



BATTLE FOR THE WHITE HOUSE

October 2020

The COVID-19 pandemic has rightly occupied headlines and stolen column inches away from key stories such as Brexit, US-China trade relations and the oil price war. Yet the one major story that has remained in focus is the upcoming US presidential election, to be held on November 3rd.

Always a spectacle, often contentious and inevitably important for markets, the 2020 battle for the White House has become one of the key variables under consideration by stock markets this year. With the deadline fast approaching, this month we look at what the polls are telling us, consider the implications of a Biden victory, and cover the major twists and turns so far in the run up to polling day.



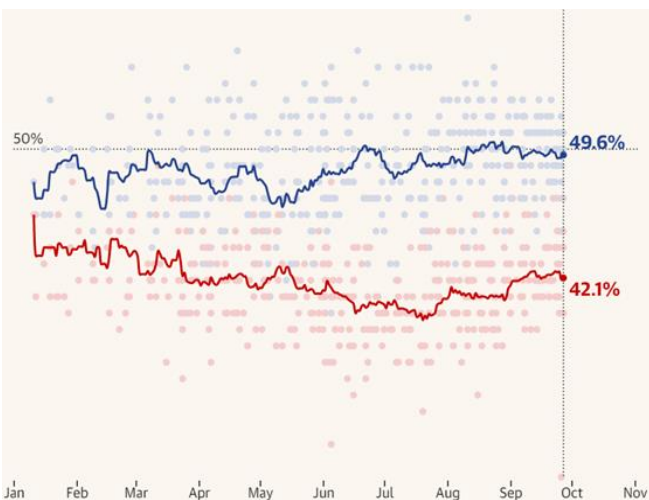
However, back in 2016, when Trump won the presidential election, Hillary Clinton went into the vote as favourite and many will recall that Trump’s victory came as a huge surprise. This said, the gap between the two wasn’t as large as it is now, with Clinton only 3.2% ahead of Trump at the same stage. It is also true that during 2016 the polls were far more volatile, with Trump leading at points in May and July. Yet since January, the gap between Biden and Trump has only widened in favour of the Democrats, coinciding with the escalation of COVID-19, which could turn out to be a major factor in deciding this election.

THE MECHANICS

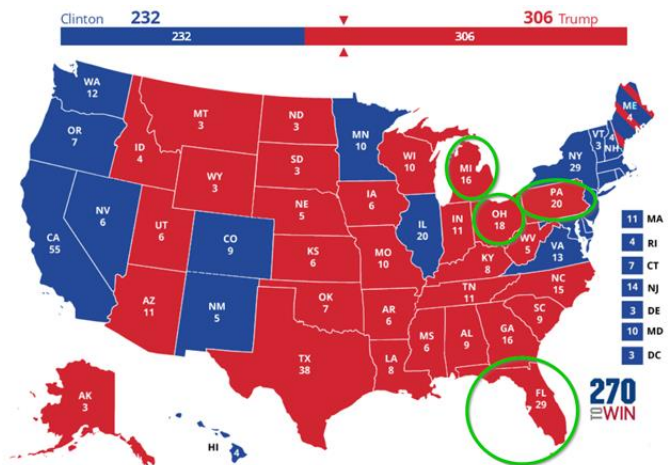
Each of the US states is allocated a number of electoral votes with apportionment based on representation in Congress, which in turn is based on population. Therefore, states with a higher population will carry more electoral votes than those with a lower population, despite their physical size (for example New Jersey holds 14 electoral votes vs 3 held by Montana, despite Montana being 16 times larger). There are 538 votes in total and it is a ‘winner takes all’ in all but two states. The candidate who reaches 270 votes or more wins the election.

WHAT DO THE POLLS SAY?

At the time of writing Joe Biden, the Democratic candidate, is ahead in the polls in his bid to become the 46th US president. The Guardian poll, which takes a 14-day average of national polling statistics, has Biden holding a 7.5% lead over Donald Trump.



Source: The Guardian



Source: The Austin Independent - Can Texas Turn America Blue

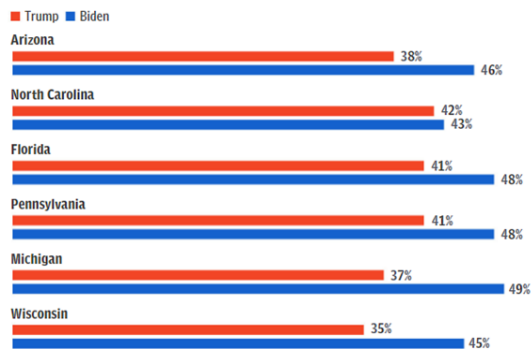
The successful candidate usually does win the “popular

vote” (the most votes in total), with notable exceptions including Hillary Clinton in 2016. A state that has a large population whose votes could swing either way is vital because of the ‘winner takes all’ system. These states are close-fought battle grounds and it is virtually impossible to win the election unless you secure most of the “swing states”, as they are known. Remember the recount in Florida in the 2000 election, which George Bush controversially won by a tiny margin of 537 counted votes, giving him Florida’s electoral votes and the keys to the White House by a margin of 271 - 266.

WHERE ARE THE SWING SEATS THIS TIME ROUND?

In 2020 North Carolina, Florida, Michigan, Wisconsin and Arizona could all play a part in deciding the outcome - they are all states which Trump won narrowly against Clinton in 2016, helping him win the election. As you can see on the next page Biden currently holds a competitive edge in all of them and although there is no guarantee that Biden’s voters will turn out in these states, he currently carries an advantage where it matters:

If you are to vote in the Presidential Election on 3 November 2020, how will you vote?



Source: Redfield & Wilton Strategies / The Daily Telegraph Polling

MAIL-IN VOTERS

Given the COVID-19 pandemic, it is expected that more people than ever before will use the mail-in (postal) voting service during this election. There is concern about the ability of the US postal service to cope with high demand. Trump (who has previously used the service himself) has expressed concern that the postal voting system is open to manipulation and fraud, dramatically claiming that it “could be the greatest scam in the history of politics”. It just so happens that states with the highest levels of mail-in voters were won by the Democrats in the last election, including California, Oregon, Washington and Hawaii!

Further controversy has come as the head of the postal service, US Postmaster General Louis DeJoy, is a staunch supporter and financier of the Republican party. He has

taken steps over recent months to overhaul the postal service to ‘revitalise’ its operations, with changes including limiting overtime pay, reducing trips for delivery vehicles and strict start and end times for mail workers’ shifts. Be this a politically motivated shift or not, many have voiced concerns that these changes will negatively impact the efficiency of the postal service, which in turn could affect the election result.

The major concern with mail-in is that Trump loses, blames the system and refuses to accept the election result, causing delays and uncertainty, just like in Florida 2000.

BIDEN’S POLICIES

We have a rough idea what Donald Trump stands for - free-market, lower tax, America first, national security and protectionism, but what of Joe Biden’s expected policies? The first live TV election debate gave no real insight, given that it ended up being a school playground bunfight between two 70+ year olds who should have known better. Particularly so for Biden, who had a real opportunity to score some political points against Trump and to lay out his vision for the future under his stewardship.

Biden has focused his election campaign on ‘healing the cracks’ in US society. His stance on coronavirus, racial injustice and climate change have been the mainstays, along with:

- Implementing an extensive test and trace system to control coronavirus
- Raising the federal minimum wage to \$15 per hour
- Extension of loans to small and medium business
- \$30bn in business support for minorities
- \$2tn investment in green energy
- Re-joining the Paris Climate Accord
- Expanding Obamacare
- Reversing Trump’s immigration policies

These policies are designed to set out a vision of a “Build Back Better” plan, with a huge cash injection being promised to benefit climate change. This is perhaps unsurprising given Biden’s running mate, Kamala Harris, has widely supported and spearheaded climate change initiatives. Harris has championed huge investment into green energy, is in favour of banning fracking and has previously targeted environmental crime.

An area of 'concern' for Biden is National Security, a subject that the Trump campaign has championed after widespread unrest as a result of racial injustice protests. Trump voters feel that Biden is a soft touch on civil unrest and the Democratic candidate has been defensive about the subject of late.

Business's should perhaps be concerned about Democrat spending plans, given that the US budget deficit has already grown from \$779bn to \$2.8trn in just two years. That deficit will either grow and/or lead to higher taxes if the above policies are implemented, but these plans could easily be watered down and have to first be passed into law, which will be a big challenge for Joe Biden.

WHAT IS THE MARKET IMPACT OF A BIDEN WIN?

Put simply, instinct suggests that investment markets love Republican wins and dislike Democratic wins. This is because there is the expectation for a Republican to be more supportive of business, often promising corporate tax rate-cuts, personal tax breaks for higher earners and a lighter touch regulatory approach to investment markets. However, the reality doesn't back this up.

Since the beginning of 1990, the S&P 500 has risen by over 850% on a cumulative basis. During this time, the US has had five presidents - three Republicans and two Democrats. The chart on the next page shows a graphic representation of their terms of office, along with the performance of the index. As you can see, the conventional wisdom of Democrats being bad for markets does not hold true. Over the course of Clinton's and Obama's term in office, the S&P 500 rose c.210% and c.182% respectively

whilst under George Bush Jnr, the S&P fell c.40%:

As you can see from the chart below, it makes very little difference whether a Democrat or Republican sits in the Oval office. This time around, it has been clear for a long time that Biden has a lead in the polls, and yet US markets are still buoyant:

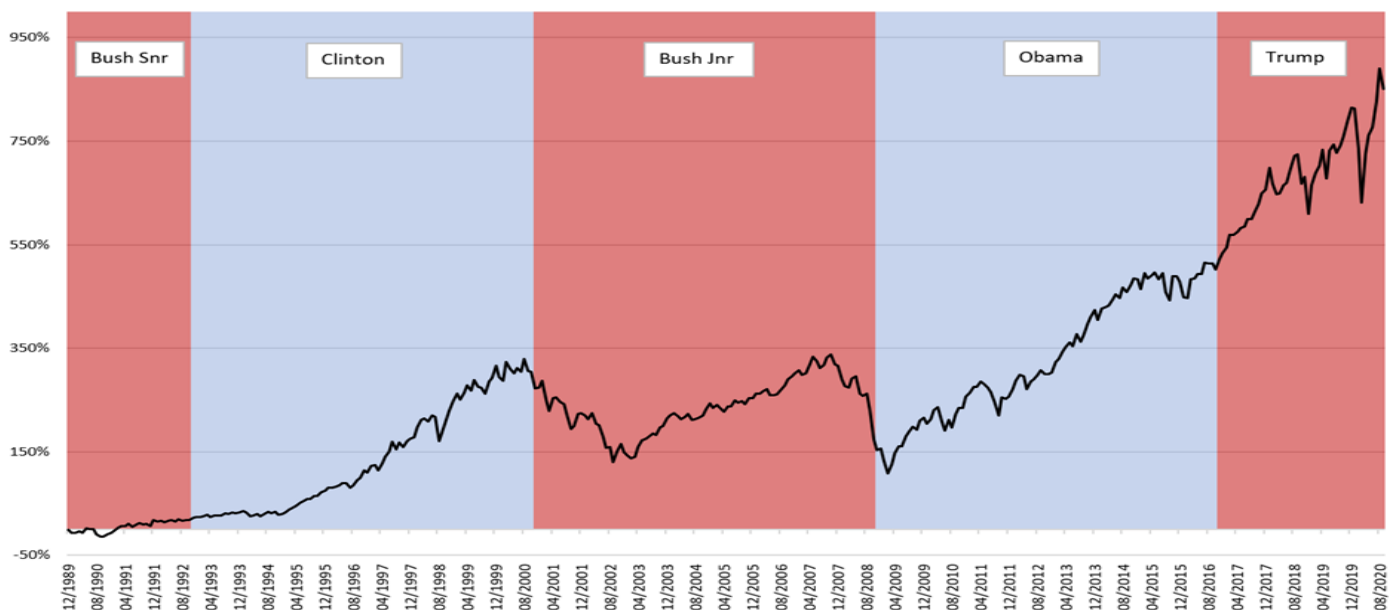
Which presidents have delivered the best stock returns? So far Democrats are dominating.

President	Political Party	Years In Office	S&P Return (%)
William J. Clinton	D	1993-2001	210
Barack H. Obama	D	2009-2017	182
Dwight D. Eisenhower	R	1953-1961	129
Ronald W. Reagan	R	1981-1989	117
Harry S. Truman	D	1945-1953	87
George H. W. Bush	R	1989-1993	51
Lyndon B. Johnson	D	1963-1969	46
Donald J. Trump	R	2017-	43
Jimmy E. Carter	D	1977-1981	28
Gerald R. Ford	R	1974-1977	26
John F. Kennedy	D	1961-1963	16
Richard M. Nixon	R	1969-1974	-20
George W. Bush	R	2001-2009	-40

Source: YCharts. Table: Forbes
Performance represents price change only. Figure for Truman reflects the Dow Jones Industrial Average.

We believe that on balance a marginal Biden victory could be good news for markets. After all, he is a centre leaning moderate Democrat, far more palatable than Elizabeth Warren or Bernie Sanders (who incidentally has just pledged his full support for Joe Biden). However, a Biden clean sweep of Senate and Congress is of more concern as it raises the possibility of more 'progressive left' Democrat policies being made into law.

Another short-term market threat is the possibility of Trump refusing to stand down, either due to his COVID-19 diagnosis 'unfairly' impacting the election, or because of 'mail-in fraud' distorting the result.



Source: Morningstar Direct

Equally, consider that presidents in their second term have nothing to lose as they can't be elected for a third time. Given the raft of aggressive 'executive orders' given by Trump in his first term, a re-elected Donald Trump with nothing to lose could be a very scary prospect during his second term. Expect aggressive "America First" policies that are anti-China and anti-trade. Not necessarily great news for equities, as witnessed at the height of the trade war rhetoric last year.

So, if Biden wins on 3rd November, it shouldn't necessarily mean that markets will fall. Of far more concern is an extreme result that creates major uncertainty. Whilst unlikely, it should nonetheless be a consideration.

BIDEN FOR PRESIDENT....?

Biden is ahead in the polls and could snap up not only the undecided voters in those all-important swing states but possibly some hugely disgruntled newly unemployed Trump voters as a result of COVID. Biden is a tried and tested politician operating as a centrist. In the mind of an undecided voter, who may well have plumped for Trump last time out, the political shift from right to the centre-left will feel far less severe than a complete far right to far left switch altogether, which would have been the case had Bernie Sanders obtained the nomination.

Yet one thing is certain in a US election race, and that is that nothing is truly certain. In reality, it is still wide open. Trump was an outsider to win four years ago and pipped Hillary at the post. Despite his vitriolic language and questionable fact gathering on various subjects, if he manages to push the right buttons with voters, from America first to national security, he could easily turn it around. He is Teflon personified.

What the market doesn't like is extreme outcomes or unpredictable change – for instance Trump attempting to manipulate election timing as a result of testing positive for COVID-19, mail-in irregularities or a Democrat clean sweep. These outliers could all have a negative impact on the markets, but we feel that a moderate victory for either side is far more likely and will have a far less negative impact. A Democrat win could be positive news longer-term, but a month is a long time in American politics. Just ask Hillary Clinton.

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