



PHILEQUITY CORNER

By Wilson Sy

US elections matter to the Philippines

With only one day to go before the US presidential election, the markets are starting to get jittery. The Nasdaq 100 fell 2.5% last Thursday while the S&P 500 dropped 2%. Even the Philippine Stock Exchange Index (PSEi) declined 1.9% as investors brace for what could be a pivotal election for global markets. The US markets recovered some ground last Friday, but investors expect more volatility in the days following the election.

US policies shape global economy

The heightened nervousness is understandable – the next US president’s policies will have global implications. The US remains the world’s largest economic and military power, with the biggest capital markets (\$55 trillion stock market, \$27 trillion Treasury market), and leading oil production at 13.5 million barrels daily. Through the Federal Reserve and the dollar’s reserve currency status, it wields unmatched influence over global finance and trade.

Impact on the Philippine economy

For the Philippines, the outcome of the US elections is important because changes in US economic, trade, and fiscal policies may affect global inflation and interest rates. It influences domestic interest rates and the peso-dollar exchange rate. It also impacts local consumer prices, borrowing costs, stock market valuations, and foreign investment flows.

Key policy issues to watch

With global implications at stake, the key policies that investors are keeping an eye on include:

- 1) Tax Policy** – Harris is proposing additional taxes on high earners (for those making over \$400,000) and large corporations to fund social programs. She also plans to tax unrealized capital gains for individuals with net worth exceeding \$100 million. In contrast, Trump wants broad tax cuts and the extension of his 2017 tax reductions. He claims that economic growth and tariffs will offset costs.
- 2) Trade Policy** – Trump plans to implement 10-20% across-the-board tariffs on all countries, with higher rates for China at 60%. Harris opposes broad tariffs and prefers a targeted approach such as taxing Chinese electric vehicles (EV) imports introduced by Biden. She argues that Trump’s broad tariffs would be inflationary and cost households an additional \$4,000 annually.
- 3) Energy Policy** – Harris supports the Inflation Reduction Act’s renewable investments and EV incentives, but she has moderated her stance on fracking. On the other hand, Trump pledges to exit the Paris Climate Agreement, expand drilling in the Arctic, and accelerate the construction of natural gas pipelines.
- 4) Foreign Policy** – Harris says she would continue supporting Ukraine and maintaining US global leadership, particularly in competition with China. In contrast, Trump promises to negotiate an end to the Ukraine conflict within 24 hours. He emphasizes an “America First” policy and frequently threatens withdrawal from international commitments to force renegotiation of terms. He has also demanded NATO, Europe, Japan, and Taiwan to pay for the military defense that the US provides.

5) Immigration Policy – Trump promises to complete the border wall and implement what he calls the “largest mass deportation of undocumented immigrants in US history.” Harris, in contrast, emphasizes addressing the root causes of migration while highlighting her prosecutorial experience in combating human trafficking.

Trump: Tariffs, protectionism, unpredictability, unconventional tactics

A Trump victory could pose challenges for emerging markets like the Philippines. His proposed tax cuts would widen fiscal deficits, while planned tariffs of 10-20% on foreign goods would raise import prices. These policies could fuel inflation, force higher interest rates, and create uncertainty that could strengthen the US dollar and pressure emerging market currencies. Adding to these challenges is Trump’s unpredictability, with America’s allies struggling to predict his next moves. He pressures allies in the EU and NATO to address trade imbalances and increase their defense expenditures, all the while maintaining pressure on China.

Harris: Higher corporate & capital gains taxes

Harris has proposed raising corporate taxes from 21% to 28% when the current tax rate expires. She also plans to raise long-term capital gains tax from 20% to 28% for high earners. Tax experts say her proposal to tax unrealized capital gains of wealthy investors has little chance of passing Congress. While the stock market would likely weaken due to her tax policies, higher tax collections would reduce the US fiscal deficit. A lower deficit would help bring down US interest rates, softening the US dollar. This would strengthen global currencies and stabilize the peso.

Split government: Better outcome

A split government will lessen the impact of the US presidential elections due to legislative gridlock. Markets generally prefer gridlock as an opposition Congress would act as a strong check and balance against the executive branch. In this case, Trump would find it difficult to implement his unconventional agenda without congressional cooperation. Harris, on the other hand, may struggle to pass changes in corporate and capital gains taxes. Interest rates and US dollar movements would likely be moderate, benefiting emerging market currencies like the peso.

Tight race, risk of violence & market volatility

There are concerns over possible election violence. National polls show a tight race, with Harris leading popular votes while Trump leads in electoral votes. Betting sites show Trump’s odds at 60% versus Harris’ 40%. Trump has warned supporters about possible fraud if Republicans do not win. This situation mirrors the lead-up to the January 6 US Capitol attack, raising fears of civil disturbances if the election outcome is close or results are delayed. While a swift and decisive result would be the ideal scenario for market stability, a contested election could bring legal challenges, public protests and violence. Such instability and uncertainty would weigh on investor confidence and may spill over into global markets, including the Philippines.

Filipinos will not be voting tomorrow. But given the reasons we cited - why the US elections matter to other countries - all eyes are glued on the US elections. Investors, policymakers, and authorities are holding their breath as they await the results.