



What Will Joe Do?

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Investors should take some solace that political uncertainty may be abating — for now.

Well, it's over. Almost. The largest (with respect to turnout), most expensive, and arguably the most contentious election in our country's history appears to have ended.

Votes are still being counted, and legal challenges disputing the outcome are being levied. But, according to the Associated Press, former Vice President Joe Biden will become the forty-sixth president of the United States. This will most likely be made official on December 14, when the Electoral College meets to count the electoral votes.

What remains undecided is whether Biden will enjoy a narrow majority in the US Senate or if the Republicans retain control. As of this writing, a phrase we've used often these past few months, Republicans hold a 50-48 margin in the Senate. Two open seats remain, both in Georgia, with run-off elections scheduled for January 5, 2021. If the Democrats win both seats, Biden will gain the narrowest of majorities in the Senate as Vice President Harris would break all ties. If the Republicans win just one of the two races, they will maintain their senatorial advantage.

Most political pundits believe Republicans will win at least one and possibly both seats, an expectation that's supported by the polls. In all likelihood, then, Biden will begin his term with a divided government. Thus his ability to accomplish many of the goals presented during his campaign will probably be limited.

Chief among these previously stated priorities, Biden's proposed tax policies would likely gain very little if any support from Republicans, thereby rendering the passage of those plans as highly doubtful. We attempted to downplay investors' concerns regarding higher taxes earlier this summer^[1] when we suggested that raising taxes in the middle of a pandemic seemed like a long shot. Now, they are almost guaranteed to be dead on arrival should they even reach the Senate floor.

Still, as we've seen in past administrations, there are things a president can achieve through executive authority. Along these lines, a Biden administration may pursue tighter regulations on the energy sector in the name of climate change. Biden could also compel his attorney general to launch more antitrust claims against Big Tech without Congress's approval. And while sweeping legislation affecting the healthcare industry may be off the table (i.e., a public option), he could pursue prescription drug pricing reform instead.

While Biden faces obstacles in implementing large-scale domestic programs, he could unilaterally act to effect material change in foreign policy. On China, a Biden administration will likely take a vastly different approach relative to the Trump administration, relying more on diplomacy and international cooperation as opposed to a heavy-handed every-nation-for-itself approach.

Multilateralism will be important as several vexing issues persist, including intellectual property theft, cyber-espionage, and human rights. Furthermore, the incoming administration will face additional challenges following the

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passage yesterday (November 15) of the Regional Comprehensive Economic Partnership, in which fifteen Asian-Pacific countries agreed to lower trade barriers, an agreement with potentially important long-term implications.

More immediately, however, President-Elect Biden will inherit a global pandemic, complicated policy choices, and a fragile economy. Concurrent with establishing an appropriate healthcare response, Biden's first order of business will probably be the successful negotiation of a fiscal stimulus package. If the Senate remains under Republican control, the stimulus package's size and scope will likely be more modest and targeted than what the Democrats want. However, the odds of ultimately reaching a deal remain relatively high.

All said, a divided government suggests a mildly positive backdrop for risk assets can exist. Through the support of fiscal stimulus, continued accommodative monetary policy (i.e., low interest rates), less-belligerent rhetoric regarding trade, and a relatively pro-growth tax policy, investors should take some solace that political uncertainty may be abating — for now.

The mid-term elections are only 720 days away.

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



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