

## US: The Blue wave comes rolling in

Victory in one Georgia Senate run-off race and likely victory in the other mean that the Democrats would have majorities in the House and the Senate, which will clearly boost Joe Biden's chances of passing major legislation. That said, it won't all be plain sailing from here...



### Democrats look to have won both Georgia Senate run-off races

Opinion polls had suggested a tight race in both Georgia Senate seat run-off races and that is the way it played out – remember that these two elections came about from the fact that local law requires the victor to win at least 50% of the popular vote, which no candidate achieved back in November.

Democrat Raphael Warnock has defeated Kelly Loeffler – he currently holds a 2-percentage point lead with more than 98% of the vote counted, which is enough for the major networks to call the result. Jon Ossoff (at the time of writing) is 0.4 percentage points ahead of Republican incumbent David Perdue with the votes still to be counted coming largely from Democrat leaning areas.

Note too Ossoff has just declared victory for himself, although major networks are so far holding off, no doubt in part because of upwards of 17,000 military and overseas votes still to be included. There is also the possibility that the tight margin means a recount happens, which could further delay the formal declaration.

Nonetheless, if the Ossoff vote does come to fruition it leaves the Republicans and the Democrats with a final total 50 seats each in the Senate and means Vice President Kamala Harris has the casting ballot in the event of a tie on any vote.

## Tax and spend on its way?

This has massive implications for Joe Biden's legislative ambitions. With the Democrats having a majority in both the House and the Senate, Joe Biden will have the scope to push ahead with a broad package of policies aimed at boosting jobs, investment and green energy. Had he lost then he would have faced having his agenda watered down, stalled or even blocked in part.

That's not to say it will be plain sailing for him and the Democrats. There is still the issue of the Senate filibuster, which requires 60 members to approve ending a debate and moving to a vote on a piece of legislation. Given the acrimony in Washington and the highly partisan nature of US politics, Joe Biden and the Democrats will need to seek out Republican moderates to pass swift legislation. This means that some of the more ambitious proposals could yet be diluted even with a Democrat House and Senate majority.

We suspect Joe Biden will initially seek to push ahead with infrastructure plans, which are more likely to get cross party support. However, his \$2trn green energy plan to decarbonize US electricity production by 2035, is going to get more pushback from Republicans. Nonetheless, he could still attempt to get it through via a simple majority vote under the annual budget reconciliation process.

Promised tax hikes for corporates and high-income households will be put forward and specific industries will come under greater regulatory focus, but given the hugely disruptive nature of the pandemic, they would likely be eased in, rather than rapidly and aggressively enacted. Given 2021 will see a focus on growth and regaining all the lost jobs we suspect tax hikes may be delayed until 2022/23, but again will face tough Republican opposition. This too would likely come up against the filibuster, potentially requiring a dilution or concessions to get tax increases passed.

On the positive side for Biden, given only a simple majority is required to confirm cabinet and other top positions in his administration, there should be little to no blockage on his appointees. He will also continue to have unilateral authority regarding regulations, aspects of trade policy and immigration and has promised to rejoin the World Health Organisation and the Paris Climate Accord.

## Stronger growth, but markets remain cautious

On balance the outcome of the Georgia elections means a swifter and more aggressive spending package in 2021 that can help propel the recovery more rapidly, than would have been likely had the Republicans had retained their majority in the Senate. That said, there will still be challenges to get legislation through with the prospect of some policy dilution.

Financial markets are likely to remain nervous about the stronger potential for corporate tax rises and the prospect of tighter regulations on key sectors such as big tech, healthcare and financial services. However, stronger growth than would have been the case in a split Congress should go some way to mitigating these worries. Markets may also be wary about the prospect for higher debt issuance in the near-term than would otherwise have been likely and possibly too a sense that with more fiscal support coming through the Federal Reserve may need to do less to support

the economy. As such the break above 1% on the US 10Y treasury and the underperformance of tech versus cyclicals today is understandable this morning. Moreover, the dollar is likely to come under increasing downward pressure in this more reflationary scenario.

## Today - Final, final confirmation of Biden's victory

Attention will now turn to today's joint session of Congress, presided over by Vice President Pence. It will formally count the Electoral College votes that have Joe Biden beating Donald Trump 306-232. Normally this would be a formality, but with several House Republicans and now Republican Senators Ted Cruz and Josh Hawley, amongst others, objecting in writing to the certification on the grounds of their claims of voter fraud and election interference/irregularities, it will go to a vote.

For the objection to be upheld both the House and the Senate need a simple majority, but this is unlikely to happen in the Senate based on comments from numerous leading Republicans and will certainly fail in the House given the Democrat majority there. All this does is hold up the final, final confirmation of Joe Biden's victory by a few hours, but there will likely be some fireworks as the debate gets underway.

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