

Biden passes 270: but what does the future hold?

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While vote counting continues, it appears that Joe Biden has secured the 270 electoral votes needed to become the next president of the United States. The combination of a narrow margin of victory and the possibility that Republicans retain control of the Senate are likely to impact his administration's potential policies.

While not yet official, newswires have called the presidential race for Joe Biden. The media outlets are probably correct, but the outcome for the presidential and Senate races remain uncertain due to pending recounts, run-offs and legal challenges. We are hopeful that we will see greater clarity over the next few days, but in any case, the result will not technically be official until the Electoral College meets on 14 December.

The first order of business is the pandemic

For my purposes, let's assume Biden wins the presidency and that Republicans retain control of the Senate, a prospect we may not know with certainty until run-off races are conducted in Georgia in early January. I should note that if the Republicans only retain 50 seats then the casting vote of the vice president takes on heightened importance.

Mitigating the impact of the Covid-19 pandemic on the US economy and lives of those most impacted will be the principal challenge for Biden and his team. As we move past the drama of the election it will be critical for leaders to get back to negotiating on programmes that can support the individuals, businesses and municipalities most impacted by the virus. Given the greater possibility of split control of Congress – a Democratic House and a Republican Senate – the size of the stimulus package is likely to be smaller, but that may be OK.

The delay in passing a second round of assistance has increased the need to act quickly and targeting the assistance on those most in need is vital. In the first round speed was critical, but with hindsight the support was spread too widely. The upcoming “lame duck” session of Congress provides a window for it to enact additional targeted assistance.

A divided government may limit Biden's ability to implement change

Democrats had been hoping for a “blue wave” which would have delivered control of the executive and legislative branches of government, but that scenario doesn’t appear to have materialised. “Lame duck” doesn’t mean nothing happens, but it is unlikely that outside of Covid-related aid and extending a continuing resolution to authorise federal government funding there will be new initiatives during this short period.

For many investors, divided government is the preferred outcome. I believe elections and subsequent policy changes rarely affect the long-term direction of market averages because they rarely lead to dramatic change in how the broad economy functions. However, policy may impact individual business sectors significantly, creating winners and losers. As an example, potential policy changes in healthcare policy tend to affect investor attitudes to hospitals and pharmaceuticals in different directions.

Divided government may reduce the potential for a president or political party to implement some of their more extreme ideas. If Biden takes office with a Republican Senate in place, his proposals to raise taxes on corporations and wealthier Americans or place greater emphasis on regulation will face a tougher road. As an example, that doesn’t mean corporate taxes won’t rise but a compromise may require a more modest increase, to 25% rather than the proposed 28%. We suspect divided government will also impact a potential Biden administration’s proposals on the Financial Transaction Tax, Estate Tax and Social Security Tax. Given the apparent bi-partisan support for the so called “Offshoring Tax”, divided government may make no difference.

Summary

A conclusion to the election will allow elected leaders to focus on the critical task of crafting additional aid to address the economic damage created by the pandemic, and we may see volatility until that occurs. While Biden moves closer to assuming the presidency, his ability to implement some policy proposals may be limited by a divided government. Regardless, it makes sense for investors to stay focused on long-term goals.

Appendix: sector winners and losers

The impact of policy change varies across sectors. Columbia Threadneedle analysts have spent a significant amount of time looking at the potential sector winners and losers in the event of a Biden win, including governing with a Republican Senate. Here are some of their key findings:

Healthcare

Divided government means that some of the proposals that would have impacted Medicare enrolment are off the table, and it means the question marks over the Affordable Care Act are likely to remain in place. Republican control of the Senate also likely means that drug pricing fears will subside.

Financials

The picture here is somewhat mixed. The likelihood of higher corporate taxes is now lower, which would be a positive for the sector, but the odds of new, more stringent regulatory initiatives may act as a drag.

Energy

Divided government lowers the odds for a sweeping Green New Deal and may make a ban on new permits on federal lands more challenging. The Trump administration removed a lot of red tape for oil and gas, drilling and pipeline companies; some of this may return – even with a Republican Senate.

Utilities

The push towards generating cleaner power is likely to continue and should benefit regulated utilities, even with a Republican Senate in place. Divided government creates a more challenging path for tax reform, and regulated utilities would have been a relative winner in a scenario with increased corporate tax rates because these can be passed on to utility customers.



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