

Likely Democrat win in November, but could be a bumpy ride

Bill Diviney
Senior Economist
Tel: +31 20 343 5612
bill.diviney@nl.abnamro.com

With a little over one month to go until the presidential election, polls continue to suggest a close race, but Biden has a stronger edge over Trump than Clinton did in all battleground states. Demographic changes mean there is even a chance that some traditional Republican stronghold states could flip Democrat.

Mass voting by post means delays to the result – and potentially disputes – are much more likely than in recent elections. **Disputes raise the possibility of unrest**, and polling suggests Democrat voters are more likely to react with anger to a Trump win than Republican voters to a Biden win. Disputes and unrest would be a negative for markets.

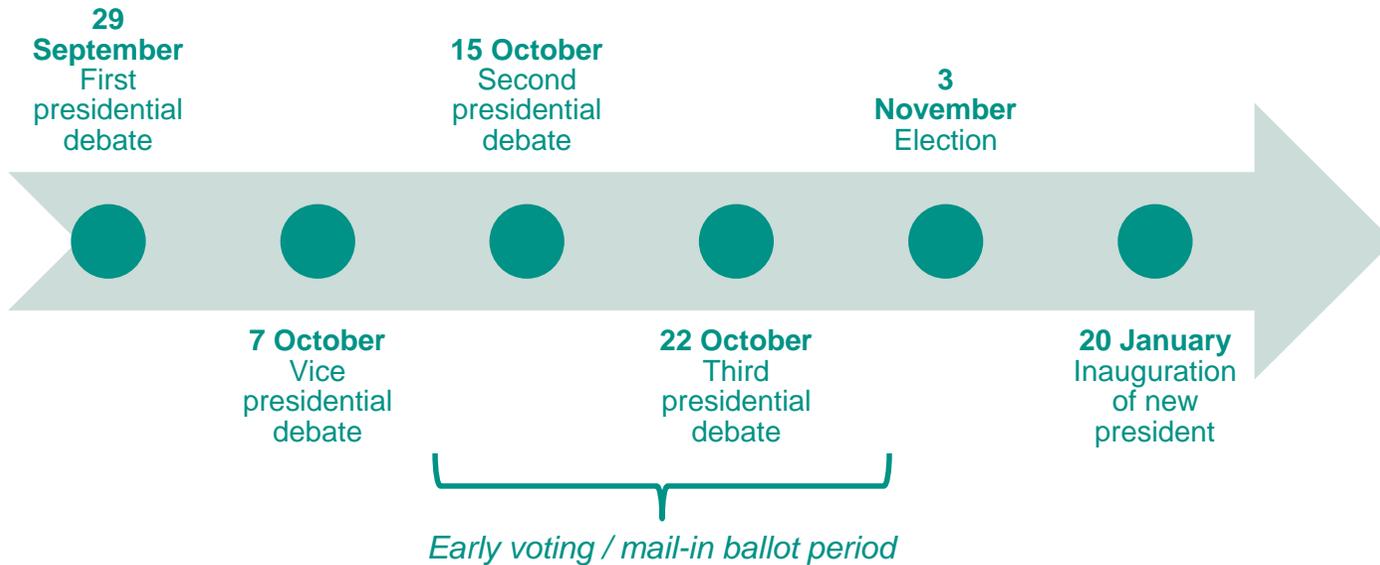
Congressional elections also take place on 3 November, and could be just as crucial as the presidential election itself. Polls suggest Democrats will retain control of the House, and could gain control of the Senate. This raises the prospect of dramatic policy changes under an ‘all blue’ executive.

However, we see the most likely scenario to be **Biden winning the presidency, Democrats retaining control of the House, and Republicans retaining control of the Senate**. This means Democrats would have to compromise with Republicans to get legislation passed.

In any election scenario, ‘lower for longer’ interest rates means **the path of least resistance is a continued dramatic rise in government debt**. A Biden-led government would spend much more, while a Trump-led government would cut income taxes.

We also expect US-China trade decoupling to continue in all scenarios, though a Biden presidency would repair relations with traditional allies and take a more multilateral approach to trade disputes.

The race for the White House – key dates

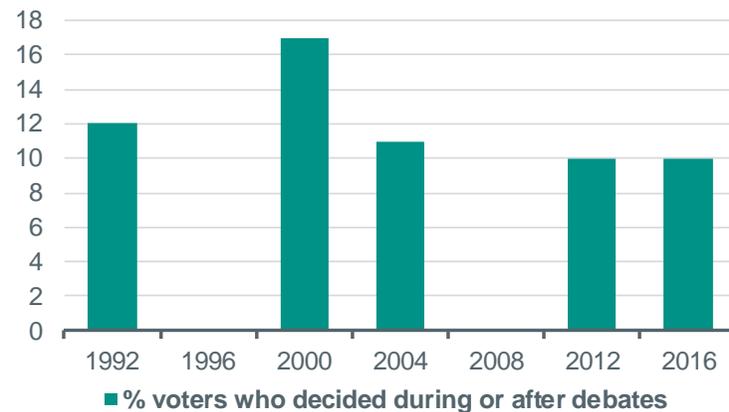
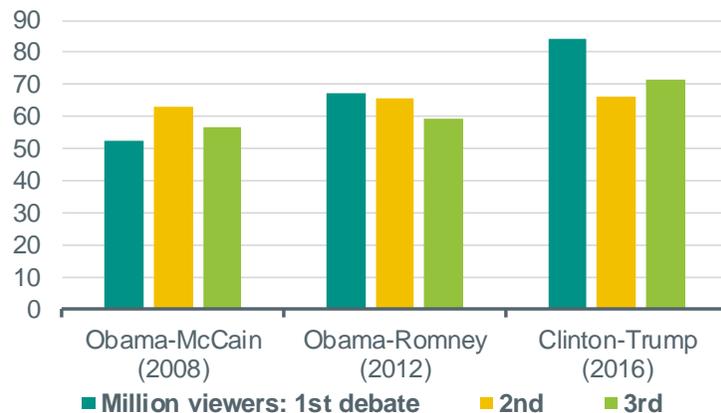


For most voters, the campaign is likely to be all but over by mid-October:

- Early voting allowed by mid-October in almost every state
- Mail-in ballots allowed for every voter in all but 5 states
- 1 in 5 voters will receive mail-in ballots without even requesting them

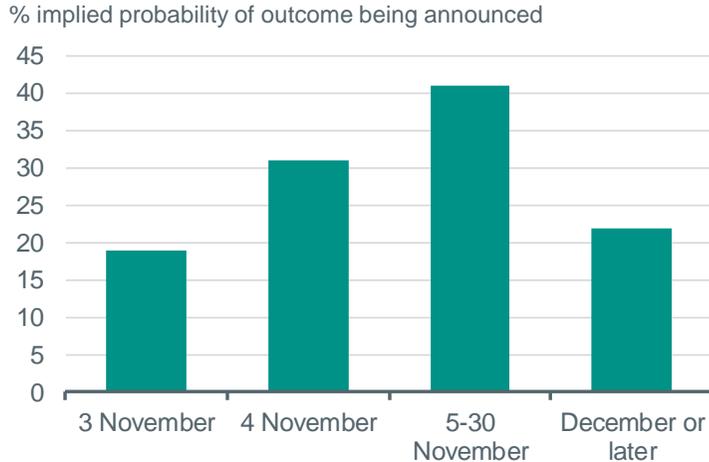
These measures are intended to better enable social distancing in the election.

TV debate viewership has increased significantly in recent elections, and could prove pivotal in deciding the result



Risk of a disputed outcome and civil unrest is high

Betting markets see a relatively high chance of a delayed result



With mass postal voting a likely feature of this election, the risk of a delayed – and then disputed – outcome is high. President Trump has consistently cast doubt on the validity of postal votes, and he could use this as grounds to contest the result.

Meanwhile, against the backdrop of the unrest over the summer, a Trump win is the most likely to spark civil unrest, with opinion polling suggesting Democrats are much more likely to react with anger than Republican voters would to a Biden win. There is a higher risk of unrest if Trump loses the ‘popular’ vote but wins the election (as happened in 2016).

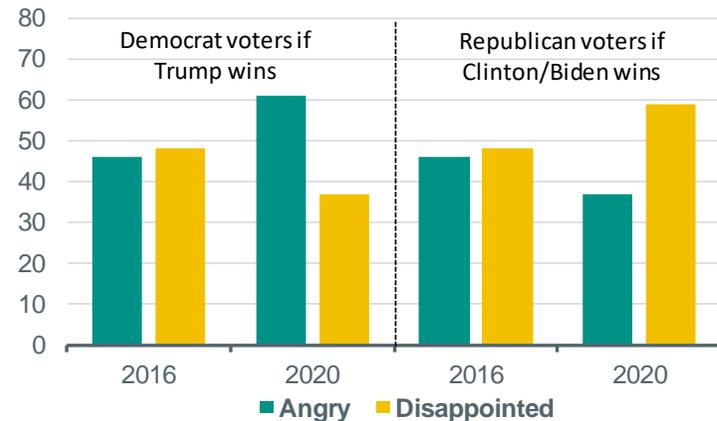
Reporter: ‘Will you commit to making sure there is a peaceful transfer of power?’

President Trump: ‘The ballots are out of control... get rid of the ballots, and there won’t be a transfer, frankly, there’ll be a continuation’

Bloomberg TV, 23 September

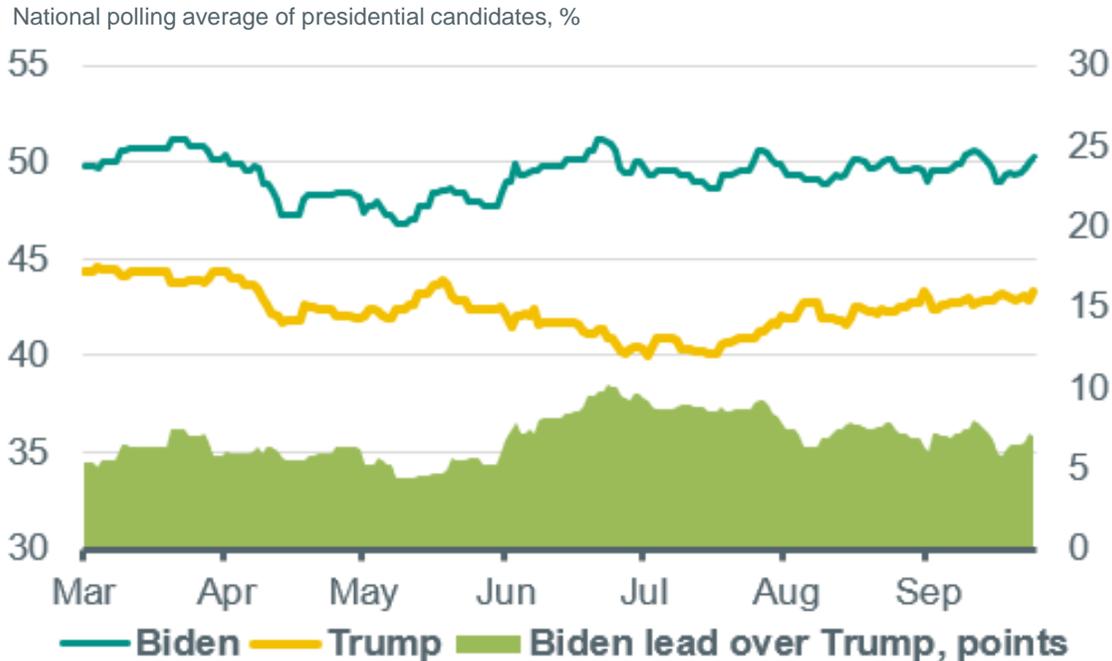
Democrat voters much likelier to react angrily to a Trump win

% voter reaction to election outcome scenarios



Joe Biden has held a consistent lead in national opinion polls

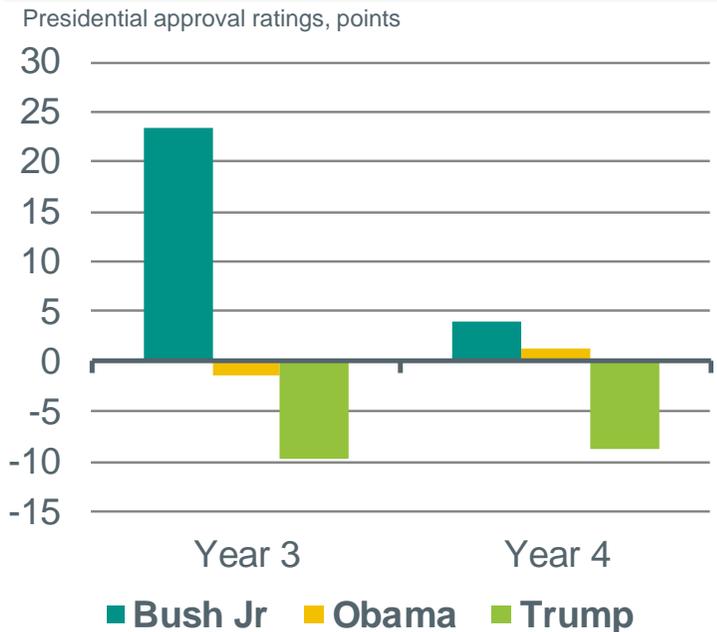
Biden has had a 5+ points for the past four months...



Voter support for Trump hit a trough in July as the second wave of the pandemic peaked in the US. Since then, civil unrest following the death of George Floyd appeared to give the president – who responded to the protests with a ‘law and order’ message – a second wind. Despite this, his level of support still remains stubbornly below levels prior to the pandemic. Meanwhile, support for Joe Biden has remained fairly stable around the 50 mark since early summer.

President Trump has only recorded a persistent positive net approval rating in the first week of his presidency, in January 2017. Since then, he has been an historically unpopular president, with ratings well below those of Bush and Obama at this stage of the presidency. With that said, a solid base of around 40% of Americans have shown consistent support for him.

...and Trump is historically unpopular for this stage of the presidency



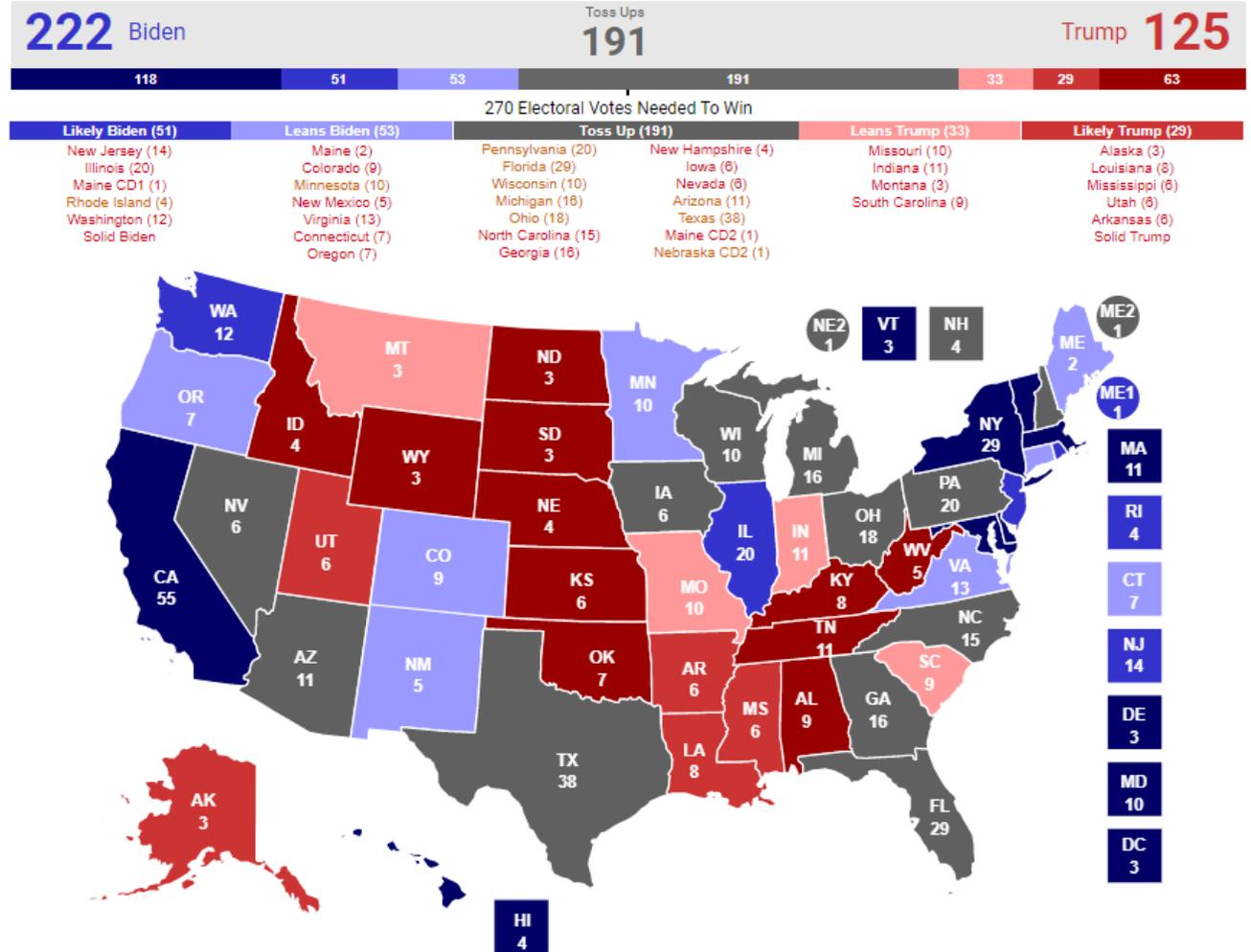
270 Electoral College votes to win the presidency

Polling shows states with a higher number of electoral college votes 'lean Biden' than 'lean Trump' at this stage, giving him a modest edge

His solid polling lead suggests Joe Biden will win the 'popular' vote. However, US presidential elections are not won with national majorities, but are determined by the Electoral College system – with candidates gaining votes by winning state-by-state. There are a total 538 votes at stake, with a plurality – 270 votes – needed to win. This means that a candidate can still lose the presidency even if they get a majority of the national vote – as happened in 2016.

Given this, it is the so-called 'battleground/toss-up' states – in which neither party holds a clear lead – where the election will be won or lost. In 2020, more than 1/3 of Electoral College votes will come from these battlegrounds.

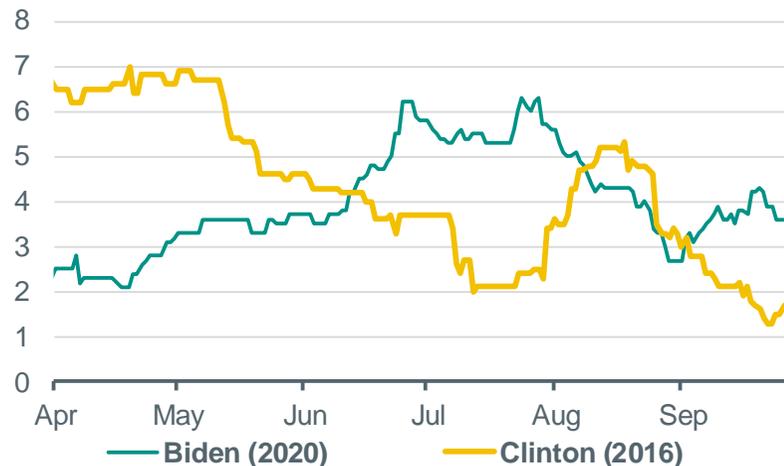
At this stage in the race, state-level opinion polls show that Biden has a somewhat better chance of winning, given that he needs to win fewer of the battleground states than Trump to reach the required 270 votes.



Battleground states: Biden is doing better than Clinton in 2016

Biden's lead is higher than Clinton's at this stage

% point lead over Trump in battleground states at this stage of the race



If you add these states to the existing 'lean Biden' tally, he would likely comfortably win the election were it to take place today – we estimate he would get at least 307 electoral college votes, well beyond the 270 votes needed.

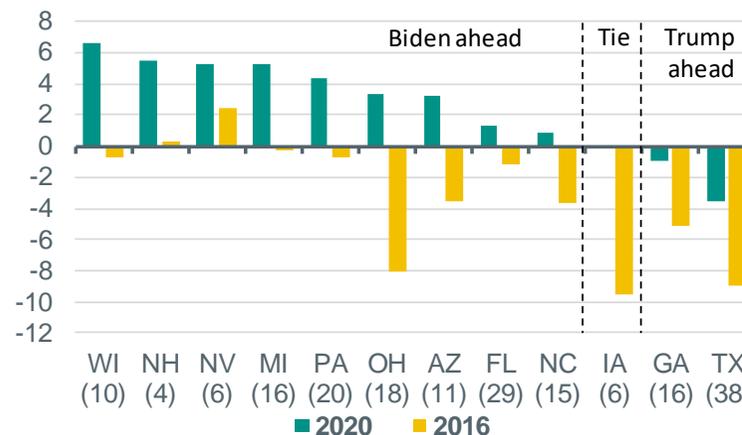
At the same time, some states that have previously been solidly Republican – such as Georgia and even Texas – have now come into play, with significantly smaller margins favouring Trump than in 2016.

Biden's lead over Trump in the battleground states is currently 3.6 points, according to the *RealClearPolitics* average of the 'top' battleground states (Wisconsin, Michigan, Pennsylvania, North Carolina, Florida, Arizona). This compares with Hillary Clinton's 1.7 point lead over Trump at the same point in the race (35 days before election day).

This probably understates Biden's edge in the election, as some of these states are arguably no longer 'battleground', but lean Biden – particularly Wisconsin and Michigan, where his lead is well above the margin of error (+/- 3%).

Biden is doing better in all battlegrounds vs 2016

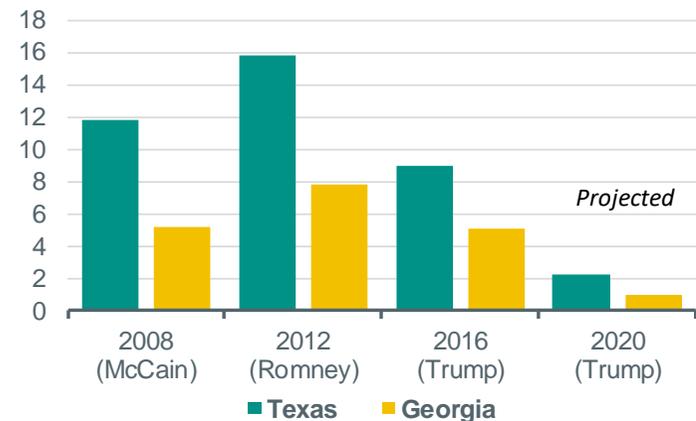
% point lead over Trump, by state (electoral votes in parenthesis)



Battleground states: Could Georgia or Texas flip Democrat?

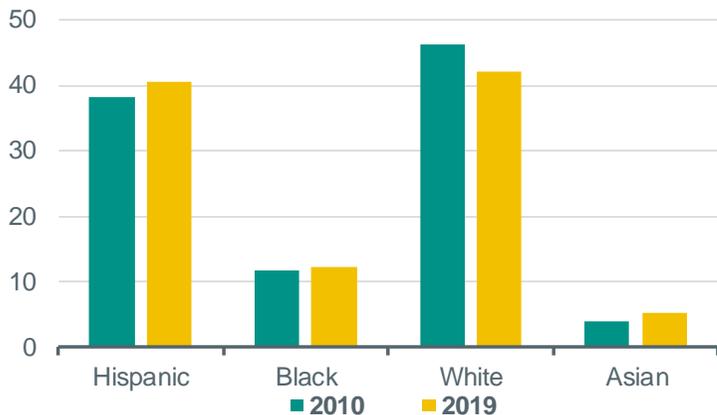
Republican lead in Georgia and Texas declined significantly in 2016, and these states could even flip Democrat in 2020

% Republican candidate lead in each election



Hispanics to overtake whites as largest group in Texas

% share of population in Texas



Georgia – Electoral college votes: 16

Texas – Electoral college votes: 38

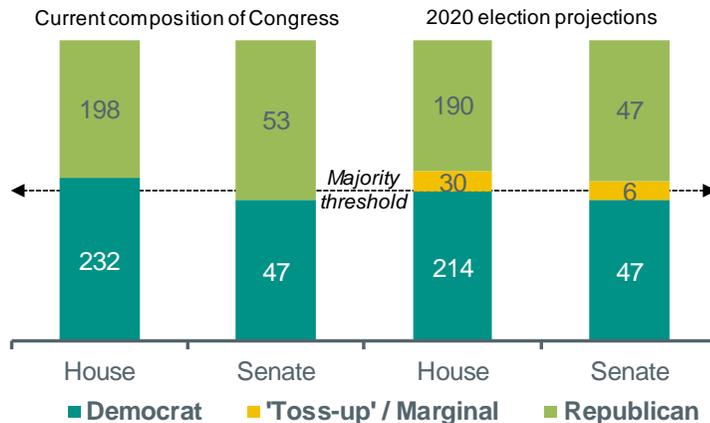
Georgia and Texas are not considered traditional battlegrounds, but solid Republican strongholds. Georgia last voted Democrat in 1992, when Bill Clinton (a fellow southerner) ran. Texas last voted Democrat over forty years ago in 1976. However, demographic factors – including an increasing share of Hispanics, urbanisation, and a higher proportion of university graduates – are leading to structural shifts in these states. Such trends tend to favour Democratic candidates, and indeed polling for Republicans has shown a steady decline in the past decade.

These states flipping Democrat would represent an enormous political upset – on the scale of Clinton losing Michigan and Pennsylvania in 2016 – and likely triggering changes in Republican party policy that could well see it moving back towards the centre in future elections.

It's not just about the presidency – Congressional elections also matter

Democrats likely to keep the House; Senate race is more open

Number of seats in House and Senate



Betting market odds of a Democratic Senate have risen

Implied probability of Democrats controlling House / Senate



There are limits to presidential power. Presidents can sign executive orders in a range of policy areas, and President Trump has used these powers, for instance in waging his trade war with China. However, when it comes to making fundamental domestic policy changes, such as to the healthcare system, and tax and spend policies, bills must be passed by Congress. At present, Democrats have a majority in the House, while Republicans have a majority in the Senate. This means that bills must have bipartisan support in order to become legislation (in the first two years of the Trump presidency, Republicans controlled both the House and the Senate).

On 3 November, 35 of 100 seats in the Senate and all 435 seats in the House and will be contested. Projections based on current polling suggests a very high likelihood that Democrats will maintain control of the House, with a 50/50 chance that they take control of the Senate. Democrats controlling both chambers of Congress would give a potential President Biden maximum policymaking flexibility, enabling him to enact all of his ambitious spending plans without fear of Republican opposition.

On the other hand, a continued divided Congress will require compromises on both sides in order to make major policy changes. While the pandemic-related stimulus showed this is sometimes possible, it tends to be much harder in the absence of a crisis.

Less of an 'issues' election, but policy platforms still matter

Key policy pledges of each candidate

Joe Biden – 'Battle for the Soul of the Nation'

The flagship economic policy of Biden is his 'Build Back Better' plan. Key pledges include:

- Raising the federal minimum wage to \$15 per hour
- Reversing 'some of' Trump's corporate tax cuts (i.e. corporate tax rate will likely rise from 21% back to 28%)
- \$2trn renewable energy investment plan (over 4 years)
- \$1.2trn infrastructure spending plan (over 10 years)

Market implications: Significantly higher spending will boost growth, though corporate tax rises could offset that to some degree. Markets would likely react positively to a Democrat sweep as increased spending would meet less opposition. A Biden win with a continued divided Congress would likely be market neutral.

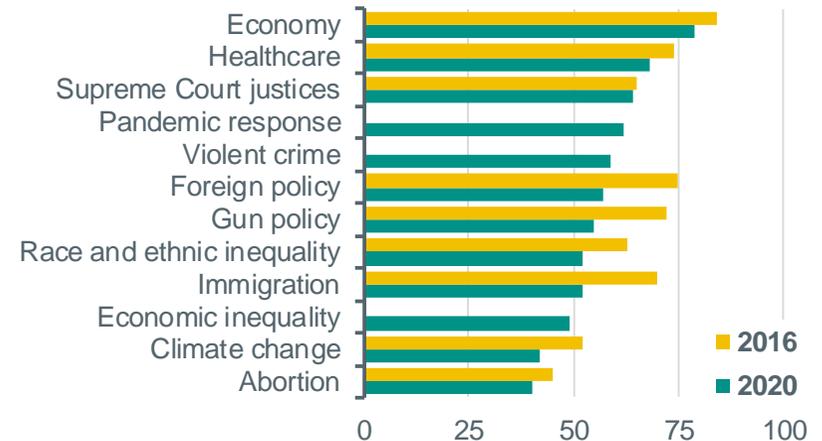
Donald Trump – 'Make America Great Again'

Remarkably little of substance has been pledged. Trump has talked vaguely of spending on infrastructure and cutting taxes, but has given no concrete details. We expect a Republican-led Congress would cut taxes further – with a tilt towards income tax cuts, given that corporate tax rates are already low. But again, there are no concrete pledges.

Market implications: A Republican sweep would be most supportive of markets, on the expectation of tax cuts. A Trump win with a divided Congress would be market neutral.

Key policy priorities for voters

% voters saying each is 'very important' to their vote



The ranking of policy priorities for voters has changed surprisingly little since 2016, despite all that has happened since then. The broadest swathe of voters continue to see the economy as 'very important' to their vote, however foreign policy, gun policy, and immigration are notably less important to voters than before – likely reflecting the relative lack of terrorist incidents in recent years. For almost every issue, however, there has been a decline in the number of voters citing their importance. This suggests the 2020 election is likely to be even more about personality and ideology than policy substance.

What will the election mean for policy and markets?

Election outcome has major implications for taxes and spending, but in any scenario, government debt is likely to continue rising significantly

In all scenarios, we expect two key policy trends to remain: 1) a continued rise in the government debt to GDP ratio, and 2) the US-China trade decoupling. The main difference between a Biden and a Trump presidency is likely to be trade policy. Biden is likely to repair trade relations with the US's traditional allies and work multilaterally to counter China's perceived unfair trade practices. Biden has also pledged significant investment – \$2trn over four years – in green energy in the US, while Trump has shown little interest in reducing carbon emissions. Infrastructure investment looks likely under both.

1) Democrat sweep: Biden wins presidency, Democrats control House and Senate - Democrats would have freedom to enact their full policy agenda, involving corporate tax rises, a \$15 hourly minimum wage, and massive green and infrastructure spending. Trade policy would be less combative.

2) Biden wins presidency, Democrats control House but Republicans keep Senate – Democrats would have to agree to some tax cuts – or put planned tax rises on the backburner – to get Republican approval for their spending plans. Spending would still high but not as aggressive. Less combative trade policy.

3) Trump wins presidency, Democrats keep House, Republicans keep Senate – Republicans would have to agree to some spending on Democrat priorities (such as infrastructure) to get tax cuts passed. Trade policy more aggressive and chaotic, with a potentially abrupt trade decoupling with China.

4) Republican sweep: Trump wins presidency, Republicans control House and Senate – Aggressive tax cuts and little meaningful spending increase. Trade policy more aggressive and chaotic, with a potentially abrupt trade decoupling with China.

	Democrat sweep	Biden, divided Congress	Trump, divided Congress	Republican sweep
Probability (%)	25	35	30	10
Taxes	+	-	-	--
Spending	+++	++	+	+/-
Gov't debt	++	+++	++	++
Foreign trade	+/-	+/-	-	-
Growth	+	+	+/-	+
Inflation	+	+	+/-	+/-
Dollar	+	+	+/-	+/-
Market sentiment	+	+/-	+/-	+

'Lower for longer' means government debt likely to continue surging

Fed not likely to raise rates until 2025 or beyond

Dates show when Fed would achieve its target in different inflation scenarios

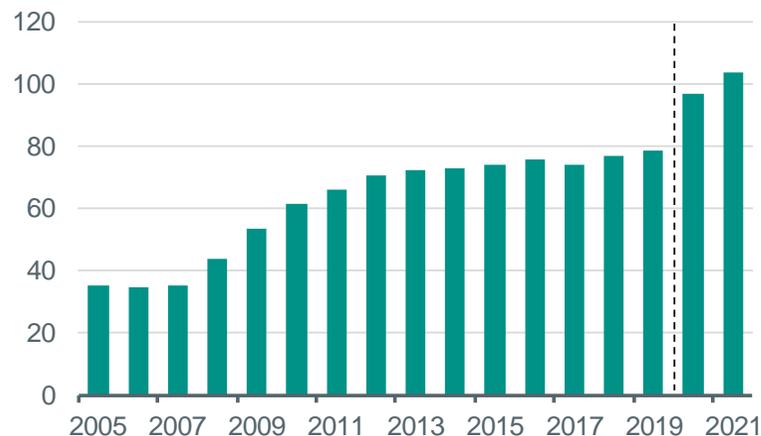


The Fed's recent adoption of an average inflation target suggests that even in an optimistic scenario, rates will stay low for some years to come. A reasonable base case is that rates will not rise until 2025-27. A more pessimistic scenario for inflation could see rates staying near zero *indefinitely*.

Low rates for an extended period provides a strong incentive to Congress to continue issuing significant amounts of new debt. Whether Republican or Democrat, we expect high government deficits to be a persistent feature of the coming years. The difference is likely to mostly in composition; a Democrat-led government will see higher spending on infrastructure and renewable energy; a Republican-led government will see income tax cuts.

Government debt to continue rising into 2021

Government debt as a percentage of GDP



US-China decoupling to continue, even under a Biden presidency

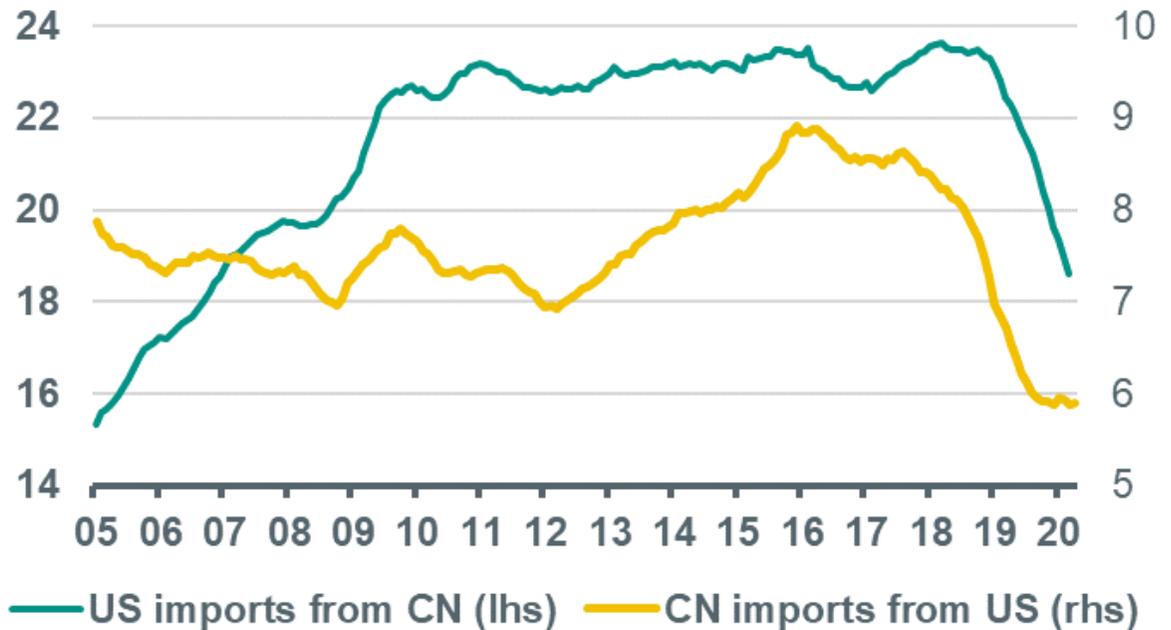
Biden's 'Build Back Better' election pledge includes a new hawkish approach to China trade relations, including "aggressive trade enforcement actions, and confronting foreign efforts to steal American intellectual property."

However, Biden's approach would be less chaotic and more multilaterally-based: "We're in a position where, if we don't set the rules, we, in fact, are going to find ourselves with China setting the rules (...) And that's why you need to organize the world to take on China, to stop the corrupt practices that are underway."

An article by the Brookings Institution – highly influential in the Biden camp – argues that Europe's more constructive approach to China relations has yielded little, and that "China is either not willing or not able to deliver the type of cooperation the EU is proposing and Biden's critics say they want."

US-China trade decoupling is likely to continue

% share of imports, 12m moving average



Democrats also tend to have a much keener focus on human rights issues, and the recent passage of the security law in Hong Kong is likely to escalate tensions on a new front if Biden is elected. Trump has been comparatively relaxed on this topic, consistent with his transactional approach to diplomacy.

More positively, trade relations with the US's neighbours and traditional allies are likely to improve under Biden. There is also potential for a revival of TPP.

Disclaimer

This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer.

No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts and assumptions contained in the document or on its completeness, accuracy or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof.

Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product –considering the risks involved- is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.

© Copyright 2020 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO")