

Advisory Blog

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

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Upcoming US election has major implications on tax policy and geopolitics

By: *Eric Stein, CFA* | September 9, 2020

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 be 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

Picture of Eric Stein, Eric Stein, CFA
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