

## The US elections: What you need to know

After the first presidential TV debate, we outline the key issues, the factors that could still swing the outcome and three possible scenarios



Former Vice President Joe Biden, left, and President Donald Trump

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### The election - what to look out for

This briefing note summarises what is happening at the election on 3 November, the key issues and what could yet swing the outcome of the vote. We outline the key policy thrusts of the two candidates and conclude with some scenarios and their implications for the economy and markets.

We will be publishing an updated scenario analysis together with Oxford Analytica in the upcoming week with a subsequent webinar – invites will be sent soon. Our previous report can be found [here](#).

### What is happening?

#### The President

- The US presidency is determined by the electoral college. It is not a straight vote count but a state-by-state battle and is a four-year term.
- In 2016, Hillary Clinton received 2.8 million more individual votes than incumbent president

Donald Trump. Joe Biden currently has a six-point national polling lead, which would equate to 9 million more votes than Donald Trump based on the 2016 turnout.

- The number of electoral college votes per state (electors) is equal to the sum of the state's seats in the Senate (2 each) and the House of Representatives. There are 538 electors in the Electoral College with at least 270 votes required for victory.
- It is a (very) rough proxy for population size with California receiving 55 votes while Wyoming gets 3. However, there are 720,000 people per the electoral college vote in California and just 193,000 people per electoral college vote in Wyoming so there is an inherent bias that boosts the influence of predominantly rural states

### Congress

- All 435 members in the House of Representatives are up for election (currently 232 Democrat, 198 Republican, 1 Libertarian, 4 vacant). This is a two-year term.
- The Senate is comprised of 100 members each with six-year terms; a third are up for election every two years. Currently, the Senate membership is 53 Republican, 45 Democrat, and two independents who vote with the Democrats
- 33 Senate seats + two seats due to vacancy are up for special elections on 3 November; of the 35 Senate seats up for election, 23 are Republican and 12 are Democrat
- Democrats would need to win a net four seats from the Republicans to control the Senate. If Joe Biden wins the Presidency they would only need to win three additional seats since VP Kamala Harris would have a deciding ballot on any vote. Polls suggest Democrats will likely lose their Alabama Senate seat.



Donald Trump supporters

### ? What are the key issues?

- The Presidential election will likely come down to five “swing” states since we know California and New York will vote Democrat and we know Wyoming and Alabama will vote Republican.
- The main five swing states are Pennsylvania (Biden +5.5% versus Trump in the latest local poll), Florida (Biden +1%), Wisconsin (Biden +5.5), Michigan (Biden +5%) and Arizona (Biden 3.5%). President Trump won all five in 2016

- Local polls are currently pointing to the potential for a landslide Biden victory – even Texas and Alaska are fairly close calls in some polls. (In 2016, Trump beat Clinton by 9% in Texas and by 14.7% in Alaska)
- **Covid-19** - Consumer confidence crushed on renewed containment measures implemented by states that had re-opened too quickly; Florida seniors are deserting Trump on his Covid response. A vaccine could be a game-changer, but even with a million inoculations a day, it would take a year to complete. Containment measures will continue through the election.
- **Jobs** - Michigan, Wisconsin, Pennsylvania have been hit hard by job losses, worse than the national average. Jobs growth is plateauing and 31 million people's incomes dropped after the ending of \$600 unemployment benefit payment. President Trump has introduced a new \$400 payment, with states contributing 25%, but many can't afford to.
- **#BLM** - Polls suggest a majority are uneasy about how Trump has handled the Black Lives Matter protest/movement



Joe Biden supporters

## ? What factors could yet swing the outcome?

- A significant increase in “mail-in” ballots is likely, but the US Postal Services has warned it may not be able to handle the situation in a timely manner – perceived to be damaging to Democrats although extra funding may arrive
- A rapid acceleration in Covid-19 cases would reflect badly on Trump's muddled messages on the virus regarding masks/a potential vaccine/dubious treatments
- We see the risk of some economic data disappointment with high-frequency indicators suggesting employment is no longer growing and credit and debit card transactions are falling. An equity market correction after a vigorous rally would be bad news for Donald Trump
- Developments in the sexual assault allegations against Joe Biden/accusations regarding Ukraine and family connections would be damaging to Biden
- The Democrats have more money to spend. Biden to spend \$280mn on advertising in 15 states versus Trump's \$145mn according to latest estimates. Senate Republican party investing \$100mn in just 8 seats to protect its majority
- Presidential debates – could see Biden come under major pressure. The risk of an error or rambling, weak performances as sometimes occurring during Democrat primaries means

victory is not assured. The Format could be important



US Vice President, Mike Pence

### ✓ Potential for dispute – Historical precedent

- **2000 Presidential election.** Democrat Al Gore received 544,000 more votes, but George W Bush won 30 of the 50 states (271 electoral votes to 266).
- **Florida was undecided.** Gore conceded, but then withdrew the concession – Bush had won by a small margin and a recount was required. Bush won by 537 votes and Supreme Court voted 5-4 in favour of ending additional recounts. Bush declared the winner after five weeks on December 12th – November 7 was election day
- **Checks and balances.** Republicans will step up to prevent harm to the party rather than to protect Trump should he refuse to concede the election – they swiftly rebutted his idea of delaying the election. The Supreme Court would rule.
- A potential issue could be violence with the threat of right-wing militia action. QAnon etc.



President Donald Trump campaigning in Pennsylvania

## ✓ Trump's re-election campaign

- Campaign slogans: "**Keep America Great**" and "**Promises Made, Promises Kept**"
- A continuation of the **tax cut and deregulation** policy thrust from his first term, this time centred on the payroll tax
- "**America First**" worldview equates to prioritising America's economic interests over leadership roles in global affairs
- Withdrawal of the World Trade Organisation appears likely with **tariffs** continuing to be used as the main tool to **promote reshoring of manufacturing and lowering the trade deficit**
- Further **reductions in immigration** with the promotion of a "merit-based" system prioritising migrants with certain skills while clamping down harder on illegal immigration
- Renewed attempts to **repeal President Obama's Affordable Care Act** to be replaced with a new system promoting choice and lowering premiums
- An energy policy that remains focused on the use of fossil fuels and the **scaling back of Obama era environmental regulations**



Joe Biden giving a speech at the end of the Democratic Party convention

## ✓ Biden's policy stance

- Campaign Slogans: "**Unite for a Better Future**" and "**Build Back Better**"
- Not a radical, not a revolutionary
- Will **remain tough on China** with regard to technology, Intellectual Property, trade, bringing American jobs home, but more likely to do it within an international framework (collaborate with allies) with less belligerence and more willingness to engage. He wants to return to WHO and is unlikely to pull out of WTO. International relations are increasingly driven by security and human rights/environmental issues
- He **may remove some tariffs** on China, which have put up costs for US business and instead offer financial incentives to US companies to bring jobs back to America
- **European relationships would likely improve**, but NATO will remain an issue – America will not write cheques to cover defence. Will likely **re-join Paris climate change accord** and be more willing to work with Europe
- Encouragement for European tech companies to replace Chinese partners. In return the US may seek broader access to gas markets in Europe at the expense of Russia

- The perception that Biden takes **a dim view of Brexit** and given his Catholic Irish heritage could be vocal on any deal that may be detrimental to Ireland
- **Promoting unionised labour** in rebuilding infrastructure – roads, bridges, water systems, electricity grid. Raise the minimum wage to \$15/hour
- Supporting investment in US auto in return for greater unionisation
- **Raising the corporate tax rate** to 28%, reversing 2017 tax cuts and raising capital gains tax to the marginal income tax rate
- \$2 trillion to be invested over 4 years in **clean energy** with 100% clean energy electricity standards by 2035 – an opportunity for European companies
- \$775bn plan to **bolster child-care and care for elderly** financed by taxes on real estate investors with incomes greater than \$400k – preventing investors deferring taxes if capital gains are invested in another property while also preventing the use of real-estate losses to lower income tax bills.
- Will fund **universal pre-school for 3 and 4-year-olds** with an \$8000 tax credit for childcare for low/middle-income households with increased pay for caregivers. Creates 3 million jobs. Will also fund policies to make caring at home easier for the elderly. Fund equipment (handrails etc, easier door handles)
- **Elizabeth Warren could receive a role regarding financial services** – reform private equity to abolish “legalised looting” by changing tax and bankruptcy rules and ensuring impacted workers continue to receive pay and benefits when it goes broke. Reform bank executive pay and create a 21st century Glass-Steagall Act to create a barrier between commercial and investment banks. Reversing Trump deregulation (Trump has lowered capital requirements, weakened stress tests & living wills, allowed more proprietary trading, reducing prudential regulation)

## The Kamala Harris effect

- Like Joe Biden, she is seen as a centrist more orientated to incremental rather than radical change. As such it doesn't signal a meaningful shift in the outlook for what a Biden presidency would seek to achieve.
- Long been the market's anticipated VP candidate so it had limited market impact – betting markets saw her as the clear favourite with implied odds giving her a 50% chance of being nominated through July and August in what was a crowded field.
- It re-affirms the belief that the left-wing of the party has been side-lined. For example, Harris does not support a wealth tax or call for the break-up of big tech companies. No support for Modern Monetary Theory as espoused by the likes of Representative Alexandria Ocasio-Cortez, which would risk severe market discontent, especially for the US dollar
- Harris is a Senator from California – safe Democrat territory, so she doesn't meaningfully boost the chances of winning one of the swing states where a VP candidacy would be more influential on the overall outcome
- She is of Indian and Black heritage which may boost voter appetite/turnout in some demographics – Black voters make up around 13% of the electorate, but Asian Americans only make up 5% (Hispanic is 13% and white is 67%)



Source: Shutterstock

Democratic vice-presidential nominee Kamala Harris

## ☑ Three possible scenarios

### 1. Trump wins a narrow victory

- Policy thrust is low tax, low regulation with some infrastructure spending
- A continuation of somewhat unpredictable and impulsive decision making
- Congress is split with the Democrats retaining the House so Trump struggles to implement major domestic legislation.
- Democrats block key tax cuts and major de-regulation. Some scope for compromise on infrastructure spending, but Trump is effectively left with an international agenda = intensifying trade/tech/security/IP battles with China and Europe.
- Federal Reserve Chair Powell is replaced by with a more sympathetic Fed Chair.
- Extension of protectionism leaves activity currencies under pressure (EUR & CNY) and by default the dollar stronger. This could reverse if President Trump hollows out the Fed.
- Return of the trade war agenda keeps interest rates pinned down whilst the absence of tax cuts in the next two years fails to boost risk appetite. Wide deficit already priced in. Slow re-steepening of the USD curve as the recovery takes hold.

### 2. Biden wins the presidency, but Senate held by Republicans

- Policy thrust is higher taxation for corporates and wealthier/higher incomes with more spending on health/education & infrastructure. Greater regulation of big tech, energy and financial services
- A more consensual style of presidency with better European relations, but retaining a robust attitude towards Chinese business practices and behaviours.
- Will need to work with Republicans on a quid pro quo basis, which may dilute some of his plans, but an effective legislative agenda is possible working with Republican moderates.
- The scenario that probably leads to the best fiscal performance given watering down of key spending plans.
- Federal Reserve left largely unchanged.

- Net tighter fiscal policy under Biden and a return of multilateralism is initially a dollar negative, where a benign dollar decline unfolds as world trade volumes slowly recover.
- Initial knee jerk reaction of policies that can be construed as detrimental to the stock market partially offset by more predictable trade policy and relationship with allies/trade partners plus less scope to implement anything radical. Slightly faster bear-steepening of the USD yield curve to account for the lower trade risk premium in the months following the election.

### 3. Biden landslide with Democrats controlling both the House and the Senate

- Policy thrust and behaviours identical to above.
- Looking for lots of “quick wins”. He will recall the issue with Obamacare and will want quick results fearing that a resurgent Republicans in two years at the mid-terms could mean future policy changes are more likely to be blocked by Congress.
- Federal Reserve required to take greater account of social factors in monetary policy decision making. Policy arguably looser for longer, but at the current juncture with no rate hikes expected before end 2022, limited impact on markets.
- Likely to see Federal deficits remain wider for next couple of years, but significant investment programmes and employment strength could result in structurally healthier performance in subsequent years, particularly if accompanied by higher taxes for corporates/wealthy.
- The dollar initially weaker as above, but should better-balanced growth emerge, and the budgetary position improves as it did under Bill Clinton in the late 90s, Biden could ultimately prove to be a dollar positive.
- Could result in a negative knee jerk reaction in stocks in the near-term but leave room for a reflation trade as investment programmes, minimum wage, greater growth are priced in. Possible initial bull-flattening of the USD curve on risk-off markets but a subsequent re-steepening with a much higher endpoint compared with the two scenarios above.

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