

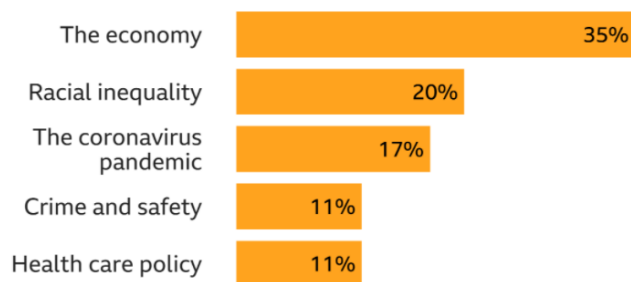
BIDEN TRUMPS TRUMP

November 2020

With a record number of votes cast and extremely close margins dragging the final results out into the weekend, Biden has become President-elect in the eyes of all but Trump's inner circle (interestingly China and Russia are also yet to acknowledge the result). In this overview we consider the possible impact of the impending change of management at the White House, from foreign policy and climate change to fiscal stimulus and the markets. What will the world wake up to on January 20th, 2021?

Many saw this election as a referendum on Donald Trump as opposed to an election of party policies. Whilst closer than anticipated, with odds at the bookies flip-flopping between Trump and Biden on Wednesday morning, Biden won the largest popular vote ever and aside from the economy, Trump's handling of the Covid-19 pandemic and the fallout from the killing of George Floyd were major factors in Biden's victory.

It is remarkable to think that, with margins in some states so close, if it weren't for the Coronavirus we would probably be welcoming Donald Trump back to another four years in the White House. However, the result confirmed that America has had enough of the Donald – albeit only just. According to the FT, Trump lost ground compared to 2016 across various groups including white, low-income, older and male voters, yet he still managed to garner c71m votes, accounting for 47.7% of the popular vote.



Sample size: 3,755 respondents. All figures have a margin of error
Source: Edison Research/NEP via Reuters, 22.30 EST (03.30 GMT)

Biden now inherits a stubbornly divided country. He campaigned as a safe pair of hands and his speeches since winning have emphasised a bipartisan approach to healing the country, but there is much work to do.

BIDEN'S IMMEDIATE RESPONSE

As President-elect he will today announce a Coronavirus task force and has confirmed that the US will re-join the Paris Climate Accord and the World Health Organisation. These previous executive orders made by Trump are easy to roll-back, but some major policy changes will still need



to be ratified through Congress, not a major obstacle as the Democrats control the house

SENATE STUMBLING BLOCK

Of far greater significance is the Senate, control of which is yet to be decided and is finely poised, with both parties holding effectively 48 seats each. However, the Republicans are pretty much guaranteed two more (North Carolina and Alaska), taking their tally to 50. The election run-off on 5th January in Georgia is therefore crucial, as uniquely Georgia has two senate seats at stake. If the Democrats win both then it is a tie 50:50, but they will control the Senate because the Vice President has the casting vote in a tie. If the Democrats don't win these two seats in Georgia, the Republicans will retain control, severely hampering Biden's power. It should be noted that no Democrat has won a senate seat in Georgia for two decades.

Could this have been scripted in Hollywood any better? The balance of power in the world's most important economy hangs on a run-off election in one marginal state!

In reality, the Republicans are more likely to keep control of the Senate and any policies Biden brings forward will more than likely be diluted significantly in order to gain approval. So, what can Biden really achieve and how will he

fare over the short-term when facing the biggest health and economic crisis in the US for decades?

THE ECONOMY

Biden sits slightly to the left of centre from a political perspective. He promised to reverse many of the Trump era tax cuts for companies and wealthy individuals. He has pledged significant spending on healthcare, education and green energy and higher levels of regulation for financial services, big tech, big pharma and carbon emitting energy companies. However, a Republican senate would be great news for big tech, as major legislative changes will probably be rejected. As a result, technology stocks led the stock market to one of its best post-election week rallies in history this week.

Biden has also pledged to force government agencies to “buy American” to help the US recover from COVID-19 and this will have a positive impact on US businesses, at the expense of global competition in the short-term.

We may also see a financial stimulus package approved before year-end to help combat fallout from COVID-19. The two most powerful lawmakers in Congress, Nancy Pelosi and Mitch McConnell continue to agree that stimulus should be provided to those in need, but they differ on the quantum. Before the election we saw a \$1.7bn “difference of opinion”, however in this “lame-duck” period of the election cycle both parties are hoping to pass stimulus measures before year-end. On the day of writing, US unemployment fell from 7.9% to 6.9% in October, which would result in a cheaper package of aid to help the jobless and hopefully therefore this leads to the \$1.7bn gap between the parties closing somewhat.

through the House, unemployment support payments face ending at the worst possible time. As we have seen in Europe with further lockdowns, it would be unwise to rule out the potential for US state lockdowns in the coming months. Biden is certainly going to put health before wealth where possible and whilst strategic lockdowns may reduce COVID-19 rates, the economic impact could be very grave.

His plan includes:

- Widespread free testing
- Elimination of all cost barriers for treatment and prevention
- Full deployment of a vaccine
- Emergency paid leave for those affected by COVID-19
- Asking Americans to wear masks in public

However, with another two months of the Trump presidency and heading into winter, the country with the world’s highest death toll will continue to suffer. Biden will need to act swiftly upon coming to power.

As with many significant plans in US politics, the roll-out of mass vaccinations (hundreds of millions) will involve approval from the Senate (of course) and Biden will need to obtain Republican support - easy when discussing health but not so easy when discussing cost. He has said that he will engage with the scientists that Trump has largely rejected and Time magazine highlighted that Biden’s plan for COVID-19 may ultimately boil down to being “not Trump’s”. The major plan seems to be high rates of testing and preventative measures, alongside financial support and only imposing the strictest lockdown measures where necessary to quash a significant outbreak.

CLIMATE

We know for sure that Biden will sign up for The Paris Climate Agreement, which does not need approval of the Senate but perhaps one of the most striking differences between Trump and Biden is the case for energy.



Stock market records best election week in decades

S&P 500 performance in election weeks

Year	Winner	Defeated	Return	0%
2020	TBD	TBD	7.3%	
2016	Donald Trump	Hillary Clinton	3.8%	
2012	Barack Obama	Mitt Romney	-2.4%	
2008	Barack Obama	John McCain	-3.9%	
2004	George W. Bush	John Kerry	3.2%	
2000	George W. Bush	Al Gore	-4.3%	
1996	Bill Clinton	Bob Dole	3.8%	
1992	Bill Clinton	George H. W. Bush	-0.3%	
1988	George H. W. Bush	Michael Dukakis	-3.0%	
1984	Ronald Reagan	Walter Mondale	0.1%	
1980	Ronald Reagan	Jimmy Carter	1.3%	
1976	Jimmy Carter	Gerald Ford	-2.0%	
1972	Richard Nixon	George McGovern	-0.4%	
1968	Richard Nixon	Hubert H. Humphrey	0.9%	
1964	Lyndon B. Johnson	Barry Goldwater	0.4%	
1960	John F. Kennedy	Richard Nixon	1.8%	
1956	Dwight D. Eisenhower	Adlai E. Stevenson	-1.4%	
1952	Dwight D. Eisenhower	Adlai E. Stevenson	1.1%	
1948	Harry S. Truman	Thomas E. Dewey	-6.5%	
1944	Franklin D. Roosevelt	Thomas E. Dewey	0.7%	
1940	Franklin D. Roosevelt	Wendell L. Willkie	1.4%	
1936	Franklin D. Roosevelt	Alf Landon	1.2%	
1932	Franklin D. Roosevelt	Herbert Hoover	11.6%	
1928	Herbert Hoover	Alfred E. Smith	2.7%	

COVID-19

With the most recent financial stimulus plans yet to pass

Once described as an enemy of coal, Biden will no doubt accelerate the decline of coal in the US. One of his most ambitious plans involves the very contentious 'Green New Deal'. Again, this must pass the Senate first, and Biden's plan for a "clean energy revolution" is the jewel in the crown for his green energy voter base. This vast infrastructure plan aims to stop climate change and revolutionise the US power grid and he hopes that where America leads, the world will follow. In short, the Green New Deal aims to decarbonise electricity, invest in clean and sustainable energy and eradicate fossil fuel extraction.

The cost of such a plan has been quoted as up to \$93 trillion, but the global savings are estimated to be worth it. With a minority in the Senate though, this plan will likely not be approved and therefore could be the first casualty of Biden's election "manifesto". He is however not completely disarmed, and we may yet see Biden use executive orders to swiftly declare a climate emergency, instruct the Environmental Protection Agency to develop more ambitious versions of Obama's 'Clean Power Plan' and limit or remove the flexibility of laws allowing oil and gas development on public land. He can also act quickly to stop the high levels of water pollution seen in many cities around the country, which have been neglected for close to a decade.

HEALTHCARE

Trump may be remembered for many things, but his attempts and failure to repeal the Affordable Care Act will be a sticking point for many Republicans. With Trump out of the oval office, the 100 million Americans who benefit from this plan will breathe a sigh of relief. Biden will also look to strengthen protections on the Affordable Care Act over time to stop any future roll-back. However, any major initiatives to bring in Medicare for All will probably not reach fruition, as they are likely to be rejected before even being heard in the Senate.

Like with "big tech", a Democrat minority in the Senate would also quash any plans to threaten Big Pharma with legislative overhaul and/or price controls.

TRADE

It is expected that Biden is unlikely to roll-back Trump's tariffs on steel, aluminium and imported goods from Europe and China. If anything, his stance may toughen in his approach to China and seemingly he is keen to work with other partners in pursuing that tougher stance.

Worryingly for the UK, Biden seems in no hurry to organise a trade deal and he is opposed to Brexit stating that if the Good Friday Agreement is not honoured, the UK can forget

about a deal with the US. His now viral "The BBC? I'm Irish" comment, whilst throwaway, may give us some indication of his approach to the 'special relationship'. The US election has not come at a good time for Boris, as a no-deal Brexit is seen as unfavourable to the President-elect.

OTHER MAJOR PROPOSALS

Biden's administration will be looking to improve civil rights (with work being implemented on the Equality Act), change the immigration status for more than 11 million illegal migrants, roll-back Trump's "America First" attitude towards global partners and generally adopt a more conciliatory tone globally.

Biden himself has pledged to immediately reverse 100 Trump administration public health and environmental roll-backs from the Obama era. The majority of these relate to environmental protection laws and include:

- 26 roll-backs on Air Pollution and Emissions
- 20 on Drilling and Extraction
- 13 on Animal welfare

The next six months are going to be extremely challenging for the incoming President. As we enter the winter months with a second, almost unrepentant surge of COVID-19 and the subsequent shutting down of the global economy, Biden will face the imminent threat of more American deaths. His handling of the pandemic may set the tone for his entire presidency.

Biden will also need to plan long-term and will need to rebuild the US brand both internally and overseas.

As you will have gathered from reading this article, the run-off election in Georgia on the 5th January could not be more important. A Republican senate and a hamstrung progressive Democrat President may end up being the best result for markets, but a Democrat clean sweep come January will allow Biden to implement many of his climate change policies that will be of major global benefit in the longer-term, albeit at significant cost to the US tax payer.

If nothing else enjoy this period of post-election silence from Donald Trump. However, you can bet that this will not be the last that we hear of him and he could even run again in 2024! In any case, his protectionist legacy that has become known as "Trumpism" will continue to influence US politics for years to come.

Bowmore Asset Management Ltd is registered in England. Registered number 0905 1799. Authorised and regulated by the Financial Conduct Authority.