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THEMATIC RESEARCH

Trump vs. Biden: What Should Investors Do?

Abstract:

The whole world is eagerly waiting to know who is going to be the next American president. Whether it is Trump or Biden, the next American president has to deal with a slumping economy and an increasing unemployment rate. Most importantly, the next president has to deal with the Covid-19 pandemic. We expect the dollar to stay weak in the medium run. If Donald Trump gets re-elected, there might be a slight appreciation of the dollar but for a short period of time. Similarly, we expect an increase in inflation rates as value-chain disturbances will make costs go up. If inflation and growth move upward more steeply than predicted, the Federal might retract and let the market forces take control. We advise investors to closely monitor the volatility as it might cause unpredicted losses. In some states, some votes will not be certified until December. This delay can constitute a great risk to investors. Sectors will respond differently depending on the identity of the winner. We expect infrastructures and renewable-energy sectors to perform better under the rule of Biden. Conversely, we believe financials, energy, technology, and defense to be gainers under Trump. Investors and stock traders should be willing to have a re-election of Donald Trump. Technically speaking, this man has shown outstanding economic and financial capacities and has succeeded in leading the country as a CEO. Concerning the trade war with China, Trump might introduce new sanctions on Chinese banks (due to the current eco-political situation in Hong Kong) and exclude them from the dollar system. Yet, Democrats have not been less aggressive with China. On the European front, if Trump is re-elected, we expect an expansion of barriers. Conversely, if Biden assumes office, some improvement is likely to happen. When it comes to Lebanon, whether we admit it or not, we are subject to economic pressures, and we will not experience any relief unless we show some cooperation with the American demands. In case we have a new government, we might experience a decrease in the dollar rate. However, this decrease would be limited.

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I. Introduction

Save the date: November 3, 2020. On that day, the whole world will be staring at the screens, impatiently looking at the two red and blue bars until one of them reaches a level of "270." This number is the border-line between the re-election of Donald John Trump or the election of a new president, Joseph Robinette Biden Jr. Whoever the next POTUS is, investors and businessmen should be well prepared as every candidate has a different agenda, locally and internationally. Therefore, businesses should undergo a fine research on what might happen in the event of electing any of the two main presidential contestants. The current report scrutinizes the potential impact of these elections on both international and local markets. Moreover, it offers a holistic interpretation that can serve as a guide for future investments and stratagems.

II. The Polls

Joe Biden has been leading the polls. Yet, on October 27, 2020, Rasmussen Reports published the results of its latest study: Trump is leading for the first time; he got 48% nationally, while Biden got 47% (with a margin of error equal to 2.5%).

III. The Presidential Campaigns

Whether it is Trump or Biden, the next American president has to deal with a slumping economy and an increasing unemployment rate. Most importantly, the next president has to deal with the Covid-19 pandemic. On the Chinese front, Trump has been very strict and harsh, and till now, he has succeeded in negotiating the phase-one trade agreement. When fully implemented, this deal will for sure boost exports, create jobs, and eventually, reduce unemployment. In this regard, we also expect Trump to maintain his approach concerning taxes and deregulation.

On the other hand, Biden is directing his forces towards promoting his economic plan which has been crafted to address the effects of the Covid-19 pandemic. Moreover, Biden's economic plan entails massive infrastructure spending. Nevertheless, to fund his initiatives, Biden is likely to increase corporate and individual taxes. Table 1 displays the main features of both economic plans.

Table 1 – The Main Features of Economic Plans – Trump vs. Biden

	Trump	Biden
Healthcare	‣ Cut spending on Medicaid and Medicare.	‣ Create a public option. ‣ Lower Medicare eligibility age (to 60).
Employments and Salaries	‣ Create jobs through infrastructure Investments. ‣ Carry forward the agenda on "Hire American" and "Buy American".	‣ Create jobs through infrastructure Investments. ‣ Raise minimum wage to $15.
Student Debt	‣ Cancel loan subsidies for public service. ‣ Create a single repayment program based on income.	‣ Forgive student debt for poorer graduates.
Infrastructure	‣ Infrastructure bill worth $2B. ‣ No infrastructure spending on Covid-19 in stimulus plan.	‣ Infrastructure bill worth $1.3B. ‣ Infrastructure spending on Covid-19 in stimulus plan. ‣ Infrastructure spending focused on climate change.

Table 1 – The Main Features of Economic Plans – Trump vs Biden (cont.)

Trade	‣ Pressuring China and escalating the rhetoric.	‣ Create an international coalition to put pressure on China.
Climate	‣ Climate change is a hoax. ‣ Pulling USA out of Paris Climate Agreement.	‣ Zero emissions in 2050. ‣ Rejoin Paris Climate Agreement.
Taxes	‣ Extend 2017 tax overhaul for individuals.	‣ Roll back tax cuts for those who earn more than $400K. ‣ 75% of tax cuts are to be borne by top 1% of the population.

IV. The Future of Investments

Market sectors might respond differently depending on the identity of the winner. Table 2 summarizes the main asset classes and their potential behavior under the rule of both Trump and Biden. Similarly, Table 3 displays some predictions on the future of the main financial/economic drivers under both Trump and Biden. Here we are assuming that scientists will find a Covid-19 vaccine from now until the end of 2020.

Table 2 – Main Asset Classes Performance under the Rule of Trump vs. Biden

Asset Class	Trump	Biden
Equities	Positive	Neutral to Negative
Low Yield	Neutral	Negative
High Yield	Negative	Negative
Oil	Negative	Neutral to Positive
Gold	Negative	Neutral to Positive
U.S. Dollar	Neutral to Negative	Neutral to Positive

Table 3 – Major Financial and Economic Drivers under Trump vs. Biden

Driver	Trump	Biden
Macro Economics	‣ More help for Businesses to strengthen the economy.	‣ More individual help to lower unemployment rates. ‣ Ensure a strong consumer-spending rate.
Federal Reserve	‣ Trump nominated Judy Shelton. ‣ Shelton wants to return to the Gold Standard. ‣ Shelton is a fierce antagonist of the policies adopted by the Federal Deposit Insurance Corporation.	‣ Counter the return to the Gold Standard. ‣ If elected, Biden will nominate up to two Federal Reserve Board, and consequently, reshape the monetary policy.
Housing	‣ Find ways to prevent foreclosure and eviction. ‣ Accuse Biden to abolish suburbs and family zoning.	‣ Create refundable tax credits and advanceables to help first-time homebuyers.

a. The Economic and Social Challenges

Whoever becomes the next president, his first priority will be to deal with the Covid-19 pandemic and repair all the underlying economic fallouts. On the long run, the next president has to deal with a rising inequality which has aggravated the effects of Covid-19. According to the Organization for Economic Cooperation and Development (OECD), only the wealth of rich people has increased after the financial crisis of 2008. In light of the above, we expect the same scenario to happen after the Covid-19 pandemic.

b. The American Dollar

Covid-19 has caused a recession in markets and the U.S. is now facing a problem of fiscal deficit. To absorb the shock, the Federal had to embrace long-term near-zero interest rates. Not to forget that the debt to GDP ratio has increased, putting pressure on the dollar in the short to medium run. Thus, we expect the dollar to stay weak in the medium run. If Donald Trump is re-elected, there might be a slight appreciation of the dollar but for a short period of time. The rationale is that Trump will move forward with his trade wars, adding more uncertainty to the geopolitical image.

c. The Policies of the Federal Reserve

The American economy is suffering from twin deficits and an increasing debt to GDP ratio. To reassure investors, the Fed has declared, on several occasions, that it will commit to long-term near-zero rates. Moreover, the Federal has changed its "reaction function" to maintain a stable inflation of 2% for a period extending between 4 to 8 years (full economic cycle). We have recently witnessed an increase in the valuation equilibrium of risky assets. In investment terms, this should push people to sell their bonds and switch to equities. We expect an increase in inflation rates as value-chain disturbances will make costs go up. The real interest rates are currently below average, and therefore, in the short run, any increase in inflation will lead to a steeper fall in real rates. This fact constitutes a further incentive to invest in stocks but we advise investors to closely monitor volatility as it might cause unpredicted losses.

d. The Future of Financial Markets

Whether Trump stays in office or not, we expect to have a high market volatility around the Election Day. It follows that some votes will not be certified until December. This potential delay can constitute a great risk to investors. Therefore, we advise them to pay more attention during this period. At the present moment, the volatility of equity markets has relatively gone down, but there is still a high risk to witness a major sell-off from current levels, especially if the voting results take time to come out. Sectors will respond differently depending on the identity of the winner. We expect infrastructures and renewable-energy sectors to perform better under the rule of Biden. Conversely, we believe financials, energy, technology, and defense to be gainers under Trump.

In 1967, the founder of the "Stock Trader's Almanac," Yale Hirsch, developed a theory called the "Presidential Election Cycle." This theory states that American stock markets are the weakest during the first year of a presidential term; the market improves thereafter until a new cycle begins with the election of a new president. The theories of Hirsch have been proving robustness until the election of Donald Trump: his tenure was an exception because S&P 500 went up by 19.4% during the first year of his term. In conclusion, investors and stock traders should be willing to have re-election of Donald Trump.

e. Environmental, Social, and Corporate Governance – Some Investment Prospects

So far, President Trump has been going into reverse with ESG regulations. In case Biden reaches the oval office, we expect him to join again the Paris Climate Accord of 2015, reverse the anti-ESG policies of Trump, and pass an amended version of the "Green Deal." Therefore, we believe it will be beneficial to invest in ESG under the rule of Biden.

f. The Next President and the Status of International Trade

1. China

So far, the relation with China does not appear to get pacific any time soon. President Trump has adopted a harsh rhetoric towards China. If re-elected, Trump might introduce new sanctions on Chinese banks (due to the current eco-political situation in Hong Kong) and exclude them from the dollar system. Traders, investors, and businesspersons should be extremely cautious if Biden is elected: they should not directly build optimistic models because, so far, the Democrats have not been less aggressive with China.

2. The Transatlantic Trade War

The bilateral relations between the U.S. and the European countries have worsened meaningfully since the election of Trump. If Trump is re-elected, we should expect an escalation of trade conflict with the Europeans. Moreover, President Trump has repetitively threatened to impose tariffs on European products. In that event, the Europeans are expected to retaliate, and consequently, the transatlantic relationship will become knotty. The consequences are very hard to predict because there are many U.S. subsidiaries in Europe and vice versa. The value chains will become tangled, especially when it comes to foreign direct investments (FDI). Conversely, if Biden assumes office, he might normalize the relations and cool down the tensions by terminating Trump's mercantilist strategies and breathing life into trade organizations.

3. The U.K. and the Brexit

President Trump has supported the decision of the United Kingdom to leave the European Union. He also encouraged a free-trade agreement with the U.K. after its withdrawal. Conversely, Joe Biden has warned Boris Johnson that the Northern Ireland Treaty with the E.U. should not be challenged, or else the treaty between the U.S. and the U.K. will be compromised.

V. The Next American President and Lebanon

In Lebanon, we are in the middle of an existential moment; we are experiencing a severe financial crisis that might devastate the "Lebanon" we used to know. Whether we accept it or not, our problem is partly financial but mainly political.

So far, we have been desperately trying to find a financial solution when the key is somewhere else: politics. No matter what we do, if the flow of funds is strangled, we will not be able to stand on our feet again. On Sunday, October 18, 2020, the U.N. has lifted a 13-year embargo on Iran's armament program. Yet, the U.S. did not abide by this decision; it is still implementing the policy of maximum pressure. Whether we admit it or not, we are subject to this policy, and we will not experience any relief unless we show some cooperation with the American demands. For instance, the American counterpart is expecting a new government, free of provocative figures, whose sole mission is to manage the financial crisis and reach an agreement with the IMF.

The American State is a perfect example of an "establishment." We should not build high hopes if Biden is elected. Even if we suppose that the establishment has decided to restructure the relation with Iran, we will not witness any change before the second half of 2021.

In case we have a new government, we might experience a decrease in the dollar rate. However, this decrease would be limited (between 5 and 8 percent). The reason is that Banque du Liban does not have enough reserves to make the dollar rate drastically go down. Conversely, if they fail to constitute a government, the banking sector will be the first to bear the consequences, not to say that it will be standing between the angry citizens and the political class.

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