Election Risk: Industry Impacts of a "Blue Wave"

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Current consensus favors former Vice President Biden winning the Presidency with Democrats also capturing the Senate. So what are the sector implications of a Biden Presidency and a Democratic Senate? Under this outcome, a sizable expansion of fiscal debt levels and increased regulation of certain industries seems probable. Industries most likely to face heightened government oversight include energy, pharmaceuticals and technology.

Biden represented arguably the most moderate of the Democratic primary candidates though we believe his policymaking will be heavily influenced by Democratic party elements advocating for bolder action in areas like climate change, fiscal expansion and healthcare. As shown in Exhibit A, Biden has targeted raising approximately $3 trillion of new tax revenues[1] and proposed spending initiatives of at least $5 trillion[4] over a 10 year time horizon. By comparison, 2016 Democratic nominee Hillary Clinton proposed $1.5 trillion in new spending over 10 years[3]. President Donald Trump has not released comparatively detailed proposals but third-party estimates indicate a similar fiscal impact (Exhibit B).

Domestically, we would expect more active enforcement of Federal regulations and antitrust policy, an accelerated transition to renewable energy via tax incentives, expansion of public healthcare (though Biden does not support "Medicare For All") and consideration of a $15 / hour minimum wage.

Exhibit A: Democratic Nominee Joseph Biden's Budget Proposals (2021-2030)	
	$ trillion
Taxes[1]	**2.9**
Increase corporate income tax to 28% from 21%	1.1
12.4% social security surtax on taxpayers earning > $400,000	0.8
Other: capital gains, offshore in-tangibles and minimum book tax	1.0
Expenditures[4]	**5.4**
Education (Universal Pre-K, Title I funding, tuition assistance)	1.9
Infrastructure (Public transit, clean energy R&D)	1.6
Housing (Section 8, low income tax credit)	0.7

Exhibit B: Candidate Budget Proposals & Fiscal Impact (2021-2030)		
($ Trillion, except Debt/GDP)	Biden	Trump
Taxes	2.9[1]	-1.7[2]
Expenditures	5.4[4]	3.2[5]
Net Deficit Impact[6,7]	-7.8	-6.5
Debt/GDP Impact[8,9] **(Current 102%)**	124%	120%

On the international front, we would expect de-escalation of trade tensions with key trading partners and reduced use of barriers such as tariffs and quotas. But trade agreements would still be scrutinized through the lens of onshoring and local content considerations. Naturally, China will remain the most salient foreign policy relationship and we expect Biden's approach to evolve. For now, the expectation is that Biden seeks to reduce rhetoric around trade but maintain pressure based on China's illiberal tendencies and human rights record.

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[1] Represents the average of the most recent estimates provided by the Tax Policy Center, Penn Wharton Budget Model, Tax Foundation and American Enterprise Institute. Source links: https://www.taxpolicycenter.org/publications/updated-analysis-former-vice-president-bidens-tax-proposals; https://budgetmodel.wharton.upenn.edu/issues/2020/9/14/biden-2020-analysis; https://taxfoundation.org/joe-biden-tax-plan-2020/; https://www.aei.org/research-products/report/an-analysis-of-joe-bidens-tax-proposals-october-2020-update/

[2] Committee for a Responsible Federal Budget (CRFB), "The Cost of the Trump and Biden Campaign Plans—US Budget Watch 2020," October 7, 2020, p. 7

[3] Committee for a Responsible Federal Budget (CRFB), "Adding up Secretary Clinton's Campaign Proposals So Far," May 2, 2016, p. 1

[4] Penn Wharton Budget Model—University of Pennsylvania, "PWBM Analysis of the Biden Platform," September 14, 2020, p. 1

[5] CRFB, "The Cost of the Trump and Biden Campaign Plans", p.7

[6] CRFB, "The Cost of the Trump and Biden Campaign Plans", p. 7 & 18

[7] Moody's Analytics, "The Macroeconomic Consequences of the 2020 Presidential Candidates Economic Policies," September 24, 2020, p. 33

[8] CRFB, "The Cost of the Trump and Biden Campaign Plans", p.1

[9] Moody's, p. 33

Industry / Sector Implications

High Risk	Energy	• Biden supports limitations on flaring, methane emissions, and fracking on Federal lands though a full ban is believed unlikely, even if Democrats also capture the Senate • Could be partly offset by price support if limits on fracking dampen production • Under most Biden victory scenarios more stringent review of energy projects and enforcement of violations is expected • A Democratic sweep could lead to credits/tax breaks on renewables and higher fuel efficiency standards
	Pharmaceutical	• At risk under most election outcomes, including Trump win • Biden policies include Medicare price negotiation, drug price increase caps and an International Pricing Index • Notably, Biden favors a more limited application of these policies than former Democratic candidate Bernie Sanders and the current House of Representatives • Biden proposes tax incentives to encourage supply chain relocation to the U.S.
	Technology	• At risk under most election outcomes though slightly higher under Democratic sweep • A Democratic House and Senate would likely focus on antitrust / competition, data privacy and labor regulation of the digital economy • On tech issues, Biden was the most moderate Democratic candidate during the primaries. A specific policy proposal is reforming law governing responsibility / liability for third-party internet content. • Possible sector offset could come from easing of China trade tensions which would help hardware and chip manufacturers

Medium Risk	**Aerospace & Defense**	• Biden has expressed support for maintaining the defense budget in light of conventional and cyber-threats • Pressure from more activist Congressional Democrats likely to mount as cost of domestic initiatives are quantified
	Autos	• More stringent emissions requirements will accelerate pressure to bring alternative fuel technologies to the market • Investment in this area is already underway due to prior regulation and electric vehicle promotion in markets like California and China
	Banks	• Higher taxes and fees with Biden proposing a financial crisis responsibility fee on banks with assets above $50 billion and Kamala Harris proposing a financial transactions tax • Expanded regulation likely though believed less impactful than tax changes
	Healthcare	• Biden proposals would support hospital volumes but depress rates. Similar for managed care providers, with preference shifting toward Medicare Advantage / Medicaid providers and away from commercial providers. • Biden would expand Medicare eligibility, cap Medicare reimbursement increases, create a Federal health plan ("public option") and expand the Affordable Care Act (ACA) • Biden does not support "Medicare For All" though Kamala Harris proposed a more moderate version
	Retail	• Higher minimum wage and corporate tax rates would pressure already thin profit margins • De-escalation of trade conflict with China would be favorable
	Telecom / Media / Cable	• As significant beneficiaries of the 2017 tax reform, industry earnings would be pressured under Biden's tax proposals • Biden supports returning to Obama-era FCC stance which could include Title II regulation and restricting internet providers ability to prioritize network data • However, Biden would be unlikely to support proposals such as rate regulation, line-sharing or public broadband • Antitrust scrutiny likely to remain high under most election outcomes

Low Risk	• Building Materials / Construction • Capital Goods / Machinery • Chemicals • Consumer Products • Food & Beverage • Insurance	• Medical Devices • Metals & Mining • REIT • Transportation • Travel & Leisure • Utilities

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