

21 October 2024

US Election Monitor

The race remains closer than prediction markets suggest

In recent weeks, prediction markets have shifted significantly in favour of Trump. According to Polymarket, the former president is now the clear favourite for the Oval Office on November 5th, leading Harris by 21.7 pp.

At the same time, prediction markets are also pricing in a higher probability of a Republican sweep, with the odds at 42.5% compared to 13.5% for Democrats. Notably, Republicans' odds of winning the House elections have risen alongside Trump's recent surge. This has lifted the conditional probability of a Republican sweep as the party is also favoured to win the Senate. However, we emphasize that the House elections remain very difficult to call. Since 1960, the winning party has held the House in 9 of 16 elections.

We also flag that when comparing recent polling data from swing states with prediction markets, **the polls point towards a much tighter race. Trump leads in every swing state, but by an overall slim margin of 1.0 pp.** In comparison, Harris was ahead by narrow 0.5 pp. in late August, highlighting how quickly the tide can turn.

Interestingly, Trump's advantage in the traditional Republican state Arizona has shrunk. **Instead, his recent momentum gain is largely attributed to advancements in the historically Democratic strongholds, Michigan and Nevada.** Michigan, home to the largest Arab American population in the US, has long been frustrated with the U.S. stance on the war in Gaza, *particularly the lack of an immediate ceasefire.* **The turn in Michigan polls coincided with Israel's escalation towards Lebanon,** which could explain Trump's current lead in the state (see p. 3). However, it should be noted that while Trump has an edge, *polling results* still show support for Robert F. Kennedy Jr., which could tilt the balance unexpectedly on the election day.

In Pennsylvania - considered one of the heavyweight swing states with 19 electoral votes – Trump holds a narrow lead of 0.8 pp. While Trump won the state in 2016, it has traditionally leaned Democratic, similar to Michigan and Nevada. Additionally, since 2008 the winner of the presidential election has also secured the electoral votes from Pennsylvania. The state's considerable significance on the election is highlighted by the fact that 25% of campaign spending on ads between September 1 and September 20 was concentrated there, according to *AdImpact*. From Trump's perspective, winning only the southern swing states (Georgia, Arizona, North Carolina and even Nevada) will not be enough to guarantee the election victory, which means that Pennsylvania, Michigan and Wisconsin will play a pivotal role in the final outcome.

So overall, while polling data from swing states does indicate that Trump has gained some momentum, the race remains extremely close. The large change in prediction market odds could have impacted broader financial markets as well. Broad USD index has gained support and UST yields have shifted higher, driven by rising term premium, which we think could be linked to concerns of faster inflation and debt sustainability due to Trump's fiscal policy plans. This means that as the election date approaches, even small changes in tight polls could drive seemingly erratic swings in market sentiment. Find charts and our base election scenarios for financial market implications on pages 3-4.

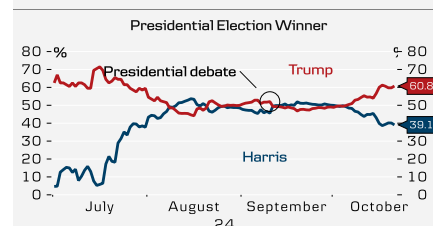
Key points

- 15 days until the election
- While prediction markets clearly indicate a Trump win and view a "Republican sweep" as the most likely outcome, data from swing states suggest a continued narrow race

Our base scenario

- Harris is the slim favourite to win the presidential election. Republicans are likely to win the race for Senate. House is difficult to call but is leaning Democratic
- Harris win with divided congress would be the most likely outcome to maintain policy status quo

Prediction markets have turned markedly in favour of Trump



Source: Macrobond Financial, Polymarket

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Gauging the temperature of the US Presidential Election

Current status in swing states according to polls

	Trump	Harris	Spread (pp.)
Arizona	49.0	47.4	Trump +1.6
Georgia	48.8	47.0	Trump +1.8
Michigan	48.8	47.6	Trump +1.2
Nevada	47.7	46.9	Trump +0.8
North Carolina	48.4	47.9	Trump +0.5
Pennsylvania	47.9	47.1	Trump +0.8
Wisconsin	48.0	47.8	Trump +0.2

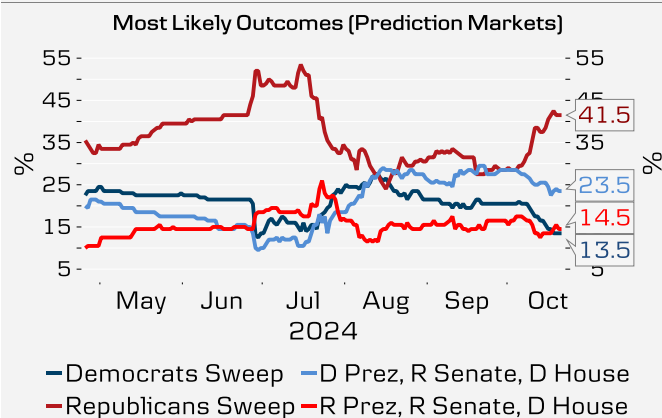
Source: Macrobond Financial, RealClearPolitics

Previous results in swing states

	2000	2004	2008	2012	2016	2020
Arizona (11)	Bush	Bush	McCain	Romney	Trump	Biden
Georgia (16)	Bush	Bush	McCain	Romney	Trump	Biden
Michigan (15)	Al Gore	Kerry	Obama	Obama	Trump	Biden
Nevada (6)	Bush	Bush	Obama	Obama	Clinton	Biden
North Carolina (16)	Bush	Bush	Obama	Romney	Trump	Trump
Pennsylvania (19)	Al Gore	Kerry	Obama	Obama	Trump	Biden
Wisconsin (10)	Al Gore	Kerry	Obama	Obama	Trump	Biden
Winner of election	Bush	Bush	Obama	Obama	Trump	Biden

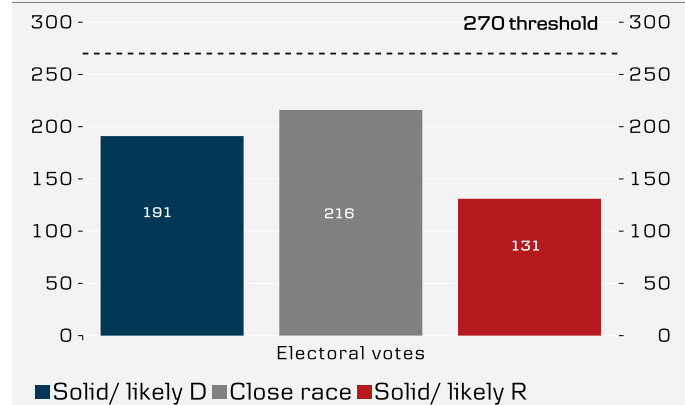
Source: RealClearPolitics

Prediction market implied odds of a 'Republican sweep' have shifted sharply higher in October



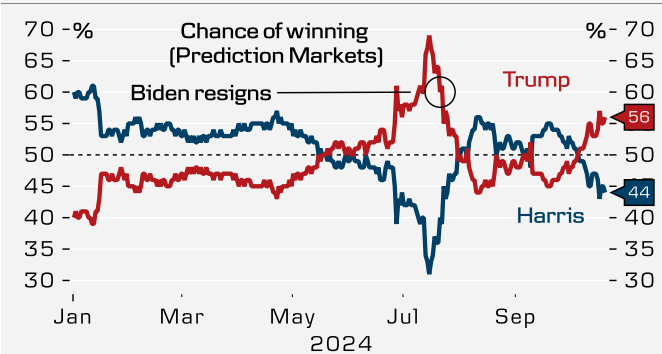
Source: Polymarket, Macrobond Financial

Current outlook for electoral votes



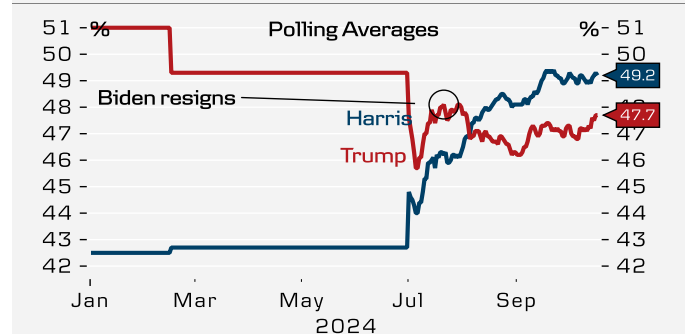
Source: Macrobond Financial, RealClearPolitics

Prediction markets now favour Trump...



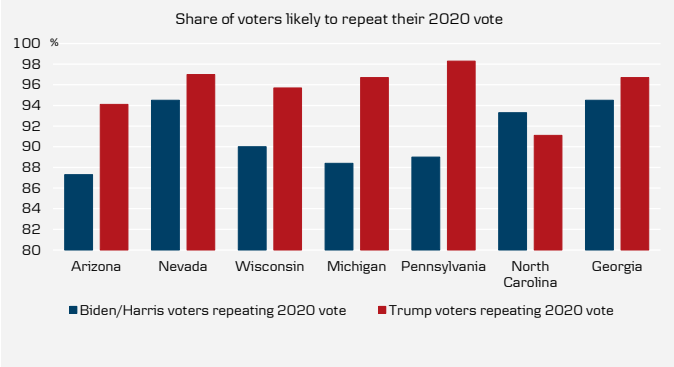
Source: Macrobond Financial, PredictIt

... but polls still indicate a much closer race



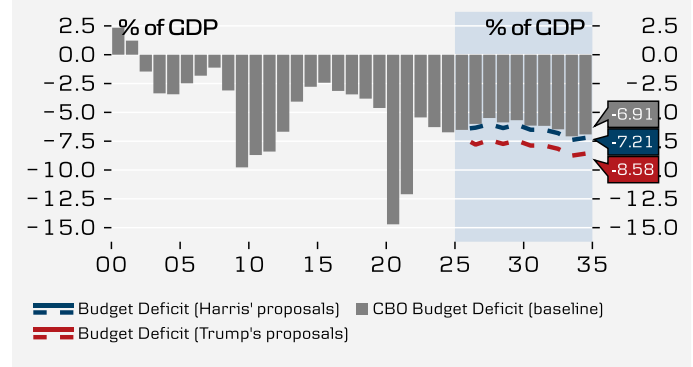
Source: Macrobond Financial, RealClearPolitics

Trump voters from 2020 have very firmly remained Trump voters, while Biden voters are less certain



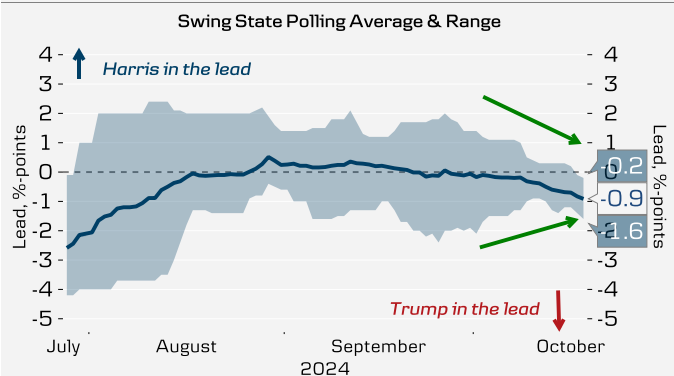
Source: Danske Bank, AtlasIntel, RealClearPolitics
 Note: data from 20 September to 25 September

Regardless of the outcome, the deficit is likely to continue widening



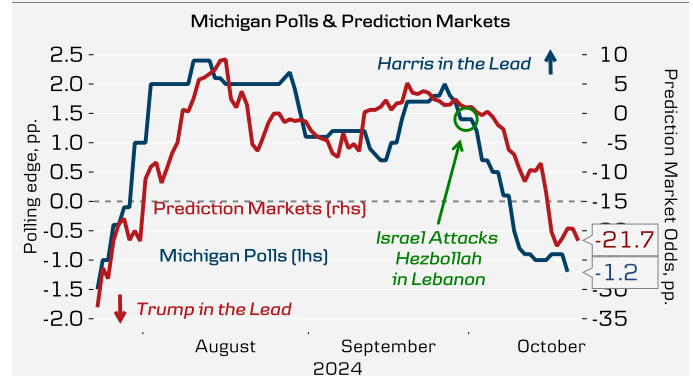
Source: PWBM, U.S. Congressional Budget Office, Macrobond Financial. Note: the scenarios do not assume any changes to the baseline GDP forecasts

Swing state polls are leaning towards Trump, but also show that the race is tightening



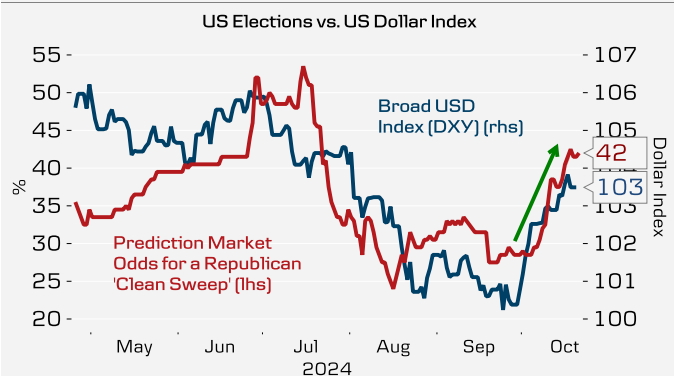
Source: Danske Bank, RealClearPolitics
 Includes the seven most important swing states

Michigan has seen one of the largest shifts in polling results over the past weeks



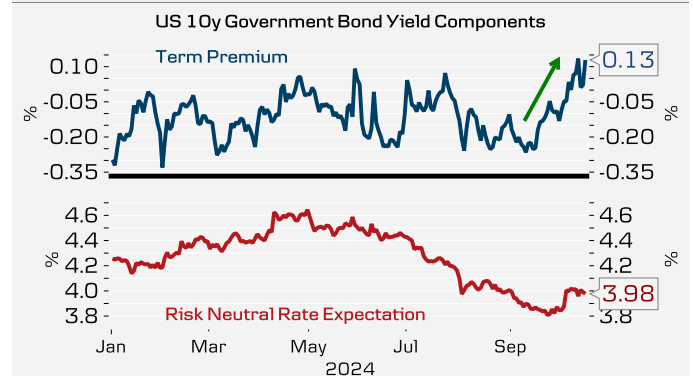
Source: Macrobond Financial, RealClearPolitics, Polymarket. Prediction market odds are for winning the whole election, not only Michigan

Rising likelihood of Republican sweep could provide support for broad USD



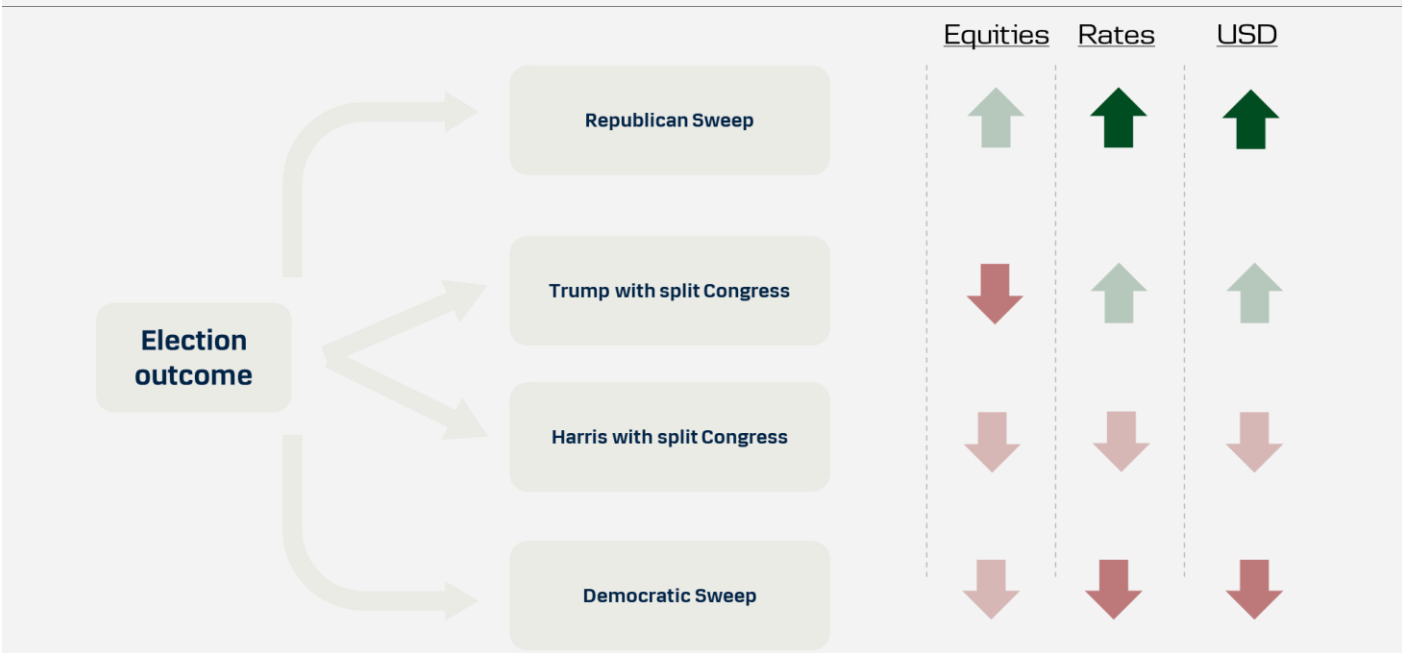
Source: Danske Bank, Polymarket, ICE

Markets price in higher risk premiums to US government debt as Trump's chances of winning rise



Source: Macrobond Financial, NY Fed's ACM Model

Scenarios of the election and their initial outcome



Source: Danske Bank. Lighter arrow signals a mild reaction, dark arrow signals a stronger reaction

Note: Past performance is not a reliable guide to future returns

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Report completed: 21 October 2024, 12:00 CET

Report first disseminated: 21 October 2024, 12:20 CET