US politics watch: Four scenarios for 2020

With the US Presidential election now just 18 months away and new candidates officially joining the race to unseat President Trump, we look at four different paths to the White House- and their implications for the economy and financial markets

Source: Oxford Analytica, Shutterstock

Donald Trump's election campaign in 2016 ripped up the rule book on how to win the Presidency and he has been challenging convention ever since. We are now just 18 months away from the next election, which has the potential to be even more contentious and unpredictable than the last. Already, over a dozen different candidates have announced their intention to run as a Presidential contender. This gives rise to a very broad range of potential political and economic outcomes but, in collaboration with Oxford Analytica, we identify four key scenarios. You can read the full report here.

Scenario 1: United States of Trump

- President Trump is re-elected. He retrenches his views on international trade and multilateral institutions.
- Renewed push for infrastructure spending, reliant on significant state financing and expanded use of localised energy policies to support fossil fuels.
- Healthcare policy would remain largely unchanged, while regulation of technology firms would rely on congressional action.

US politics watch: A Trump win?

What are the economic prospects for America if Donald Trump is re-elected in 2020? It's one of four scenarios we're watching.

Watch video

2 Scenario 2: A Republican phoenix

- A non-Trump Republican wins, likely leading to another round of tax legislation, along with establishing protections for privacy.
- The leadership would re-engage with international institutions and take a less antagonistic stance towards external trade relationships.
- Fiscal conservatism would likely return to the forefront in national and congressional politics, making fiscally expansive budgets unlikely.

US politics watch: A non-Trump Republican?

What would be the economic consequences of a non-Trump Republican winning the White House in 2020? James Knightley with one of our four scenarios.

Watch video

3 Scenario 3: A Democrat consensus builder

- A centrist Democrat wins. Increased federal spending on both infrastructure and healthcare, as well as increased efforts to establish a national single payer service.
- Climate change would emerge as a key political agenda, with government support for renewable energies increasing significantly.
- Technology companies would face increased regulatory oversight.

US politics watch: A centrist Democrat?

A centrist Democrat, such as Joe Biden or Kamala Harris, winning the race for the White House next year is just one of four scenarios we're looking at. So what would the economic implications of that be? James Knightley has the details

Watch video

4 Scenario 4: A New New Deal

- A populist Democrat is elected. Significant fiscal expansion fuelled by increased corporate tax rates, which includes both support for environmental projects (funding a 'Green New Deal') as well as redistributive spending.
- Large technology companies subjected to anti-trust action.
- Trade protectionism as seen under President Trump to continue, albeit with strong support for international agreements on climate change.

US politics watch: A populist Democrat?

What would be the economic consquences if a populist Democrat were to win the White House in 2020? It's just one of four scenarios we're watching.

Watch video

We do not offer a definitive conclusion about the likelihood of these scenarios, but instead set out the ways in which they could arise and the potential impact of each one. Moreover, we note that the outcome of Congressional elections will significantly influence the respective types of Presidency, either by making the passing of legislation smoother or more challenging. We address these in detail within the report.

"The economy, stupid"?

The campaign mantra, it's "the economy, stupid", first coined by Bill Clinton's strategist, James Carville, has ruled electoral politics for more than a quarter century, and it remains a key driver in this election, too. Other issues will of course come into play, such as healthcare and identity politics, but if the US economy remains strong between now and November 2020, the Democrats will have a tough challenge to unseat the President. Should the economy falter and markets take a more negative tone, the door is opened much wider to this outcome. In the grey panels of figure 1 we outline the pre-election economic and market environment that most likely generates each Presidential scenario. Below that, we summarise the potential implications for the economy and markets for 2020-2022.

	Trump	Non-Trump Republican	Centrist Democrat	Populist Democrat
Pre-2020 election environment	**Strong** Growth **Strong** Equities **Solid** Dollar **Stable** Rates	**Moderate** Growth **Moderate** Equities **Stable** Dollar **Stable** Rates	**Softer** Growth **Softer** Equities **Weaker** Dollar **Softer** Rates	**Weaker** Growth **Weaker** Equities **Significantly softer** Dollar **Softer** Rates
Post election: Economic Growth	Strong/High - An infrastructure push, pro business policies, positive equity markets and further tax cuts support growth. - BUT trade concerns linger while higher interest rates and strong dollar offer headwinds	Moderate - Financial markets react positively while reduced trade tensions and a possible modest fiscal stimulus support growth	Moderate - Softer growth a key factor behind Democrat victory so President inherited a weaker economy. - Softer dollar, reduced trade tensions and modest fiscal stimulus focused on spending help start to lift growth	U-turn: weak to stronger - US downturn contributed to populist Democrat victory. - Equity market worried about policies while trade protectionism fears persist. - However a substantial fiscal stimulus, lower interest rates and softer dollar lead to a turnaround
Post election: Inflation	Strong/High - Firm economic growth, robust jobs market & rising wages all push inflation higher. - Possible further tariffs, but the strong dollar could mitigate the risk	Moderate - Inflation moves higher on decent growth and jobs market. - Potential carbon tax provides upside, but less prospect of tariffs mitigates	Weak/Lower - Weaker growth and jobs markets means softer price pressures. - Drug and tech industry reforms could see price falls, but a potential carbon tax adds some upside	U-turn: weak to stronger - Weak economy means falling inflation, but the softer dollar, a carbon tax and possible trade tariffs add to future upside risks
Post election: Rates/Bond Yields	Moderate - Firm growth and inflation with concern over fiscal stimulus lead to additional rate hikes. - Strong dollar and political pressure could lead to uncertainty	Neutral - Fed policy is close to neutral and the appetite for further rate hikes is likely to be limited	Neutral - Respectable growth, but muted inflation see monetary policy left unchanged	U-turn: weak to stronger - Federal Reserve will have responded to recession threat with policy stimulus. - Concerns over fiscal stimulus and potential looser Fed mandate lead to a steeper yield curve
Post election: Equities	Moderate - A strong economy boosted by infra structure investment, pro-business policies and positive corporate earnings outlook support equities, but trade tensions and higher interest rates could limit the upside	Moderate - Decent growth, reduced trade tensions, some stimulus and restrained Federal Reserve	Strong/High - Equities could rebound after pre-2020 economic weakness related correction. - Respectable growth, modest inflation, restrained Fed and softer dollar combined with reduced trade tensions offer support. - Tech, pharma could underperform on reform plans	Neutral - Equities remain subdued after pre-election falls. - Earnings outlook may be improving, but trade uncertainty and potential interventionist policies lead to caution. - Construction/resource stocks outperform on infrastructure spending
Post election: US dollar	Moderate - Decent growth, rising interest rates and foreign inflows offer support, but trade tensions are a headwind	Moderate - Dollar does OK with respectable growth backdrop and reduced trade tensions	Moderate - Turnaround story with positive growth and equity markets supporting inflows. - Reduced trade tensions also offer support	Weak/Lower - Dollar remains under pressure thanks to growth convergence with other economies, lower interest rates, trade tensions and subdued equity markets

Source: ING

What could it mean for the economy?

Should President Trump win, we see a potential boom-bust economic scenario, particularly if Republicans also win control of Congress. More fiscal stimulus could initially boost economic growth, equity markets and the US dollar, but it would also generate inflation and result in a more aggressive response from the Federal Reserve that would lead to an eventual slowdown.

A non-Trump Republican President is likely to change course and be less confrontational on the international stage and may seek a return to a more fiscally conservative stance. This provides a more stable platform for the US economy, resulting in a more modest, less volatile economic and market performance.

Given the likelihood that a weaker pre-election economy would contribute to a Democrat Presidential victory, a centrist Democrat would be looking to create a platform that allows growth to rebound. This means that after initial weakness in equity markets and the dollar, financial markets could be moving into recovery mode. Inflation would be low due to economic softness, implying relatively low interest rates.

A populist Democrat would most likely win if the economy had experienced a prolonged and significant period of weakness. This would see a large fiscal stimulus package focused on spending, with pressure on the Federal Reserve to respond aggressively, especially if its mandate is changed to focus increasingly on employment. Massive stimulus would mean an eventual turnaround in the economy. But longer-term issues over trade protectionism, higher wealth, income and corporate taxes, plus more intervention in markets and key industries, could become more of a focus for financial markets

Twists and turns ahead

As Washington insiders become consumed by the daily minutiae of the road to Iowa and beyond, we hope that our report will guide investors and observers to identify what matters – and what it all means -- as we head towards the decisive vote on 3 November 2020.

Author

James Knightley
Chief International Economist, US
james.knightley@ing.com