

Weekly Digest

| 06 July 2020 |



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Biden Our Time

Democratic Party candidate Joe Biden has his sights set on the White House. The US Presidential election was perhaps due to be the main market-moving event of 2020 until you-know-what came along. The celebration of Independence Day over the weekend suggests a fitting moment to cast our minds across the Atlantic and look forward to November's poll.

At the start of the year there was much debate about who actually would be the Democratic candidate, with the front-runners, Bernie Sanders, Elizabeth Warren and Joe Biden all in with a chance. Indeed, there was much talk of a "brokered convention" to decide the winner, something that had not happened since 1952, if the usual system of caucuses and primaries failed to determine the outcome. As it happened, Biden, following an early scare, strolled through the contest, effectively wrapping it up on "Super Tuesday" in March. He carried the support of moderates over the firebrand socialist Sanders, and the older demographic of party voters also favoured him. He was seen as a safe pair of hands, given his experience as Vice President in the Obama administration. Crucially, though, he received the endorsement of Jim

Clyburn, the highest ranking African American in Congress, ahead of the South Carolina primary. Such support, should it continue, could be even more important in November in the light of the death of George Floyd and the subsequent reaction. (Quite where Kanye West fits into all of this following his "announcement" at the weekend that he, too, will run for President, is up for debate. Possibly a ruse to split the anti-Trump vote? For now I am going to put this issue to one side until we know more).

Winning the candidacy, though, is not even getting half of the job done, and Biden has been hampered in his ability to get out on the campaign trail by being stuck at home for months, broadcasting updates from his basement. Even so, he has recently outshone the President in terms of raising campaign funds, and there is an air of cautious optimism in his camp. Current opinion polls and betting markets suggest he has a healthy lead. RealClearPolitics's poll of polls has him running at 49.6% of the vote against Donald Trump on 40.9%. PredictIt, a betting site, has Biden at a 59% probability of winning, based on the potential pay out, versus Trump at 41%. These would seem to constitute evidence of an unassailable lead, so why only cautious optimism? There are three main reasons, although one of them won't be formally acknowledged by team Biden.

First is the fact that Trump is the incumbent. Only nine sitting presidents of the forty-four previous ones (counting Cleveland on both occasions) have tried and failed to win a second consecutive term, with the last two being Jimmy Carter and George



Bush senior. They both presided over economic recessions for which they were punished by the electorate.

Trump is in charge during the worst downturn in living memory, which would seem to seal his fate, but he can, and does (with some justification,) blame forces beyond his initial control, even if his administration's handling of Covid-19 has been, shall we say, inept.

He will find anyone to blame but himself, and he will also pull out all the stops to have the economy motoring again by the autumn. Thus, the push for another multi-trillion dollar stimulus package. He can also direct policy to stir up patriotic fervour. Is it a coincidence that two aircraft carriers have just been deployed in the South China Sea? How about more trade wars? And then announce some "beautiful" beneficial winning deals just ahead of polling day.

Second is the arcane business of the electoral college. Remember that Hillary Clinton (2016) and Al Gore (2000) both won the popular vote but failed to win the presidency. Each state has a set number of electoral college seats, sometimes disproportionate to the state's population, and the winner needs to gain a majority of those seats. Just to spice things up, some states award their seats proportionally to the vote, and some work on a "winner takes all" basis. Many states, including some very big ones, are perennially blue (Democrat) or red (Republican) states, not unlike certain constituencies in the UK. Notably, California and New York, the largest and third largest states by seats, are blue and rarely contested, whereas Texas, the second largest, tends to be red. Looked at on a map, the Democrats do better on the coasts, while the Republicans gain in the "flyover" states. The outcome is usually decided in a small number of "swing" states. Polling organisation FiveThirtyEight (the total number of electoral college votes) lists as many as twelve, although we are probably concentrating on around half that number this time. A graphic in today's Financial Times using RealClearPolitics data, shows Michigan, Pennsylvania, Wisconsin, Florida, Arizona and North Carolina all swinging decisively towards Biden. Florida, crucially lost by Al Gore in controversial

circumstances, is an important one, tying equal third in the seat count with New York. Perhaps more intriguingly, Texas, last won for the Democrats by Jimmy Carter in 1976, is also close to turning blue. That would be a huge shock.

There are also a lot of black arts allegedly being deployed in the background. "Voter suppression" is a phrase you will hear more of in the coming months. There are allegations that registration is being made more difficult for the sort of person who would be more inclined to vote Democrat, and that the right to postal voting is also being withheld from them. Polling stations in certain districts are said to be being deliberately being organised to put people off voting in person – think standing around for hours in a long queue on a freezing November day with the added risk of catching Covid. Some are suggesting that should Trump lose he will refuse to step down gracefully, instead contesting the result through recounts and possibly even in the courts. This is probably just deliberately inflammatory talk, but it illustrates just how nasty the fight could be. The final risk for Biden, then, is himself. Republicans hiding behind the veils of social media privacy are already characterising him as a doddering, partially demented bumbler, and so even the slightest faux pas will be seized upon and magnified for all it is worth. He does have a history of saying some odd things, but you would probably expect a few during a political career stretching back half a century. He is also not the greatest debater, and we know that Trump can steamroller weak opposition. Biden does not seem, either, to command the fervour of his supporters. Many will be voting not for him, but against Trump. We know, however, that Trump's core base is as solid as a rock, although he has apparently been losing support at the edges amongst evangelical Christians and older white males.

Of course, the key point for investors come November will be policy. It is often shown that, on average, over the long run, investors should prefer Republicans, the "business-friendly" party, to Democrats, although recent evidence is mixed. Clinton and Obama delivered fantastic returns, whereas Bushes one and two did not. Trump has done better. Much has to do with the starting



point, and whoever wins this time will (probably) be inheriting the S&P 500 index close to all-time highs on a pretty full valuation. Government debt will be at levels relative to GDP not seen since World War 2, and government bond yields and interest rates are potentially as low as they can realistically go.

In terms of policy, Trump hasn't yet offered much as an encore. It's hard to see how his flagship corporate tax cuts can be repeated, and there won't be much free cash to throw around. Foreign policy is already pretty contentious, and further escalation of, say, tensions with China or trade wars on several fronts, risks hurting the economy. One suggestion has been that he will concentrate his legacy on packing the Supreme Court with right wing judges who will then have control of the judicial system for years ahead. We await further details.

Biden will offer something different, but, even then, not as radical as would have been the case with, say, Bernie Sanders. His most visible policy is the partial reversal of Trump's tax cuts for companies. This is expected to knock around 10-12% off S&P 500 earnings in the first year. Not helpful, but not a disaster.

There are some thoughts that the departure of Trump would lower the risk premium on US equities, partially offsetting the lower earnings. This is because foreign policy would be less contentious. Biden would rebuild relations with traditional allies, notably Europe. However, the build-up to the election will see both candidates being tough on China. A recent Pew Research poll showed that around two-thirds of those polled have an unfavourable view of China. That is the audience that the candidates have to play to.

Another key Biden policy will embrace Healthcare and expand medical cover for the twenty million Americans who remain uninsured. This will probably not be the more aggressive "Medicare For All" with the elimination of private medical insurance, more "Medicare For All Who Want It". Thus, although there is some risk for elements of the Healthcare industry, it is nothing like as great as it might have been under Sanders or Warren. Big Technology is another sector up for intervention, although it is

notable that all the big names are rooting for Biden (and that's without getting into the contentious issue of controlling access to social media platforms). Whether we see stricter regulation or even the enforced break-up of more dominant companies remains to be seen, but these are potential threats.

One area that will gain from a Democratic regime is the green economy. Although Biden is not at the most verdant end of the spectrum, the party can see a trend and knows to play it. There will be more regulation of fossil-fuel based industries and curbs on output. Some sort of "Green New Deal" wrapped in infrastructure spending, will provide more fiscal support to the economy. Some of this will entail more debt, but some will come from higher taxes on the wealthy. The Financial sector looks less at risk than it might have been from Elizabeth Warren, but watch out, perhaps, if she bags the job of Treasury Secretary.

The passage of intended policies will also depend on who wins the Senate. If the Democrats win that too, then they can pretty much do what they like as they already control the House of Representatives. The Senate race is a closer call owing to the seats that are up for grabs this time. There is potential for a 50/50 seat split, with the Vice President holding the deciding vote. If the Republicans hold on, there will be at least another two years of logjam. The other issue here is that if the Democrats do achieve the "blue wave", will Biden feel less inclined to moderation? If he doesn't have to negotiate with the red side of Congress, then he can shift policy further to the left. He can't really give too much of this away in the campaign though, because he might well be relying on the moderate swing voter for the victory.

So there's plenty of intrigue, uncertainty and bluster ahead, and enough uncertainty to suggest that investors might do well to bide their time over the summer and look for new asset allocation opportunities outside the US. However, there is nothing to suggest that, on politics alone, there is a debacle ahead. Of course, the next chapter of the Covid story could yet be highly influential on all fronts.



Last week's Economic Highlights

FTSE 100 Weekly Winners

Whitbread	8.7%
Associated British Foods	6.8%
Smiths Group	6.6%
Burberry	6.5%
Scottish Mortgage Trust	5.2%
Compass Group	5.1%
JD Sports	4.3%

FTSE 100 Weekly Losers

DS Smith	-10.7%
Rolls-Royce	-7.6%
Hargreaves Lansdown	-5.9%
Sainsbury	-5.0%
National Grid	-4.6%
Unilever	-4.4%
Coca-Cola	-4.1%

FTSE 100 Index, Past 12 Months



Source:FactSet

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