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Investment Event

Biden versus Trump

Senator Joe Biden formally accepted his nomination as the Democratic candidate in the 2020 presidential election

The latest national opinion polls show Senator Joe Biden maintaining a healthy lead over President Trump

However, we think a number of factors could materially shift either candidate's standing in the coming weeks

Our views

The outcome of the election poses some potential downside risks to US equity markets. These include the possibility of a divided government and "deadlock" over fiscal policy support, while Biden may implement higher corporate taxes

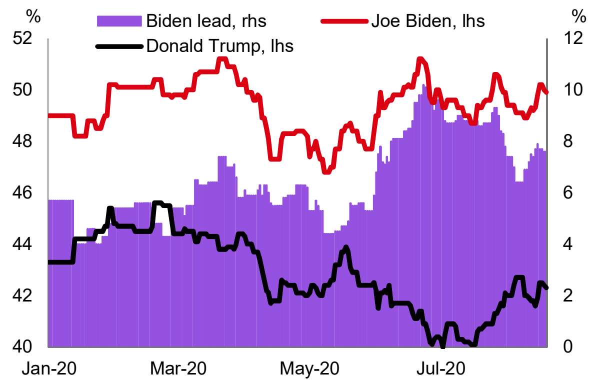
For the time being, we maintain our overweight view on US equities as the "swoosh" economic recovery remains in play

Biden confirmed as Democratic candidate for president

At this week's Democratic National Convention, Senator Joe Biden formally accepted his nomination as the Democratic candidate in the 2020 presidential election, due to take place on 3 November. Meanwhile, Senator Kamala Harris also confirmed her position as Biden's running mate, and candidate for vice president.

How do the latest opinion polls look?

Figure 1: US presidential election opinion poll



Source: Bloomberg, RealClearPolitics, as at 19.08.2020.

The latest national opinion polls show Senator Joe Biden maintaining a healthy lead over President Trump, although lower than the double-digit gap reached in late June (Figure 1).

Biden's strong polling performance has coincided with a period of high US unemployment as the country grapples with the Covid-19 pandemic, and a period of heightened social tensions earlier this summer.

Fortunes can shift, while polls are difficult to interpret

We think a number of factors could materially shift either candidate's standing in the coming weeks. Positive for Trump would be developments that lead to a faster economic recovery. This may include the potential for the pandemic to subside or further progress to be made with treatments and/or vaccines. Congress passing a new stimulus package that includes an extension to the unemployment insurance top-up will also be considered important.

Other factors complicate the picture. There is uncertainty about the impact of increased mail-in voting due to the pandemic. Meanwhile, the US Electoral College system places a greater importance on "battleground states" to the final result, making national polls a less useful predictor. In the majority of these states, Biden is forecast to do worse than at the national level

Market considerations

Uncertainty among investors over the final outcome of the election has the potential to weigh on market performance in the coming weeks. For example, the final month of the 2016 election campaign coincided with weakness in the S&P 500 as Hillary Clinton's lead over Donald Trump narrowed. Markets then rallied as Donald Trump secured his victory.

Were Biden to win, the market impact of his domestic policies is overall uncertain; income redistribution could support consumer spending, but higher corporate taxes and a greater regulatory burden may be a headwind to profits and thus equity valuations.

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Successful implementation of Biden’s policy agenda will likely depend on the make-up of Congress after the election, and in particular if the Democrats can take control of the Senate. Biden is also less likely to push ahead with significant tax increases as long as the US recovery remains fragile. Overall, it is likely that Biden will implement a fiscally neutral set of tax and spend policies.

Arguably, the biggest downside threat to risky asset prices is a divided government whereby one party controls the executive branch (i.e. White House) while another party controls one or both houses of Congress. In this scenario, the ability for the US government to deliver swift and decisive fiscal policy support could be constrained, and therefore risks a slower and more protracted economic recovery in 2021. This is one potential challenge to our overweight view on US equities, but for the time being we maintain our stance while the US “swoosh” recovery remains in play.

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