

## Election Results: Biden Wins Ticket to White House

- Former U.S. Vice President Joe Biden's largely virtual campaign strategy forced a referendum on President Donald Trump's handling of the COVID-19 pandemic and unconventional leadership style.
- At a high level, Biden's platform centers on reducing household financial risks that, in aggregate, tend to make challenging economic periods longer and more severe.
- We are not making changes to our portfolios based on the election's outcome; in our view, it is unwise to base an investment strategy on a plan that requires accurately predicting how the Biden administration will take shape.

The Associated Press, along with several other major news outlets, projected former U.S. Vice President Joe Biden as the winner of the 2020 U.S. presidential election on Saturday, November 7. While multiple states that had been viewed as critical to the election outcome were still counting votes at this time, with some set to conduct recounts, victory still appeared out of reach for President Donald Trump. Even election-related lawsuits, which could disqualify some ballots, are unlikely to impact the outcome in enough states to overturn Biden's win.

Electoral College votes will be certified in December, representing a more formal declaration of the outcome.

How will President-elect Biden use the next four years? In terms of style, we expect a return to more traditional presidential communications.

We anticipate the outcome of this election will have a major impact on the economy and financial markets in the months and years ahead. Still, we firmly believe it would be a mistake to base even a short-term investment strategy on a plan that necessitates accurately predicting either the policies proposed by Biden, the ways in which Congress will modify those proposals throughout the legislative process, or the impact any new laws would have on the economy and financial markets.

This does not mean we will be ignoring the implications of government decisions. We are paying close attention to policy-driven fundamental changes and the financial-market imbalances they may cause—in terms of the risks and the opportunities they present.

Looking ahead, the Biden campaign's stated plan does offer a glimpse into how the Biden administration may take shape.

### What will the Biden administration do?

*Editor's Note: The U.S. state of Georgia is set to hold runoff elections in January for two seats in the U.S. Senate as no candidate attained the minimum 50% vote share required to win those races. The outcome of these contests will determine whether Democrats or Republicans have control of the U.S. Senate. We offer distinct assessments for each potential outcome.*

**If Republicans Keep the Senate and Democrats Keep the House of Representatives:** Rather than asking what Biden will do once in office, we should probably be asking what he *can* do.

While the Democratic Party was successful in winning back the White House, if the Republican Party retains a slim majority in the U.S. Senate—the U.S. federal government's legislative branch will remain split with the Democratic Party majority in the House of Representatives. This will likely curtail the Biden administration's agenda for at least the first two years of his presidency (until the 2022 mid-term elections, when American voters will next have an opportunity to reshape the legislature).

In our view, the likelihood of passing sizeable fiscal stimulus in the early days of the Biden administration would be fairly low given the divided legislature. This would deprive the U.S. economy of a much needed boost.

At a high level, Biden's platform centers on reducing household financial risks that, in aggregate, tend to make challenging economic periods longer and more severe. This could translate to a focus, for example, on reforming child and elder care, family leave benefits, unemployment insurance, bankruptcy laws, and other programs.

In terms of how the Biden administration will handle the COVID-19 pandemic, the president-elect pledged to heed the advice of top government scientists; we think

it's reasonable to infer that this will result in restoring some measure of independence for the U.S. Centers for Disease Control and Prevention (which came under political influence as public health conditions worsened in 2020). Biden also plans to establish a Pandemic Testing Board to coordinate nationwide testing, and would cover COBRA health insurance payments for those out of work due to the pandemic.

As with fiscal stimulus, Biden's limited legislative options means he will need to rely heavily on his powers as head of the executive branch and all of its agencies to implement these measures. Likewise, the president-elect's legislative priorities for tax, health care and environmental reforms are unlikely to be fully realized with a divided Congress—limiting progress on these issues to what he can accomplish through the executive branch's regulatory process.

There is an opportunity for bipartisan cooperation as Democrats and Republicans alike have professed plans to prioritize domestic manufacturing via the tax code. Both parties have also expressed an intention to use Medicare's centralized bargaining power as a means to drive down prescription drug pricing on a broad basis.

**If Democrats Win the Senate:** If the Democratic Party regains control of the U.S. Senate, joining the House of Representatives with majority status, the entire legislative branch of the U.S. federal government will now be aligned with the executive branch under the Biden administration. This dynamic should support Biden's agenda for at least the first two years of his presidency (until the 2022 mid-term elections, when American voters will next have an opportunity to reshape the legislature).

The likelihood of passing sizeable fiscal stimulus in the early days of the Biden administration would be fairly high given the united Democratic government and the Party's traditionally greater willingness to spend (relative to Republicans). If such a plan does come to pass, we expect it will provide the U.S. economy with a limited, but much needed boost to the U.S. economy.

President-elect Biden has identified tax reform as a top priority for his administration. Like fiscal stimulus, taxation falls under the scope of the federal budget; as such, revisions can be passed by a simple Senate majority (as opposed to the 60-vote threshold required for non-budget-related legislation). The Democrats' slim majority in the Senate means they will likely be limited to making budget-related changes, unless the Party moves to eliminate the filibuster—which allows a minority party to defeat a bill proposed by a majority of less than 60 votes by retaining control of the Senate floor during debate—and lower the threshold for all legislation to a simple majority. This maneuver would have long-term consequences for partisanship in the lawmaking process.

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Biden's tax plan would support such priorities, as it calls for the creation of tax credits for child care, first-time home purchases, and retirement savings, as well as an expansion of the Child Tax Credit. He also intends to repeal income tax cuts granted to high-income earners since 2018 and partially repeal corporate tax cuts, while increasing capital-gains taxes on ultra-high-income earners. Some Americans may be able to offset some or all of these tax increases with the repeal of a \$10,000 cap on state and local (SALT) tax deductions (also part of Biden's tax plan), which would primarily benefit residents in a handful of high-tax cities and states.

The president-elect's health care plan calls for establishing a public health-insurance option—modeled after Medicare and administered by the U.S. government—to be made available alongside established private health-insurance offerings. Biden's plan would also constrain pharmaceutical companies from increasing drug prices faster than the inflation rate, and reform the patent system in order to boost the availability of cost-effective prescription drug alternatives.

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### **Our view**

We expect Biden will see his plans tempered before they are put into practice; we also believe it is usually best that investors pay strict attention to the market fundamentals and ignore the politics. Accordingly, we are not making any changes to our portfolios based on the election's outcome.

With that being said, government decisions on monetary and fiscal policy have been creating longer-term structural changes to the global economy. In particular, the combination of significant U.S. government debt issuance and the Federal Reserve's accommodative monetary policy in the face of low inflation expectations (as well as that of other central banks around the globe)

have impacted everything from credit markets and bank stocks, to the U.S. dollar's primacy in global trade, and more.

We are tracking a range of opportunities that may be experiencing inflection points at any given time, but don't expect to see these trends play out any time soon.

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