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NICK VAN RENSBURG: It's time to consider US election risk

The risk will be greatest if Donald Trump loses to Kamala Harris

 BL PREMIUM

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by NICK VAN RENSBURG



US vice-president Kamala Harris and former US president Donald Trump. Picture: REUTERS/MARCO BELLO and JEENAH MOON

If you want to elicit sceptical or dismissive eye rolls, suggest to almost any investor that US political risk is significantly understated.

However, the November 5 presidential election is happening within the context of the worst political division in at least 50 years, two failed assassination attempts and, according to Pew Research, the lowest level of trust in the government in decades.

Most election attention is focused on which candidate will win and what their policies will be. The race is tight and will again come down to a handful of swing states. For those not used to US election politics, the popular vote is broadly irrelevant, and elections are determined by the electoral college. Each state has been allocated a certain number of electoral seats and a candidate needs to win 270

out of 538 to win the election. According to 270towin.com, the Democrats are leading with 226 seats to 219, with 91 undecideds in seven swing states.

The focus on candidate policies contains embedded assumptions that could be challenged in the coming months. For instance, will the elections be deemed free and fair? Will the results be known in a brief period of time or will there be an extended period of uncertainty? Most importantly, will both sides accept the outcome?

In our view the risk will be greatest if Donald Trump loses to Kamala Harris.

Trump has on more than one occasion stated that “this will be the final US election”. Either he wins and no elections will be required in future, or he loses, and chaos will erupt as the election would be deemed stolen. He has also said he “had every right” to interfere in the 2020 election, and as we know the chaos at the Capitol building on January 6 followed. It is likely that a Republican loss could lead to something far greater than what happened last time.

Barbara F Walters authored an excellent book *How Civil Wars Start: And How to Stop Them*. According to her research, done in collaboration with the CIA, two ground conditions are most important in civil wars around the world. One is that the country has become an anocracy, and the other is that a powerful group has been disenfranchised.

An anocracy is when one group feels that the justice system has been weaponised against it. One set of rules for Joe Biden; a separate set of rules for Trump and his followers. Numerous legal cases against Trump are their proof.

The powerful group that has been disenfranchised is middle-aged white men. From their perspective, they have lost jobs to China and Mexico as described in JD Vance’s book *Hillbilly Elegy*. They fought for their country in two thankless wars, with many suffering from post-traumatic stress disorder and some ending up victims of the opioid epidemic.

Then Democrats opened the southern border, giving up national security, while sending money for the defence of foreign countries. This makes no sense to them. They see themselves under attack by

Democrats' diversity, equity and inclusion policies. It does not matter if these beliefs are based on fact or not. To those believing, their beliefs are real. Social media amplifies and entrenches these beliefs.

It is obviously uncertain, but what is apparent is that the US has some of the important catalysts for a civil war.

But will they really take up arms? A recent University of Virginia Centre for Politics survey concluded that 38% of Republicans and 41% of Democrats believe "it is acceptable to use violence to stop the other party from achieving their goals". A surprisingly high number.

This brings us to means. The US has more guns than the next 10 countries combined, with a total of more than 400-million. According to a Gallup poll, less than half of US households own guns, but each gun-owning household owns on average of five. Gun ownership is skewed heavily towards Republicans due to the strongly Republican-leaning National Rifle Association (NRA).

The US has 18-million combat veterans, again skewing towards the Republicans, with many having actual combat experience due to the wars in Afghanistan and Iraq.

They seem willing to use violence, are heavily armed and capable. That gives them means and motive. Could the election be the opportunity? Time will tell.

What happens if Democrats lose? Do they accept loss, or does antifa make a comeback?

This is the point where we ask what a civil war could look like. It is unlikely to look like the North versus the South of the 1860s. It is more likely to look like insurgency, which entails forms of violent armed rebellion, including assassination attempts, bombing of political buildings, and the disruption of events and economic activity in opposition centres.

With some luck, the election might go off without a hitch. With the S&P 500 at a record high, this left-tail risk is clearly not priced in.

This brings us to positioning. Global investors have been aggressively buying US assets since 2009 and their exposure to US equities and bonds has increased from about \$12-trillion in 2009 to \$33-trillion now, according to a recent Wharton study. US equities constitute

65% of global equity market capitalisation, so it's not an undiscovered asset class, and a significant risk exposure.

If money leaves the US in anticipation of election risk, it could flow into less politically risky markets or into cash. Events in coming months could change US risk perception, perhaps forever.

• *Van Rensburg is a strategy consultant to All Weather Capital.*

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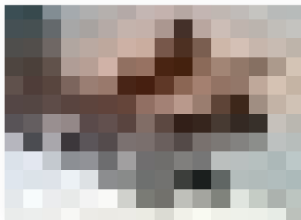
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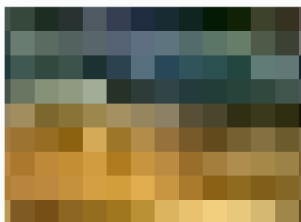
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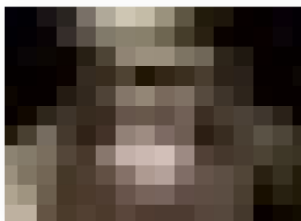
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