



Choosing Trump Or Biden

Investors will benefit from supportive policy under either outcome, but the impact on specific industries is much harder to predict.

The candidates, who are generally prone to exaggeration, will tell you this is the most important election in Americans' lifetimes. It is, without a doubt, one of the starkest choices in a while. And yet, for all the differences between President Donald Trump and former Vice President Joe Biden, next year's recovery—and next year's markets—will depend far more on the trajectory of COVID-19 than on either White House's economic agenda.

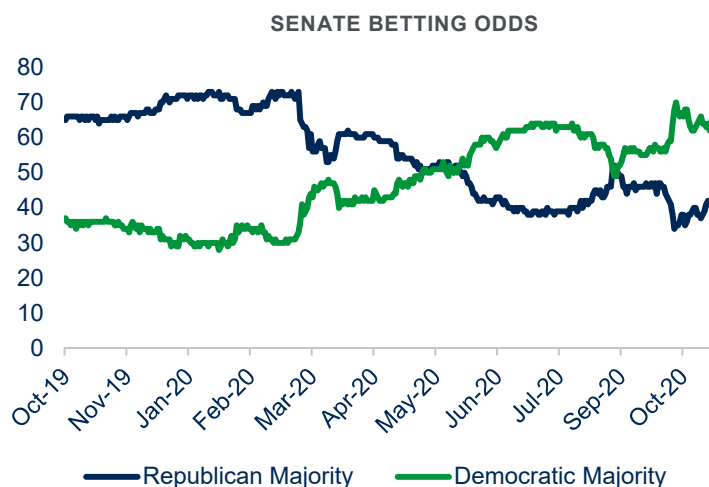
That's not to say the outcome doesn't matter for investors, but the consequences of next Tuesday's vote will take time to fully understand. For the most important macroeconomic policies meant to support the recovery, in fact, there are fewer differences than meet the eye. For specific sectors, the differences are real, but much will depend on how their ideas are enacted through a messy legislative process. For international economic engagement, Biden promises to work more with allies than the more confrontational Trump, but the China relationship will get harder in any case.

Recent sales and jobs data have been improving, although they also reveal lingering scars of what we call a "not quite" recovery. Poorer households continue to suffer more than richer ones. Travel and retail sectors face a long and challenging climb. With continuing monetary support and a stimulus package still likely, this should be a welcoming environment for equities, credit and private markets, but the opportunities will differ by region, sector and even individual companies. Investors will have to choose carefully.

Macro Alignment

With the effects of the pandemic likely to linger for months even after the discovery of a vaccine, the next quarters look challenging. U.S. unemployment has been falling, but weekly initial claims near 700,000 still look high and the ranks of the long-term unemployed are rising. Meanwhile, though larger firms have found it easy to tap capital markets for liquidity, many will face questions around their long-term solvency if their business model cannot adapt to the new normal.

The good news is that both Trump and Biden agree on the need for more stimulus. Treasury Secretary Steven Mnuchin and House Speaker Nancy Pelosi are reportedly near a roughly \$2 trillion deal, although the election and Senate Republicans may delay final approval until after the next Congress convenes in January. Trump has even said he wants to "go big" on stimulus, which might mean even more money next year. Biden would certainly ask for more to support his expansive policy priorities, even if tax increases create a temporary headwind.



Source: PredictIt. As of October 23, 2020.

More important, the Federal Open Market Committee has turned about as extremely supportive in its rate setting, market support and new inflation framework. The Fed's commitment to its ample tool kit means that monetary policy will keep liquidity ample and debt affordable, regardless of the vote results.

Sector by Sector

With candidates representing different political ideologies, it should be much easier to discern the election's impact on key economic sectors. Trump stresses lower taxes and less regulation, while Biden's program envisions higher rates for corporations and wealthy households and more government intervention in climate policy, health care and energy.

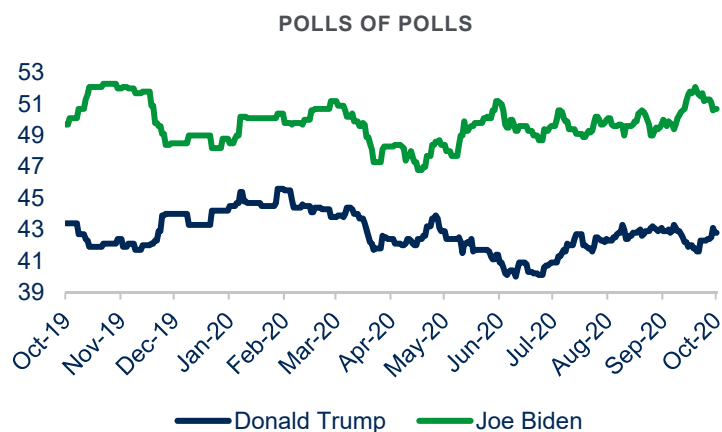
Interpreting what this means, especially once these policy papers are translated into law by two legislative branches with their own views on these questions, is far more art than science.

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Infrastructure: After motherhood and apple pie, rebuilding America's infrastructure is a perennial favorite of presidential candidates. Spending on infrastructure as a percent of GDP has halved in the last 35 years, mainly as state and local spending have declined. Trump promised a \$1.5 trillion infrastructure program that relied heavily on leveraging private financing, but it stalled in Congress. Biden has proposed up to \$2 trillion on traditional projects like roads, bridges and public transportation but also envisions expansive investments in broadband access.

Energy: Trump's commitments to coal production have yielded little in the face of much cheaper natural gas. Meanwhile, relatively favorable tax and environmental rules for the U.S. shale industry have proved to be of marginal help in a world of ample global supply and weak post-pandemic demand. Biden's promise to phase-out fracking on federal lands looks like *less* than meets the eye, as most fracking occurs on private property. His pledge to rejoin the Paris Climate Accord and speed the transition to renewable energy, however, may further benefit wind, solar and battery storage industries.

Health Care: The outlook here gets very complicated, very quickly. Candidate Trump's election four years ago was greeted with relief in the face of strict controls on drug prices proposed by Hillary Clinton, but then President Trump started talking about regulating drug prices, too. The broader health care industry operates in a shadow of uncertainty around the Affordable Care Act, which may be struck down by the Supreme Court even as bipartisan support grows for key elements like coverage of pre-existing conditions. In general, more government support for health care should improve the outlook for the hospital and managed care sectors. A Biden administration seems likely to resist any push toward a "single-payer" system, but the industry will likely face greater regulation and thinner margins.



Source: Real Clear Politics. As of October 23, 2020.

China and Trade

If the sectoral consequences of the election are murky, the outlook for America's global economic policy is easier to envision, albeit more worrying.

President Trump faced stiff criticism for his mercurial approach to China, but he understood the impact of globalization on manufacturing jobs and was extremely disciplined about his focus on redressing the bilateral trade deficit. Most economists argue this narrow statistic distracts attention from broader structural issues that should be solved, but the administration refused to allow issues around China's domestic politics or regional diplomacy to get in the way of its Phase 1 trade deal signed in January. Even after all the campaign rhetoric directed at Beijing, especially around the coronavirus, that agreement remains in place and likely represents the starting point for a second Trump term.

Biden has promised to engage America's allies in a cooperative effort to confront China on state subsidies and the protection of intellectual property, but he seems unlikely to compartmentalize economic issues from the encroachments of headlines around political rights, technology security and regional tensions. A Biden administration's relationship with China could become more methodical and predictable, but it will hardly be any easier or less bumpy. Biden might not have imposed Trump's tariffs, but he will not likely remove them without extracting concessions from Beijing.

As investors hold their breath for the vote count next week, their first sigh of relief will come after any count at all. Recent worries that the result might be contested appear to have subsided, but they have not disappeared.

What becomes clear in this season of bitter debate and high emotion, however, is that the country's economic challenges will remain, regardless of the winner. A savvy investor will watch the unfolding drama closely, with one eye on a recovery that seems to be losing steam and another eye on how a new administration and Congress translate campaign poetry into governing prose.

26 October 2020 | *Leading Thoughts*

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