ALLIANZ RESEARCH

JOE BIDEN'S VICTORY: RECONCILIATION ECONOMICS

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Executive Summary

Joe Biden won the U.S. Presidential election, thanks to slim victories in major swing states. However, without a clear Congressional majority (in this respect, the January runoff election in Georgia will be decisive), he will not have as much leeway as expected, even if executive orders, his long experience in negotiating bipartisan agreements and Republicans' fatigue with partisanship could play a positive role. These are the trends to watch for under the Biden administration:

Healing the wounds of Covid-19. *Even with a divided Congress, Biden's victory brings a non-negligible possibility of seeing a two-year USD1.9trn stimulus program voted in by late January 2021. Unfortunately, this program will come too late as rising infections are likely to bring the stringency level of lockdown measures to a new record in January, dramatically penalizing real GDP growth: we expect -8% q/q annualized in Q4 2020. An increase in income support, mainly occurring in H1 2021, and in infrastructure spending in H2 2021, will amount to more than USD920bn in total stimulus over the course of 2021, contributing +1.1pp to +3.6% of real GDP growth expected next year. Another USD980trn leg of federal spending is expected in 2022, with an even higher contribution to growth at +1.6pp. All in all, the level of U.S. government expenditure will exceed its current trajectory by USD6.4trn at the 2030 horizon (+USD2.7trn in net terms).*

Reducing inequalities and redistributing wealth without over-penalizing companies. *With more redistributive policies, notably the unwinding of Trump's tax cuts, U.S. tax revenues could increase by USD3.7trn at the 2030 horizon. The rise in corporate taxes from 21% to 28% remains possible despite a divided Congress, putting businesses' margins within a lower range of 5-6% of GDP compared with a 7.4% average since 2010. The increase in the official corporate tax rate could be partially offset by tax credits (potentially offered in Biden's plan to combat climate change) as a bargain to obtain a bipartisan agreement, resulting in an effective tax rate close to 20%.*

Rebuilding international cooperation. *Trade and foreign relations are likely to improve with historical allies. However, we don't expect Biden to significantly alter Trump's protectionist policies in the very short-term as China is running behind on its commitments to Phase I of the recent deal. The U.S. average tariff could remain stable at 7% over the coming years (v. 3.5% prior to 2017).*

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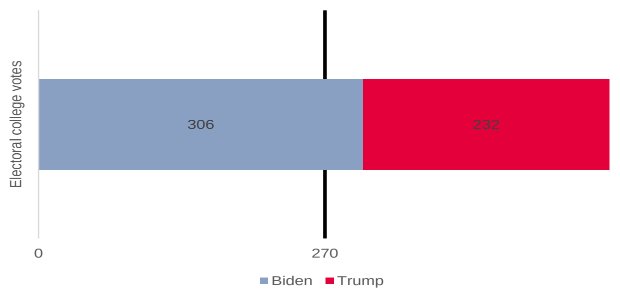
Reconciling climate protection with a new industrial policy. *Biden's plan against climate change represents almost one third of his public spending program, and a truly new industrial policy for the U.S. It entails developing modern and clean infrastructure, investing in R&D and helping the economy transition towards more sustainable models of consumption and production. U.S. protectionism – the last aspect of any real industrial policy – is likely to take a more coordinated aspect, with a return to the Paris agreement and non-tariff forms.*

What does a Biden win mean for the economy and the market? *The big "winner" of this election – although not in a good way – is public debt, expected at 159% of GDP in 2030, compared with 135% in 2020. In the short-term, we expect U.S. GDP growth to reach -4.2% y/y in 2020, +3.6% y/y in 2021 and +3.1% y/y in 2022. In terms of inflation, we expect a slight overshoot of the 2% target between the end of 2022 and the beginning of 2023, followed by a stabilization close to 2%. At the 2030 horizon, excessive public debt as well as lower imports as a percentage of GDP – a direct consequence of reshoring – will make potential growth decline to +1.4%, compared with +2% today. In the short-term, the market will reward construction companies benefitting from infrastructure projects (materials, engineering, machinery), while wind and solar energy will also perform well. Additionally, we expect the market to temporarily price a reflation scenario from 2022 onward. Over the medium-term, we don't expect an overhaul of financial rules, but their execution could be established on a stronger and stricter basis.*

Results of the U.S. elections: a narrow Biden victory and a divided Congress

Thanks to narrow victories in Pennsylvania, Georgia, Arizona and Nevada, Joe Biden will win the Electoral College and become the next President of the U.S. However, Trump has filed lawsuits against alleged election fraud and we expect him to use every possible means to try to retain power. As we mentionned in our last paper[1], a judiciary battle could last until 08 December (the deadline for re-counting the votes and ending the legal disputes, which is six days before the Electoral College meets on 14 December to elect the President and Vice President), potentially requiring the intervention of the Supreme Court.

Figure 1: Presidential election (November 2020) – final results projection (waiting final validation)



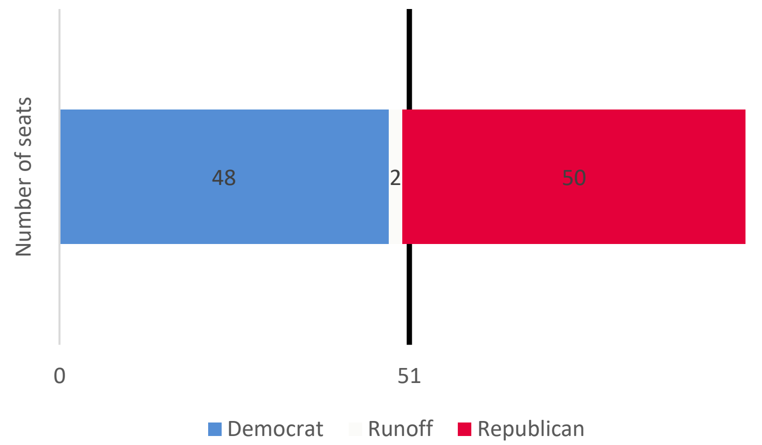
Sources: CNN, Allianz Research.

[1] The U.S. elections turn into a judiciary battle: What's next?

The final composition of the Senate remains undecided. Following the election, Republicans hold 50 seats while Democrats are trailing behind with 48 seats. The two seats remaining will be decided by two election runoffs on 05 January as none of the candidates reached the 50% threshold. As both seats belong to Georgia, a state traditionally leaning Republican, two Democrat victories seem unlikely. Although such an outcome cannot be ruled out, we still expect the Senate to remain Republican.

Implications for both races are huge as they will determine Biden's ability to carry out his agenda. As of now Republicans have the edge as they only need one victory to secure the majority whereas Democrats need to win both seats. The first race will put the Republican Kelly Loeffler against the Democrat Raphael Warnock. If Warnock gathers more votes than his opponents (32.9%), his Republican counterparts, Loeffler (25.9%) and Collins (20%), who finished third, may unite their forces to defeat him. Loeffler will run on her support for Trump while Warnock will continue pushing on progressive issues such as healthcare and voting rights. In the second race, the Democrat John Ossof will try to beat the Republican David Purdue. Even though Purdue obtained 90,000 more votes than Ossof, he was not able to prevent a runoff. Purdue will continue running on his accomplishments as an incumbent senator while Ossof will push for more Covid-19 relief and healthcare expansion.

Figure 2: Senate elections (November 2020, waiting final validation)

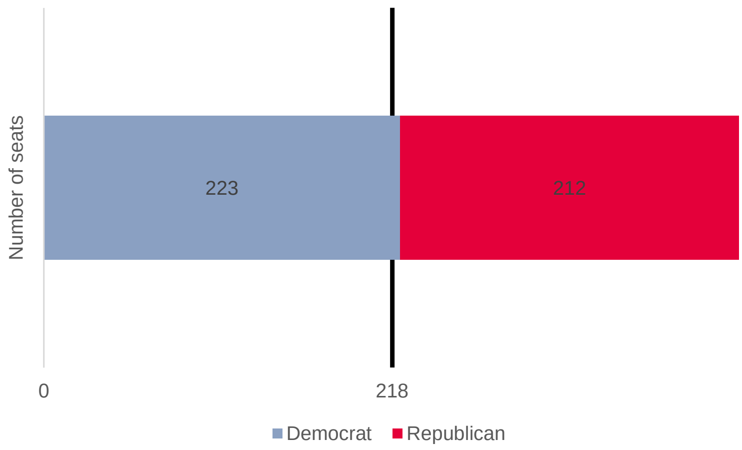


Sources: CNN, Allianz Research.

The House elections remained favorable to the Democrats, who will retain their majority. Even though some close races may be subject to recounts, the Democrats will clearly be above the 218 seats majority threshold with 223 seats.

Among the means the Biden administration could use to pass federal directives, executive orders have a decent chance to come up quite a few times over the next four years – specifically if Congress ends up divided, making it more difficult to pass non-bipartisan legislation. Such orders allow the federal government to operate faster, with a certain degree of discretionary power on the part of the president. In practice, they grant the president the right to determine how to manage the operations of a particular executive branch, without prior consultation of the legislative branch. However, it remains possible for Congress to overturn an executive order by passing a legislation that invalidates it. Indeed, all executive orders must exist within the limits of the law and the Constitution, which also means they can't exceed the president's existing attributions. Over the course of Obama's two presidential terms, the former head of state issued no less than 276 executive orders, many of which revised or revoked some of Bush's. To this day, Trump has issued 194 of them; similarly, many had the purpose of cancelling some of Obama's. In general, they are a common means of action available for use by the president.

Figure 3: House elections (November 2020) – final results projection (waiting final validation)



Public spending: looking for bipartisanship after an effort to heal the wounds of Covid-19.

- A rapid vote on a new stimulus package

In the wake of rising Covid-19 cases across the U.S., the most likely scenario is an increase of stringency measures in Q4 2020. Biden and Democrat representatives are expected to build on the CARES act passed in April 2020 to provide relief from the Covid-19-related economic downturn. However, while Republicans and Democrats may agree on the necessity of supporting the economy (in a context where the seven-day average number of new cases recently reached a record high of 80,000), they are still unlikely to agree on the scale and scope of the package. A fully Democratic Congress is likely to vote a large stimulus package (around USD2.2trn over two years), which would be implemented by Q1 2021 and have a real impact by Q2 2021. If the Senate remains Republican, negotiations are likely to stall and such an outcome raises the possibility of a government shutdown in Q2 2021. We do expect a stimulus package to be voted and implemented at least by Q1 2021 after the inauguration (it could be voted during the lame-duck session but such an outcome remains unlikely, given that Congress and the White House can't agree on a bill).

The stimulus bill will reactivate social transfers, with stimulus checks and unemployment aid, providing a much-needed relief to Americans. In this scenario, income support would stabilize by Q2 2021. In addition, new public investments are likely to complement the stimulus package by Q3/Q4 2021, in particular a large infrastructure bill both parties are likely to advocate.

Figure 4: Impact of a USD1.9trn stimulus in 2021-2022 on real GDP growth

	Stimulus, nominal, bn USD	Contribution to real GDP growth, pp	Real GDP growth, %
2021	921	1.1	3.6
2022	979	1.6	3.1

Sources: Allianz Research, Euler Hermes

- Infrastructure spending is likely to receive bipartisan support

As we mentioned in our recent paper[2], Biden pledged USD1.3trn for infrastructure through his Plan to invest in Middle Class Competitiveness, part of which is designed to provide broadband to rural areas (USD20bn). Moreover, he detailed a USD2trn accelerated investment package to develop, build and upgrade infrastructure to combat climate change and provide clean energy to Americans. Besides such plans, Biden has also advocated for USD640bn in financing towards housing (USD300bn of which is part of the Plan to Invest in Middle Class Competitiveness), including USD100bn specifically for affordable housing, and USD10bn for transit projects to serve high-poverty areas. Republicans acknowledge that infrastructure in the U.S. needs investment, but will be less willing to support Biden's plans to divest from fossil fuel and invest in clean energy and environmentally friendly infrastructure instead. As Congress will remain divided over the next presidential term, there is risk that infrastructure investments would have a smaller scope. Indeed, there is a chance that Biden could be more compromising than planned on infrastructure as that could give him additional room to pass some of his other measures, such as the +7pp corporate tax increase to 28% and a USD15 hourly minimum wage. If so, Biden's Green Plan might not be as green as expected, and favor companies' interests above all – notably through tax incentives, causing the effective corporate tax rate to drop well below its statutory equivalent.

- Significant investments in healthcare personnel

Regarding healthcare, Biden plans to invest no less than USD775bn to create a "21st Century Caregiving and Education Workforce", which consists in improving childcare, boosting long-term services, improving caregivers' benefits and training and expanding access to care for older Americans (officially known as the Plan for Mobilizing American Talent and Heart to Create a 21st Century Caregiving and Education Workforce). In addition, Biden plans to spend an extra USD125bn to end the opioid crisis and tackle issues related to substance abuse by facilitating access to treatment. It is worth noting that Republican support for new healthcare investments remains highly unlikely.

- To the rescue of local authorities

[2] U.S. elections - We have a winner: debt

Within Congress, Democrats currently advocate a USD436bn package (initially USD915bn, cut almost in half on 01 October) in aid to states which missed out on a large part of their revenues in 2020. However, Republicans stand firmly against what they call a "blue state bailout". Indeed, Republicans claim extra federal funds could serve other purposes than making up for the damage caused by Covid-19 restrictions at a state-level, especially in Democrat states. Although states have certainly suffered a major fiscal hit in 2020, perhaps causing unprecedented deficits this year, some GOP representatives have underlined that the latter could be the result of public finance mismanagement.

- To the rescue of Obamacare

Biden will likely expand upon policies enacted during the Obama administration, notably by trying to reduce the age of eligibility for receiving Medicare to 60, as well as creating a subsidized public option for health insurance and offering premium-free access to the latter for Medicaid-eligible citizens. Biden also wants to expand Medicaid coverage to anyone making below 138% of the federal poverty level, and to try to rein in pharmaceutical costs as well as "surprise billing", which hits patients who go to a medical provider outside of their insurance companies' network. Among other reforms, Biden wants to make an unsubsidized version of the public health insurance option available to undocumented immigrants and to further cap insurance costs on the individual market place as a percentage of households' income (from 9.86% down to only 8.5%). As a result, Biden's Plan to Protect and Build on Obamacare is expected to inject up to USD750bn into strengthening the previous U.S. president's reform. Again, Republicans may oppose this initiative from the Biden administration, as they have expressed major disagreements with the intended benefits of the original reform.

- To the rescue of students

Biden also wants to tackle the sizable student loan problem in the U.S., although in this case giving a clearly defined cost seems difficult. Indeed, estimates suggest the true cost could stand far above Biden's projection of USD750bn. In further detail, Biden proposed to provide students with an annual sum of USD10,000 dedicated to financing post-secondary studies for up to five years, and added the possibility of enrolling for free in a state university, should annual family income be below USD125,000. Additionally, Biden wants to offer tuition-free options for first-time post-secondary students enrolled in community colleges, and to cover as much as two years of tuition at private minority-serving institutions. Finally, the Public Service Loan Forgiveness program is slated for reform to offer more applicants the opportunity to enter middle-income public sector careers, such as firefighting, teaching and the military, among others. On education, Joe Biden also mentioned a USD100bn package as part of his USD1.3trn middle-class plan to build and upgrade primary to secondary schools.

- To the rescue of pension funds

Biden wishes to expand retirement savings, particularly among lower income workers. The current system, which relies upon the 401k and other qualified employer-sponsored plans, allows a tax deduction for those who save. Critics argue that such a system provides extra benefits to the wealthy as they pay taxes at higher effective rates and thus get a bigger benefit than lower-income workers whose revenues fall into lower tax rate brackets. Holding the belief that tax incentives should increase the number of people who start a retirement plan, Biden wishes to replace the current tax deduction with refundable tax credits. This would shift the distribution of retirement benefits towards different income levels compared with the current system, and hence further incentivize low and middle-income workers to start saving. Finally, Biden favors establishing a government-sponsored retirement account option, making it easier for small employers to establish a retirement program for their employees. Inevitably this would directly compete against private fund managers' products.

Figure 5: Biden's economic platform, changes in outlays and receipts, bn USD

Bidan's Economic Platform Changes in Outlays and Receipts	
SPENDING +USD6,435.85bn	
970	Infrastructure (not elsewhere)
2,000	Climate change
750	Student loans
1,650	Healthcare
128.2	Education
23.6	Defense
240.5	Public-private investment
640	Housing
33.55	Other spending increases
REVENUE +USD3,686bn	
3,746	Tax increases
-60	Increase in tax incentives

Sources: Allianz Research, Euler Hermes

Tax policies to reduce inequality without over-penalizing companies. Biden's tax policy has three main objectives.

- Unwinding President Trump's tax cuts and increasing the tax rate on wealthy people

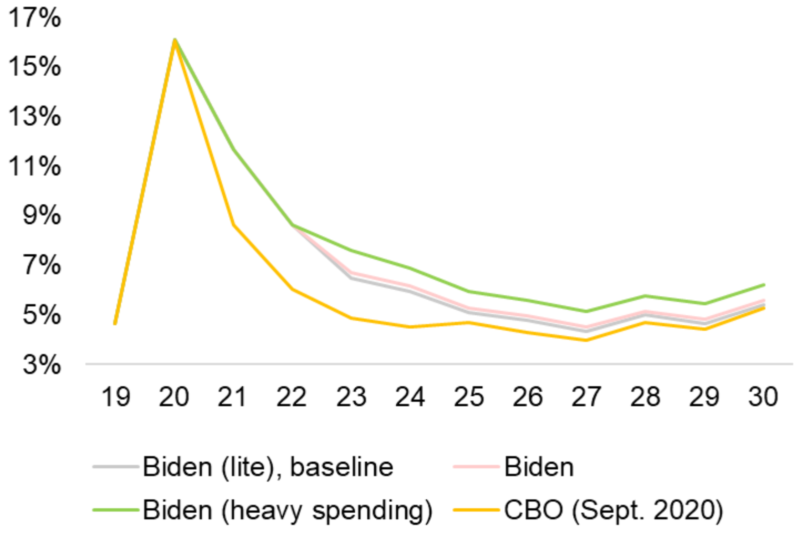
The Biden presidency could cause major shake-ups in federal receipts, mostly channeled through substantial tax increases, though they will face fierce Republican opposition in a divided Congress[3]. In 2017, President Trump's Tax Cuts and Jobs Act eliminated the corporate income tax brackets, leading to a 14pp drop in the marginal rate (which became the only rate applicable) to 21%. It also cut by half the minimum tax on global income originating from intangible assets such as patents and trademarks,

[3] In a recent interview, Jeremy Siegel expressed his confidence in a configuration with a Democratic White House and Republican Senate, which historically have a good economic track record. https://markets.businessinsider.com/news/stocks/stock-market-outlook-wharton-siegel-divided-government-election-excellent-congress-2020-11-1029766554

as well as copyrights (known as GILTI), repealed the corporate alternative minimum tax and rearranged the graduated personal income tax system, notably by decreasing the marginal tax rate by 2.6pp down to 37%, among other changes. Biden's Tax Plan would reverse much of this by increasing the – now unique – corporate income tax rate by 7pp to 28%, re-introducing a 15% minimum book tax on corporations whose income goes beyond USD100mn, limiting itemized deductions, repealing Trump's reform on the taxation of GILTI, taxing capital gains at ordinary income tax rates instead of the current 23.8% rate for those earning over USD1mn, and finally, subjecting incomes above USD400,000 to the 12.4% Social Security payroll tax.
He is also likely to raise the maximum applicable deduction above USD10,000 for state and local taxes affecting individuals. The beneficiaries of this measure are likely to be residents in high-taxed states such as New York, California and New Jersey, which by tradition vote Democratic and are still resentful of what they perceive as a Republican partisan effort to hurt them in the 2017 Tax Reform bill.

As Joe Biden's Tax Vision is partly about cancelling or weakening some of the major reforms over the course of Trump's term, it might stand among the more difficult bills to see pass in Congress, given the likely Republican Senate. Should Biden wish to stand firmly in favor of his USD6.4trn public spending platform, he will certainly need to get the extra USD3.7trn in federal revenue generated by such tax increases to finance it.

Figure 6: U.S. public deficit at the 2030 horizon resulting from the execution of Biden's economic platform



Sources: Allianz Research, Euler Hermes

- Give priority to the middle class and to social mobility

In the hopes of strengthening the U.S. middle-class, Biden plans to invest USD50bn in workforce training, including community college, business partnerships and apprenticeships. Such investments should widen access to postsecondary education, and help pull students/ trainees out of lower-income jobs. Additionally, an extra USD8bn will be dedicated to improving community college facilities and technology. In parallel, a USD70bn investment and a series of grants will go towards historically black colleges and universities, as well as other minority-serving institutions.

- Foster employability to offset an increasing minimum wage.

Biden's promise to impose a USD15 hourly minimum wage would dramatically raise labor costs in the U.S. and considerably weigh on companies' margins as a result. To compensate, the Biden administration will have to propose several programs to support American Small and Medium Enterprises (SMEs). Indeed, they already need tremendous support. As a result, a series of future programs could be dedicated to fostering American SMEs' productivity, such as a USD150bn public-private investment package favoring minority entrepreneurs and the establishment of a USD60bn True Small Business Fund. Biden also plans on doubling down on the State Small Business Credit Initiative (USD30bn) and increasing funding towards Community Development Financial Institutions to USD60bn, among other initiatives. This very part of Biden's economic platform should appeal to both sides in Congress. Plus, as some of the packages mentioned right above are included in Biden's major plan to foster middle-class competitiveness, it might help get the Senate to approve the latter as a whole.

What this means for companies and competition: a soft paternalism towards lower profits. Part of the Biden administration's policies could be characterized as economic paternalism, or an effort to oversee and persuade businesses to act in ways more beneficial to the public and less towards maximizing profits, very much the opposite of the Trump administration's approach. For instance, Biden plans to implement a number of changes to the corporate tax code, including raising the corporate tax rate from 21% to 28%, imposing a 10% surtax on corporations which offshore jobs, incentivizing renewable energy efforts and imposing a minimum tax on corporations who would otherwise pay nothing. These changes to the corporate tax code would provide more than half of the total expected revenue increases, which along with changes to the individual tax code, would total approximately USD3.7trn. Of course the changes would reduce corporate profits. The pharmaceutical industry is explicitly targeted for price and profit reductions. We estimate the long-term relationship between profit margins of non-financial companies (non-financial companies' profits expressed as % of GDP) and the effective tax rate, factoring in a rise of this effective tax rate from 12.5% today to close to 20%. In this configuration, the corporate margin rate could evolve close to 5-6% compared with an average of 7.4% since 2010.

On the spending side, Biden's most significant plan is a rapid move towards green and renewable energy – although its implementation will likely be slower than his more progressive colleagues would like – with a goal of net zero emissions by 2050, resulting in USD400bn in spending in the first term on key clean energy inputs like batteries and electric vehicles. Over a ten-year period, spending on green energy including R&D and sustainable infrastructure is slated for almost USD2trn, with public-private partnerships and state governments potentially bringing the total up to USD5trn. Spending on services such as healthcare, housing and social programs are expected to cost another USD4trn. Other strategic sectors include infrastructure spending on transportation, schools, and 5G.

Similarly, the new administration will also emphasize a rebalancing of forces in corporate and global competition. Biden has promised to support stricter privacy safeguards and antitrust oversight on social media platforms such as Facebook, Twitter and Google, but has not indicated that a breakup of the oligopoly is in the making. Regarding financial services, Biden was a senator from Delaware, where many credit card and bank companies are registered, and given his former advocacy for them, it's unlikely that anti-trust actions would be aimed at them. Yet the Democratic party is likely to sway him towards more oversight and regulation. In contrast, other key sectors will be specifically incentivized, including medical supplies and essential materials such as steel and cement to revitalize manufacturing in conjunction with the USD400bn portion of the "Made in all America" initiative. R&D efforts that also fall under that program include USD300bn on 5G, artificial intelligence and biotechnology. Biden is also a staunch proponent of union jobs and supports traditional manufacturing such as automotive, where he hopes to create 1 million new jobs. Military spending is intended to be reduced and rebalanced, emphasizing new technologies such as AI, which will boost technology companies, and moving away from legacy systems, dampening spending on more well-established and traditional defense contractors.

An iron fist in a velvet glove in terms of trade and external policy. We don't expect Biden to undo what Trump initated in terms of protectionist policies. Since the beginning of Trump's mandate, average U.S. tariffs have increased from 3.5% to 7%, with a peak above 8%. That peak was reversed at the beginning of 2020, thanks to an agreement in which China committed to increase its imports from the U.S. by USD200bn over two years. China is running behind on this commitment as only USD58.8bn out of USD140bn initially planned had been purchased as of 30 September. That means Biden will have some bargaining power to justify a slow back-pedaling in protectionist trade policy. It is all the more important to stick to this policy as 50 out 57 of technical commitments related to agricultural products have been fulfilled by China, while U.S. financial institutions gained a broader access to the market. Therefore, Phase I of the U.S.-China trade deal, while being late in terms of quantitative targets, has produced tangible results in terms of intellectual property rights and sanitary and phytosanitary standards as well as access to financial markets. Phase II of the agreement is unlikely to be reached rapidly because of this delay, and because it is overly ambitious with respect to industrial subsidies and state-owned enterprises. Biden will adopt a coordinated and less unilateral approach to China, in particular on technology and intellectual property. This multilateral approach, and the adherence to more ambitious climate standards are likely to revive non-tariff barriers via the implementation of new technical, phytosanitary or environment-friendly norms. We expect a status quo or slight progress with respect to tariff barriers. The most probable other aspects of Biden's foreign policy, beside specific geo-strategic aspects, are the following:

- Reviving international organizations, with a focus on reforming the WHO and getting China to abide to international protocols;
- Asking for a "Summit for Democracy" in the first year of his presidency;
- Establishing a net separation between geopolitics and trade policy;

- Re-joining the Paris climate accord.

Climate change: watered down but still a green deal and above all a new industrial policy. To combat climate change, Biden announced a gradual plan to reach a 100% clean energy economy by 2050.

- Paris agreement

Biden plans to recommit the U.S. to the Paris Agreement on climate change. He also said that he would integrate climate change initiatives into U.S. foreign policy, national security strategies and trade arrangements. To follow-up on this initiative, Biden wants to create further enforceable international agreements reducing global shipping and aviation emissions, as well as a global ban on fossil-fuel subsidies.

- Biden's plan to address climate change

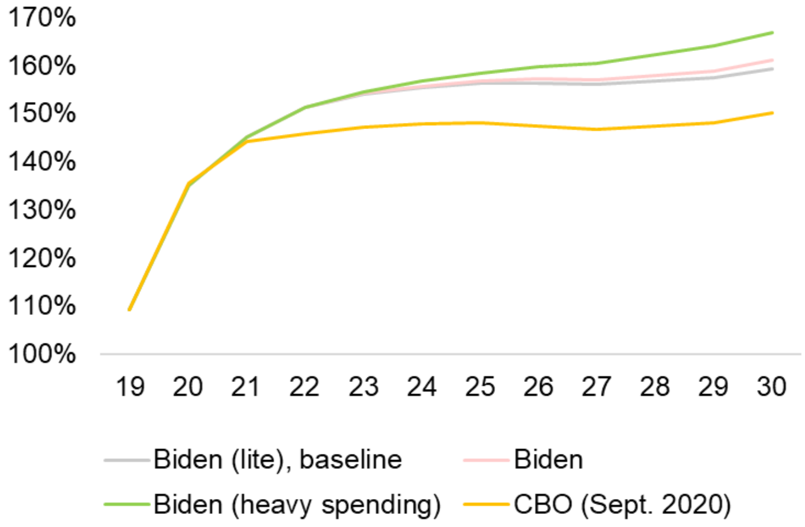
Moreover, as mentioned above, as part of its infrastructure plan centered on climate change, the Biden administration is expected to invest in energy and climate research as well as incentivize the rapid deployment of clean energy innovations. Of the USD2trn "Plan to Build a Modern, Sustainable Infrastructure and an Equitable Clean Energy Future", USD300bn would be in favor of a "Plan for Research & Development and Breakthrough Technologies" along with the USD400bn "Buy American" purchase program to power domestic demand for national products, materials, and services. More specifically, the goal is to increase the use of electric vehicles, establish new appliance, build efficiency standards for consumers and set aggressive limits on methane pollution for oil and gas producers. As Biden already plans to dramatically hurt companies' margins by raising taxes and the minimum wage, and taking into account that he will surely have to deal with a Republican Senate over the course of his presidency, his administration will have no choice but making sure this major plan primarily benefits the supply side. For some firms, it might actually erase the impact of the statutory tax increase, by offering major fiscal incentives – for example, on R&D, innovation, and efforts to transition to a more sustainable way of producing. Generally speaking, Biden's Plan to Build a Modern, Sustainable Infrastructure and an Equitable Clean Energy Future will mark the unfolding of a new industrial policy for the nation, with potential for winning Republican votes in the Senate. All in all, Biden's initiative should represent almost one third of the additional public spending he advocates.

- Environmental justice

Biden's wishes to ensure environmental justice for all Americans by creating a specific office within the Justice Department. He will also direct funding and aid to disadvantaged communities (40% of the Plan for a Clean Energy Revolution and Environmental Justice). The intent of environmental justice is to lower climate change-related risks for the more vulnerable members of the population – the disabled, the elderly, and the children. Improving healthcare and reconstruction after natural disasters will also stand as priorities.

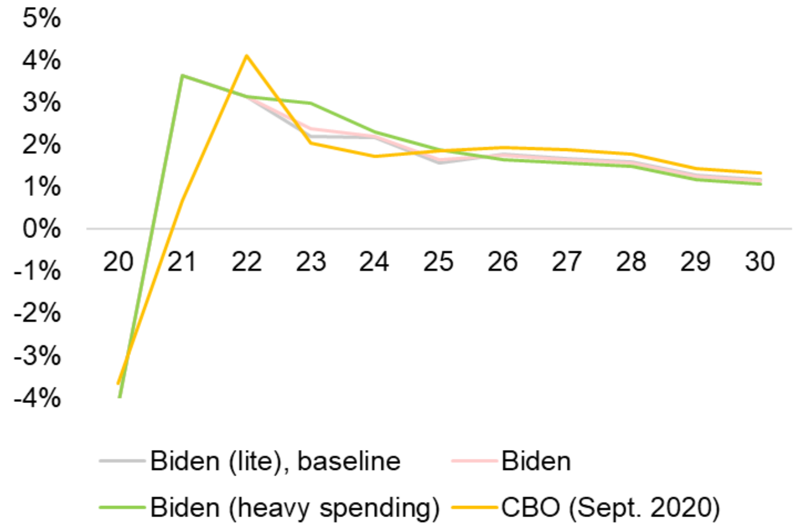
Short-term and long-term consequences for growth. All in all, the complete execution of Biden's economic platform, which amounts to injecting an additional USD2.7trn net stimulus into the economy (+USD6.4trn in gross terms), could lead the U.S. public debt to reach 159-167% at the 2030 horizon, compared with 135% in 2020. Consequently, when estimating the U.S. economy's long-term potential growth in function of four different variables – productivity and active population's annual growth (yearly), imports and public debt in GDP percentage points – we expect a probable decline from +2% to +1.4% at the 2030 horizon. In the short-term, the two-year USD1.9trn fiscal stimulus should contribute +1.1 pp and +1.6 pp to real GDP growth in 2021 and 2022, respectively, bringing it to +3.6% y/y and +3.1% y/y, respectively.

Figure 7: U.S. public debt as a % of GDP at the 2030 horizon resulting from the execution of Biden's economic platform



Sources: Allianz Research, Euler Hermes

Figure 8: Real GDP growth in the U.S. at the 2030 horizon resulting from the execution of Biden's economic platform



Sources: Allianz Research, Euler Hermes

What does this mean for the markets: a stricter execution of the rule. In the very short-term, as observed before the election and as Biden's lead increased in the polls, sectors deemed as being likely to benefit from his platform will probably outperform. In this group we find solar and wind energy providers (transitioning away from the oil industry), companies in the construction sector (engineering, machinery and materials related to large infrastructure projects) and education as well as healthcare services firms.

- Independence of the Fed. During President Trump's term, the Fed's independence was under intense pressure. Conversely, Biden is likely to adopt a less confrontational tone of communication with the U.S. central bank.
- Stricter execution of the rule for financial institutions. At its beginning, President Trump's term was marked by the Economic Growth, Regulatory Relief, and Consumer Protection Act, which increased the asset threshold above which banks are subject to Enhanced Prudential Standards (EPS). This law reduced the number of banks having to undergo regular stress tests along with the frequency of such tests. Liquidity ratios for banks were also made less stringent, and small banks became exempt from the Volcker Rule. Finally, conditions were eased on small housing loans being treated as "qualified mortgages". Key nominations at strategic regulatory positions – the Federal Deposit Insurance Corporation, the Consumer Financial Protection Agency Bureau, the Financial Stability Oversight Council – also allowed an interpretation of the law more favorable to corporations. Under Biden's presidency, we expect a reversal without significant changes in the law, meaning that executive orders and key nominations will lead to a stricter monitoring and regulation of financial activities.
- Private equity and hedge funds. Biden would eliminate the carried interest tax preferences for partners of private equity and hedge funds.

These assessments are, as always, subject to the disclaimer provided below.

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