

## Key Questions

# How Will the Election Affect the Economy?

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Higher taxes are not assured, and interest rates are likely to remain low. But changes elsewhere create both risks and opportunities.

Last week, Joe Biden, the presumptive Democratic Party presidential nominee, selected California Senator Kamala Harris as his vice-presidential running mate. Biden's choice is both conventional -- many Washington watchers viewed her as their top pick -- and historic. She is the second Black woman ever to be elected to the US Senate and is now the first Black woman to be on a major party's presidential ticket. And in many ways, Harris reflects our country's growing multiculturalism: Her mom was born in India, her dad was born in Jamaica, and her husband is Jewish.

A former district attorney for San Francisco, California attorney general, and presidential candidate herself, the fourth-year US senator possesses deep experience in governing and campaigning. Further, Harris is nationally known and will likely connect with many key constituents, especially young people, independent voters, and women of color.

Harris also has the opportunity to reshape the conventional wisdom that, based on recent history, running mates can do more harm than good as well as the notion that "people don't vote for a vice president; they vote for a president." Such may likely be true given Biden's relatively advanced age (at 77, he would be the oldest person ever elected president), coupled with Biden's admission that he will probably be viewed as a "transitional" (i.e., one-term) president.

Therefore, it is notable that from a policy perspective, Harris has one of the most liberal voting records in the US Senate, according to progresspunch.org and other sources that track politicians' voting patterns. Yet, at the same time, her policy preferences may be difficult to discern: As a presidential candidate, Harris faced criticism for altering her views on policy matters such as Medicare for All.[i]

That said, in a Biden/Harris administration, many political strategists envisage tax increases and the potential for significant changes regarding healthcare, regulatory, and trade policies, with tax policy being the most significant difference between the two parties' current platforms. While President Trump has signaled additional deficit-financed tax cuts, though likely smaller in size than the \$1.5 trillion tax cuts passed in 2017, Biden and Harris support reversing these tax cuts. Biden and Harris advocate returning the corporate tax rate from 21% to 28%, raising taxes on households with incomes exceeding \$400,000, and hiking capital gains taxes, thereby impacting high earners.

The specter of higher taxes raises concerns from some investors as, taken by themselves, they would likely suppress economic growth. But on this front, we would note that there are at least three important caveats.

First, while he supports raising taxes, Biden is also currently proposing an additional \$4.5 trillion in new spending, principally targeted at infrastructure, education, and other social projects. As a result, economic activity could conceivably accelerate or partially offset the impact of higher taxes at the very least.

Secondly, if Biden becomes president, he will likely inherit the COVID-19 crisis. And amid a pandemic, we are skeptical that any president would materially raise taxes, especially at the onset of a new term.

Finally, and similarly, monetary policy is likely to stay loose, and interest rates will probably remain very low regardless of the election outcome. For example, Trump will continue his push to appoint “policy doves” (those who support lower interest rates for longer) to the Federal Reserve, including replacing Chair Jay Powell when his term expires in 2022. Biden, on the other hand, would likely re-nominate Powell, effectively maintaining the status quo.

In conclusion, from our current vantage point, we don’t expect major changes to monetary or tax policy in the near-to-intermediate term regardless of who wins the election. For this reason, we continue to believe that investors should refrain from making wholesale changes to their portfolios leading up to November 3.

Still, while monetary and tax policies matter more for the overall economy, policy changes related to healthcare, trade, and other areas regarding the environment, immigration, financial services, and possibly “Big Tech” could result in a wide dispersion in returns amongst perceived winners and losers. This, in turn, would set up an interesting backdrop for active managers and astute investment analysts, and we will explore these further in the weeks ahead.

For more information, [please contact your Key Private Bank Advisor.](#)



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Source: [i]“What Kamala Harris believes: Key issues, policy, positions, and votes.” Politico, <https://www.politico.com>.

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