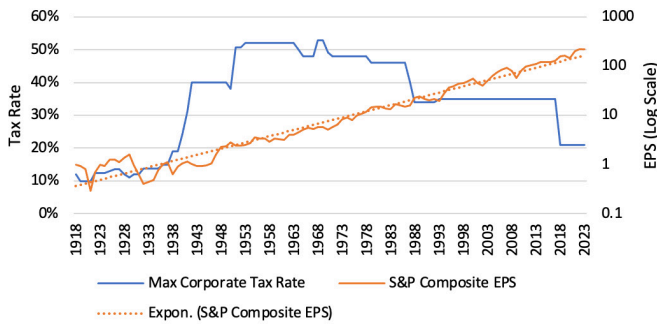


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disadvantage as it would be near the high end of global corporate taxes. She also seeks to raise the minimum tax for large companies from 15% to 21%. The Tax Foundation estimates these proposals would generate \$2.2 trillion over the next decade. These tax increases are estimated to reduce S&P 500 earnings growth by 5-8% in the year it is enacted, posing a potential short-term challenge for stocks. But in the long term, we note that history suggests that corporate America generally finds a way around higher taxes.

Chart 1: Changes in Tax Rates and Earnings



Source: Bloomberg, Tax Foundation. Annual data from 1918 through 2023.

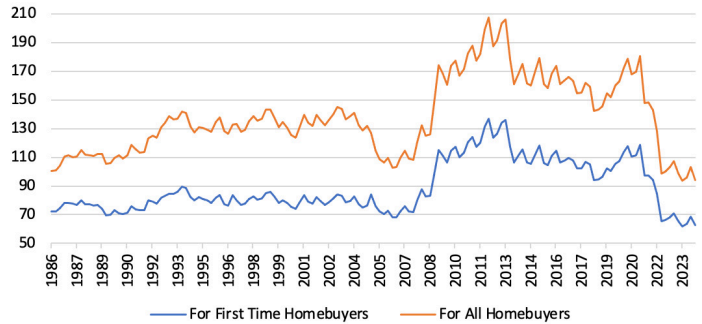
A 1% excise tax was imposed on corporate share buybacks with the Inflation Reduction Act of 2022 and VP Harris is proposing to increase that to 4%. While the economic impact would be limited, a higher rate could incentivize corporations to increase dividend payouts instead of buying back shares. Taxable accounts would likely still prefer the deferred tax impact of share buybacks over dividends. Using Bloomberg data, we estimate that 2023 net buybacks for the S&P 500 totaled \$713 billion, and \$621 billion in dividends were paid.

All told if VP Harris’ tax proposals were to be enacted as proposed they would provide a small headwind to economic growth as compared to simply extending the current TCJA tax rates. If the TCJA is not renewed, the economic headwind could be much more severe.

Make Housing More Affordable:

High home prices and interest rates continue to erode affordability. High home selling prices should encourage homebuilding, but single-family housing starts remain below levels seen prior to the Fed’s rate hiking cycle. Owners’ equivalent rent, the housing portion of CPI, has been an important driver of inflation in this cycle.

Chart 2: Housing Affordability



Source: Bloomberg. Quarterly data from 1986 through June, 2024.

To address housing affordability, VP Harris proposes both supply and demand side solutions. On the supply side, she has proposed a \$40B innovation fund to support affordable housing development through local government initiatives. She also advocates for tax incentives to encourage homebuilders to sell starter homes to first-time buyers, aiming to add 3 million housing units over the next four years.

While these initiatives could provide a housing boost, high costs for labor, material, and interest rates, along with restrictive local zoning laws, may limit their success.

On the demand side, VP Harris wants to offer an average of \$25,000 in assistance to first-time homebuyers. While this would help certain buyers, increasing demand in an already constrained housing market may inadvertently push home prices even higher.

Housing has been an important cyclical driver of economic growth. High mortgage rates and locked-in homeowners have slowed housing construction and turnover dramatically. Meanwhile, household formations continue to grow, creating significant pent-up demand. While VP Harris’ supply-side proposals could help, we believe it will take many years before housing supply and demand return to some balance.

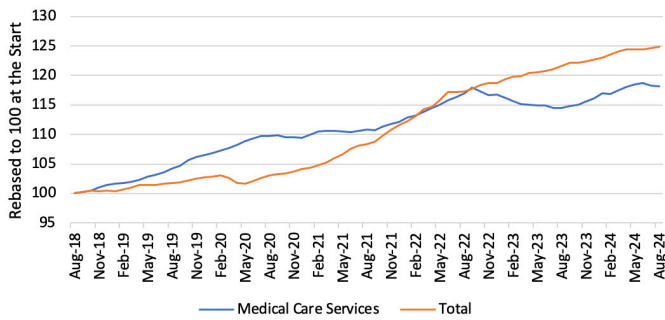
Bring down Inflation:

VP Harris has introduced several initiatives to combat inflation, but outside of politically untenable fiscal austerity, their broad impact on inflation appears limited. A federal ban on price gouging is one of those policies. 37 states already have legislation to ban price gouging, making a federal ban seem redundant.

VP Harris’ other proposals surround healthcare. They include reducing drug prices by targeting pharmacy middlemen and enhancing Medicare’s ability to negotiate drug prices. She also proposes capping out-of-pocket drug costs at \$2,000 a year and limiting insulin co-pays to \$35 a month. She also wants to extend enhanced Affordable Care Act premium support, though details are lacking.

While spending on healthcare represents nearly 18% of GDP, healthcare costs have not been the main driver of recent inflation spikes.

Chart 3: US Consumer Price Index



Source: Bloomberg. 5 years of monthly data through August, 2024

Supporting the Middle Class

Many of VP Harris’ proposals are aimed at helping the middle class, including initiatives already mentioned on reducing medical care costs, spurring new business formation, and ending the housing shortage. Without specifics, she speaks to enhancing the CHIPS Act and the Inflation Reduction Act, which, in theory, should create middle class jobs. Another proposal is to raise the federal

minimum wage, currently at \$7.75 per hour, a figure unchanged since 2009. However, only 1.3% of workers earned the minimum wage in 2022 (the lowest rate since 1979).

These proposals should be modestly stimulative. The new business formation proposal may be the most impactful, though more details are needed.

Conclusion:

Due to proposed tax increases, especially corporate taxes, VP Harris’ policies are deemed less market friendly than former President Trump’s. However, as noted at the outset we question the degree of success either Harris or Trump will have in getting Congress on board for any significant policy changes.

In thinking about some of the policy extremes we want to leave you with an historical anecdote. One weekend in August 1971 President Nixon declared a national emergency putting a temporary 10% tariff on all imports and announced the implementation of wage and price controls. This was all in conjunction with taking the dollar off the gold standard. On the Monday after this seemingly dramatic announcement, both stocks and bonds rallied. The S&P 500 advanced 3.2% and the yield on the 10-year Treasury bond fell 27 basis points. By the end of the year, the stock and bond markets closed even higher.

We don’t mean to suggest that legislative actions and policies enacted through executive powers don’t have economic or market impacts. Often the markets respond in anticipation of policy changes, while the economic impact can come with significant lags.

Expected Impact of Harris’ Policy Proposals				
	GDP Growth	Inflation	US Bonds	US Stocks
Tax Wealthy	Slight Slowing	Potential Easing	Lower Yields	Headwind
Reduce Housing Cost	Nominal Impact	Nominal Impact	Nominal Impact	Nominal Impact
Lower Inflation	Nominal Impact	Nominal Impact	Nominal Impact	Nominal Impact
Help Middle Class	Slight Increase	Nominal Impact	Nominal Impact	Slight Positive

Policy proposals are considered in isolation and generally as proposed.

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