



Trump vs Biden

Can the best man win?

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The US election highlights stresses and instabilities in the dominant world power. We discuss the consequences, both from a broad perspective and an Australian one, and also remark on the fixed income markets. The first question is who will win, and this needs to be considered not only in terms of the presidency but also in terms of Congress overall.

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The presidency

There are a variety of possible outcomes of the presidential race. Based upon current polling, a Biden victory would seem the most likely outcome. Even if this were the case, the risk of disruption is significant, so I've outlined six possible scenarios:

- **Scenario 1 – An unambiguous Biden win:** Reasonably likely if polls are correct and Biden maintains a lead of over 5% of the popular vote and leads in most battleground states.
- **Scenario 2 – A disputed Biden win:** In this scenario, Biden leads by a relatively small number of electoral votes and Republican challenges in the courts or Republican state legislatures may potentially override the popular vote on the basis of alleged voting irregularities. It is important to note that legislatures do in theory have the power to appoint delegates to the Electoral College contrary to the popular vote. Given the make-up of the Supreme Court, Biden's victory could be over-turned in this event.
- **Scenario 3 – An inconclusive vote:** Late counting could turn around the result. This is quite likely and open to manipulation through state legislatures and cases to the Supreme Court and would most likely result in a second term for Trump.
- **Scenario 4 – Trump wins the Electoral College but falls short in the popular vote:** This has a reasonable likelihood and was in fact the case last time.
- **Scenario 5 – Trump wins the popular vote:** This would seem unlikely based upon recent polls and the observation that Clinton won the popular vote in 2016. Biden is viewed as a more palatable and less abrasive candidate than Clinton and would be expected to draw in more votes than her.
- **Scenario 6 – Trump wins the popular vote but does not achieve an Electoral College majority:** This seems extremely unlikely based on polls and the distribution of Electoral College Votes as seen in previous elections (most notably 2000 – Bush vs Gore - and 2016 – Trump vs Clinton).

Congress

For congress, there are three main cases but, as always in politics, there are many different nuances such as the success of more extreme versus more moderate candidates, which can affect the ability for stable government to be effected. The cases are:

- **Democrats take the Senate and House of Representatives:** This is a possibility: the current split-up is 53 Republicans, 45 Democrats and two Democrat-leaning independents (Bernie Sanders from Vermont and Angus King from Maine). Democrats need to pick up four seats to have control and six to avoid relying on the

independents. The task for the Democrats is a little harder since they seem highly likely to lose Senator Doug Jones from Alabama, who was elected largely due to his opponent Roy Moore's dubious past.

- **Democrats do not achieve a workable majority in both houses:** The Senate would seem to be the most likely for the Democrats to miss out on.
- **Democrats lose both houses:** This seems to be of low probability and would imply that the polls are completely wrong and there is a broad swing to the Republicans.

Voter turnout

One key factor in the election is voter turnout. This level hovers between 50% and 60%; although in Bill Clinton's second election (1996) the percentage of votes to the voting age population did drop to 49.9%. This would suggest that 40% of the population is not engaged in the political dialogue and that perhaps the extent of political polarisation is not as extreme as the more vocal partisan voices would suggest. The generally accepted view is that a higher turnout would be reflective of more participation by black and younger Americans and is more likely to skew the results towards the Democrats.

At the time of writing, early voting is far outstripping the previous election and provides some reason for thinking that turnout will be higher than in 2016. But caution should be applied in that it is possible that it is more a result of voters avoiding voting in polling environments where the risk of COVID-19 is perceived to be higher and it may be that the voters are the more committed part of the electorate who would vote in any election in any case.

Straight after the election

If Trump is the winner (Scenarios 4 or 5), then he will be unfettered by the constraints of facing another election and will probably push more aggressively ahead with his agenda. Given the lack of policy debate and focus on personality during the campaign, the actual agenda is less clear although it might be expected to be primarily America-first, pro-business and a wind-back of environmental restrictions.

A clear victory for Biden (Scenario 1) will not mean an immediate set of actions and will depend on how the Trump administration approaches the hand-over process, either by attempting to push through measures that meet or match Trump's objectives or by moving to a more traditional approach of winding down to assist the new president be ready to settle into his role. Past behaviour would suggest that the Trump administration will be less accommodative than most.

Particularly unclear is how much Biden will be able to make a start on responding to the pandemic. Trump's philosophy on this seems so far removed from Biden's that there may be a further two month's delay before any change in approach can be effected.

If there is no clear winner, the final result of the presidency may not be known for weeks and will be subject to numerous appeals to the courts with the Supreme Court being the final arbiter. Given the Supreme Court's current composition, this would seem to favour the Republicans.

Until a final determination of the presidency, some other major countries may feel empowered to act more aggressively, untroubled by the potential US response. China will use the disruption as further evidence of the superiority of their authoritarian system. Domestically, the unrest from protestors on the left and right could continue to destabilise areas of the US, further polarising the country.

There will, however, be a final result and Inauguration Day (20 January 2021) would seem a firm end date for this uncertainty to be completely over and for the new administration to be in place.

How the outcomes will play out after the result

Most of the outcomes listed earlier will perpetuate the highly partisan nature of the US political scene. It would seem that the only paths to more effective and less confrontational government are a clear Biden win (Scenario 1) accompanied by a Democrat sweep of both houses of Congress or a convincing win by Trump (Scenario 5) accompanied by a Republican control of both houses. However, as demonstrated in 2017 and 2018 when Republicans controlled both Congress and the presidency, there is no guarantee for co-operation between the different branches of government even if the one party dominates.

Control of the Senate will be key. Without control of the Senate, the confirmation process for appointments is much more challenging. This will be particularly difficult for Biden if he wins and wishes to establish his new team.

However, at this time, the most pressing issue is not the inter-play between branches of government: it is the response to COVID-19 and its impact of the economy. It seems hard for either candidate to solve this problem. It is less than clear that Biden can reverse the winter increase in the virus and the vaccine remains a discussion point not a reality. So, while looking more hopeful, a vaccine will not be an immediate fix. Already Mark Meadows, White House Chief of Staff, has acknowledged that there is no clear plan of action.

The non-US perspective

For those outside of the US, five areas of focus may be most important, including these factors:

1. Management of the pandemic
2. US economy and its impact on the global economy
3. Role of the US as a global player
4. Approach to protectionism
5. Attitude to environmental issues.

As remarked earlier, the pandemic seems to be already set to create a bleak winter in the US and, although Biden's more focused approach may temper the effect, it may be expected that the impact will be severe irrespective of the presidential winner. Similarly, neither candidate has a clear path to remedying the economy although, after the rhetoric of the election is over, both Democrats and Republicans may be more inclined to work out a stimulus package and other responses that will inject confidence back into the economy. However, with both the US and Europe struggling, optimism can only be limited. Rates can be expected to remain low and growth sluggish in both regions and a drag on the world economy.

The US role in the world may be more of a differentiator between the two candidates. The US will continue to be challenged to assert its world leadership—and in the case of a Trump administration may not even want to. Trump has been focused on reducing US military presence in most regions and, despite a few recent Middle East initiatives, has shown less interest in the outside world; Biden may follow Obama's approach and engage more actively. The biggest challenge will be how to respond to a resurgent China. While Biden may be more conciliatory, he will have pressure from his party over human rights while Trump seems more transactional and less focused on the "moral high ground".

US allies may find Biden's approach easier to work with but will be cautious unless they feel more commitment than he may be willing to offer. If the president and Congress are not co-operating or if there is substantial social unrest within the US that is weakening external focus, foreign powers (specifically China and Russia) will use this as a tool for pursuing their own interests and US allies may be reluctant to be outspoken in their support of the US.

Protectionism has been rising under Trump, but is more of a Democrat area. Although Biden has been traditionally more allied to free trade, a significant section of his own party will push back against globalisation and, in particular, dismantling Trump's barriers to China. It would seem that the free trade concept will very likely be challenged during the next term either by president or by party.

Probably the most substantial difference will be with respect to climate change—Trump will continue to downplay it but Biden will be forced to actively engage and revisit the Paris Accord and go back to the negotiating table on emissions. Trump's reduction of environmental regulation will be stopped and quite likely reversed in many instances.

The Australian perspective

This non-US perspective reveals how Australia may be impacted. The effects will be largely indirect rather than direct. A more protectionist world and a weak global economy will be major stumbling blocks to reviving Australia's economy. For services industries, such as education and tourism, Australia needs to be reopen its borders to outside countries, but this will be driven by how the US (and Europe) respond to and manage the pandemic.

A reduction in free trade will make Australia more exposed to pressure from China through the application of quotas, tariffs or complete bans. Either a further US withdrawal from the world stage or improved US-China relations

in the transactional world of Trump could also enable China to become more dominant and respond even more stridently to Australia's criticism. This would further impact trading and create an even more significant impediment to an Australian recovery.

Where the result might be most felt in Australia is in the approach to climate change, which may move more centre stage if Biden is elected. This could put further pressure on Australia's coal industry but might also highlight the disinclination of the current government to put climate change as a primary concern.

Fixed income

The longer term outlook for fixed income is much less dependent on the US election outcome than on the ability to bring the pandemic under control. An effective deployment of a successful vaccine or a turning of the tide of infections will do more to boost the economy than any other single factor. As such, whether the winner is Biden or Trump will have limited impact on the expectation for interest rates, which remain that Australia will maintain low rates (even possibly negative) and may use quantitative easing.

As regards credit spreads, economic conditions similar to today's would be expected to put pressure on spreads but sovereign support and the search for yield are expected to limit their widening except in clearly impacted sectors such as aviation.

Conclusion

A clear result is highly desirable but by no means assured. The interregnum from election date to inauguration date may be a challenge, but the most serious problem, the pandemic, will not just go away and will weigh down either leader. Australia may benefit from what is expected to be a more consistent, less transactional approach from Biden but all this will be peripheral compared to the question of re-opening the world. From an Australian fixed income perspective, lower rates for longer and sovereign support for credit spreads seem to be on the cards for the next year at least.

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