

## The Blue Ripple Appears to Have Continued



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While all votes have yet to be counted, the Democrats appear to have won a new majority in the Senate. The aligned control of Congress should enable greater implementation of the Biden policy agenda, which is probably neutral to positive for the economy, but more problematic for stock markets due to potential tax increases. However, even with control, the narrow win by the Democrats will likely hinder the party from passing its full agenda. While we believe politics are but one input among a vast array of factors that may influence the economy and markets, below are some key observations and potential implications.

### Key observations

► **Overall impact – potential for large policy shifts:** Given Democrat control of both legislative houses, there will likely be a greater impetus for and higher likelihood of larger policy changes. The Presidential and Congressional victories place the Democratic Party in a stronger position to push through legislation; however, the lack of a strong 60-seat majority in the Senate may make compromise necessary.

► **Fiscal stimulus:** The Democratic policy agenda includes significant fiscal stimulus targeted at sectors and workers affected by the COVID-19 pandemic. As the most recent fiscal stimulus bill came during the lame duck session after the election, it did not include state and local aid. Democrats are now likely to pass additional stimulus this year.

► **Tax reform reformed:** The Democratic agenda includes a stated goal of rolling back the Trump tax cuts for both corporations and wealthy individuals to 28% and 39.6% (top tax bracket), respectively, along with increasing the long-term capital gains. The Biden administration may not be able to legislate all of the proposed tax increases due to the thin Democrat majority and may also choose to delay any implementation until after the economy has recovered more completely from the COVID-19 pandemic.

► **Minimum wage:** Biden's agenda includes raising the minimum wage to \$15/hr, passing the Protecting the Right to Organize (PRO) Act and taking other steps to make it easier for workers to organize unions and collectively bargain. This will likely result in near-term noise surrounding potential impacts to corporate profits, but would likely require compromise to pass.

► **Trade, energy & environment:** Areas where the President can have an immediate impact without congressional approval are trade relations and environmental policies. Trade relations are likely to take a more conciliatory, cooperative approach with allies. Environmental policies will likely favor renewable energy over traditional carbon fuels.

► **COVID-19 trajectory & economy:** While politics may have some influence over the economy and markets, the COVID-19 trajectory is likely to exhibit a much larger impact. An ongoing reopening and recovery from the COVID-19 pandemic should lead to improving growth in both the economy and profits for corporations, while a relapse could cause the opposite.

## Macro implications

### Corporate tax policy

- Potential increase of corporate taxes from 21% to 28%; minimum 15% corporate tax
- Negative impact on corporate profits, increases relative attractiveness for foreign investments

### Personal tax policy

- Potential increase of top tax rate and capital gains tax to 39.6%; potential wealth tax

### Labor compensation

- \$15/hr minimum wage would reduce profits for some businesses

### Trade policy

- More stable trade coordination with allies should reduce market volatility

### Infrastructure

- \$2 trillion over four years to improve infrastructure
- Should support economic growth, but larger deficit will increase debt/GDP

### Monetary policy / Inflation

- Monetary policy continues to target higher inflation, but inflation remains relatively muted; the Fed has stated comfort with 2% to 2.5% inflation expectations

### Monetary policy / Dollar

- Ongoing monetary stimulus maintains pressure on the dollar

### Debt/Deficit

- Deficit spending remains large through remainder of COVID-19 pandemic

## Sector-specific implications

### Health care

- Potential legislative action or executive orders aimed at reducing domestic drug costs relative to prices paid in other countries
- Proposed healthcare plan would bolster the Affordable Care Act (ACA) with a projected cost of \$750 billion over 10 years

### Energy

- Policy favoring renewable forms of energy is likely; possible tax on fossil fuels and strengthening of climate change regulation
- Proposed \$2 trillion in spending over four years to achieve 100% clean electricity by 2035

### Technology

- Potential anti-trust legislation or regulation of big tech

### Financials

- Potential financial transaction tax, but meaningful legislation is unlikely

### Defense & Aerospace

- Less geopolitical pressure may enable a relaxation of defense spending

*This presentation is intended to provide a nonpartisan view on how the election results may impact the economic and investment landscape. Opinions or projections herein are based on information available at the time of publication and may change thereafter. Information obtained from third-party sources is assumed to be reliable, but accuracy is not guaranteed. Outcomes may differ materially from expectations and projections noted herein due to various uncertainties. Clients are encouraged to discuss the applicability of any matter discussed herein with their Glenmede representative.*