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WHAT DOES BIDEN MEAN FOR THE US ECONOMY AND THE MARKETS?

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Joe Biden will be the next US President, despite President Trump’s attempts to cling on to his job, and Biden is faced with a unique and difficult situation.

Nobody has ever followed a president quite like Trump. Regardless of whether he has been a good or bad President, he has certainly been a disruptor domestically and internationally in a way no presidency has ever been.

Domestically, the US is as polarized and as fractured as it has ever been. Despite the pandemic more voters than ever before came out to vote and the people are split down the middle with 95% voting. The current US leadership has been divisive and confrontational, and the US is midway at best through a terrible pandemic with levels of infection rising.

Stocks had reached record highs and growth was increasing but then the pandemic, and now the economy, is in turmoil with an ever-growing government deficit. Add in the fact that international relations, especially on the trade side, are in tatters and you have a huge list of issues that should in normal times be addressed quickly, but these are very trying times.

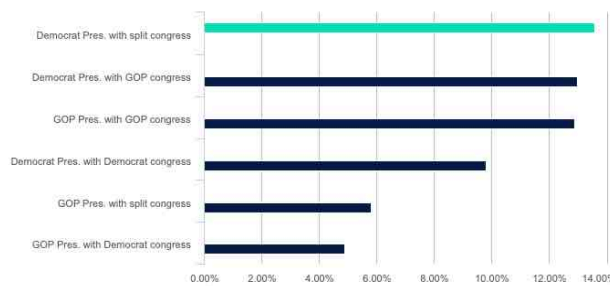
Biden will want to undo many of the changes Trump has made but is faced with a very divided nation teetering on the brink. He wants to mend the nation and has already started in his speeches about one America, but it means his policies will have to take that into account and even more importantly, any change will be hindered as he won’t have the Senate and he didn’t manage the ‘blue wave’. Luckily, he is far more of a diplomat than Trump and will need to be. He is likely to try to reposition the US as a leader internationally in areas of international trade, foreign policies, and climate change.

So, what does this mean for the US Economy, the global economy, and financial markets as a whole? From here through to his initial few months there is likely to be much volatility as we try to sort the wood from the trees and see his real policies. Once it clears, his policies will no doubt take considerable funding and he has already pledged much stimulus for pandemic management, schools etc, and even though the US has a huge deficit which added a further \$2t since March; with the troubles he faces at this time getting the budget anywhere close to balanced will be a challenge for the future and maybe even the next president. You will see increased spending and a ballooning deficit. Tax hikes will not be anytime soon as he adds stimulus because of the pandemic and sees the need to mend the nation. But the largest risk to stock markets is if Biden increases corporate taxes, undoing Trumps cut from 35% to 21%.

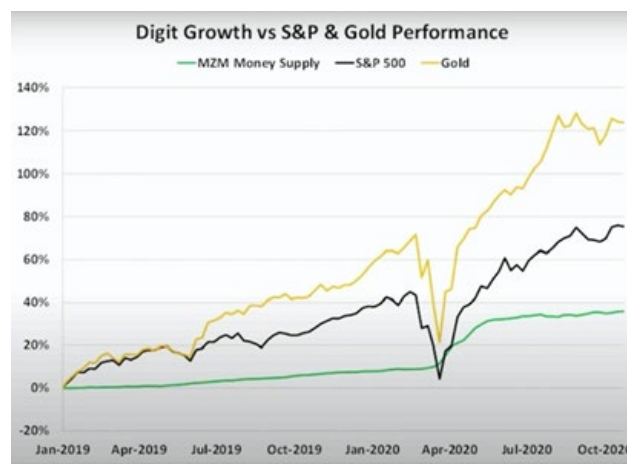
Low inflation will continue with some short-term spikes if the economy grows dramatically as the pandemic fades. Long term inflation will remain benign. Expect short term rates to stay low for the foreseeable future with the focus on stimulus. Government bonds will remain at low yield levels with existing FED policies continuing. This will suit the government as it reduces funding costs. Foreign ownership of US Bonds may reduce due to international needs at home. If perception of the US economy sours you may see this accelerate and a steepening of the yield curve.

Stocks will be volatile initially but even though stocks got to historical highs, continuing stimulus and low rates, assisted by post pandemic growth will likely continue to drive stocks higher and to new levels. For now, Trump’s market friendly policies will likely remain, and any changes kept in check by the Senate, but watch out for the forementioned issue over corporate tax as any change here will hit stocks. Historically there is no proof either party has the edge on market performance. This is mainly political hot air.

Chart showing stock market returns in different political scenarios since 1945



Stock Market returns with different power dynamics



Precious metals ag Stocks

Precious metals XAU and XAG will continue to rise, after any short-term volatility, driven largely by the increasing deficit and international demand. XAU will likely rise far above recent historic highs.

The expected increase in regulation will be slower because of the current crisis and because Biden will need to wait for Democrat appointees to be in place at the regulatory agencies. It is likely that any toughening of prudential regulation will be slower and is bundled in with the response to the pandemic and the implementation of Basel III to avoid roadblocks set by Trump. To speed climate initiatives, integrating climate risk into supervisory frameworks could be done relatively quickly, turning US regulators into the leaders rather than the laggards in global initiatives. But there is no doubt there will be serious changes during his term and a drive to return the US to its former position internationally. One question simmer in the background, how will his health hold up as he is no spring chicken at 78, 8 years older than the previous oldest, Trump.

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