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TOP of MIND

2024: THE YEAR OF ELECTIONS

With voters representing over half the world's population—in the US, Europe, India, and beyond—expected to head to the polls this year, 2024 is the year of elections. We ask veteran diplomat Richard Haass what to watch for: a continued global trend of "democratic backsliding", which is setting the stage for less liberal challengers/populists to succeed. And we speak to Oxford's Timothy Garton Ash, who believes this trend may well continue in Europe. But Haass and Garton Ash agree: the US election will be the most consequential election this year by far, not only for the US but for the world. Brookings' Elaine Kamarck explains the complicated US election process, and GS GIR economists and strategists assess typical patterns for domestic policy and assets during election years—and how this year may differ. Finally, we discuss how to position for the US election today despite large uncertainty, finding potential opportunity in long Dollar optionality, upside on longer-dated rates, and positions that could benefit from steeper yield curves or are levered to geopolitical risk.

"Amid the dozens of elections taking place this year, the importance of the US election dwarfs every other. It's difficult to overstate just how much hinges on it.

- Richard Haass

To understand the [US presidential election] process, it's important to recognize the driving principle that underpins it: the importance of federalism and the idea of states over country that prevailed during America's establishment.

- Elaine Kamarck

The common feature of all but one [European election]—the UK election—is a growing concern that hard-right populist parties… will do very well and pull the EU sharply to the right.

- Timothy Garton Ash"

WHAT'S INSIDE

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The Goldman Sachs Group, Inc.

Macro news and views

We provide a brief snapshot on the most important economies for the global markets

US

Latest GS proprietary datapoints/major changes in views

- We recently pushed back our forecast for the first Fed rate cut to May from March given Powell's comments at the Jan press conference, our expectation of solid growth in Q1, and a temporary firming in sequential inflation in January.
- We recently raised our 2024 US GDP growth forecast to an above-consensus 2.4% (Q4/Q4) (from 2.1%) to reflect recent strong growth momentum and easier financial conditions.

Datapoints/trends we're focused on

- Fed balance sheet policy; we expect the Fed to announce that it will begin tapering the pace of balance sheet runoff in May and to implement it shortly thereafter.
- Core PCE inflation, which we expect to fall to 2.2% by Dec 24.

Japan

Latest GS proprietary datapoints/major changes in views

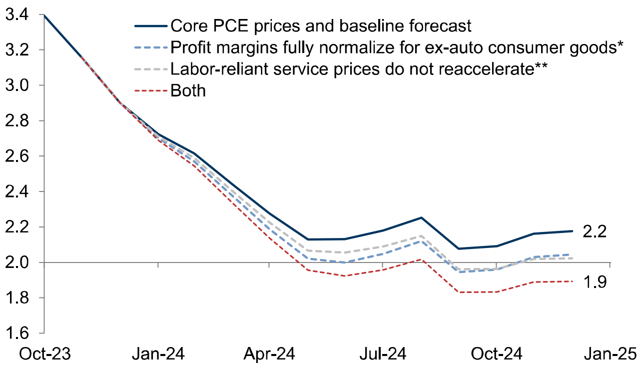
- We now think that the BOJ will terminate negative interest rate policy (NIRP) in April instead of October given hawkish comments in the Summary of Opinions at the January BoJ meeting. We expect very modest subsequent rate hikes to push the BoJ policy rate to 0.25% by mid-2025.

Datapoints/trends we're focused on

- Japanese inflation; over 2024-2025 we expect goods prices to continue slowing, weighed down by Yen appreciation and lower oil prices, but we expect service prices to remain elevated on our assumption that wage hikes will continue.
- Japanese growth, which we expect to slow to 1.3% in CY24.

US inflation: to target and (plausibly) below

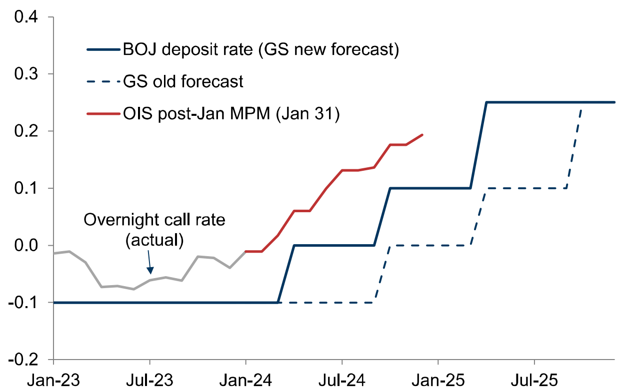
% change, year ago



*Based on S&P 500 companies. Assume impact in 1H24.
**Core services excluding housing, healthcare, and financial services.
Source: Bureau of Economic Analysis, Goldman Sachs GIR.

BoJ: an earlier end to NIRP

BoJ policy rate, %



Source: Bloomberg, Goldman Sachs GIR.

Europe

Latest GS proprietary datapoints/major changes in views

- We recently lowered our Dec 2024 UK core and headline inflation forecasts to 2.4%/1.9% (yoy) (from 2.6%/2.0%) to incorporate larger-than-expected declines in energy prices.

Datapoints/trends we're focused on

- ECB easing cycle, which we expect to begin with a 25bp cut in April, followed by back-to-back 25bp cuts until the Deposit Rate reaches 2.25% in early 2025.
- BoE easing cycle, which we expect to begin with a 25bp cut in May, but risks to our forecast are skewed toward later cuts.
- EA core inflation, which we expect to fall to 2.2% by Dec 24, despite a modest boost from Red Sea shipping disruptions.

Emerging Markets (EM)

Latest GS proprietary datapoints/major changes in views

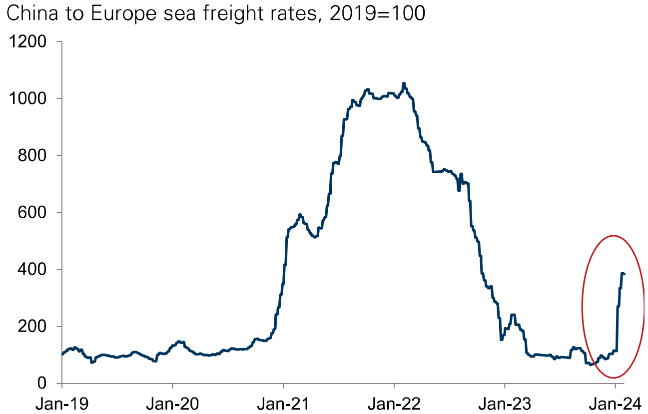
- We recently raised our 1Q24/2Q24 China sequential GDP growth forecasts to 5.6%/4.8% (qoq sa ann) (from 5.2%/4.6%) to incorporate recent macro data and ongoing policy easing.

Datapoints/trends we're focused on

- China policy easing, which we expect more of this year—including further policy rate cuts, govt bond issuance, and property easing—amid growth headwinds and deflation risks.
- China inflation, which we expect to remain low in 2024, with continued PPI deflation and moderate CPI reflation.
- EM monetary policy; several EM central banks have already begun easing, and we expect a broadening of rate cuts in 2024.

Shipping costs take off amid disruptions

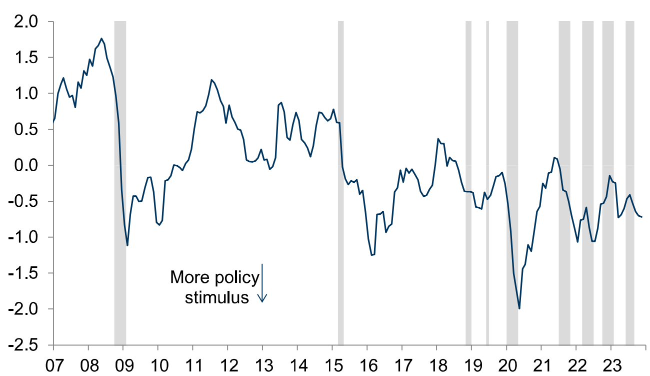
China to Europe sea freight rates, 2019=100



Source: Bloomberg, Freightos, Goldman Sachs GIR.

China macro policy: still easing

China domestic macro policy proxy, z-score



Note: Shaded areas refer to periods when China CAI 3mma growth was below 5%.
Source: Haver Analytics, Wind, Goldman Sachs GIR.

2024: the year of elections

2024 is the year of elections. Voters in over 80 nations and territories—representing more than half the world's population—are scheduled or expected to head to the polls this year. The US elections in November are (already) attracting significant attention, but voters across the EU's 27 Member States will also elect a new European Parliament this June amid other important regional and national European elections this year, and India will hold the world's largest election starting in April. How the 2024 elections unfold, and the economic and market implications, is Top of Mind.

We first ask Richard Haass, former president of the Council on Foreign Relations and a veteran diplomat, about the numerous elections around the world, which he says are occurring amid a global trend of "democratic backsliding." He argues that difficult economic times, increased pressure on societies from globalization and technological shifts, and the rise of social media are leading voters to seek alternatives to liberal democracies, which puts incumbents in places like the US at a rare disadvantage in this election cycle and sets the stage for less liberal challengers/populists to succeed.

Timothy Garton Ash, Professor of European Studies at the University of Oxford, believes that may well prove to be the case in Europe, where this year's myriad of national and regional elections could result in populists building on their recent successes and amassing even more power as they continue benefitting from the challenging economic backdrop and the region's fragmented political landscape. And while he and GS Co-head of CEEMEA Economics Kevin Daly generally agree that the recent populist defeat in Poland holds important lessons for other countries and could be replicated elsewhere, Garton Ash cautions against taking too much comfort from it. The populist trend Garton Ash sees flowing through elections within European countries also extends to the transnational European Parliament elections, which he's watching closely to see how much stronger the Viktor Orbán-led populist bloc emerges to gauge the direction of future EU policy.

But amid all the elections taking place globally, including the world's largest in India where Prime Minister Modi and his party look well-placed to win a third term (see pgs. 20-21 for GS Asia economists and strategists Santanu Sengupta and Sunil Koul answers' to the most frequently asked questions about it), both Haass and Garton Ash assert perhaps the obvious—that the US election will be the most consequential one this year by far, not only for the US but for the world.

Haass, for his part, argues that the striking difference between the likely candidates' views of America's role in the world—with former President Trump representing an isolationist/unilateralist America-first approach versus President Biden's more internationalist alliance-first approach—suggests that the election outcome will have significant implications for international security, as well as determine how today's most fraught geopolitical issues—including the Russia-Ukraine conflict and Mainland China-Taiwan relationship—could evolve. Garton Ash generally agrees, arguing that much in Europe hinges on who will occupy the White House, with Europe potentially facing a "full-blown security crisis" if Trump wins.

In addition to its global significance, the US election will of course have important implications for domestic policy and assets. But before we dig into these, we first turn to Elaine Kamarck, Senior Fellow at the Brookings Institution, to explain the nuts and bolts of the complicated US election process that is already in full swing with two state primaries now behind us. She discusses the role of these primaries/caucuses, delegates, national party conventions, and the all-important body that ultimately determines the president—the Electoral College—and lays out what would happen if either party's presidential nominee becomes incapacitated and is unable to run/serve—a particularly pertinent question this year.

GS Chief US Political Economist Alec Phillips then discusses how this "very unusual" US election—given unusually early clarity on the likely candidates and the unusual matchup between a sitting president who is trailing in the polls (Biden) and the former president he defeated four years ago (Trump)—may influence policy this year. Phillips argues that this unusual setup makes Biden more likely to agree to big policy concessions in exchange for small pre-election gains, while leaving Republicans less inclined to score policy wins as they try to save important issues for the campaign. This dynamic, he says, is particularly evident in immigration and fiscal policy, where House Democrats have agreed to a reduction in business tax receipts that will lower government revenues—consistent with what GS senior global economist Joseph Briggs finds tends to happen in the run-up to elections (see pg. 19 for more on typical policy shifts and growth impacts in election years)—in exchange for an expanded child tax credit. But Phillips sees the unique political situation working against such a deal becoming law, as well as one on the US-Mexico border/Ukraine.

GS senior US equity strategist Ben Snider then discusses what the election could mean for US equities this year. He finds that in presidential election years, equity returns tend to be weaker-than-average, earnings-driven, and more backloaded, and small-caps, value stocks, and financials tend to outperform. That said, he argues that polls and the candidates' policy proposals will ultimately serve as a better guide for equity performance over the coming months than these simple historical patterns. So, for now, our US equity strategists are sticking to their YE S&P 500 forecast of 5100, which they expect to be earnings-driven.

But with investors already focused on the November elections, GS market strategists Dominic Wilson and Vickie Chang discuss how investors can start to think about positioning for them. They caution that while a Republican victory would increase the likelihood of a stronger Dollar and higher yields, as well as raise energy price risks in both directions, positioning for the range of potential policy shifts is difficult this far ahead of the election. But they still see areas to watch for opportunity, such as options on long Dollar positions, upside on longer-dated rates, and positions that are levered to geopolitical risk or could benefit from steeper yield curves (see pgs. 22-23 for GS market strategists Kamakshya Trivedi's, Teresa Alves', and Caesar Maasry's views on non-US assets around other key elections).

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Interview with Richard Haass

Richard Haass is former president of the Council on Foreign Relations and a veteran diplomat. He is a senior counselor at Centerview Partners. Below, he discusses the implications of 2024 elections across the world amid what he says is a global trend of "democratic backsliding."

The views stated herein are those of the interviewee and do not necessarily reflect those of Goldman Sachs.

Allison Nathan: As we kickoff this consequential election year, you've spoken a lot about the backsliding of democracy around the world. What's driving that trend?

Richard Haass: Democracies becoming more illiberal is a general phenomenon. The US is the most important example, but numerous democracies—Turkey, India, Hungary, Poland, just to name a few—are also experiencing backsliding. Similar periods of democratic backsliding have occurred in the past in the US and beyond—Weimar Germany in the 1920/30s is perhaps the most notable example. But it's a particularly tough environment for democracy today. Many countries have run into difficult economic times, especially during and after Covid. And when governments have a harder time delivering resources and services to their people, alternatives—essentially, populists—tend to gain momentum. The pressure on societies from globalization and technological shifts has also made it harder for many individuals to succeed, and social media's rise has both fueled individuals' discontent and provided a larger platform for alternatives to democracy and democratic norms to gain traction.

Allison Nathan: What are the implications of this democratic backsliding for this year's elections?

Richard Haass: Populists have an advantage now. When the answer to Ronald Reagan's famous question—are you better off than you were four years ago?—is a clear yes, incumbents benefit. This is not one of those times. Polls across numerous countries suggest that people feel less well off today, which favors outsiders, or those who advocate for change rather than for continuity. In the US and many other countries, that dynamic is setting up an unusual situation in which it may be harder for the incumbent to succeed than the outsider.

Allison Nathan: All eyes already seem to be on the US election in November. Just how consequential will it be?

Richard Haass: Amid the dozens of elections taking place this year, the importance of the US election dwarfs every other. It's difficult to overstate just how much hinges on it, due both to the US' outsized role, power, and influence in the world, as well as the substantial gap between the two likely candidates, President Joe Biden and former President Donald Trump.

On the first point, it's important to recognize that no other period in modern history has been as successful as the last 75 years, as reflected by the avoidance of great power conflict, an increase in living standards, longer lifespans, and more people living under democratic governments. And that stability and progress happened in large part because of the constructive role that the US played in the world. So, to me, the biggest threat to US and international security is a future in which the US is no longer willing or able to play that role. That's not to say that China, Russia, North Korea, and Iran don't pose a threat to global stability, or that issues like climate change aren't huge problems for the world, but rather that the global consensus needed to deal with these issues can't be achieved without US involvement and leadership. So, the greatest danger the world faces today isn't the prospect of the US doing too much in the world, which it has at times, but rather of it doing too little.

That speaks to the second reason why this election is so consequential, which is the large and important differences between the two leading candidates. Normally in US elections, the similarities between the two candidates far outweigh the differences. But this is one of those rare elections in which that is not the case. Biden and Trump aren't completely dissimilar; they both had no enthusiasm for staying in Afghanistan, and US policy toward China has looked more similar than different under the two presidents. But if I had to sum it up in a single phrase, I'd say Trump represents an isolationist or unilateralist America-first tradition, whereas Biden represents a much more internationalist alliance-first tradition. And those are fundamentally different approaches to navigating the world.

Allison Nathan: So, would you be less concerned about the outlook for global stability if Biden is reelected?

Richard Haass: The biggest uncertainty is what a second Trump presidency might bring in the way of domestic and foreign policy. But even if Biden wins, a divided government is by far the most likely outcome given that the Senate will almost certainly go Republican. And the answer to the question of whether a divided government would be functional and have the ability and willingness to work together to address today's pressing domestic and international challenges is up for grabs. Just look at where we are today. The combination of Biden in office and a divided Congress has failed to successfully tackle many crucial issues. We by no means would be "out of the woods" in terms of the US being able to act constructively at home and abroad in almost any plausible election scenario.

Allison Nathan: Given the political trends we've discussed, could populist politicians gain a bigger foothold in Europe?

Richard Haass: European democracies are fairly robust. And European governments already play a larger role in their economies and societies, so the ups and downs that their populations experience, or perceive to experience, tend to be more muted. In Germany, the center seems to be pushing back against a resurgent far right. And in Italy, where outsiders have already joined the government, future moves against incumbents may actually shift the government more toward the middle. The same could be said of the UK, where the Labour Party looks likely to win the next election, whenever it takes place. The biggest question mark going forward is probably France, whose situation looks more like that of America's, with the differences between the status quo and the likely alternatives outweighing the similarities. But, overall, Europe likely isn't on the edge of anything radical.

Allison Nathan: Two major conflicts unfortunately continue to rage on today in which elections could play a role. First, what could happen politically in Israel, and what might be the implications for the war in Gaza?

Richard Haass: Prime Minister Netanyahu is quite unpopular in Israeli public opinion polls right now. But so long as the country remains engaged in this war, it would be difficult, although not impossible, for it to hold elections. And despite Netanyahu's challenges, he has shown great political tenacity. So, it's wrong to write him off. That said, it's likely more a matter of "when" than "if" he leaves the scene, which begs the question of what type of government might replace him. While much has been made of the current government's shift to the right, Israel as a collective entity has moved to the right, for many reasons, from demographic changes to the effects of October 7. So, we can't assume that the alternative to a Netanyahu-led government would look anything like the prior Labor government. But the main question isn't if the next government will be more moderate, but rather if it will be more pragmatic. Will it be a serious partner with the US in supporting the emergence of a new generation of Palestinian leaders that could pave the way for a two-state solution because it sees it in Israel's own self-interest to do so? That remains to be seen.

Allison Nathan: Will the scheduled presidential elections in Russia and Ukraine have any bearing on that conflict?

Richard Haass: The Russian election is about as close to a sure thing as you can get; Putin will win yet another term and will likely continue to do so as long as he's drawing breaths. But on the Ukrainian side, some degree of frustration with the current leadership has emerged, which has sparked debate around the definition of success and the prospect for some compromise in the war. That said, 2024 likely won't be a decisive year for the war diplomatically or militarily. Ukraine seems to be shifting to a more defensive-oriented strategy. Russia, for its part, is waiting for the US election outcome before making its next major move. In 2025, if Western support for Ukraine is robust, the odds of a diplomatic or negotiated outcome would rise substantially. But, if America dials down its support for Ukraine and Europe does not continue to step up in its place, that would increase Putin's inclination to push for gains on the battlefield rather than compromise at the negotiating table.

Allison Nathan: Speaking of hotspots, will the recent election in Taiwan have geopolitical implications?

Richard Haass: Not many. While Mainland China would have preferred KMT leadership over DPP leadership, neither candidate made independence central to their platform or aimed to trigger a military crisis. So, no outcome would have really changed the fundamentals of the Mainland China-Taiwan relationship. As in the Russia-Ukraine conflict, the more significant election for this relationship and Taiwan's future more broadly is the US election, and specifically, the degree to which the next administration will be a stalwart backer of Taiwan and be prepared to come to its defense if need be.

While Trump was clearly committed to a confrontational economic approach to Mainland China—and to most other places, for that matter—during his term, his geopolitical commitment to Taiwan and other allies in the region, including South Korea and Japan, was less clear. Biden, for his part, has also pushed back against Mainland China economically, but, alongside that, has committed to regional allies, including Taiwan, geopolitically. So, the outcome of the US election could be quite consequential for the Taiwan issue. If Biden falls short anywhere regarding Mainland China, it is on the absence of a trade component to US foreign policy and the pronounced gap between US commitments and capabilities. The US is now stretched across three geographies—the Middle East, Europe, and the Indo-Pacific—and the US military industrial base and armed forces are not large enough to sustain all of these efforts, certainly not simultaneously.

Allison Nathan: India also has a major election this year. What's important to watch in terms of implications for the country's future and its role on the global stage?

Richard Haass: Narendra Modi is the dominant political actor in India, his party is the dominant political entity, and he will likely do well in the upcoming elections. But to assess India's future, you need to consider three distinct Indias: Economic India, Political India, and Strategic India. Economic India is robust. While it has clear protectionist tendencies and conducting business there can be hard, it is undeniably a large and rapidly growing economy. So, it's easy to be bullish on Economic India.

Political India is more concerning. While India has traditionally been a secular country, it is becoming more Hindu-dominated and more illiberal, which raises several concerns, particularly for its sizable Muslim minority of roughly 225 million people. And then there is Strategic India, which is the extent to which India is prepared to be a strategic partner of the US and the West. And there, we're seeing traditional hedging. For example, India is one of the largest buyers of Russian energy and a large buyer of Russian arms amid the Ukrainian crisis. So, its strategic behavior is pretty à la carte. India is not anyone's ally; sometimes it's a limited partner, but other times it's not. So, I am most optimistic about Economic India, and a bit more concerned about Political and Strategic India. And I don't see that changing during a third Modi term. The more interesting question is what happens post-Modi, but that seems far off.

Allison Nathan: Lastly, how important could the Mexican election be, especially for the US-Mexico relationship?

Richard Haass: Even though AMLO can't be on the ballot, he's very much a player, and his preferred candidate is likely to win, which means that the US-Mexico relationship will likely remain somewhat frustrating. While the trade relationship is no doubt significant, it could be much bigger and better than it is in the current era of near-shoring. And recent efforts to work together on pressing issues for both countries—like migration—haven't yielded much progress. Mexico has real internal challenges. It is a weak state. The government cannot provide order in large swaths of the country. The judiciary, penal, and policing systems are all woefully inadequate. Crime is essentially out of control. But Mexico, psychologically and politically, simply won't allow the US to help them deal with those challenges—even though they either can't or won't deal with them successfully themselves—because of ideology and nationalism. The upcoming election in June is unlikely to change that.

Timeline of upcoming global elections

Voters in more than 80 nations and territories—representing over half the world population—are scheduled/expected to go to the polls this year

January

- ***Bangladesh** General elections*
- ***Comoros** Presidential elections*
- ***Finland** Presidential elections*
- ***Taiwan** Presidential and legislative elections*
- ***Tuvalu** General elections*

February

- **Azerbaijan** Presidential elections
- **Belarus** Parliamentary elections
- **Cambodia** Senate elections
- **Costa Rica** Municipal elections
- **El Salvador** General elections
- **Indonesia** General elections
- **Jamaica** Local elections
- **Pakistan** General and provincial elections
- **Senegal** Presidential elections
- **Spain** Galician regional elections

March

- **Iran** Legislative elections
- **Maldives** Parliamentary elections
- **Portugal** Legislative elections
- **Russia** Presidential elections
- **Slovakia** Presidential elections
- **Turkey** Local elections
- **Ukraine** Presidential elections

April

- **India** General elections through May
- **North Macedonia** Presidential elections
- **Solomon Islands** General elections
- **South Korea** Legislative elections

May

- **Dominican Republic** General elections
- **Lithuania** Presidential elections
- **North Macedonia** Parliamentary elections
- **Panama** General elections
- **United Kingdom** Local elections

June

- **Belgium** Federal and regional elections
- **EU** Parliamentary elections
- **Iceland** Presidential elections
- **Ireland** Local elections
- **Malta** Local elections
- **Mauritania** Presidential elections
- **Mexico** General and local elections
- **Mongolia** Parliamentary elections

July

- **Rwanda** General elections

August

- **Australia** Northern Territory general elections

September

- **Germany** Saxony, Thuringian, and Brandenburg state elections
- **Russia** Regional elections

October

- **Australia** Capital Territory general elections and Queensland state elections
- **Bosnia and Herzegovina** Bosnia municipal elections
- **Brazil** Municipal elections
- **Georgia** Parliamentary elections
- **Mozambique** General elections
- **Uruguay** General elections

November

- **Indonesia** Local elections
- **Mauritius** General elections
- **Palau** General elections
- **Romania** Presidential elections
- **United States** Presidential, Congressional, Gubernatorial, & State Legislative elections

December

- **Algeria** Presidential elections
- **Croatia** Presidential elections
- **Ghana** General elections
- **San Marino** General elections

Scheduled/expected to occur sometime in 2024

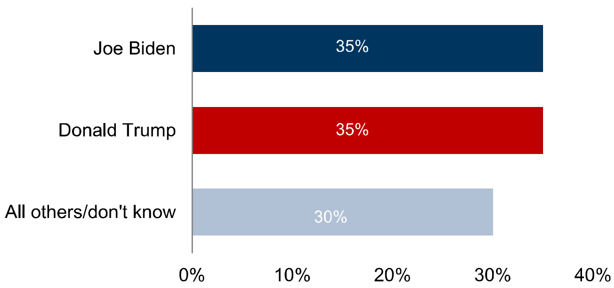
- **Austria** Legislative elections by the fall
- **Botswana** General elections
- **Chad** Presidential elections by October and parliamentary elections
- **Croatia** Parliamentary elections by September
- **Georgia** Presidential elections
- **Lithuania** Parliamentary elections by October
- **Moldova** Presidential elections in the fall
- **Namibia** General elections
- **Pakistan** Presidential elections no later than March
- **Poland** Local elections
- **Romania** Local elections
- **South Africa** General elections
- **South Sudan** General elections
- **Spain** Basque regional elections by August
- **Sri Lanka** Presidential elections at some time between September and October
- **Togo** Parliamentary elections
- **Tunisia** Presidential elections
- **United Kingdom** General elections no later than Jan 2025
- **Venezuela** Presidential elections

Note: Italicized elections have already taken place.
Source: The Economist, various news sources, Worldometer, Goldman Sachs GIR.

What do opinion polls say?

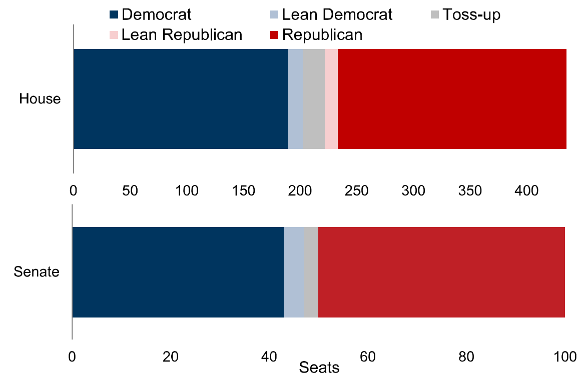
In the United States, opinion polling suggests a close race between Joe Biden and Donald Trump for the presidency, as well as close races for majority control of the House and Senate

Who Americans would choose if the 2024 presidential election was today



Note: Based on a survey of 4,677 randomly-selected US adults from Jan 3-9, 2024.
Source: Reuters.

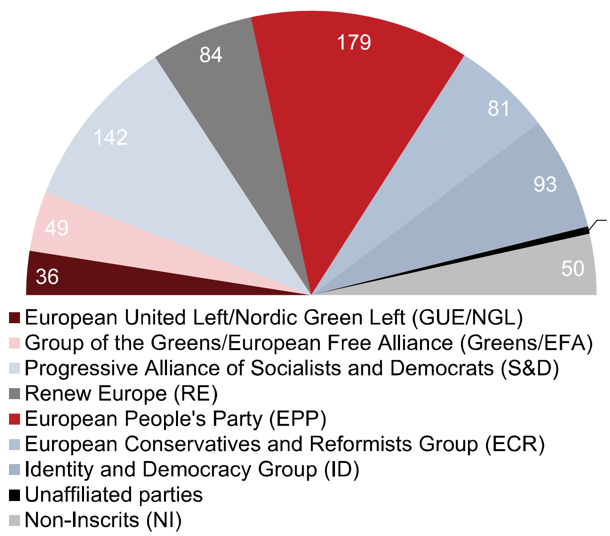
Projected makeup of the House and Senate



Note: As of January 2024. Based on combined ratings from the Cook Political Report, Inside Elections, and the University of Virginia Center for Politics.
Source: The Cook Political Report, Inside Elections, UVA, WSJ.

In the EU, polling suggests that the European People's Party (EPP) will remain the largest group within the European Parliament

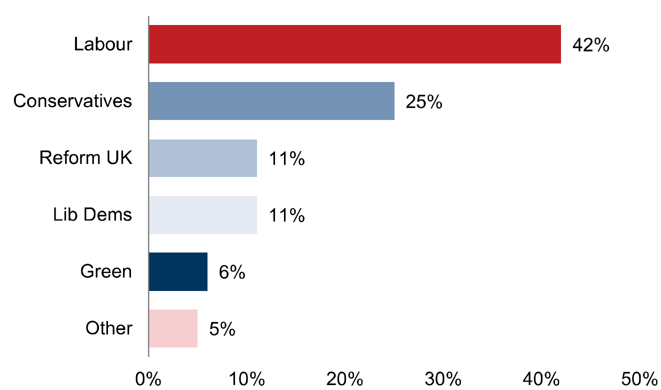
European Parliament seat projections



Note: As of December 2023.
Source: Europe Elects.

In the United Kingdom, polling shows high support for the Labour party, with Labour polling higher than the current ruling Conservative Party

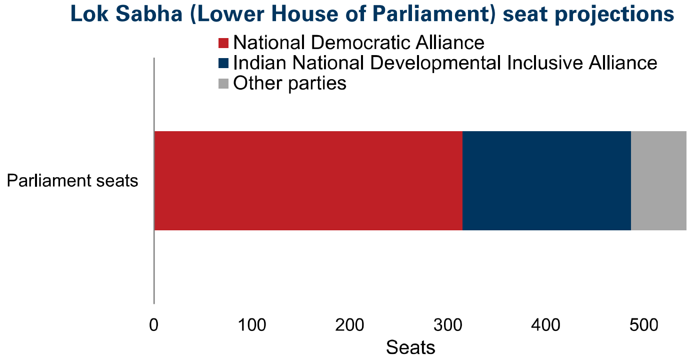
Opinion polling of political parties in the UK



Note: As of January 2024.
Source: The Economist.

In India, opinion polls suggest Prime Minister Modi's Bharatiya Janata Party (BJP)-led National Democratic Alliance will retain its parliamentary majority

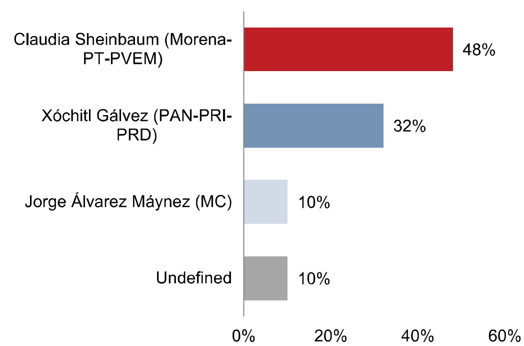
Lok Sabha (Lower House of Parliament) seat projections



Note: As of October 2023.
Source: India Today-CNX.

In Mexico, the incumbent party coalition's candidate, Claudia Sheinbaum, has a comfortable lead in the polls

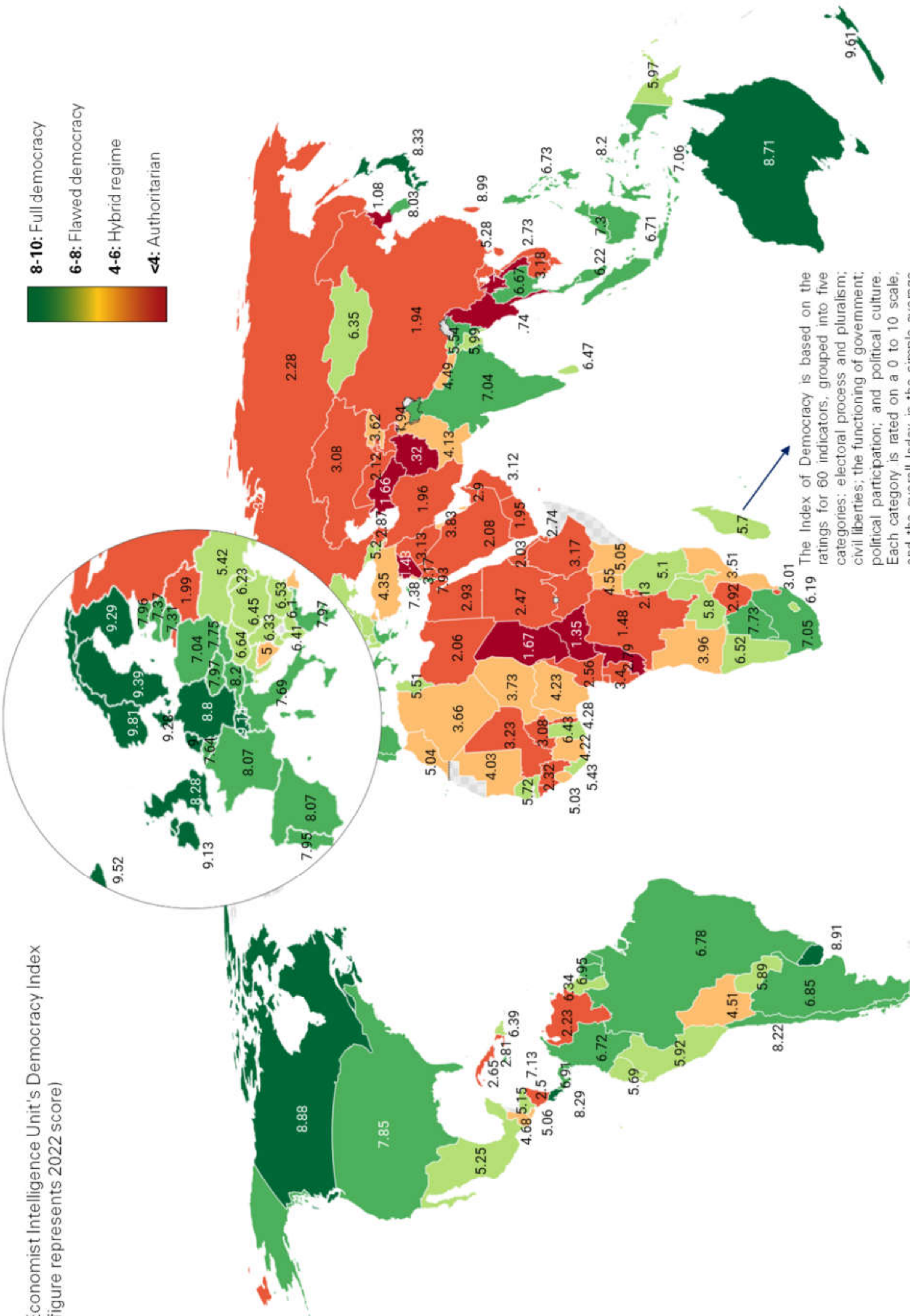
If the election for president were held today, for which party or alliance would you vote?



Note: As of January 2024.
Source: Americas Society/Council of the Americas, El Financiero.

Global democracy...

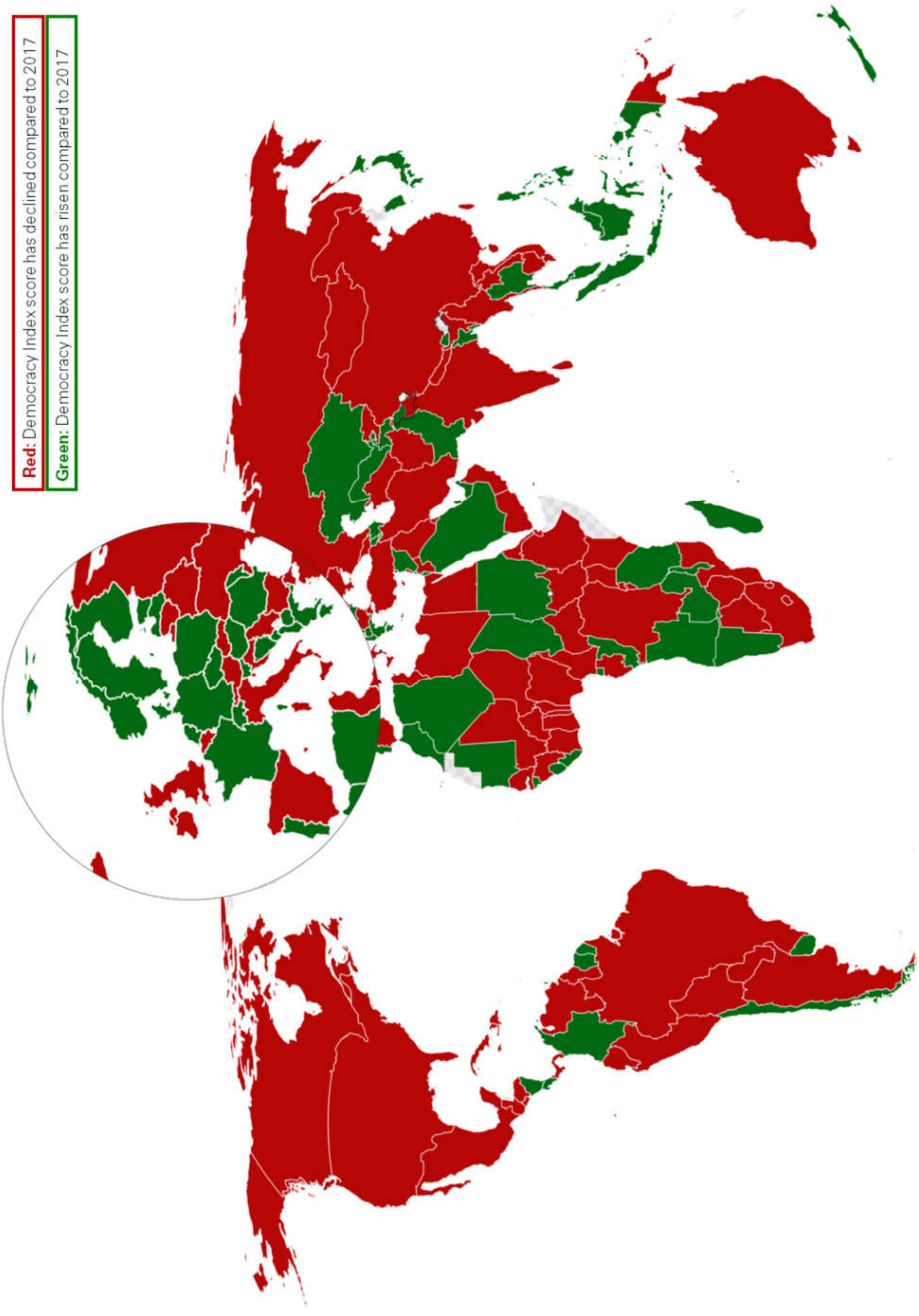
Economist Intelligence Unit's Democracy Index
(figure represents 2022 score)



The Index of Democracy is based on the ratings for 60 indicators, grouped into five categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. Each category is rated on a 0 to 10 scale, and the overall Index is the simple average of the category indices.

Note: Score categories are the Economist Intelligence Unit's.
Source: Economist Intelligence Unit Democracy Index 2022, compiled by Goldman Sachs GIR.

...has experienced a backsliding



Source: Economist Intelligence Unit Democracy Index 2022, compiled by Goldman Sachs GIR.

Interview with Elaine Kamarck

Elaine Kamarck is Senior Fellow and Founding Director of the Center for Effective Public Management at the Brookings Institution. She is the author of *Primary Politics*, now in its fourth edition. Below, she details how the US presidential election process works.

The views stated herein are those of the interviewee and do not necessarily reflect those of Goldman Sachs.

Jenny Grimberg: How does the US presidential election process work?

Elaine Kamarck: To understand the process, it's important to recognize the driving principle that underpins it: the importance of federalism and the idea of states over country that prevailed during America's establishment as a nation in the 1780s/90s. That's why US elections are state-run, and the founding fathers enshrined states' authority over elections in the Constitution. So, state law governs most aspects of US elections, including how they're administered, candidate and voter eligibility, and the primaries.

The presidential election season really begins with state primaries, in which voters choose each party's presidential nominee. The results are used to determine the amount of delegates allocated to each candidate. Delegates are individuals who vote on behalf of a group of people, and are often early supporters of a particular candidate, local political leaders, or party activists. Candidates accumulate delegates throughout the primary season that runs from January to June. After the last primary, the Democratic and Republican parties host national conventions. During these conventions, the parties officially nominate the candidate who won the majority of delegates as their presidential candidate. After that, we're off to the general election in November. During the election, voters cast their votes for their preferred presidential candidate, though what they are actually voting for is the candidate's slate of electors, who are generally chosen by the state political party. That's because the US president is elected through the Electoral College process. The Electoral College consists of 538 electors, and the candidate who wins 270 electoral votes following the meeting of the Electoral College in mid-December becomes the US president.

Jenny Grimberg: So, how exactly does the presidential nomination process work?

Elaine Kamarck: Political parties control the process—a role that Supreme Court decisions have protected—and the Court has stated that political parties are covered by the First Amendment's freedom of association. So, for over 100 years, the nomination process was essentially a closed party-run system in which people would gather at the precinct level and elect delegates to county conventions, at which delegates would be elected to state conventions, and, in turn, the national party conventions. That changed in 1972, when primaries began to select candidates. This shift, however, came about not from a change in law, but from a reform movement within the Democratic Party, which led to a change in party rules that linked primary results to delegate selection, which the Republican Party also adopted.

So, today, parties typically select delegates through primaries, though state political parties can still technically select delegates in any way they choose, including through caucuses, which are local meetings that the parties themselves manage and finance, state conventions, and state committees. The Democratic and Republican parties use different rules to award delegates based on primary results, with the Democrats mandating that all state parties use a proportional method of allocation while the Republicans generally allow state parties to choose the allocation method. Those delegates are real people, but they are elected *after* the primaries at congressional district meetings and county and state conventions, and therefore are paid little attention. But if no consensus candidate emerges from the primaries, those delegates would become important decision-makers, which is why I recently referred to them as the roughly 8,000 of 10,000 "people you've never heard of who could decide the presidential election." At the national party conventions, the elected delegates vote to confirm their candidate, and, again, the candidate who wins the majority of delegates becomes the party's presidential nominee. That's sealed by the nominee signing a paper—which I remember bringing up to Walter Mondale at the 1984 Democratic National Convention—that goes to the Federal Election Commission and state capitals attesting that they are the party's nominee, ensuring their name automatically appears on ballots.

Jenny Grimberg: How (in)frequently does it occur that delegates don't support the candidate to whom they were allocated through the primary process?

Elaine Kamarck: Delegates elected throughout the process are "pledged" to presidential candidates, and they tend to stay loyal to their candidate, with the candidates themselves quite focused on delegate selection, for obvious reasons. That said, delegates would have agency to vote for a different candidate in some cases. Early contests such as the Iowa Republican caucus are more of a "beauty contest" intended to generate publicity, as the race can often change by the time national convention delegates are elected in May; if a candidate who won delegates in Iowa drops out, their delegates would need to support another candidate. Delegates would also have agency if no candidate secures a majority on the first ballot roll call at the national convention, in which case a second vote would take place. Most delegates would then become free to support a different candidate and, on the Democratic side, roughly 700 "superdelegates"—unelected delegates who can support any candidate—also become eligible to vote.

Jenny Grimberg: Why are all primaries not held on the same day to ensure that all states have equal say in the process?

Elaine Kamarck: The constitutional presumption that states run elections means that Congress may not be able to set a national primary day even if it wanted to. It would require agreement between all 50 state legislatures, 100 Republican and Democratic state parties, and the two national parties, which seems like a pipe dream. Political parties like to exercise control over the nomination process, and each state party has its own views on when to hold its primary, even as some regional primary groupings exist. At its core, this is all about state politics.

Jenny Grimberg: How much do the recent decisions in Colorado and Maine declaring Trump ineligible to appear on their state Republican primary ballots actually matter?

Elaine Kamarck: The decisions are meaningless for the nomination race. Trump doesn't have to be on either state's primary ballot for the state Republican parties to send a slate of delegates to the national convention to vote for him—again, the state parties can select these delegates at their state convention or by state committee. But Trump not appearing on the ballot in November would have significant implications for the general election. Voters in each state determine the number of Electoral College votes a presidential nominee receives, so keeping Trump off the ballot would make it difficult or impossible for him to win a state's electoral votes. So, whether the decisions ultimately stand could have broader, and potentially enormous, consequences for the presidential race.

Jenny Grimberg: With the consequential races in Iowa and New Hampshire now over, what's most important to watch from here re: the Republican nomination race?

Elaine Kamarck: While the presumptive nominee at this stage has often been the person who won the early primaries, in some years, the race goes on until the final primaries in June, as was the case with Reagan-Ford in 1976, Carter-Kennedy in 1980, and Clinton-Obama in 2008. So, the delegate count will be key to watch. Delegates will accumulate in large quantities starting on Super Tuesday—March 5—and a candidate must win a majority of delegates to secure the nomination.

Jenny Grimberg: Turning to the general election, what would happen if a party's presumptive/chosen nominee becomes incapacitated this year and unable to run/serve?

Elaine Kamarck: If it is clear that the presumed nominee can't run before the national convention, the nomination process would proceed as usual, with the national convention delegates choosing the nominee, though a second convention ballot may be needed to elect a candidate. If a chosen nominee can't run and that's clear before Election Day, both parties have provisions in their rules to call a special session of their national committees to vote on a new nominee. If the candidate who wins on Election Day can't assume office, then we're on our way to the Electoral College, and just as delegates are real people who may have agency in some cases, so may the 538 electors. So, although as a matter of political practicality the vice-presidential candidate of the elected party may become president, that wouldn't automatically happen, and no law exists that says it must. Lastly, if the winner of the Electoral College can't take office on Inauguration Day, the vice president-elect would automatically be inaugurated per the 20th amendment to the Constitution. So, essentially, party law governs up until Election Day, and only once the Electoral College meets does the Constitution apply.

Jenny Grimberg: If no candidate wins the 270 Electoral College votes needed to secure the presidency, what then?

Elaine Kamarck: That would trigger a contingent election, whereby the House of Representatives would select the president. Every state would have one vote, determined by a majority of their congressional delegation, and the candidate who receives 26 votes would become president. This means that Wyoming would have the same vote as California.

Jenny Grimberg: What role does the popular vote play in determining the outcome of the presidential election?

Elaine Kamarck: The *national* popular vote unfortunately plays no role because the Electoral College is enshrined in the Constitution, which says that each state shall appoint electors as determined by the state legislature, and, currently, 48 states choose to award all their electors to the winner of the *state* popular vote. Over the last 25 years, the winner of the national popular vote didn't win the presidency twice, in 2000 and 2016. That's a reflection of dramatic shifts in the distribution of the US population over the last few centuries. The population used to be relatively evenly spread throughout the country. But with the agricultural revolution emptying out huge swaths of middle America, much of the population now lives on the coasts, yet the Electoral College has not changed to reflect that. Wyoming, with half a million people, has three electoral votes, while California, with nearly 80x the population, has only 55. A way to fix this imbalance would be to enact the Electoral Compact, whereby each state would award its electoral votes to the winner of the national vote. This could be enacted if enough states sign up to it since no law exists that dictates how states must award electors, though such a consequential decision would almost certainly be adjudicated by the Supreme Court.

Jenny Grimberg: Why is it so difficult for a third party to play a significant role in the US electoral process?

Elaine Kamarck: Political parties are useful because they serve as a shorthand for people to understand what a party stands for. Most Americans generally know what they're getting when they vote Democrat or Republican. While a third-party group like No Labels may have an attractive moniker, voters have no idea what it represents. The setup of the US electoral system also presents a challenge for third parties. The US has a first-past-the-post electoral system, whereby voters vote for a single candidate, and the candidate with the majority of votes wins the election—no option exists beyond winning or losing. By contrast, third parties can play a larger role in parliamentary systems, which allocate seats in government based on a party's vote share and therefore give third parties bargaining power to push through their agendas, secure cabinet slots, etc. That's just not the case in the US electoral system.

Jenny Grimberg: But doesn't the fact that a significant share of US voters don't seem to want a Trump-Biden rematch argue in favor of a third party?

Elaine Kamarck: The argument that nobody wants a Trump-Biden rematch is absolutely true. But the conclusion groups like No Labels draw from that—that a third-party candidate could win the presidency—is absolutely wrong. If and when No Labels nominates a candidate, many people will decide they prefer Trump or Biden, because the No-Label candidate will inevitably be a real person with problems, history, issue positions, etc. No Labels won't even be on many state ballots come November, which in itself makes it impossible to win the presidency. So, this third-party idea is a feckless undertaking, and one that could lead to the worst possible election outcome.

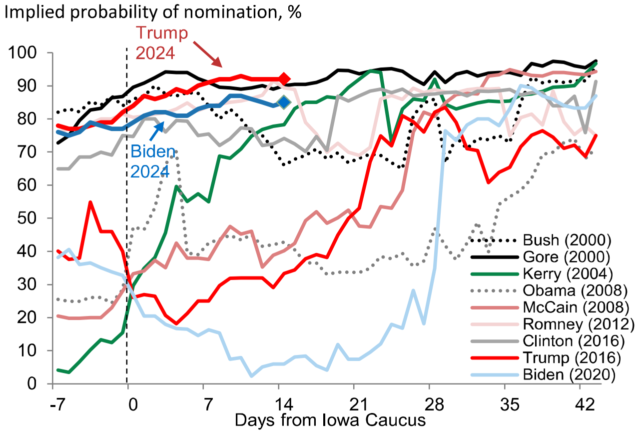
A very unusual US election

Alec Phillips explains why the 2024 US presidential election is particularly unusual and what that could mean for policy dynamics

The 2024 US presidential election is unusual in many ways, with the unfolding nomination process already providing several examples of these irregularities. The out-party's nominee has become clear unusually early—identifying the presumed nominee often takes at least a month after the Iowa caucuses and sometimes until Super Tuesday (March 5). But while the primary winner is normally nearly certain to win the nomination, former President Trump's legal issues leave residual uncertainty. And the incumbent's nomination is also unusually uncertain, with prediction markets still putting President Biden's odds (84%) of being on the ballot in November slightly below Trump's (91%).

Prediction markets put Biden's odds of being on the ballot in November slightly below Trump's

Implied probability of nomination, %



Source: Iowa Electronic Markets, Goldman Sachs GIR.

The setup for the general election is even more unusual. Not since 1892 has a defeated incumbent challenged the sitting president who defeated him four years earlier, with public views on both already clear. Third-party candidates have around 20% support—a larger share than in any race since 1992—to the detriment of Biden, who has been trailing Trump in head-to-head polling by low to mid-single digits. And Biden's poor polling is itself an outlier. In the era of modern polling, even most incumbents who eventually lost—Gerald Ford, Jimmy Carter, and George H. W. Bush—were faring better than Biden in early election year polls (sporadic early polling showed LBJ trailing Richard Nixon, but LBJ withdrew in March). Ironically, in 2020 Trump was the only other sitting president trailing by such a large margin at this point in the election cycle.

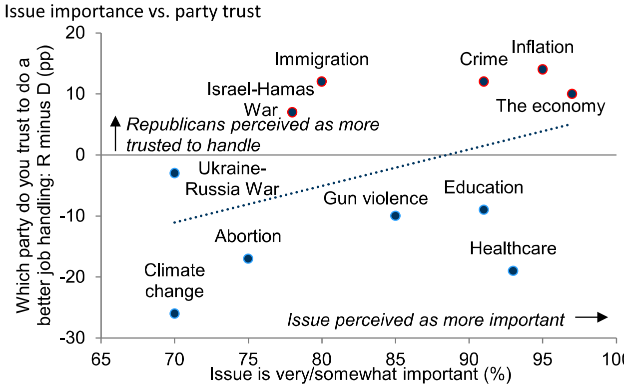
Unusual election-year policy dynamics

A sitting president trailing in the polls and a former president seeking reelection should also make for unusual election-year policy dynamics. Biden has a greater incentive to push through policies to help his reelection, even involving compromises he would not normally make. But if the White House is open to big policy concessions for small pre-election gains, Republican lawmakers seem less inclined to take policy wins, instead choosing to retain those issues for the campaign. Trump's recent significant wins in Iowa and New Hampshire also give his views new weight among Republican lawmakers.

This tendency is clearest in **immigration policy**. The Senate is within reach of a deal on tighter policies and more funding for the US-Mexico border, which Senate Republicans made a condition of providing further aid to Ukraine. However, a border deal would remove the urgency from a campaign issue that benefits Republicans. Trump, who already opposed more Ukraine aid, has come out against the deal, making House passage difficult. As such, we think the odds of either additional Ukraine funding or a border deal before the election are below 50%.

Republicans have a public opinion advantage on immigration

Issue importance vs. party trust



Source: Ipsos, Goldman Sachs GIR.

A similar situation exists with regard to **fiscal policy**. Democrats have sought an expanded child tax credit since it expired in 2022, in return for restoring several Republican-backed business tax incentives. As with a US-Mexico border/ Ukraine deal, this tax deal would involve Democrats making big concessions (a reduction of $140bn in business tax receipts in 2024) for relatively small gains ($10bn more in child tax credits in 2024). While the House has passed the deal in a strong bipartisan vote, progressive Democrats in the Senate object to its lopsided nature, as do conservative Republicans, who have policy concerns but may also object to pre-election "Biden bucks." While the odds of enactment are higher than for a border deal, election-year politics also lean against the tax cuts becoming law.

Election politics also creates some risk around the upcoming **funding deadlines** on March 1 and 8. For now, the risk of a government shutdown appears fairly low, but this could change if issues raised in the campaign (e.g., immigration) become entangled with the congressional debate. The funding deadline also represents a practical deadline for enactment of the US-Mexico border/Ukraine or tax deals.

While the election's broad policy implications are clear, what policy issues the candidates will emphasize in the run-up to the election is not. On fiscal policy, Trump is likely to emphasize tax relief, especially for businesses. Given that Trump has been an outlier among Republicans for declining to propose benefit cuts, Biden might seek to create a wedge issue to gain support by proposing benefit expansion funded out of new taxes on corporations and the wealthy. Trump is less likely to emphasize another major proposal that could be polarizing—a 10% across-the-board tariff—but if he does emphasize it, that would send a strong signal that he would try to implement it if he wins.

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US equities: election reflections

Ben Snider discusses how US equities tend to behave in US presidential election years

US equity investors typically focus squarely on upcoming US presidential elections only shortly before Election Day. In recent presidential election years, measures of economic policy uncertainty, equity implied volatility, and election-related internet search volumes have all risen sharply in the early fall, once the nominated candidates and their proposed policies have become clear.

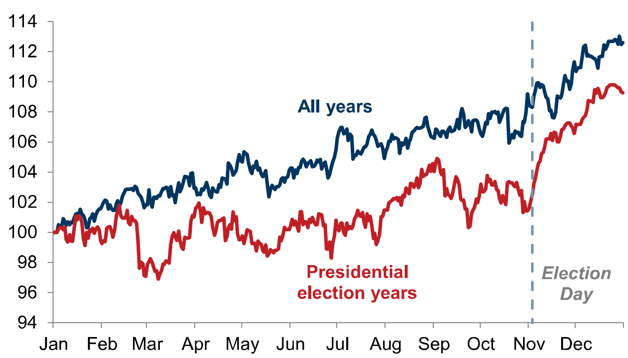
However, with the likely nominees looking clear at this point, investors have already begun thinking about the potential market implications of the 2024 elections, as reflected in our client conversations and equity implied volatility. While other macro and micro drivers, rather than politics, are more likely to move stocks over the next few months, some election year equity market patterns exist that may be useful for investors to keep in mind in the run-up to this year's consequential election.

Returns: weaker-than-average, earnings-driven, and backloaded

Three key patterns are worth noting on the returns front. First, equity returns have generally been modestly weaker than average in presidential election years. In the 10 election years since 1984, the S&P 500 generated a median total return of 11% (inclusive of dividends), compared with a median return of 15% across all years since 1984. However, in part because of some coinciding large macroeconomic shocks, the distribution of election year returns has been extremely wide, ranging from as low as -37% in 2008 to as high as +23% in 1996.

Modestly weaker-than-average equity returns in election years

Median annual path of the S&P 500 1984-2023, January 1=100



Source: Goldman Sachs GIR.

Second, earnings growth typically drives presidential election year returns. US GDP and corporate profit growth have typically been stronger than average in these years. Despite this, a widening equity risk premium has typically reduced the S&P 500 P/E valuation multiple by 3% in presidential election years.

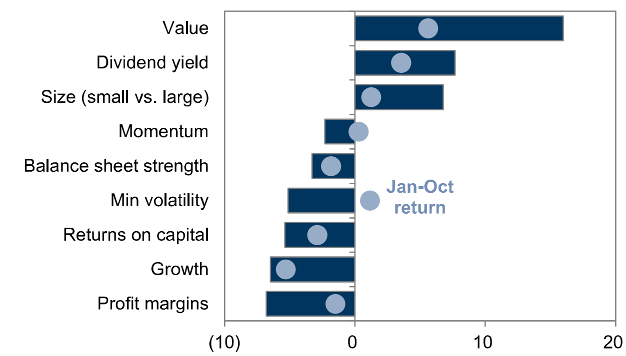
And third, election year returns tend to be even more backloaded than usual. In a typical year, equity returns demonstrate strong seasonality late in the year, with equities returning an average of 4% in the last two months of the year. In election years, however, regardless of the election outcome, declining uncertainty typically lifts equity valuations and prices following Election Day by more than the typical seasonality would suggest. Indeed, the S&P 500 P/E multiple has declined by a median of 6% in the first 10 months of election years and rebounded by 3% in the last two months of the year.

Size, strategies, and sectors: small-caps, value, and financials outperform

Within the US equity market, small-caps and value stocks have generally outperformed in presidential election years. The Russell 2000 has generated a median return of 16% during election years since 1984, outperforming the S&P 500 in eight of the 10 election years. Our long/short value factor has also risen in eight of the last 10 presidential election years. The robust growth backdrop that often characterizes election years may help explain these patterns. Among sectors, Financials has been the strongest performer in the typical election year, while Information Technology has usually lagged.

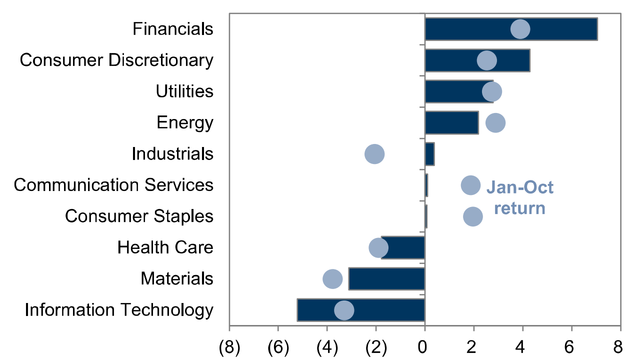
Value stocks have generally outperformed in election years...

Long/short factor return in median presidential election year since 1984, pp



...as have Financials

S&P 500 sector excess return in median presidential election year since 1984, pp



Source: Goldman Sachs GIR.

Look beyond the patterns

Ultimately, polls and policy proposals will serve as more useful signals for election-related equity market rotations than simple historical patterns over the coming months. Four years ago, as Trump was preparing to face Biden, tax policy and potential healthcare reform dominated equity investor attention in much of the lead-up to Election Day. So far this year, equity investors have largely focused on potential election outcomes regarding fiscal policy, regulation, and global trade, though the election is unlikely to become a primary driver of equity market volatility until the general election race heats up closer to Election Day.

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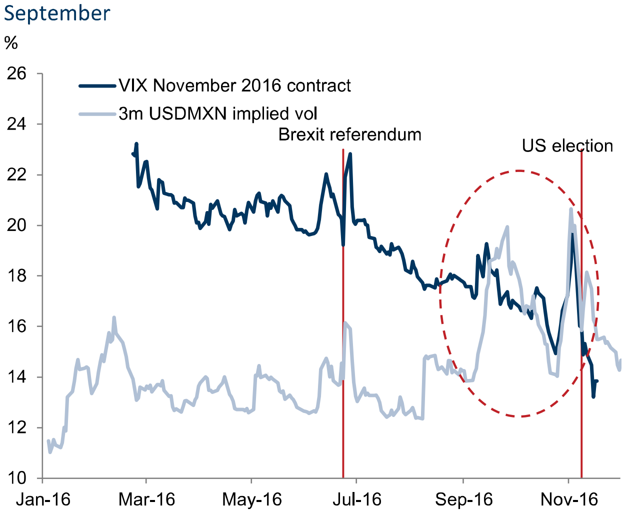
Trading the US election

Dominic Wilson and Vickie Chang assess the potential market impacts of the upcoming US election and outline how to position for the range of potential policy shifts

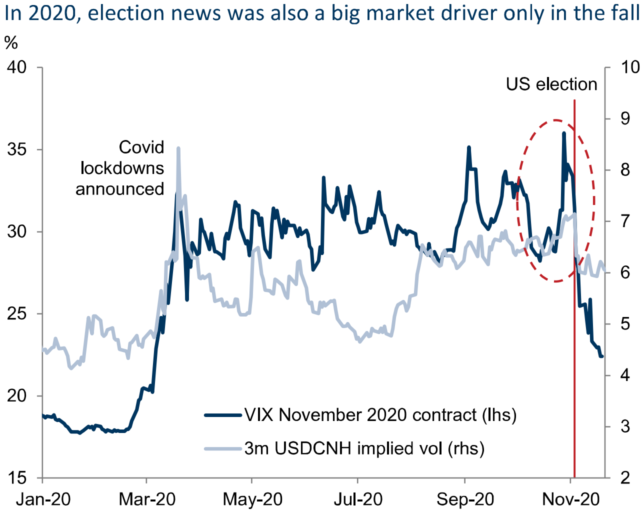
This year's US presidential election has increasingly come into focus, with a Biden-Trump rematch looking ever more likely. The 2024 election could be a major market event given the policy differences between the likely candidates. While the experience of 2016 and 2020 suggests it may be too early for the election to have a major impact on markets, given that Trump and Biden are both well-known quantities, the election could impact markets earlier than in prior election years. Here, we map out the key issues that may be at stake and the asset shifts that could occur in case the market presents opportunities to gain early exposure to those themes.

In 2016, the election did not move macro markets much until September



Source: Bloomberg, Goldman Sachs GIR.

In 2020, election news was also a big market driver only in the fall



Source: Bloomberg, Goldman Sachs GIR.

Potential market impact from five main policy areas

As our economists have laid out, the key macro impacts of the election will likely revolve around five main areas:

1. **Fiscal stance: Unified government raises risk of a fresh impulse.** Significant shifts in the fiscal stance are more likely under unified government. A sweep by either party would raise the risk of fresh fiscal expansion. Typically, such a sweep would boost US growth and interest rates as well as support equities, although the shift in fiscal stance in 2024 will likely be much smaller than it was in 2020. And with much lower unemployment, higher inflation, and the market pricing Fed cuts already, fiscal expansion could impact the policy outlook more than the growth outlook, eroding potential gains in US equities but reinforcing the upward pressure on bond yields and strengthening USD. Greater investor focus on fiscal sustainability today also suggests that further fiscal expansion might fuel fresh worries about the premium needed to hold longer-dated bonds and support steeper curves.

A lower unemployment rate, higher inflation, and higher interest rates than in 2016 or 2020

	2016 Q3	2020 Q3	Latest	2024 Q3 Forecast
Economic				
Core CPI (yoy)	2.3%	1.7%	3.9%	*3.0%*
Unemployment Rate	5.0%	7.8%	3.7%	*3.6%*
Real GDP Growth (yoy)	1.8%	-1.5%	3.1%	*2.7%*
Fiscal Balance as % of GDP*	-3.2%	-14.9%	*-6.0%*	*-6.0%*
Financial				
Fed Funds Rate	0.38%	0.13%	5.38%	*4.38%*
10y Yield	1.59%	0.68%	4.03%	*3.85%*
S&P 500 Cyclically-Adjusted P/E Ratio	26.7	30.8	33.6	*34.1*
VIX	13.3	26.4	13.3	--
USD Overvaluation (GSDEER)	7%	14%	15%	*15%*

**Fiscal balance as % of GDP for full fiscal year. Italics indicate GS forecasts.*
Source: Bloomberg, Haver Analytics, Goldman Sachs GIR.

2. **Tax and regulatory policy: Likely a smaller focus than in 2020.** A unified Republican government would likely extend the individual tax cuts from 2017 beyond January 2026. While neither party has outlined their agenda at this stage, a Republican sweep would more likely result in consideration of further corporate tax breaks and fresh pressure for deregulation, as well as a friendlier stance toward fossil fuel production and less support for renewables. The likely shifts appear more modest than in 2020, but we would nevertheless expect a Republican sweep to be viewed as friendlier for the after-tax corporate earnings outlook.

3. **Trade policy: a broader focus.** Both Republicans and Democrats have embraced a more forceful approach to US industrial policy. But a second Trump term would likely lead to larger shifts in trade policy. Indeed, Trump has already proposed a 10% across-the-board import tariff. While it's not yet clear how that would interact with the US-Mexico-Canada agreement or existing China tariffs, the prospect of tariff restrictions will likely boost USD at the margin. In 2019, expected tariff increases on China had a significant market impact, with declines in US equities, larger declines in China/EM equities, weakness in China and China-related currencies, and USD and JPY strength. The prospect of broader tariffs after 2024 would likely lead markets to anticipate a stronger USD against both European and North Asian currencies, including CNH, and

potentially increase FX volatility overall. Given the much broader scope, these shifts could potentially provide a larger boost to the trade-weighted USD than was the case following the 2019 tariffs. Fears of broader tariffs may also weigh on non-US equities and commodities.

4. **Monetary policy and the Fed: looking to the Senate.** The election outcome should not directly affect monetary policy decisions of the Fed, which operates independently of the executive branch. But Trump has stated that he would not reappoint Fed Chair Powell when Powell's term ends in 2026. In such a scenario, market concern about the potential for Fed subordination could increase, which would typically push in the direction of a higher inflation risk premium and steeper yield curves. While similar concerns surfaced in Trump's first term, Senate approval proved a key hurdle, and, ultimately, the successful Fed appointments were more conventional. The prospect of more restrictive immigration policies under a Republican Administration may also lead to fears of tighter labor supply and therefore point in the direction of somewhat higher inflation risk.

5. **Geopolitics: fresh tails.** A Republican Administration and Congress would likely look less favorably on ongoing support for Ukraine in its war with Russia (the Republican majority House has so far blocked an extension of aid), which could lead to a resolution of the conflict and more Russian energy supply available to the market. The impact on oil supply may be more modest than expected, though, given our view that OPEC+ supply, rather than sanctions, is constraining Russian supply. And while the impact on Russian gas supply could be larger, European consumers and governments may be unwilling to return to depending on Russian gas. Depending on the form of any anticipated resolution to the conflict, European and CEE assets could ultimately experience some further relief. But markets may also anticipate higher tensions between the US and its European allies on Ukraine, trade policy, and NATO. A Republican Administration also seems more likely to increase restrictions on Iran, and so the upside tail from oil supply disruptions could increase.

Positioning for election risks is challenging at this point…

Given the significant differences in potential policy outcomes, one clear implication of the election is that volatility may be higher, and the distribution of outcomes will likely look wider—particularly for rates and USD—as the election approaches and until it is over. Market implications will likely become clearer as policy differences are better understood. But, on balance, a Republican victory—especially a sweep—would likely increase the chances of a stronger USD, higher breakeven inflation rates, higher yields, and a steeper yield curve. It may also increase the tails in both directions for energy prices. The combination of commodity price risks, higher yields, and a stronger USD also makes EM—and perhaps broader non-US—asset underperformance more likely. Clues from the increase in the probability of a Trump victory following the Iowa caucus provide modest support for the notion that his trade and international agenda may boost USD.

While investors are already focused on these shifts, positioning for them with confidence this far ahead of the election is difficult, as the policy platforms and balance of the race are still changing, and many other developments could occur between now and November that may affect the relevant assets. And, while in principle isolating the window around the election and positioning for higher volatility or shifts in outcomes over that window may be possible, in practice, that too can be unreliable, as the perceived probability of a given outcome could shift well ahead of time. The market may also shift its views on the asset implications of different outcomes as more information becomes available, which increases the risks to positioning early.

Potentially significant impacts from policy shifts create paths to higher rates, USD, and volatility

	Potential Impacts
Fiscal Stance	Fiscal expansion would boost equities and interest rates, strengthen USD on growth upgrade. Potential for offsetting monetary policy shock that puts pressure on equities and reinforces upward pressure on rates and USD
Tax and Regulatory Policy	Lower tax rates and deregulation would likely boost US equities, tighten credit spreads, lower equity vol
Trade Policy	Broader tariffs would likely strengthen USD especially vs. affected currencies, higher FX vol
Monetary Policy	Potential for higher inflation risk from unconventional Fed leadership choice
Geopolitics	Potential for less aid to Ukraine may boost Russia-exposed assets, two-sided risks to energy prices, markets might anticipate higher tensions with European allies

Source: Goldman Sachs GIR.

…though some interesting prospects still exist

Given these considerations, the most interesting prospects at this point are likely in assets that are affected by changes in multiple policy areas (higher yields, stronger USD), have positive or only modestly negative carry, that are priced as relatively unlikely to occur by options markets, even at longer horizons, and that offer exposure to scenarios beyond those associated with the election outcome or that add to the case for an investor's existing directional views. On that basis, we think the most interesting areas to monitor for opportunity currently are options on long USD positions—particularly against EUR, CNH, and JPY where carry is positive and implied volatility is not unusually high—upside on longer-dated rates, positions that benefit from higher FX or equity volatility later in the year, positions that are levered to geopolitical risk, such as in gold, and possibly positions for steeper yield curves.

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Interview with Timothy Garton Ash

Timothy Garton Ash is Professor of European Studies at the University of Oxford, Senior Fellow at the Hoover Institution, and author of *Homelands: A Personal History of Europe*. Below, he says the defining events for Europe this year won't be any election, at least not one in Europe.

The views stated herein are those of the interviewee and do not necessarily reflect those of Goldman Sachs.

Allison Nathan: Which of the elections scheduled/expected in European countries this year are particularly significant?

Timothy Garton Ash: It is first important to understand that the most defining event for Europe this year won't be any election, but rather the war in Ukraine, and the decisions Europe makes in the potential absence of increased US support for Ukraine. On the elections front, though, the most important election for Europe this year by far won't be any European election, but rather the US election. It's impossible to overemphasize how significantly the entire European debate is shaped by these two threats: the threat of aggression from the East—in the form of Vladimir Putin—and, from a European viewpoint, the threat of withdrawal from the West, courtesy of Donald Trump. That isn't to say that the European elections are unimportant. Nine national elections, significant regional elections, such as in Germany, and European Parliament elections are expected. And the common feature of all but one—the UK election—is a growing concern that hard-right populist parties focused on the hot button issue of migration will do very well and pull the EU sharply to the right. So, it is indeed a very important election year in Europe as well.

Allison Nathan: Last time we spoke, you argued that the post-Covid years may prove to be a good time for European populists. To what extent has that played out, and should we view that as a harbinger for what's ahead?

Timothy Garton Ash: I hate to say I told you so, but I did. The list of populist successes in the recent period is as long as your arm. Geert Wilders, a hard-right, Islamophobic figure, won big in the Netherlands. Giorgia Meloni, a post-neo-fascist, is now Prime Minister of Italy. AfD is polling at unprecedented levels across Germany. In France, Marine Le Pen's Reassemblement National party is ahead of Emmanuel Macron's Renaissance party in opinion polls for the European Parliament elections. I could go on and on. Bad times are good for populists, so the economic and social hardships populations endured during and post Covid have undoubtedly worked in populists' favor.

Populists are also benefitting from continued fragmentation of the political landscape, driven by three factors. One, Europe's proportional representation electoral systems let many parties enter government. Two, the classic social bases of major parties like the Social or Christian Democrats have disappeared, so their vote shares are now under threat. And three, technology has helped smaller parties organize and win votes. This fragmentation has made it harder for governments to pass reforms, which, in turn, has increased support for protest parties. So, good times for European populists may continue.

Allison Nathan: But are you at all comforted by the recent defeat of the nationalist party in Poland?

Timothy Garton Ash: The October election in Poland was no doubt the most encouraging political development in Europe in 2023. It showed that even in a country where a populist party has performed extensive state capture, including in the media, it's still possible to win an unfair election with a well-organized and well-led opposition, which doesn't have to be united, and a skillful mobilization campaign. And such an achievement can surely be replicated elsewhere. The challenge is that this reassuring result happened in a country where the economy was doing well, which is not the case in many other places.

Allison Nathan: But even if more extreme parties are gaining ground, are their policy positions ending up as extreme as feared?

Timothy Garton Ash: In practice, many—though not all—extreme parties are increasingly moderating their tone at the same time that mainstream parties are leaning in the direction of their more extreme opponents as both attempt to maximize their vote shares. But these shifts seem to be working more in favor of extreme parties because voters seem to be saying, why should I have the dog whistle when I can have the real dog, especially when the real dog is apparently becoming more moderate and civilized? The joke in the Netherlands was that Geert Wilders became Geert "Milders" in the final weeks of the election. And in Italy, Meloni, who came from a neo-fascist party to become a mainstream leader of a major European state, has been extremely constructive on many key EU issues, including the war in Ukraine, the future of the eurozone post-Covid, the green agenda, etc. Marine Le Pen in France is also attempting to go more mainstream, with her parliamentary faction becoming more moderate and she herself participating in the recent march against antisemitism in Paris. That strategy is proving successful so far, so much so that French voters may very well elect Le Pen as their next president in 2027.

Allison Nathan: To what extent will these national politics influence the European Parliament elections, and how much power does the European Parliament actually wield?

Timothy Garton Ash: The Parliament is the EU's only directly elected body, so it's meant to address the EU's so-called democratic deficit. In theory, the candidates running in the elections represent the whole of the EU because they come from Europe-wide parties like the European People's Party (EPP). But, in reality, these Europe-wide parties are comprised of national parties that form party families in the European Parliament. And the elections are largely national elections fought on national issues—even if some issues are common across many Member States—whose significance is read as much in the national context as in the European context.

The Parliament has substantial influence in the EU. It approves all EU legislation, which takes precedence over the national laws of Member States. It scrutinizes the EU budget and approves the European Commission and its president, and has the power to sack them. And every time people become concerned about the democratic deficit, they grant more power to the Parliament in the illusory hope that this institutional change will address it.

Allison Nathan: What are you watching to gauge the impact of these elections on the EU's policy direction?

Timothy Garton Ash: The first two words to say on this front are: Viktor Orbán. The Hungarian leader, who is prime minister of a country many no longer consider a democracy, is the effective leader of an intra-EU opposition that is sovereigntist, resistant to further integration, and takes a very soft line on Putin and the war in Ukraine as well as a very hard line on immigration and cultural issues. So, the key question is, will the Parliament that emerges from the elections pull the EU's policy agenda Orbán's way, even if the center-right EPP remains the largest group within Parliament?

That's possible because the EU is both a supranational and intergovernmental organization—certain decisions are made at the EU level, while others require the agreement of national governments. Orbán, as a head of government, has veto power in areas like EU foreign and security policy decisions, which are based on unanimity. So, if the EU wants to become a more effective actor in the world and continue to function after a potential new eastward enlargement, etc., it needs to move away from unanimous decision-making to qualified majority voting in these areas. Such a shift would require, among other things, the approval of the European Parliament, so it's already difficult to achieve. And it would become even more so if the Orbán-led populist bloc in Parliament becomes stronger.

Allison Nathan: Even if that were to happen, is the EU now beyond the point of existential danger?

Timothy Garton Ash: Not necessarily. In recent polling of people in 21 countries, including 10 non-European countries, a third of Europeans and large number of non-Europeans believe the EU will fall apart within the next 20 years. So, the issue of existential danger is absolutely still present, with three factors likely keeping it there. First, the largest war in Europe since 1945; nearly three-quarters of non-Europeans who see EU collapse as likely also expect Russia to win the war in Ukraine. Second, Donald Trump, who, if elected, could pull the security rug out from under Europe after 80 years of American security support. Trump has made it clear that he would seek a deal with Putin over Ukraine, and greatly reduce American military support for the country. That would not only be catastrophic for Ukraine, but also pose a huge challenge to European security—even if Europe begins to build up its own defense, it cannot achieve strategic autonomy within a year. Trump has also talked of pulling the US out of NATO, and even if he ultimately doesn't, the credibility of the Article 5 collective defense guarantee would be significantly undermined. And third, the socioeconomic and cultural concerns that are feeding the unfavorable European electoral politics we've discussed.

Allison Nathan: How might elections in Ukraine and Russia this year affect the war and its ultimate resolution?

Timothy Garton Ash: Ukrainian elections almost certainly won't happen given that martial law is still in force. I've visited Ukraine many times since the full-scale war began, and a clear consensus exists that an election would be far too divisive in wartime. But the tension between unity and democracy is rising—after all, this is a war ostensibly defending democracy, but how can a democracy not hold elections? So, the political rivalries among President Volodymyr Zelensky, his Commander-in-Chief Valerii Zaluzhnyi, Kyiv's mayor Vitali Klitschko, and other politicians have returned, which is weakening Ukraine. As for Russia's presidential election, it is obviously not an election at all. Nobody has any doubts who will win, but what's also clear is that Russia's recent massive aerial bombardment of Ukraine and offensive actions in eastern Ukraine are designed to deliver symbolic victories ahead of the March elections because Putin doesn't just want to win the "election", he wants to win big. All that said, the election that really matters for the war is the US election. The consensus among military experts is that neither side will win the war in 2024, but rearmament, training, and deployment decisions made this year by both sides may determine who wins in 2025/26. Yet, it's clear that Putin is waiting for Trump to deliver him a victory.

Allison Nathan: Is the UK set for a leadership change, and what might that mean for the UK-EU relationship?

Timothy Garton Ash: Conservatives are widely assumed to lose the upcoming election. I met Boris Johnson in 1997, when he unsuccessfully stood in the election that Tony Blair won, and he told me that on every doorstep voters said to him, "it's time for a change." The country overwhelmingly feels that way again. So, either a clear majority Labour government or a coalition/minority government will emerge from the elections, which suggests a closer UK-EU relationship ahead. Whether this will happen by continued hyper-gradualism, whereby the UK takes further small steps towards the EU, or a gradualist reset, whereby the UK and EU start cooperating across many different fields including science, trade, defense, cyber, etc. under the single heading of security depends on Labour's agenda, but also—like so much else in Europe—on the US election. If Trump is elected, both the EU and the UK will have an overwhelming motive to develop a closer relationship, because Europe will experience a full-blown security crisis.

Allison Nathan: So, how concerned are you about the direction of Europe/West post the upcoming elections?

Timothy Garton Ash: It's very difficult to think that 2024 will be a positive year for the West given, above all, the state of democracy in the US and the very real possibility of a Trump victory, but also the European issues we've discussed. That said, the twin threats of Putin and Trump could galvanize European leadership. Two developments will be key to watch on this front. One, who will become the EU's new institutional leaders; up to now, national leaders have tended to not want big hitters in the top jobs in Brussels for fear of being overshadowed. But if they can leap over their shadow and pick the best people for those jobs, like Mario Draghi for European Council president, that would be encouraging. And two, the positions leaders of the major European states take. When Europe has got its act together, as it did in the late 1980s, it's always thanks to a combination of strong EU institutional leadership and the leaders of major Member States working together in a "strategic coalition of the willing." If both of those come together by the end of 2024, one could start to become cautiously optimistic.

Lessons from Poland's 2023 election

Kevin Daly explores lessons learned from the surprise victory of Poland's liberal/centrist opposition in the 2023 parliamentary elections

2024 should be a celebratory year for global democracy: with countries representing close to 50% of the world's population scheduled to hold national elections this year, more people are likely to vote in 2024 than in any previous year. However, many of the elections this year will be less than fully free and, across the world, the liberal democratic system faces challenges from the combined threats of populism, nationalism, and autocracy. According to Freedom House, political rights and civil liberties have declined across the globe for 17 consecutive years (from a peak recorded in 2006).

With national populists polling highly in many countries holding elections this year, concern is growing that 2024 will instead mark a significant step backward for liberal democracies. However, the defeat of Poland's populist government by the liberal opposition in its parliamentary elections last year suggests such a step backward isn't inevitable.

Poland's 2023 elections: a surprise victory for liberalism …

In a rare recent reversal for national populism, Poland's liberal/centrist opposition parties won a surprise victory in last year's Polish parliamentary elections, defeating the two-term populist/conservative government, led by the Law and Justice (PiS) Party. This victory was all the more notable given that the winning opposition coalition (Civic Platform, Third Way, and the Left Party) faced significant electoral disadvantages, including state media bias, skewed electoral boundaries, and the introduction of special measures to increase the turnout of government supporters.

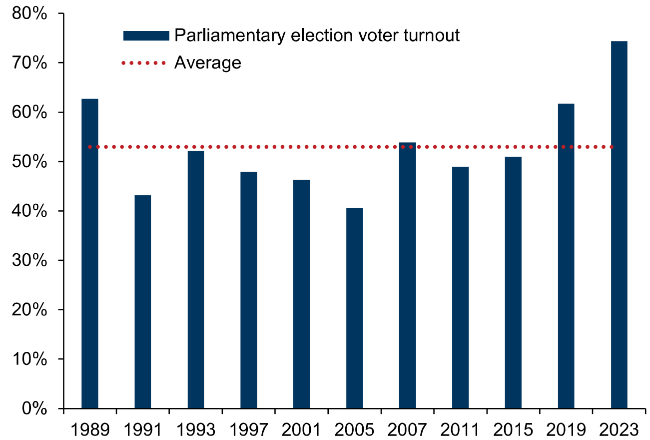
…with three key factors contributing to the surprise result

Three factors likely contributed to the liberal opposition's victory despite these electoral disadvantages:

1. **A *perceived* threat to democracy provided a significant incentive to vote.** Ahead of the vote, the opposition parties argued repeatedly and consistently that this election represented the last opportunity for the Polish population to participate in a (reasonably) free election. One can debate how valid this warning was given that Poland's membership in the European Union provides significant protection for democratic norms. But, whether the warning was justified or not, the *perceived* threat to democracy appears to have acted as a significant incentive to vote. Turnout in the election was the highest on record—even higher than in Poland's first post-communist era election in 1989—with participation particularly high among younger age cohorts where turnout is typically low.

Turnout in Poland's 2023 election exceeded all previous elections, including the first post-communist era election

Poland parliamentary election voter turnout, %



Source: National Electoral Commission, Goldman Sachs GIR.

2. **The liberal/centrist opposition coalition promised significant 'giveaways' of their own:** The liberal opposition parties, rather than criticize the Law and Justice Party's fiscal promises and the potential risks that they created—as was their strategy in the previous two elections—instead matched these promises and made additional commitments of their own. While this strategy worked in their favor during the election, it increases fiscal risks after the election.

3. **The liberal/centrist candidate provided a credible/popular alternative.** Donald Tusk, the opposition parties' candidate for prime minister, had previously served as Poland's prime minister (2007-2014) and president of the European Council (2014-2019), and had a strong record of electoral success, making him an attractive alternative. By contrast, in last year's Turkish presidential election, in which the opposition failed to unseat President Erdogan despite a challenging economic environment that usually works in favor of the opposition, the opposition candidate was not perceived as providing a credible/popular alternative.

Can these factors apply to elections in other major democracies this year?

Every political system is different, making it unwise to assume the factors that were important in one democracy will be equally important in another. Nevertheless, some parallels with other elections exist, in particular with this year's US presidential election. Of the three factors that were important in driving the centrist/liberal victory in Poland, two will also likely be factors in the US election—the perceived threat to democracy and generous fiscal policies from the center-left—although the presence of the third factor—leadership popularity—remains in question.

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The economic effects of elections

Joseph Briggs digs into how policy tends to shift in the run-up to elections and the impacts of such shifts on economic growth

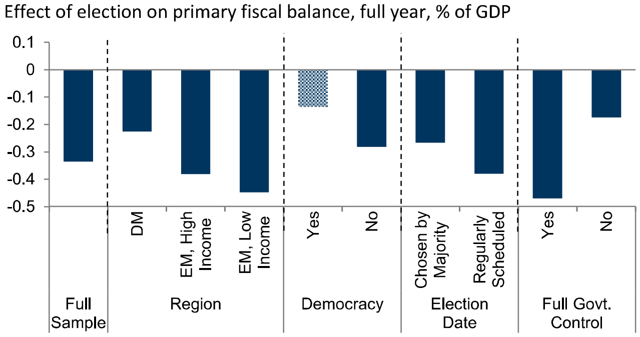
A record share of the global population will head to the polls this year as over 60 countries and territories are scheduled to hold national elections (see pg. 6). In most cases, it's too early to predict the election outcomes and meaningfully speculate on potential post-election policy shifts. However, irrespective of their outcomes, a long line of research has demonstrated that elections themselves lead to predictable pre-election policy shifts that are relevant for the near-term economic outlook. We find that such "political business cycles" tend to be characterized by a moderate easing in fiscal and monetary policy and heightened economic uncertainty, which have a modest positive impact on economic growth on net, particularly in Emerging Market economies (EMs).

Fiscal policy: easing ahead of elections

The most direct way politicians could try to influence election outcomes is by easing fiscal policy to boost the economy in the run-up to elections. In practice, we find[1] that primary fiscal balances—the fiscal balance excluding net interest payments on public debt—as a share of GDP have declined by around 0.3-0.4pp in election years, reflecting both spending increases and revenue declines. Intuitively, we estimate larger effects in lower-income EMs and less democratic countries, suggesting that politically-driven fiscal policy is more prevalent in countries with weaker institutions. And we similarly estimate larger effects in economies where the majority party has full control of the law-making process. Overall, these results suggest that politicians prefer to ease fiscal policy ahead of elections and tend to do so if they can.

Fiscal policy tends to ease ahead of elections, with larger effects in countries with weaker institutions

Effect of election on primary fiscal balance, full year, % of GDP



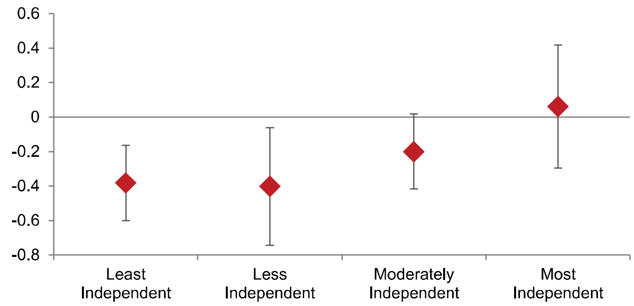
Note: Dark blue bars indicate significance at 90% confidence interval.
Source: Database of Political Institutions, IMF, Goldman Sachs GIR.

Monetary policy: central bank independence is key

Politicians could also try to strategically influence election outcomes via monetary easing. We find[2] that monetary policy tends to ease during election years, with policy rates declining by 20-25bp on average. However, countries with less independent central banks entirely drive this result, suggesting that the Fed and other Developed Market (DM) central banks—which generally score as highly independent—are unlikely to adjust policy based on electoral considerations.

Monetary policy tends to ease in election years in countries with less independent central banks

Effect of election on policy rate, by central bank independence score*, pp



**Scores based on methodology from Cukierman et al. (1992).*
Source: Database of Political Institutions, IMF, Goldman Sachs GIR.

Policy uncertainty: heightened in election years

The policy uncertainty and possibility of leadership change inherent to elections could also pose a modest headwind to investment and growth. We find that economic policy uncertainty—measured by Economic Policy Uncertainty indices—increases in the months around elections by an estimated 15-20pt in major economies. Increased policy uncertainty, in turn, tends to weigh on GDP growth. We estimate that a 10pt rise in policy uncertainty lowers GDP growth by 10-15bp in the quarter of and immediately following the rise, which in turn implies a modest 0.2-0.3pp drag on annualized growth in the quarters around elections, equivalent to a 0.1-0.2pp full-year GDP growth hit.

Post-election shifts more important

Taken together, our estimates suggest that elections have a predictable but modest positive impact on economic growth, with a moderate easing in fiscal policy (-0.4pp effect on primary balances as a share of GDP) and modest easing in monetary policy (20-25bp downward pressure on policy rates) partially offset by a modest growth drag from increased policy uncertainty (0.1-0.2pp hit). That said, our estimates suggest that politically-driven economic cycles are most relevant for EM economies with weaker institutions, suggesting less scope for politically-motivated policy-setting in major DMs.

The effects we consider are also less likely to drive sharp market reactions than the potentially more significant post-election policy shifts that will capture the attention of markets in 2024. This year's US presidential election will undoubtedly be a particularly market-relevant event given the potential for changes in fiscal, regulatory, trade, and foreign policy, which would matter much more than any pre-election policy shifts.

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[1] We merge election data from the Database of Political Institutions with standard macroeconomic and govt finance indicators, resulting in a dataset of 1100 elections in 152 countries since 1980. We then use a set of panel regressions to estimate elections' effect on policy outcomes while controlling for standard macroeconomic aggregates.
[2] By repeating our prior analysis using the policy rate as the outcome variable.

Indian elections: FAQs answered

Santantu Sengupta and Sunil Koul answer key questions about India's upcoming elections

Election season in India is well underway following the conclusion of state assembly elections last fall, with the focus now squarely on the country's national parliamentary (general) elections scheduled for April-May. Here, we address frequently asked questions about these elections and what they could mean for the economy and markets.

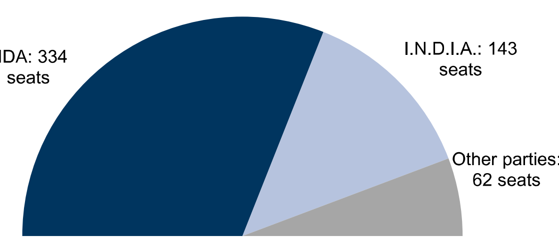
Q: How is India's parliament structured, and how does its election process work?

A: The Indian parliament is a bicameral legislature consisting of the Rajya Sabha (Council of States, or Upper House of Parliament) and the Lok Sabha (House of the People, or the Lower House of Parliament). The Rajya Sabha consists of 250 members, 238 of which the legislatures of Indian states (sub-national regions) and union territories elect and 12 of which the president directly appoints. The Lok Sabha consists of 543 members with each member representing a single voting district. The 2024 general elections will occur to fill these 543 seats in a first-past-the-post manner, whereby voters in each district will cast their vote for who they wish to represent their district and the candidate with the majority of votes wins that district's parliament seat. To form a majority, a party or a group of parties (alliance or coalition) must win at least 272 seats.

Q: Which parties are in play, and how much power do they currently have?

A: The two largest national parties are Prime Minister Modi's Bharatiya Janata Party (BJP) and the Indian National Congress (INC), the main opposition party. The BJP leads the current ruling coalition, the National Democratic Alliance (NDA), which holds 334 seats in the Lok Sabha and runs the central government as part of a second successive term. On its own, the BJP holds 301 seats, well more than the 272 required to form a majority government. In 2023, 28 opposition parties, including the INC, came together to form the Indian National Developmental Inclusive Alliance (I.N.D.I.A.) to run in the 2024 Lok Sabha elections. The parties that make up the I.N.D.I.A collectively hold 143 seats in the Lok Sabha.

The NDA currently holds the majority of seats in the Lok Sabha
Composition of the Lok Sabha (lower house of parliament), by party alliances



Lower House: 543 seats*

NDA: BJP, Shiv Sena and others
I.N.D.I.A.: Congress, DMK, Trinamool Congress and others
Other parties: YSRCP, BJD, BSP and others

**4 seats are currently vacant.*
Source: Lok Sabha, compiled by Goldman Sachs GIR.

Q: What do the latest opinion polls tell us about the likely election outcome?

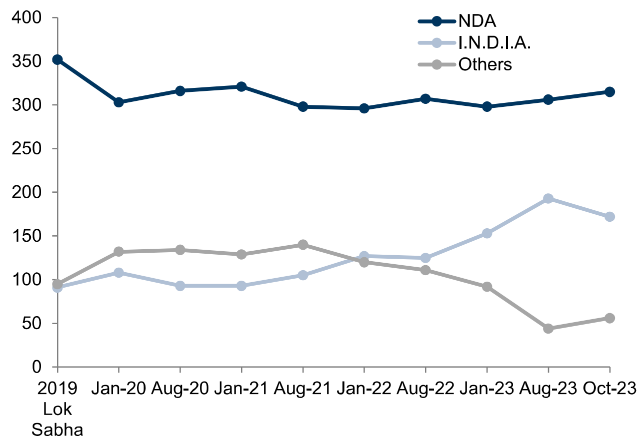
A: Two opinion polls have the BJP-led NDA in a sizable lead, with a projected 319-339 seats in the Lok Sabha, comfortably above the 148-168 seats projected for the I.N.D.I.A. opposition alliance and the 272 seats needed for a majority. NDA's lead over I.N.D.I.A widened over the second half of 2023, implying growing support for a third term for Prime Minister Modi and his coalition.

Opinion polls on Lok Sabha seat projections show NDA comfortably in the lead…
Lok Sabha seat projections, Times Now poll

Aug-23			Oct-23			Dec-23		
NDA	I.N.D.I.A.	Others	NDA	I.N.D.I.A.	Others	NDA	I.N.D.I.A.	Others
296-326	160-190	56-64	297-317	165-185	41-81	319-339	148-168	52-61

Source: Times Now, compiled by Goldman Sachs GIR.

…a lead which has been growing
Lok Sabha seat projects, India Today-CVoter poll



Note: Oct 23 opinion poll is from India Today-CNX poll.
Source: India Today-CNX, India Today-CVoter, compiled by Goldman Sachs GIR.

Q: What could an NDA victory mean for the direction of policy and economic reforms?

A: While the 2024 election manifestos of the major parties are not yet available, key reforms and schemes the incumbent government has undertaken in the last two terms provide clues about what to expect if the NDA were to secure a third term.

The current government has focused on reforms aimed at bolstering supply chains, driving efficiencies in the financial sector, and streamlining taxation policy through several critical policies.

- **The Reserve Bank of India (RBI) adopted flexible inflation targeting in 2016**, giving the RBI a legal price stability mandate alongside its growth mandate. The addition of inflation targeting to the central bank's mandate has reduced India's macroeconomic vulnerability and has helped lower nominal exchange rate volatility.
- **The government has implemented a goods and services tax (GST)**, which has integrated the various

states into a single market, improved supply-chain efficiency, and reduced compliance burdens.

- **The government has developed new bankruptcy laws** through a consolidated insolvency and bankruptcy code (IBC), which established a single framework to govern insolvency and bankruptcy proceedings for Indian companies. Prior to the IBC, the framework for insolvency and bankruptcy was fragmented across several acts. The new law has changed corporates' behavior toward creditors, particularly state-owned banks.
- **The government has implemented the Production Linked Incentive (PLI) scheme** to encourage domestic manufacturing through export subsidies of around 1% of GDP. This scheme is part of India's effort to become a globally competitive manufacturing hub as companies redraw their supply chains for more reliable sourcing and Western firms seek to reduce their reliance on China.

We expect the focus on becoming a manufacturing powerhouse to continue in a third NDA term. Making it easy for global manufacturing to set up shop in India, though, will require a coordinated strategy across all related government departments, as well as land and labor reforms, which will go a long way in improving the ease of doing business in India and helping to attract a larger share of global inbound manufacturing FDI over time. If the NDA wins a third term with a large majority, they are more likely to push for such reforms, which would be in line with their 'Make in India' strategy.

Q: How have key economic variables/monetary policy behaved historically around general elections?

A: Over the last four general election cycles (2004, 2009, 2014, 2019), both economic growth and headline inflation, on balance, declined marginally heading into the elections and increased modestly thereafter. That said, we don't expect growth to increase following the upcoming election given the slowdown in government spending we expect this year amid fiscal consolidation efforts. And, on the inflation front, while we do expect inflation to increase after the election, we don't expect it to happen until the fourth quarter, as we think food inflation will remain relatively benign until then.

Historically, the RBI eased policy heading into the elections and didn't hike policy rates for at least nine months after the elections. We expect the RBI's easing cycle this year to begin in stages, with the RBI first changing its policy stance from "Removal of Accommodation" to "Neutral" and easing banking system liquidity in Q1/Q2, followed by 25bp rate cuts in each of Q3 and Q4, which would bring the policy rate to 6.00% by the end of 2024.

Q: How have Indian assets behaved historically around general elections, and are these patterns likely to repeat this year?

A: In currency markets, **we've found that the INR has generally depreciated against the USD going into the elections** and has continued to depreciate on balance thereafter. However, the INR's behavior largely depended on the state of the current account deficit, whether capital flows had been sufficient to fund that deficit, and RBI intervention. Indeed, we think RBI intervention will limit the scope for an FX reaction to the 2024 election, with the RBI likely to keep a tight leash on the INR to prevent it from materially appreciating or depreciating.

Equity markets have historically traded well heading into the elections, with NIFTY rallying more than 10% in the six months preceding elections in four of the past seven general elections. These past pre-election rallies, which occurred on expectations of a stable government, were led by domestic cyclicals. With the roughly 15% rally in NIFTY since November and market expectations of policy continuity priced in, we don't expect large market moves around this election outcome. Instead, we expect strong earnings growth (15%) to lead NIFTY to 23,500 by year-end. While earnings will primarily drive the market, we expect the flow backdrop to remain supportive as domestic inflows remain high amid the rapid financialization of household savings and foreign inflows are likely to pick up further after the elections, in line with prior election cycles.

Indian general elections have historically been an important driver of financial markets

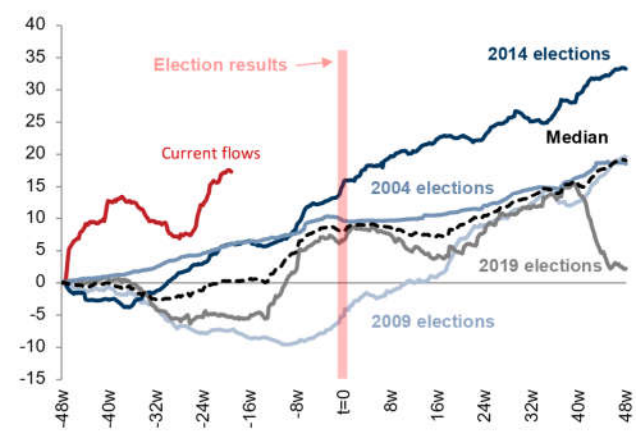
Median market performance around past 7 election cycles since 1996

	6M before election result	3M before election result	1M before election result	Day of election result	1M after election result	3M after election result
NIFTY (INR) (%)	15%	9%	(0%)	1%	1%	5%
NIFTY vs. MXAPJ (USD) (%)	9%	8%	2%	2%	(1%)	(5%)
Policy rate (bp)	(75)	(50)	0	0	0	0
10Y IGB yield (bp)	(16)	(4)	(10)	0	(5)	(24)
USDINR (%)	0.2%	0.2%	(0.0%)	0.0%	0.5%	2.4%

Note: i) The median change in policy is calculated for the past 4 election cycles since 2004. ii) The median change in the 10y IGB is calculated for the past 5 election cycles since 1998. iii) positive sign on the USDINR implies depreciation of the INR relative to the USD.
Source: FactSet, Goldman Sachs GIR.

Foreign equity inflows tend to pick up after the elections

Cumulative foreign institutional investor flows, $bn



Source: FactSet, Goldman Sachs GIR.

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Non-US assets to watch this election year

Kamakshya Trivedi, Teresa Alves, and Caesar Maasry assess the implications of upcoming elections for non-US assets.

UK: Scope for Pound appreciation (No later than January 28, 2025)

- We are relatively upbeat on the Pound in 2024 given its tendency to perform well when equities deliver strong returns—as we expect to be the case this year—especially since rate cuts abroad will make the BoE less of a dovish outlier. The likelihood of fiscal loosening through the year and the scope for tighter ties with the European Union beyond the election process are likely to also support the currency.
- Specifically, before and after the election, the controlling party will likely have some incentive to loosen the fiscal strings to address work stoppages in the labor market across a series of important voting blocs. Political winds also seem to favor somewhat tighter ties with the European Union—in stark contrast to the Brexit focus of the last few election cycles—which should help support the Pound on the margin, or at least prevent another structural shift in its external balances. And if the US election or other global developments bring renewed concerns of a US exit from NATO, it could indirectly draw the UK and EU closer together, though we do not expect this to be the initial market focus.

Mexico: More of the same for the Peso (June 2, 2024)

- If polls for Mexico's general election in June continue to point toward a win for the incumbent party's candidate—Claudia Sheinbaum—expectations of policy continuity should limit election-led FX volatility. Instead, we think the greater risk in Mexico this year is the potential for a more expansionary fiscal stance, especially amid increased budget support for the state-owned petroleum company Pemex. That said, we think that the risks to Mexico's sovereign rating are limited based on our sovereign credit rating model. Mexican equities have performed well during the current administration's tenure (outperforming MSCI EM in each of the past three years), though episodic shocks regarding government policy towards airlines and transportation have arisen. With Mexican equity fundamentals largely tied to the US economy, the near-term path remains unchallenged by an incumbent victory, in our view.
- Outside of this, the US presidential election outcome and its implications for the Mexico-US trade relationship could have the largest impact on Peso returns. Prior shifts of the trade pattern between Mexico and the US (Mexico's largest trading partner) have often coincided with sustained moves in the Peso's valuation, with the most extreme example of this being the sharp depreciation of the Peso after Trump's win in the 2016 election. That said we think Mexico-US trade policy will less of a focal point this year than it was in 2016 given the ratification of USMCA and a stricter stance on trade with China that should, all else equal, point to a larger degree of import substitution toward Mexico. All told, as long as Mexico continues to benefit from friend shoring, and as this supports activity and external balances, we think the Peso can continue to trade around current levels. The equity market is insulated from US election risks, given that 55% of the benchmark is composed of five stocks that have domestic exposure (Staples, Telecoms, Banks, Materials).

India: A tight leash for the Rupee (April-May 2024)

- We expect the pattern of tight FX management seen in 2023 to continue to play out in 2024, leading to limited INR appreciation in the year ahead, even as India's macroeconomic fundamentals remain strong (see pg. 20-21). Scope for an FX reaction to the upcoming general elections should therefore be limited, though the RBI's fixing bias will likely be more one-sided ahead of the election with more focus on capping the upside to USD/INR. Therefore, we continue think the INR adds important resilience to any EM FX carry strategy since it outperforms in bouts of USD strength.
- More broadly, with polls pointing towards Prime Minister Modi securing a third term, the market is already largely reflecting the assumption that political continuity will contribute to a stable macroeconomic environment and solid growth driven by strong public sector capital investment.
- Given such expectations of policy continuity, along with the roughly 15% rally in NIFTY since November, we don't expect large equity market moves around this election outcome (see pgs. 20-21).

Turkey: Easing pressure on the Lira (March 31, 2024)

- The sharp macroeconomic adjustment that has been in train since the conclusion of Turkey's general elections last May has eased pressure on the Lira and should make it an attractive carry trade relative to the elevated risk premium embedded in forwards, especially as inflation falls sharply.

- With local elections still ahead, questions remain about whether political pressures could derail this progress toward a better macroeconomic balance, especially as President Erdogan is aiming to win back the key cities of Istanbul and Ankara from the opposition. However, given President Erdogan and his party's win in the general election as well as a less united opposition, we think the current policy mix is likely to stay in place through 2024. This should allow for a substantial fall in inflation that will support real currency returns, with our 12-month USD/TRY forecast at 37, well below forwards at 43. And with the last rate hike now likely delivered, Turkish government bonds could also outperform in the year-ahead as inflation falls sharply.

Taiwan: Status quo for the TWD (January 13, 2024)

- As markets digest the implications of the recent Taiwan election—which resulted in the Democratic Progressive Party (DPP) winning the presidency but losing its parliamentary majority—we note several important patterns: In the last seven elections, the TWD tended to perform better post elections on KMT wins versus DPP victories. And we find that over 12 months after an election, the TWD tended to be largely stable regardless of election outcomes. This could reflect sustained strength in Taiwan's current account balance and the heavily managed exchange rate regime.
- We expect the TWD to remain similarly stable in the continued aftermath of this election, although persistent cross-strait tensions and higher parliamentary barriers to the passage of bills/reforms will remain important headwinds to the currency. Still, economic repercussions from election outcomes are likely to be limited given already low levels of cross-strait activity and trade. Overall, we are neutral on TWD and our portfolio strategy team maintains a market-weight for Taiwan in our Asian equity strategy allocation.

Indonesia: Longing for bonds (February-June 2024)

- 2024 will be the largest election year in Indonesian history with not only presidential and House of Representative (DPR) elections, but also elections for the local legislative bodies. As such, we expect larger election spending this year than in a typical election year (0.4-0.5% of GDP vs. ~0.1-0.2% of GDP historically), which should provide somewhat of a boost to the 2024 growth outlook.
- That said, we think the short-term economic and market implications of the elections are limited given that the candidates are running on similar economic platforms. Instead, shifts in key policy personnel ahead of the elections, Fed policy expectations, and US yields will likely be the dominant drivers of Indonesian government bond yields. Indeed, the recent back-up in US yields provides a window of opportunity to build long fixed income positions in Asia, including long IDR 10y bonds positions.
- Looking further ahead, more policy uncertainty is likely heading into 2025 given the potential discontinuation of the new capital city project as well as possible attempts to loosen the fiscal deficit cap (currently at 3% of GDP), which could have important implications for the bond and FX markets.

South Africa: Fiscal worries can hold back the Rand (No later than August 5, 2024)

- After clear underperformance in 2023, a more constructive Rand view in 2024 hinges on a depreciation in the broad Dollar and improvement in China risk sentiment. But, even if these materialize, idiosyncratic risks could still weigh on the Rand, especially in the run-up to the general election, which is widely expected to be held in May. Polls suggests that the African National Congress (ANC) could be at risk of losing its parliamentary majority for the first time since the first post-apartheid election in 1994. Investors are particularly focused on the risk of fiscal loosening ahead of the election, though recent data on budget execution suggest the government is on track to achieve or possibly slightly outperform the full-year main budget deficit projection of 4.7% of GDP for FY23/24. Beyond the election, a more structurally positive backdrop for local asset performance depends on policymakers' ability to enact structural reforms that would support the country's long-term growth trajectory, which has been weighed down by insufficient energy supply and an elevated unemployment rate.
- While China heavily impacts the local equity market—from both commodity exposures and direct corporate ownership of Chinese assets—local elections have been important for domestic-oriented sectors such as the Banks (which rallied 30% from 4Q17 through Ramaphosa's election as President in February 2018). The primary transmission mechanism for equities comes through the rates and fiscal channels, with wider fiscal deficits driving lower Bank ROEs over time. South African equities are also a highly interest-rate sensitive EM index, and the combination of a benign election outcome followed by rate cuts (we expect 75bp this year) is likely to spur outperformance against EM peers.

US primaries and caucuses, explained

How US primaries and caucuses work

In the months leading up to a presidential election, the Democratic and Republican parties in the 50 US states, the District of Columbia, and US territories hold either a primary election or caucus in which voters will choose their party's preferred candidate for president. States then take these votes into account when allocating delegates to presidential candidate nominees. These delegates will then go on to represent their state at national party conventions and will vote for a presidential candidate nominee.

In a **primary**, like in the general election, voters go to polling places and cast their votes by secret ballot.
In a **caucus**, voters gather to select a candidate through a series of discussions and vote afterward.

Types of primaries and caucuses

During an **open** primary or caucus, voters do not have to be registered with a political party to vote in its primary or caucus.
During a **closed** primary or caucus, only voters registered with a certain political party can vote in its primary or caucus.

Awarding delegates from the primaries and caucuses

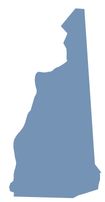
States and parties use different methods for deciding how many delegates get awarded to each presidential candidate. The Democratic party allocates delegates based on the percentage of votes that the candidate received in the primary/caucus. The Republican party generally lets states to choose if they use a "winner-take-all" method, a proportional method, or a different method for allocating delegates.

Pledged or **bound delegates** must support the candidate they were allocated to through the primary or caucus process.
Unpledged or **unbound delegates** can support any presidential candidate they choose.
The Democratic party also has **superdelegates** who can support any presidential candidate they choose, but only vote if the voting goes to a second round at the national convention.

How it's going so far

IA GOP caucus results	Votes (%)	Delegates gained
Trump	51	20
DeSantis*	21	9
Haley	19	8
Ramaswamy*	8	3

*Candidate has since dropped out of the presidential race.

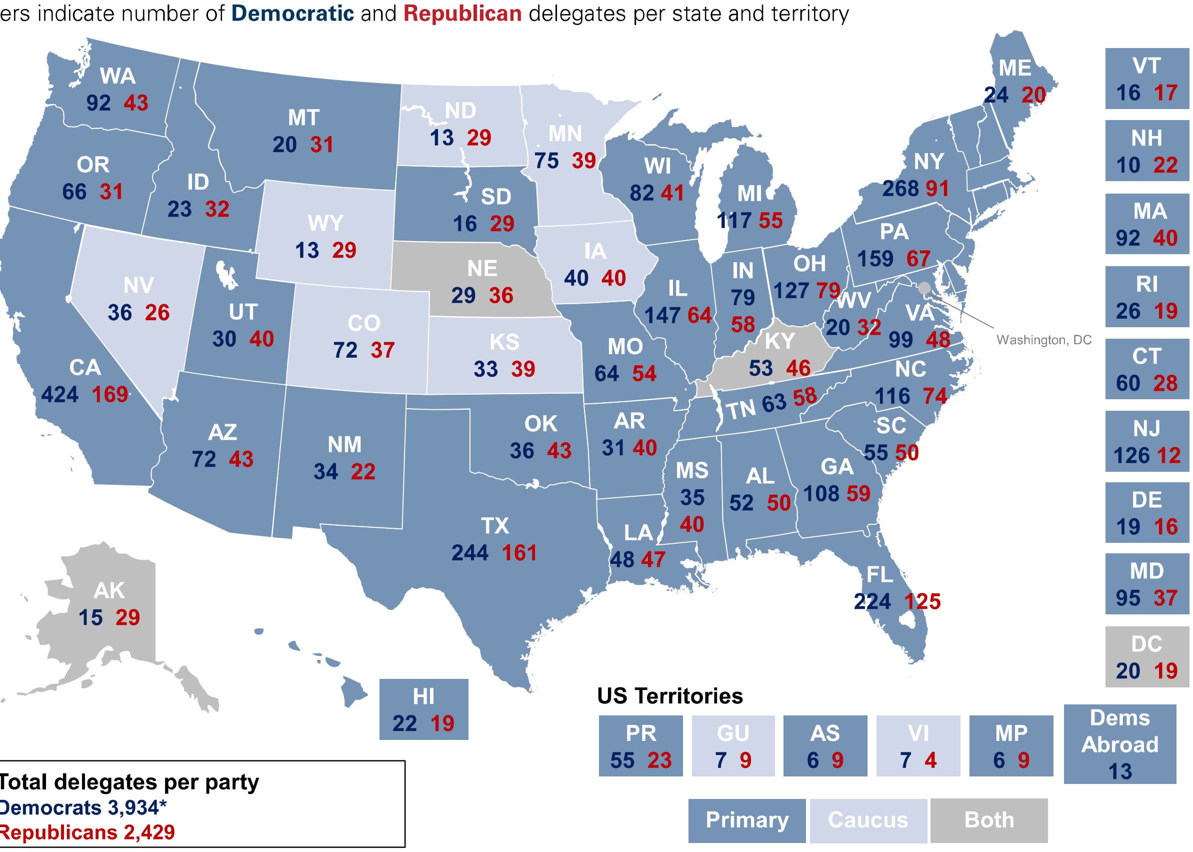


NH GOP primary results	Votes (%)	Delegates gained
Trump	54	12
Haley	43	9

Note: The delegates from NH's democratic primary will not be seated at this year's Democratic National Convention.

Which states hold primaries and which hold caucuses?

Numbers indicate number of **Democratic** and **Republican** delegates per state and territory



Total delegates per party
Democrats 3,934*
Republicans 2,429

*Does not include the 738 superdelegates that the Democratic party has.
Source: Politico, USAGov, US Department of State, The Green Papers, Goldman Sachs GIR.

Summary of our key forecasts

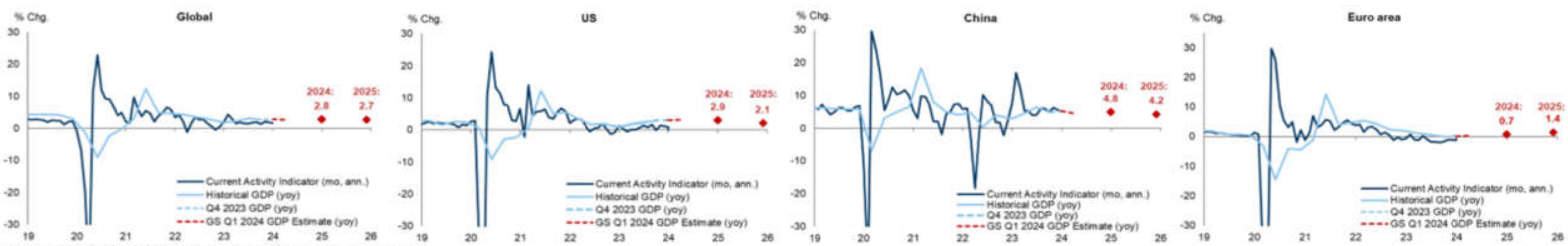
GS GIR: Macro at a glance

Watching

- **Globally,** we expect real GDP growth of 2.8% yoy in 2024, reflecting tailwinds from strong real household income growth, a gradual recovery in manufacturing activity, and a start to rate cuts as inflation cools. We expect global core inflation to fall back to 2.25% by the end of 2024 as core goods inflation continues to decline, shelter inflation falls further, and both service inflation and wage growth continue to slow in response to the improved supply-demand balance across the global economy.
- **In the US,** we expect well above-consensus real GDP growth of 2.4% in 2024 on a Q4/Q4 basis, reflecting easing financial conditions amid a start to Fed rate cuts and strong real disposable income growth. We continue to see a below-consensus 15% probability of entering a recession over the next 12 months. We expect core PCE inflation to decline to 2.2% by December 2024, reflecting further rebalancing in the auto, housing rental, and labor markets, and see a reasonable chance that it could even fall below 2% this year. We expect the unemployment rate to decline to 3.6% in 2024 and remain there through 2025.
- **We believe the Fed's** hiking cycle is complete and that the Fed will remain on hold at the current Fed funds rate range of 5.25-5.5% until the first 25bp cut in May, after which we expect 25bp cuts in June, July, and September followed by quarterly cuts until the terminal rate range reaches 3.25-3.5% in 3Q25. On balance sheet policy, we expect the Fed to announce that it will start tapering the pace of balance sheet runoff in May and to end runoff in 1Q25.
- **In the Euro area,** we expect real GDP growth to increase to 0.7% yoy in 2024, reflecting a pickup in real disposable income and a fading credit drag as the ECB turns toward rate cuts, which should more than offset the building headwind from fiscal policy. We expect core inflation to slow further to 2.2% yoy by December 2024, reflecting indirect pass-through from lower energy prices, continued declines in services inflation, and normalizing wage growth.
- **We believe the ECB's** hiking cycle is complete and that the ECB will remain on hold at 4.00% until the first rate cut in April, after which we expect rate cuts to proceed at a 25bp/meeting pace until the policy rate reaches 2.25% in early 2025, although we see some risk that the ECB waits until June to begin rate cuts.
- **In China,** we expect real GDP growth to slow to 4.8% yoy in 2024 as China continues to face several growth headwinds, including a prolonged property downturn, although we expect a material offset from a step up in policy easing measures and pick up in investment growth. We expect inflation to remain low in 2024, with continued PPI deflation and moderate CPI reflation, amid the ongoing food price deflation, property downturn, and manufacturing overcapacity. Over the longer term, we maintain our cautious view on China's growth outlook given deteriorating demographics, property and local government deleveraging, and global supply chain de-risking.
- **WATCH WAR IN THE MIDDLE EAST AND US ELECTION.** While energy prices have risen modestly in response to the ongoing Red Sea shipping disruptions amid the escalating war in the Middle East, a potential closure of the Strait of Hormuz would have much more significant energy price effects that would likely lower global growth. The US election in November could have important policy and market implications, especially if it brings the possibility of fresh unfunded fiscal expansion.

Goldman Sachs Global Investment Research.

Growth



Source: Haver Analytics and Goldman Sachs Global Investment Research.
Note: GS CAI is a measure of current growth. For more information on the methodology of the CAI please see "Improving Our Within-Month CAI Forecasts," Global Economics Comment, Mar. 06, 2023.

Forecasts

Economics

GDP growth (%)	2024 GS (Q4/Q4)	2024 Cons. (Q4/Q4)	2024 GS (CY)	2024 Cons. (CY)	2025 GS (CY)	2025 Cons. (CY)
Global	2.8	--	2.8	2.2	2.7	2.6
US	2.4	1.0	2.9	1.5	2.1	1.7
China	4.7	4.7	4.8	4.6	4.2	4.4
Euro area	1.3	1.0	0.7	0.5	1.4	1.4

Policy rates (%)	2024 GS	2024 Mkt.	2025 GS	2025 Mkt.
US	4.13	3.83	3.38	3.12
Euro area	2.50	2.48	2.25	1.96
China	1.60	1.80	1.60	--
Japan	0.10	0.23	0.25	0.43

Markets

Interest rates 10Yr (%)	Last	E2024	E2025
US	3.99	4.00	4.00
Germany	2.12	2.00	2.00
Japan	0.73	0.90	0.90
UK	3.80	3.75	3.75

Commodities	Last	3m	12m
Crude Oil, Brent ($/bbl)	82	80	80
Nat Gas ($/mmBtu)	2.10	2.40	3.25
Copper ($/mt)	8,501	8,400	10,000
Gold ($/troy oz)	2,053	2,065	2,175

FX	Last	3m	12m
EUR/$	1.09	1.08	1.12
GBP/$	1.27	1.28	1.35
$/JPY	146	145	140
$/CNY	7.11	7.15	7.05

Credit (bp)		Last	2Q24	4Q24
USD	IG	95	97	95
	HY	327	342	325
EUR	IG	141	145	135
	HY	385	400	390

Equities

S&P 500	E2024 GS	E2024 Cons.	E2025 GS	E2025 Cons.
Price	5,100	--	--	--
EPS	$237	$242	$250	$274
Growth	5%	9%	5%	13%

Consumer	2024 CPI (%, yoy)	2024 Unemp. Rate	2025 CPI (%, yoy)	2025 Unemp. Rate
US	2.7	3.6	2.4	3.6
Euro area	2.1	6.7	2.0	6.7
China	0.4	--	1.5	--

Returns (%)	12m	YTD	E2024 P/E
S&P 500	5	1.6	20.4x
MXAPJ	13	-4.8	12.6x
Topix	4	7.8	15.5x
STOXX 600	3	1.4	13.1x

Wage Tracker 2023 (%)	Q1	Q2	Q3	Q4
US	5.1	5.0	4.4	4.7
Euro area	--	--	--	--
China	--	--	--	--

Source: Bloomberg, Goldman Sachs Global Investment Research. For important disclosures, see the Disclosure Appendix or go to www.gs.com/research/hedge.html.

Market pricing as of January 31, 2024

Glossary of GS proprietary indices

Current Activity Indicator (CAI)

GS CAIs measure the growth signal in a broad range of weekly and monthly indicators, offering an alternative to Gross Domestic Product (GDP). GDP is an imperfect guide to current activity: In most countries, it is only available quarterly and is released with a substantial delay, and its initial estimates are often heavily revised. GDP also ignores important measures of real activity, such as employment and the purchasing managers' indexes (PMIs). All of these problems reduce the effectiveness of GDP for investment and policy decisions. Our CAIs aim to address GDP's shortcomings and provide a timelier read on the pace of growth.

For more, see our CAI page and Global Economics Analyst: Trackin' All Over the World – Our New Global CAI, 25 February 2017.

Dynamic Equilibrium Exchange Rates (DEER)

The GSDEER framework establishes an equilibrium (or "fair") value of the real exchange rate based on relative productivity and terms-of-trade differentials.

For more, see our GSDEER page, Global Economics Paper No. 227: Finding Fair Value in EM FX, 26 January 2016, and Global Markets Analyst: A Look at Valuation Across G10 FX, 29 June 2017.

Financial Conditions Index (FCI)

GS FCIs gauge the "looseness" or "tightness" of financial conditions across the world's major economies, incorporating variables that directly affect spending on domestically produced goods and services. FCIs can provide valuable information about the economic growth outlook and the direct and indirect effects of monetary policy on real economic activity.

FCIs for the G10 economies are calculated as a weighted average of a policy rate, a long-term risk-free bond yield, a corporate credit spread, an equity price variable, and a trade-weighted exchange rate; the Euro area FCI also includes a sovereign credit spread. The weights mirror the effects of the financial variables on real GDP growth in our models over a one-year horizon. FCIs for emerging markets are calculated as a weighted average of a short-term interest rate, a long-term swap rate, a CDS spread, an equity price variable, a trade-weighted exchange rate, and—in economies with large foreign-currency-denominated debt stocks—a debt-weighted exchange rate index.

For more, see our FCI page, Global Economics Analyst: Our New G10 Financial Conditions Indices, 20 April 2017, and Global Economics Analyst: Tracking EM Financial Conditions – Our New FCIs, 6 October 2017.

Goldman Sachs Analyst Index (GSAI)

The US GSAI is based on a monthly survey of GS equity analysts to obtain their assessments of business conditions in the industries they follow. The results provide timely "bottom-up" information about US economic activity to supplement and cross-check our analysis of "top-down" data. Based on analysts' responses, we create a diffusion index for economic activity comparable to the ISM's indexes for activity in the manufacturing and nonmanufacturing sectors.

Macro-Data Assessment Platform (MAP)

GS MAP scores facilitate rapid interpretation of new data releases for economic indicators worldwide. MAP summarizes the importance of a specific data release (i.e., its historical correlation with GDP) and the degree of surprise relative to the consensus forecast. The sign on the degree of surprise characterizes underperformance with a negative number and outperformance with a positive number. Each of these two components is ranked on a scale from 0 to 5, with the MAP score being the product of the two, i.e., from -25 to +25. For example, a MAP score of +20 (5;+4) would indicate that the data has a very high correlation to GDP (5) and that it came out well above consensus expectations (+4), for a total MAP value of +20.

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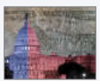

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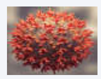

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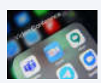

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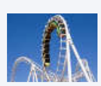

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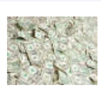

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Reg AC

We, Allison Nathan, Jenny Grimberg, Ashley Rhodes, Teresa Alves, Joseph Briggs, Vickie Chang, Kevin Daly, Sunil Koul, Caesar Maasry, Alec Phillips, Santanu Sengupta, Ben Snider, Kamakshya Trivedi, and Dominic Wilson, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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