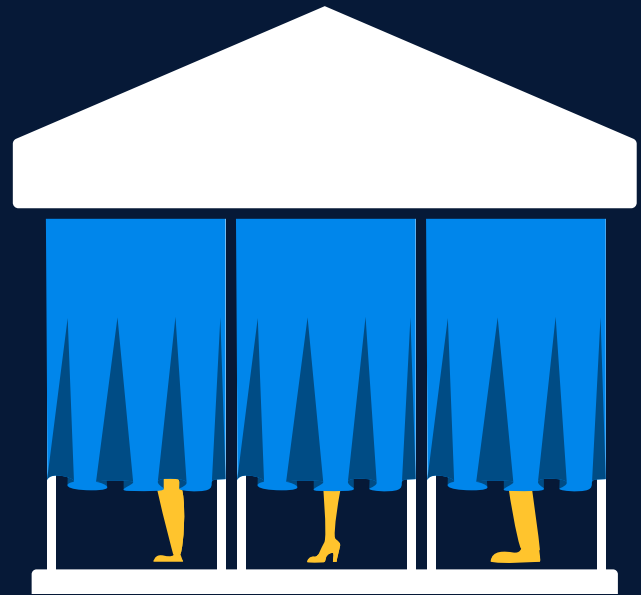


How the U.S. election could impact the financials sector

In the Loop
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Key Insights

- Financial regulators would likely be more proactive and involved with Kamala Harris as president than in a second Trump administration.
- Policy differences could make a difference in bank mergers as well as the regulation of consumer finance and the nonbank financial system.
- The economy's health and the outlook for inflation and interest rates are likely to be more important for financials' performance over the next presidential term.



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The outcome of the U.S. presidential election is likely to determine the intensity of the financial regulatory environment.

Developments on this front could have important implications for traditional banks as well as for the insurance, asset management, and credit scoring industries.

Push for stronger regulation would continue with Harris in the White House

Heightened scrutiny, increased intervention, and a push to expand oversight of nonbank financial companies have characterized the Biden-Harris administration's approach to regulating and supervising the sector.

Notably, financial regulators took a stronger hand even before the failures of Silicon Valley Bank and Signature Bank in March 2023.

This history and Harris's comments on the campaign trail suggest that financial regulators would likely be more

proactive and involved under a Democratic president than in a Republican administration.

A Trump win could ease regulatory pressure on financials

In contrast, deregulation would likely be a key pillar of former President Donald Trump's domestic agenda if he were to win the presidency.

What could that mean for the financials sector?

A leadership changeover at key federal agencies could bring a lighter touch to financial regulation and supervision.

It would also open the door to halting, reversing, or weakening policies advanced by the Biden administration. Rules that have been proposed but not yet finalized would likely be most at risk.

Where the election outcome could make a difference:

1. Consumer Finance



A win by Harris:

Fees: The restrictions on fees for late credit card payments and overdrawn accounts imposed by the Consumer Financial Protection Bureau (CFPB) would remain in play. However, court challenges to these rules could be an impediment. The agency's current director has called out the rising cost of obtaining credit scores as a possible area for action.

Online payments: Scrutiny of emerging payments systems could increase. For example, the Biden-Harris CFPB has sought to classify online buy-now, pay-later companies as credit card lenders.



A win by Trump:

Regulatory restraint?: Republicans, including Donald Trump during his first presidential term, typically have advocated for a lighter touch to financial regulation.

CFPB appointee is key: Could this pro-business bent change? Who the Trump administration nominates to head the CFPB will be important to watch.

2. Bank Mergers and Acquisitions (M&A)



A win by Harris:

M&A restrictions: Federal financial regulators have been subjecting banking deals to greater scrutiny, especially those that would result in a combined bank with more than USD 100 billion in assets. This hawkishness could continue.



A win by Trump:

Regulatory forbearance: A changeover in agency leadership could lead to a less restrictive approach to bank mergers, although megabanks might still face constraints.

3. Nonbank Oversight



A win by Harris:

Extended reach: Lending outside of traditional banks has expanded significantly,¹ so efforts to increase oversight of nonbank lenders would likely continue gaining momentum. Regulators currently are focusing on collecting data and information for potential future action. These efforts could create headline risk for insurance and asset management firms that operate in these markets.



A win by Trump:

Status quo: Federal agencies would likely be disinclined to push for further regulation of the nonbank financial system, barring a crisis.

Context is key

The U.S. presidential election is likely to have important implications for the intensity of financial regulation. However, government policy is only part of the equation.

The health of the overarching economy, which influences loan demand and credit risk, and the outlook for inflation and interest rates will exert even greater influence on the financials sector's performance over the next presidential term.

¹ Arif Husain, head of Global Fixed Income and chief investment officer of the Fixed Income Division at T. Rowe Price Associates Inc., discussed this trend and its implications in the July 2024 installment of his Ahead of the Curve blog, "Shadow Banking System' Creates a Trickier Path for the Fed."

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