Advisory Blog

Timely insights on the issues that matter most to investors and their clients

Disclosure

The views expressed in these posts are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness. Past performance is no guarantee of future results.

Elections | Fed | Taxes

Upcoming US election has major implications on tax policy and geopolitics

By: Eric Stein, CFA | September 9, 2020

Eric Stein, CFA
Chief Investment Officer
Fixed Income
Eaton Vance Management

Boston - In the US presidential election, the polls have tightened over the past several weeks and market-implied betting probabilities have started to close. At this point, however, I think Joe Biden should still be considered the frontrunner.

Recent momentum for President Trump depends heavily on what happens with the economy and the coronavirus. Only a month ago, large majorities of potential US voters expressed fear about how much the pandemic seemed to be accelerating, which lowered the probability of Trump's reelection. Now, with the number of new infections slowing somewhat in the US, Trump's prospect of winning — implied by either the polls or the market — appears to be going up.

Geopolitical impacts of US presidential election

Much has been said about the ***economic*** impacts of President Trump getting reelected, Biden winning but the Republicans keeping the Senate, or Biden winning with a clean Democratic sweep of Congress. Certainly, there would be a big impact on tax rates and regulatory policy depending on these outcomes.

I think it's also important ***geopolitically*** whether Trump or Biden wins. Clearly, the Trump administration has shifted the narrative on China — essentially the only bipartisan issue in Washington where everyone has been trying to out hawk each other. If Biden gets elected, I don't expect him to go soft on China as Trump has claimed, but rather to be far more hawkish than he was as Vice President in the Obama administration.

That being said, I anticipate that Biden's approach would be different — far more multilateral with US allies in Asia, and with Europe more in the fold than it has been under President Trump. So I think the geopolitical ramifications of the US election should not underestimated and could even be more important than the impacts from a domestic tax and regulatory policy perspective.

"I think the geopolitical ramifications of the US election should not underestimated and could even be more important than the impacts from a domestic tax and regulatory policy perspective."

New approach to US monetary policy

Federal Reserve Chair Jay Powell's speech at the virtual Jackson Hole Conference in late August went somewhat as expected, but still included quite big news. The new approach that Powell mentioned is really ***flexible inflation targeting***. What that means to investors is the Fed won't let previous undershoots of inflation go unnoticed. If inflation is under the Fed's 2% target, policymakers will try to overshoot to get back to an average of 2% inflation over some time period.

That is certainly more dovish policy from the Fed, designed to try to get real interest rates lower, inflation expectations higher and economic growth stronger. Right now, it's not that impactful because no one expects the Fed to raise rates any time soon.

However, let's say we get a significant recovery over the next year or so — maybe with a COVID-19 vaccine and a rebounding economy. We might normally expect the Fed to start raising rates then. What I think this policy change from the Fed signals is that we shouldn't expect rate hikes even if the economy picks up next year.

Bottom line: With inflation continuing to undershoot, the Fed is going to keep interest rates even lower and monetary policy even easier for longer. So I would say that is quite big news from a central bank policy perspective. I

Eaton Vance

This image indicates content designed specifically for Financial Advisors / Investment Professionals. This material is not to be used with the public.

Before investing in any Eaton Vance fund, prospective investors should consider carefully the investment objective(s), risks, and charges and expenses. For open-end mutual funds, the current prospectus contains this and other information. To obtain a mutual fund prospectus or summary prospectus and the most recent annual and semiannual shareholder reports, contact your financial advisor or download a copy ***here****. Read the prospectus carefully before you invest or send money. For closed-end funds, you should contact your financial advisor. To obtain the most recent annual and semi-annual shareholder report for a closed-end fund contact your financial advisor or download a copy* ***here****. Before purchasing any variable product, consider the objectives, risks, charges, and expenses associated with the underlying investment option(s) and those of the product itself. For a prospectus containing this and other information, contact your investment or insurance professional. Read the prospectus carefully before investing.*

Not FDIC Insured. No Bank Guarantee. May Lose Value.

Eaton Vance does not provide tax or legal advice. Prospective investors should consult with a tax or legal advisor before making any investment decision.

The information on this Web page is for U.S. residents only and does not constitute an offer to sell, or a solicitation of an offer to purchase, securities in any jurisdiction to any person to whom it is not lawful to make such an offer.

© Eaton Vance Management. All rights reserved. Eaton Vance open-end mutual funds are offered through Eaton Vance Distributors, Inc. Two International Place, Boston, MA 02110. Member ***FINRA*** */* ***SIPC***