



## Global Political Drivers

## MIDDLE EAST BLOWBACK VIA US ELECTIONS

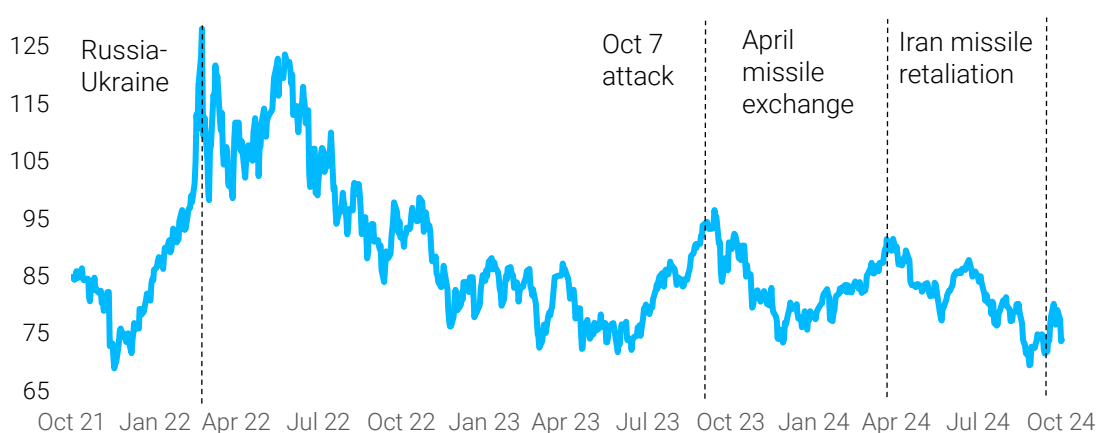
Hamzeh Al Gaaod / Christopher Granville

- Middle East conflict might just tip the US presidential election in Trump's favour
- The key is Muslim voters in swing states alienated by Biden-Harris policy
- This possibility undimmed by the Sinwar killing and other recent developments
- Post-election challenges to US foreign policy posed by the region look ever more intractable and dangerous, distracting from the preferred focus on China

## Summary

**This note returns to the starting point of our series on the mutual impact of next month's US elections and the wider world by re-focusing on the Middle East.** Our initial focus – last July – was on the oil price. We concluded that Saudi Arabia's paramount (geo)political interest in using its swing producer position to support the oil price would offset possible energy policy shifts stemming from the US election outcome – specifically, Donald Trump's stated plan to lower energy prices by boosting domestic fossil fuel production. The focus of this report shifts to the region's conflicts, centred on Israel vs Hamas, along with the regional players led by Iran actively supporting the Palestinian armed struggle.

## Impact of geopolitical shocks on Brent oil price (\$/bbl)



Source: Datastream, GlobalData TS Lombard.

**In contrast with the weakening impact of successive conflict escalations on the oil price** – the core transmission channel from Middle East turbulence to the global economy and financial markets (chart above) – the US election now presents another channel. This is one-off, but potentially more powerful: **the conflict might have a material impact on the outcome of the**

**presidential election** – hence on the [full gamut](#) of investment implications flowing from that outcome. This possibility hinges on the reactions of Muslim Americans – along with some secular progressive voters – in the swing states, notably Michigan, having the (unintended) effect of boosting Trump's prospects of winning the overall race against Kamala Harris. Latest developments – Israel's pending retaliatory strike on Iran and its elimination of the top Hamas leader Yahya Sinwar – seem unlikely to nullify this rare potential exception to the general rule that US elections are unaffected by foreign policy.

**Looking further ahead to the impact of the election on the Middle Eastern imbroglio, the starting point is bipartisan and largely unconditional US support for Israel.** This means that Israeli policies will always be crucial, making it important to track the domestic social and political drivers of those policies. The key feature here is the **radicalization caused by the present conflict**. The consensus rejection of a two-state solution transcends the polarization of Israeli society's secular and religious wings that has come to a head over the Netanyahu government's judicial reform agenda. The symmetrical radicalization on the Palestinian side ripples out into the regional Iran-led "axis of resistance". This mutually reinforcing vicious cycle – arguably an intended effect of Hamas's murderous 10/7 raid – entrenches the risk of direct conflict between Iran and Israel.

In our [view](#), it would take full-scale US military involvement in such a conflict for the world to face the risk of a true – meaning 1970s-style – oil shock, as opposed to a 2022-style stagflation impulse (fleeting, albeit nasty for markets while it lasted). While a Harris administration might be expected to continue in fire-fighting mode, that 'true shock' risk might seem higher with Trump as US president, given his unqualified ("finish the job") support for the Israeli government's pursuit of military solutions and his outspoken enthusiasm for regime change in Iran. Mitigating this risk is Trump's boast of being the "only" president who does not get America into new wars. However that may be, regional radicalization blocks any realistic prospect of Trump reviving his "Abrahams Accords" strategy – also one of the many Trump policies maintained by the Biden administration, hence likely to be adopted by Harris if she wins the election. This points to the continued weakening of US-Saudi ties, reinforcing wider de-dollarization trends.

## That 'Jill Stein' effect again

**A specialized opinion poll survey conducted in late August highlighted how a well-known problem for the Democrats' election campaign could turn out to be decisive.** The problem is the discontent of part of the Democratic Party's natural support base with the Biden administration's failure to use its leverage over Israel to mitigate the humanitarian consequences of the Netanyahu government's military operation in the Gaza strip. On two occasions since the war started a year ago (the latest being earlier this week), Washington has indicated that the continued flow of US arms supplies might depend on the Netanyahu government facilitating humanitarian relief efforts at particularly critical times/places. Such threats lack credibility against the backdrop of Israeli military action leading to various reactions from 'axis of resistance' – at which point, the Biden administration reaffirms its commitment to Israel's security.

**This cycle has intensified the dismay of pro-Palestine opinion in the US – above all, in the group where such feelings are strongest: Arab (and other Muslim) Americans.** While this section of the US electorate is not large enough to move the needle when it comes to aggregate national vote shares, it may prove important in the swing states where the choices of a few

thousand voters look set to determine the overall outcome, as happened in the last two presidential elections of 2020 and 2016. The table below reproduces the results of a poll conducted in late August by the Council on American-Islamic Relations showing that in half of the six 'battleground' states surveyed – Michigan, Wisconsin and Arizona, Harris's support among Muslim voters is below that of the Green candidate, Jill Stein. (The one exception to the general trend is Nevada, where this poll found such voters narrowly favouring Trump, despite his hardline pro-Israel stance, and where Stein's unusually low score is irrelevant as she is not registered on the ballot in that state.)

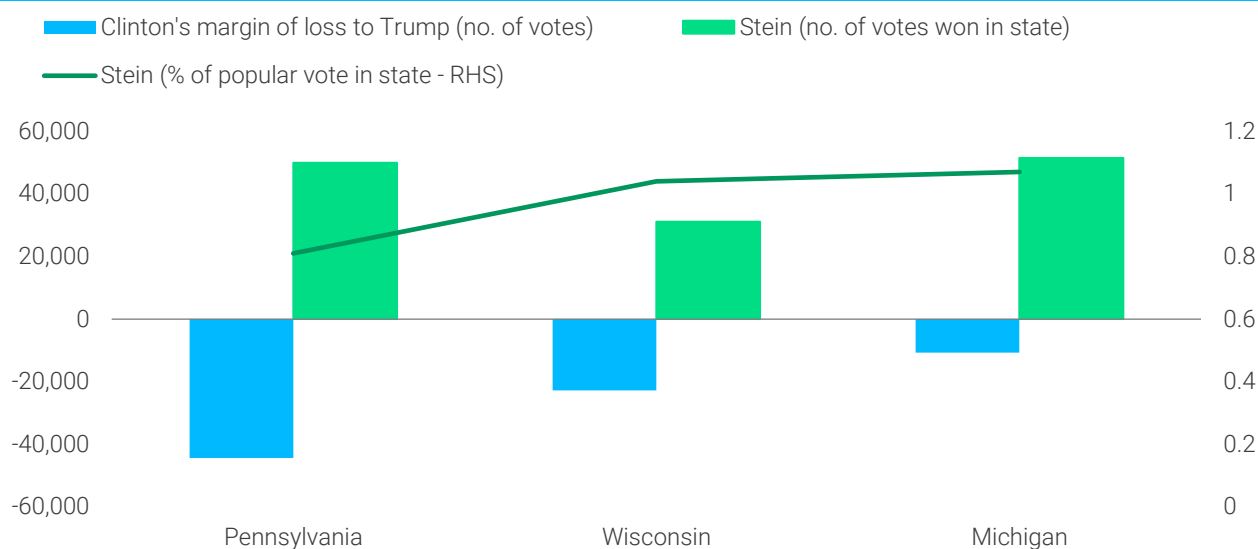
### Muslim voter preference in battleground states

	AZ	GA	NV	MI	PA	WI	Total
<b>Kamala Harris</b>	29	43	26	12	37	39	<b>28</b>
<b>Donald Trump</b>	15	14	27	18	8	8	<b>15</b>
<b>Cornel West (People's Party)</b>	0	6	9	2	4	0	<b>3</b>
<b>Jill Stein (Green Party)</b>	35	17	13	40	25	44	<b>30</b>
<b>Chase Oliver (Libertarian Party)</b>	0	7	0	0	0	0	<b>1</b>
<b>Undecided</b>	13	7	21	21	19	8	<b>17</b>
<b>Won't vote</b>	7	6	0	8	6	0	<b>6</b>

Source: CAIR, survey conducted 25-27 August

**The historical record shows that leakage of support to third-party candidates in swing states can tip the balance in the electoral college.** As shown in the chart below, the margin of Trump's victory over Hillary Clinton in three decisive swing states in the 2016 election was accounted for by Stein's vote share of (on average) less than 1%, the bulk of which would have otherwise leaned Democrat. The same pattern might recur in next month's election helped by Stein's competitiveness among Muslim voters thanks to her unequivocal support for a two-state solution – in contrast to the Biden-Harris stance that ties any prospect of Palestinian statehood to a negotiated peace agreement with Israel (something which Israeli is now set against – more on this below).

### 2016: Jill Stein tipped the scales in favour of Trump



Sources: Dave Leip's Atlas of Presidential Elections, GlobalData. TS Lombard

**For all its clear tipping-point potential, this factor remains one among many – and one that may, on the other (pro-Harris) side of the scales, be outweighed by others.** For example, a survey by the Jewish Democratic Council of America found that 71% of Jewish voters in the swing states favour Harris. This liberal strand of the Jewish voter base is reflected in the sharp reaction by the (New York-based) head of the Jewish Council for Public Affairs to Trump's declaration that "anybody who's Jewish and loves being Jewish and loves Israel is a fool if they vote for a Democrat" as "treating Jews and Israel as political footballs". In addition to discounting for some confirmation bias in such surveys and campaigning, more decisive for the outcome of such closely fought races is not the level of bedrock support but rather the extent to which disenchantment causes voter groups to cancel the effect of their natural lean (against pro-Israel Trump in the case of many Muslims) by abstaining or switching to a minor candidate.

**In any case, the potential importance of Muslim swing state voters as a tipping factor seems unlikely to be dimmed, and may perhaps be increased, by the latest dramatic events in the conflict zone.** Media reports of the Harris campaign being concerned about the impact on voter sentiment of Israel's intensified campaign against Hezbollah in Lebanon are reflected in this week's signal to Israel from Defense Secretary Lloyd Austin linking arms supplies to the unblocking of humanitarian aid routes into Northern Gaza where food supplies are low.

**Meanwhile, the Biden administration has provided a conspicuous piece of military aid to Israel in the context of another consequence of the escalation in Lebanon** – namely, this year's second round of direct missile strikes between Israel and Iran. This is a THAAD anti-missile battery, along with 100 US military personnel to operate the system – a deployment clearly designed to plug the apparent depletion of Israel's air defence and/or superior capabilities of the Iranian missile arsenal as revealed by the greater success of Iran's latest volley on 1 October compared to last April. It may be that the importance of this latest US boost to Israeli air defence has improved Biden administration's leverage over the Netanyahu government's military decisions, as reflected in [Washington press briefings](#) to the effect that the (still pending) Israeli retaliatory missile strike on Iran will target neither nuclear nor oil industry infrastructure.

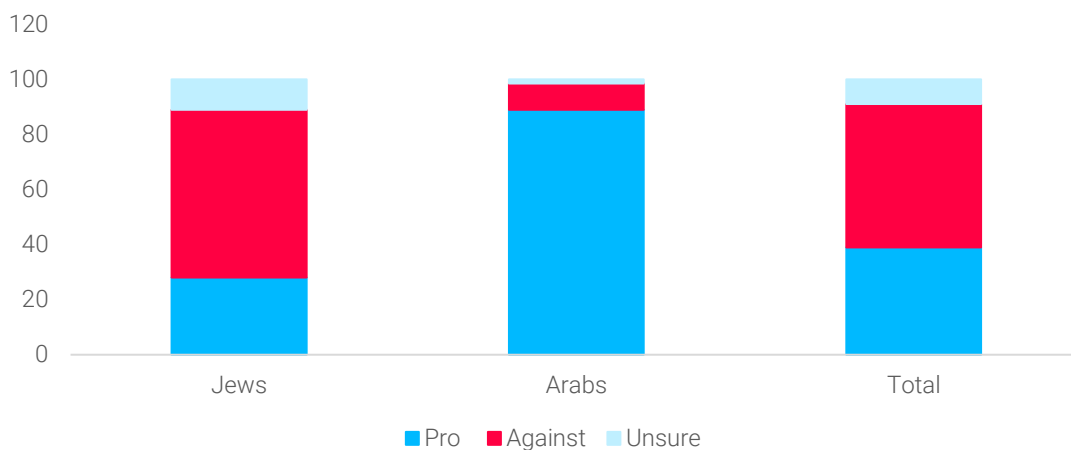
However this turns out (and Netanyahu has since followed up with a pointed statement that Israel will be guided exclusively by its national security interests), these episodes leave no doubt about the Biden administration's fears of adverse impacts on the election from Middle East conflicts. By threatening a highly unwelcome oil price spike on the final straight before polling day, the latest exchange of Iran-Israel missile strikes extends this election blowback risk far beyond niche voter groups in swing states. But that swing state risk would come back into focus in the light of the intensified fighting, with accompanying humanitarian distress, that might follow yesterday's killing of the core Hamas leader Yahya Sinwar. Here again, there is no mystery about the Biden administration's immediate reaction to the death of Sinwar as an opportunity to revive the ceasefire and hostage-release negotiations.

## 'Outbound' election impact: Saudi & Iran

**Looking further out beyond the immediate focus on the impact of the Middle East crisis on the US election result, and considering the contrasting approaches to the region by a Harris or Trump administration, the focus switches to Saudi Arabia and Iran.** The starting point,

however, remains Israel. That is, the way that trends in Israeli society and politics shape the policies of the current and future Israeli government will provide the essential framing for US policy in the Middle East. The core exhibit here is the resolution of the Knesset adopted by 68 votes to 9 on 18 July against any possibility of a Palestinian state “west of Jordan . . . in the heart of the Land of Israel . . . [which] Hamas would soon take over and turn into a radical Islamic terror base, working in coordination with the Iranian-led axis to eliminate the State of Israel.” This ruling out of Palestinian statehood in principle is a notable hardening of the traditional Israeli position that made Palestinian aspirations conditional on an agreed settlement with Israel. The key point about this resolution is that it was supported not only by the parties comprising Netanyahu’s hardline coalition, but also by many lawmakers from the centrist National Unity party led by Benny Gantz. The liberal Yesh Atid party led by Yair Lapid abstained, leaving only the small Knesset caucus of two Arab parties to vote against the resolution.

### Israeli opinion for and against Palestinian statehood



Source: The Israel Democracy Institute

**This Knesset vote clearly reflects the radicalization of attitudes on the Palestinian question in Israeli society** (chart above) reflecting the trauma of the Hamas raid, hostage-taking and ensuing conflict. This radicalization sits alongside Israeli society’s continued acute polarization on purely domestic questions, notably the Netanyahu government’s policy of enhancing the power of the government of the day at the expense of the judiciary as well as tightening government control over judicial appointments. Part of those reforms seems designed to help shelter Netanyahu himself from legal jeopardy over corruption charges.

**The coincidental echoes with Trump’s personal legal predicament and stated attitudes to such matters are unmistakable.** If Trump enters the White House next January, and assuming that the Netanyahu government remains in office next year (more likely after the popular Sinwar killing and amid the campaign against Hezbollah in Lebanon), he may be expected to support Netanyahu with more enthusiasm than ever.

**Yet Trump’s unconditional backing for Israel and its national consensus rejection of a two-state solution will remove what had been the other main plank of his Middle East policy** – namely, the rapprochement between Israel and conservative Arab states in a geopolitical and economic community orientated towards the US and forming a bulwark against Iran. This policy made progress in the last months of Trump’s presidency in 2020 with the ‘Abrahams Accords’ in which the UAE and Morocco normalized relations with Israel without any Israeli concessions to

the Palestinians. The great prize of this policy, however, was always to have been a similar deal involving Saudi Arabia.

**Saudi participation in the Abrahams Accords process was all along bound to be conditional on some tangible steps by Israel towards an agreed peaceful resolution of the Palestine question.**

Giving Israel a 'blank cheque' on Palestine would be incompatible with the power and status of Saudi Arabia in the Muslim world – and, in particular, it would counter-productively weaken the Kingdom's prestige relative to its core regional rival, Iran. But before October 2023, it was not clear exactly what Israeli steps would satisfy Saudi Arabia. Now we know that Israel – even under a different and more centrist government – will make no such steps at all, normalized relations with Saudi Arabia are impossible. This became clearer than ever with last month's explicit [statement by the Saudi Foreign Minister](#) that progress depends on Israel committing to a two-state solution to the Israel-Palestine conflict.

**This impasse raises the question of how Trump might approach Saudi Arabia in a second presidential term.** It seems safe to rule out a repeat of Riyadh being the destination of his first foreign trip in his first term. Trump has already expressed public regrets about what he described as the Saudis drifting into the Chinese camp, as well as (in separate remarks, apparently aimed at Saudi Arabia while not mentioning the country by name) threatening to impose punitive tariffs on imports from countries that are "moving away from the dollar" – a process likely to be underscored by the approval at next week's (Saudi-attended) BRICS Summit in Russia of a [CBDC-based cross-border trade settlement mechanism](#) designed to neutralize the global sanctioning power of the US Treasury. The Saudis may well prefer the prospect of a Harris administration, which could be expected to maintain official (however ineffectual) support for a two-state solution – as well as being less supportive of expanded domestic US oil production threatening Saudi market share (see our July note [Saudi key to Trump oil trade](#)). Either way, the most effective US leverage when it comes to retaining Saudi Arabia's strategic allegiance may now be the [supply of AI chips](#).

**A possible key to this conundrum lies in Tehran, where US foreign policymakers may be focusing renewed attention under either Harris or Trump.** Further Iranian progress towards the nuclear threshold, not to mention the country's deepening military ties with Russia and strategic relationship with China, may end up posing a sharp choice in Washington: either a revival of the 2015 Iran nuclear deal ('JCPOA') or joining Israel in military action against Iran.

- The former course would seem more natural for a Harris administration, especially given that her prospective National Security Advisor is Philip Gordon, who was a leading JCPOA negotiator in the Obama administration. But, and also as in the Obama years, any progress would be as vulnerable to anti-Iranian sentiment across the US political class – especially given that divided government is our base case view of the likely US election outcome. And it would take many more years of confidence-building with Iran before there could be any plausible prospect of the Tehran regime relaxing its 'death to Israel' stance and thereby helping to overcome the Israel-Palestine blockage.
- For Trump, by contrast, implacably opposed as he is to the JCPOA, any temptation to put military force behind his often-stated wish for regime change in Iran would have to be weighed against his political positioning as the president who keeps America out of foreign wars.

One prediction to be confident about is that, whatever the US election outcome, the acute dangers coming out of the Middle East will continue to frustrate US foreign policymakers' preference to focus their attention and efforts on the overarching strategic rivalry with China.

## Appendix: US Middle East policy post-elections

	Middle East Conflict	Middle East Power Dynamic
<b>Trump</b>	<ul style="list-style-type: none"> <li>• Trump to provide Israel with carte blanche to “finish the job” on both Hamas and Hezbollah fronts (pending changes in operations in Gaza due to Sinwar assassination)</li> <li>• Trump’s desire to eradicate the Iran threat will collide with his desire to avoid getting the US entangled in new wars</li> <li>• Regional radicalization blocks any realistic prospect of Trump reviving his “Abrahams Accords” strategy</li> <li>• No clear or effective plan to end hostilities presented to date</li> </ul>	<ul style="list-style-type: none"> <li>• Extremely hardline stance against Iran, especially on nuclear capabilities and sponsorship of “axis of resistance”</li> <li>• Likely to impose tariffs, aid restrictions, or other forms of punishment for countries not “falling in line”</li> <li>• Likely continuity with Biden’s chip restrictions so as to weaken Saudi-China relations, usage of RMB and de-dollarization</li> <li>• Growing US oil &amp; gas production to clash with Saudi need for higher oil prices to finance Vision 2030</li> <li>• Supports nuclear technology transfers to the Saudis with fewer guardrails on non-proliferation</li> </ul>
<b>Harris</b>	<ul style="list-style-type: none"> <li>• Strong support of Israel balanced by a focus on humanitarian situation in Gaza, which could lead to conditions being imposed on future military aid</li> <li>• Very unlikely to engage in any “boots on the ground” approach</li> <li>• Sinwar’s death opens the door for an end to the Gaza war but a long arduous road still lies ahead, given little clarity on the next generation of Hamas leadership</li> <li>• No clear or effective plan to end hostilities presented to date</li> </ul>	<ul style="list-style-type: none"> <li>• Called Iran America’s “greatest adversary” on the campaign trail but could potentially be open to renegotiating a return to the 2015 Nuclear accords</li> <li>• Does not have the formal baggage of Biden’s rocky relationship with Saudi Arabia, allowing for more pragmatism in her approach at the outset</li> <li>• Continuing focus on human rights could strain the US-Saudi relationship</li> <li>• Support for a faster energy transition could lead to more Chinese-Saudi partnerships in clean energy</li> <li>• Expected continuity with Biden’s AI chip restrictions to Gulf countries to nudge allies away from Chinese tech</li> </ul>



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