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3 policy differences for investors to watch in the US presidential race

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President Trump and former Vice President Biden have notably different views about corporate taxes, energy and US-China trade, which may have a substantial impact on markets and portfolios.

Corporate taxes, energy and US-China trade could affect portfolios the most

As the 3 November US presidential election draws closer, the race is tightening between Mr Trump and Mr Biden. While much is at stake in this election cycle, the three policy areas noted below could have a large impact on the markets and portfolio allocations. Investors should plan to adjust portfolios depending on the direction of policy after election day – though emerging technology and infrastructure may be winners regardless of the outcome.

1 Corporate tax policy: while Mr Trump's corporate tax policies are ostensibly more market-friendly, Mr Biden's plan may be offset by other growth initiatives

- Mr Biden wants to reverse the Trump administration's 2017 tax cuts, raising the corporate tax rate from 21% to 28% (while keeping it below the pre-2017 rate of 35%) and creating a minimum 15% tax for corporations earning USD 100 million or more. He also plans to double the tax rate for foreign subsidiaries of US firms. These policies would likely hurt earnings for sectors that benefited the most from Mr Trump's tax cuts (including financials, consumer staples and utilities)

Key takeaways

- President Trump and his Democratic opponent, former Vice President Joe Biden, have pronounced policy differences on corporate taxes, energy and US-China trade, but generally similar views around drug pricing, large-cap tech firms and infrastructure investment
- The run-up to a US presidential election can be volatile: markets have historically done worse in the weeks before election day than in the period from election day to year-end
- While large-cap US technology stocks have led all market sectors during the Covid-19 crisis, a wider set of geographical regions and sectors may benefit from the coming economic rebound
- Emerging technology (including 5G, AI and cybersecurity), infrastructure and clean energy may have a strong outlook following the election

as well as large multinational companies with overseas operations (including technology and healthcare). However, Mr Biden does plan to invest in growth areas such as clean energy and 5G technology. Moreover, the US economy is recovering from recession, so Mr Biden may not make tax hikes an immediate priority – and there is no guarantee they will pass, especially if Congress remains divided.

- Mr Trump wants to maintain the status quo. The corporate tax cuts he implemented in 2017 were designed to be permanent, and he also likely wants to turn the temporary tax cuts for individuals into permanent ones. However, much depends on which party controls the US Congress after the elections – a Democratic Congress would be much less receptive to Mr Trump’s tax proposals.

2 Energy policy: a Biden presidency could create opportunities for clean energy, while another Trump term would support the existing energy regime

- Mr Biden plans to invest heavily in areas like renewable energy and climate protection. His policy calls for a USD 2 trillion investment in solar, wind and other clean-energy sources, as well as incentives for manufacturers to produce zero-emission electric vehicles and energy-efficient homes.
- Mr Trump’s plan focuses more on traditional energy sources such as oil, natural gas and coal – which account for over 80% of total energy used in the US (vs 10% for renewable energy). He would provide a friendlier tax and regulatory regime for traditional energy, as well

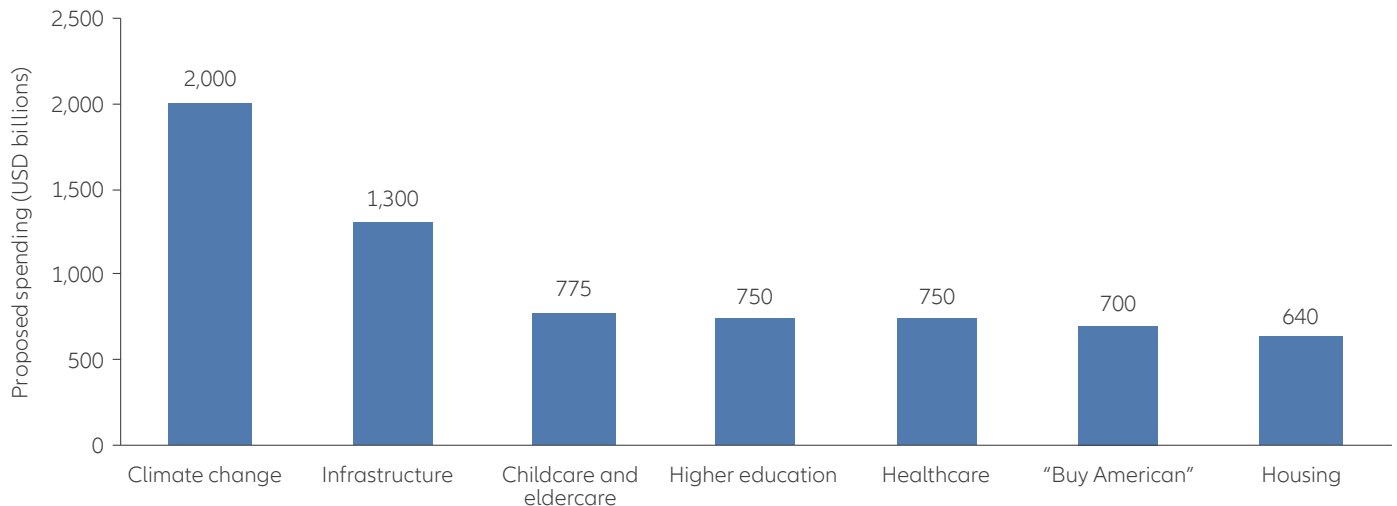
as continued support for “fracking” – a drilling technique use to extract oil or natural gas from underground. The Trump administration believes its energy policies have made the US less vulnerable to shocks from the Middle East or OPEC.

3 US-China trade policy: both candidates would be “tough on China” and aim to strengthen US tech leadership over China

- President Trump has made US-China trade a priority of his administration – often acting unilaterally or via executive order. The two countries did agree on a Phase 1 trade deal on 15 January, but tensions have since resumed over the pandemic and the business practices of Chinese technology firms. In a second term, Mr Trump would likely continue his tough rhetoric and unilateral approach, perhaps spurring market volatility in the years ahead.
- Mr Biden has also pledged to be “tough on China” but has indicated he prefers building coalitions – bringing US allies, labour groups and environmental organisations to the negotiating table. His administration would likely also view Chinese-led technology firms less favourably; Mr Biden proposes a USD 300 billion investment in US technology spending (including 5G, AI and cybersecurity) to remain competitive with the Chinese (see **Exhibit 1**). President Trump would likely favour continued US leadership in technology as well, although he has not confirmed any new policy measures to support this.

Exhibit 1: Mr Biden proposes spending on climate change, infrastructure and “buy American” support for tech

Key components of Biden’s spending proposal (in USD billions)



Source: Biden for America as at September 2020.

The two candidates have similar views on drug pricing, tech giants and infrastructure

Despite their many differences, Mr Biden and Mr Trump are aligned in some areas that markets may not appreciate. For example, both candidates support some form of lowering pharmaceutical drug prices. Both also favour more regulation of – and have even called for breaking up – certain large US tech firms. And both hope to pass substantial US infrastructure packages, supporting areas like smart cities, roads and airports – though Mr Biden also supports developing clean-energy infrastructure.

The global pandemic is the big wild card in this election year

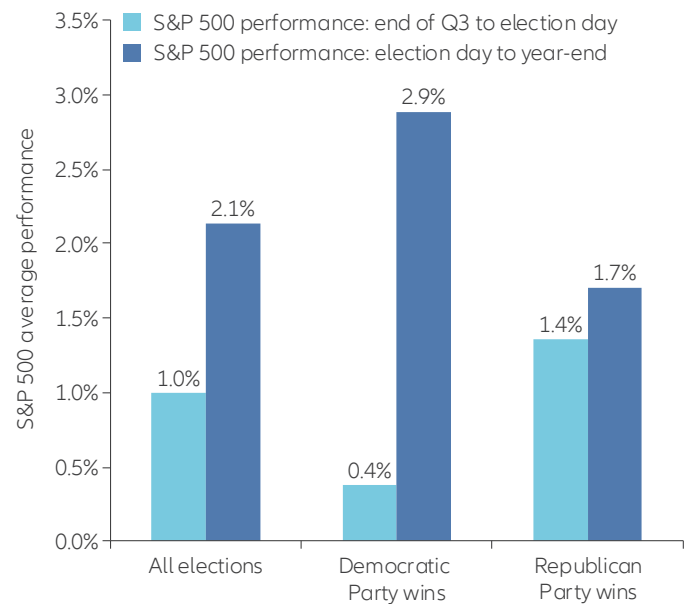
Historically, markets have done worse in the weeks before election day than in the period from election day to year-end (see Exhibit 2). This is likely because the markets don't like uncertainty: once an election is over, the markets are able to start factoring in the next president's policies.

At the same time, the global Covid-19 pandemic makes this a very unusual election year for the markets. While the presidential candidates spar over how they would approach the pandemic, the markets are processing new data points about regional outbreaks, vaccines, drug therapies and the pace of economic recovery – in addition to the level of monetary and fiscal support that has provided a floor for markets so far.

If the global economy does rebound in the next 12-18 months, we expect to see broader sector and geographical participation in the market's upside – beyond the large-cap US technology stocks that have led through the crisis. Investors may want to factor this in, along with the candidates'

Exhibit 2: Equity performance has historically been stronger after presidential elections

Average S&P 500 performance before and after presidential election years (since 1970, excluding 2008)



Source: FactSet as at September 2020. The above chart is illustrative in nature and not indicative of future results. It is not possible to invest directly in an index.

proposals, to consider allocations to select sectors. Cyclical (such as select industrials, energy and financials), emerging technology with long-term growth potential (such as 5G, AI and cybersecurity), infrastructure and clean energy may all be potential winners in a post-2020 US election era.

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