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Finally a wind of change

Joe Biden is the President Elect of the United States, taking office in January 2021.

This is not an unexpected outcome, as we saw in our previous newsletter that Mr. Biden had 66% probability of winning.

Outside of the Republican claims of irregularity and fraud, and the inelegant public behavior Mr. Trump got us used to, this event brings a new wind of change into domestic and international affairs from an American standpoint. Mr. Biden has long rowed in the direction of social and political unity, inclusion and betterment of the American middle class. His choice of the vice-president in Mrs. Kamala Harris is indeed politically savvy, but it is exactly an improvement in the direction of inclusion. This move contributed in 89% of voters of color supporting this new white male president, perhaps also helped by Mr. Trump publicly supporting Ku Klux Klan-style white supremacy movements. Nevertheless, we expect to see continued litigation from the Republican side as they submit their case to the Supreme Court, which has until January 2021 to decide on whether Mr. Biden is the legitimate winner or not.

While there is of course a degree of subjectivity here, we expect some improvement to happen in the US domestic political environment. Congress and Senate are balanced in their representation. We see this as a good setup for working together towards an inclusive government – despite the usual combativeness of the two main parties. The ousting of Mr. Trump should also coincide with diminished social polarization. Consistently with his past TV efforts, the man has only been a marketing façade for a three-pronged team (Ross, Mnuchin and Kudlow, the only ones of intellectual standing left in the administration). It would be erroneous to attribute to him the important and positive domestic and foreign policy decisions of the past four years – good decisions were indeed taken on a variety of fronts, barring the wall with Mexico. Unfortunately, in the process of governing the country, Mr. Trump's willfully stoked the fires of social fears, ethnic division and distrust by legitimizing extreme fringes and perpetrating false views on scientifically proven global problems (i.e. climate change, energy, COVID-19). This is in neat contrast to the strong US leadership that is instead needed.

There is reasonable hope that these damages can now be repaired. It seems Mr. Biden is set on doing exactly that, plus re-establishing ties with international allies – NATO among others. The antagonistic stance against China should not and will not change, since the economic threat is objective and measurable – the Trump administration's tariffs largely failed to alter the trade balance between these two countries, as shown in our last newsletter. President Xi is probably unhappy with this election result, since the CCP was counting on Mr. Trump's continued efforts in weakening the US internally. Mr. Putin too must be disappointed in this election results for exactly the same reasons.

Judging from the performance of the past week, equity markets did not dislike Mr. Biden's chances to become president, nor did they associate him with the various quasi-communist measures the Republican camp expects of his administration. Mr. Biden's lead has been clear for at least a week before the final result, so an adjustment could have happened well before the final results came in yesterday – as we were erroneously expecting. It must also be noted that there is little probability that Biden's administration will choose to increase federal corporate taxes, as they only came down on an almost straight line since 1955 (from 55% to lower than 15% today, irrespective of which party was in power). With respect to income and wealth taxes, it should be said that there is little room left for Western governments in general to keep their internal balance – outside of continuing to expand debt and print money.

The stability that the new administration is expected to bring to various American expressions could also benefit emerging markets, starting from Latin America. In particular, economies that are sustained by large internal demand such as Brazil and Mexico should benefit from a stabilized US dollar and mutually beneficial trade agreements with the US. We like these themes as strong domestic demand is difficult to find nowadays in Western markets – inflation will never rise about 2% in the Western world in the foreseeable future. In addition, Mr. Biden's resolve to tackle the COVID-19 pandemic in a scientific manner suggests that the matter might be controlled more swiftly than before. Should that happen, the US domestic economy might open up faster than expected after a period of closure. If that happens, other investment themes might recover fast, such as domestic air travels, leisure (hotels & restaurants) and food & beverage consumption. All considered, we believe a vaccine will be found by H1 2021, which should contribute to materially change the economic situation globally.

Finally, while disagreements, mistakes, blunders and personal rivalries are all inseparable parts of political life, we are happy that the US will be driven by a moderate, composed, experienced and emotionally intelligent president.

A much needed change.

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