

Summary:

- All US Presidential elections get prominent attention. This one even more so;
- Joe Biden is increasingly favoured to win;
- The makeup of Congress will be almost as important in terms of getting things done;
- Regardless of who wins, the US will be a different place in four years.

The US election will be held on Tuesday 3rd November. The 'battleground' states in this election are Arizona, Florida, Georgia, Iowa, Michigan, North Carolina, Ohio, Pennsylvania and Wisconsin. Most of the headlines will be about who is the next US President. But there are also elections for all of the House of Representatives and one-third of the Senate (as well as a range of state elections).

Currently there are a number of 'hot button' issues where the shape of US policy could be influenced by the result of the election. A Trump win would see an aggressive country-by-country approach to trade deals continue. A Biden victory would more likely see a return to the US agreeing to global rules. An aggressive stance in relations with China will most likely remain regardless of who wins. The US approach to other international issues such as climate change and taxes on multi-nationals also could change. Financial markets most immediate focus is on what the election means for fiscal policy.

Currently Joe Biden is comfortably leading all the polls. It is true that Hillary Clinton led the polls going into voting day in 2016. But Joe Biden also leads the polls in the 'battleground states' as well as in the betting markets. A large victory by the Democrats would most probably lead to a smooth Government handover. But in the event of a narrow Biden victory there may well be Court appeals (as there was in 2000). It is widely expected that the Democrats will win the House of Representatives, and are favoured to win the Senate.

How is the US election decided?

The US election will be held on Tuesday 3rd November. All eyes will be on who wins between Trump and Biden. The Presidential election is determined by the number of Electoral College votes, not the size of the popular vote. There is a total of 538 electors meaning 270 votes are necessary for a candidate to win.

Each state is allocated electoral votes equivalent to their number of seats in the House of Representatives plus their number of senators. These votes are then cast by electors who are nominated by each party. For most states the electoral votes are allocated by a 'winner-takes-all' method (Maine and Nebraska are the exceptions) where the Presidential candidate with the highest number of votes gets all of the electoral votes. There have been occasions when the elector did not vote for the winning candidate. This has never impacted a Presidential election outcome (it has for a Vice President). Some states have instituted laws to stop these 'faithless electors'.

Ten Largest Electoral Vote States

State	Electoral Votes
California	55
Texas	38
Florida	29
New York	29
Illinois	20
Pennsylvania	20
Ohio	18
Georgia	16
Michigan	16
North Carolina	15

Source: Wikipedia

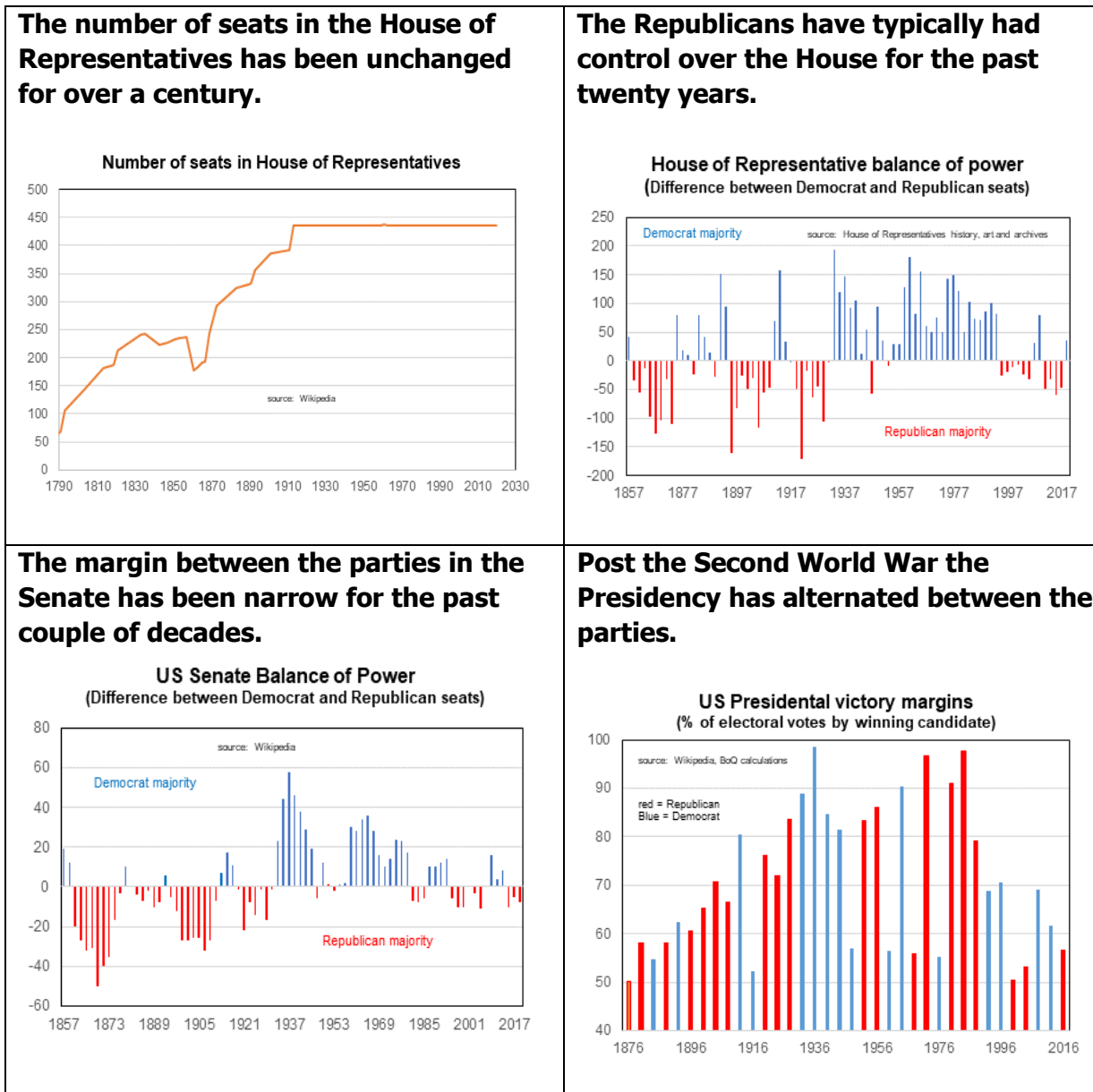
Usually the winning President receives both the largest number of votes and the highest number of electoral votes. But not always. The four exceptions to date have been in 1876, 1888, 2000 and 2016. The winner takes all method means a candidate receives the same number of electoral votes regardless of whether they win the state vote by a small or large margin. This means it is the small number of states where the vote is likely to be close (and has a reasonable number of votes) that decides the outcome. According to CNN, the 'battleground' states in this election are Arizona, Florida, Georgia, Iowa, Michigan, North Carolina, Ohio, Pennsylvania and Wisconsin.

Most of the headlines will be about who is the next US President. But there are also elections for all of the House of Representatives and one-third of the Senate (as well as a range of state elections). The number of Representatives for each state is based upon their relative population size (but each state must have at least one representative), and totals 435. There were less than 100 in the first Congress (1789) but that number rose to reach its current level in the early 20th century.

Each state regardless of population size has two senators. Originally that meant there were 26 senators. But by the time of the 23rd amendment in 1963 that granted the District of Columbia (essentially Washington DC) the right to vote in federal elections the number of senators had risen to 100 (today's total).

The House of Representatives has the power to raise revenue bills, impeach officials and choose the president if neither candidate gets a majority of electoral votes. The Senate has the power to

approve international treaties and confirm cabinet members, judges and other senior government officials (such as ambassadors and senior military officers). Currently the Democrats has a 38 seat majority in the House of Representatives and the Republicans a 3 seat majority in the Senate.



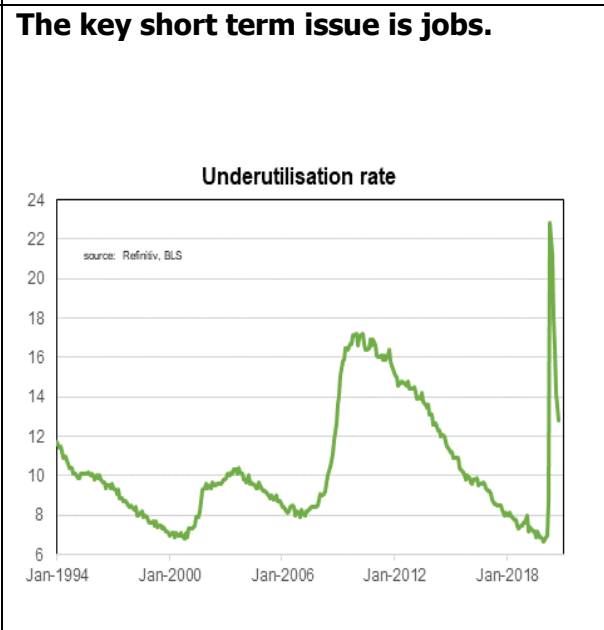
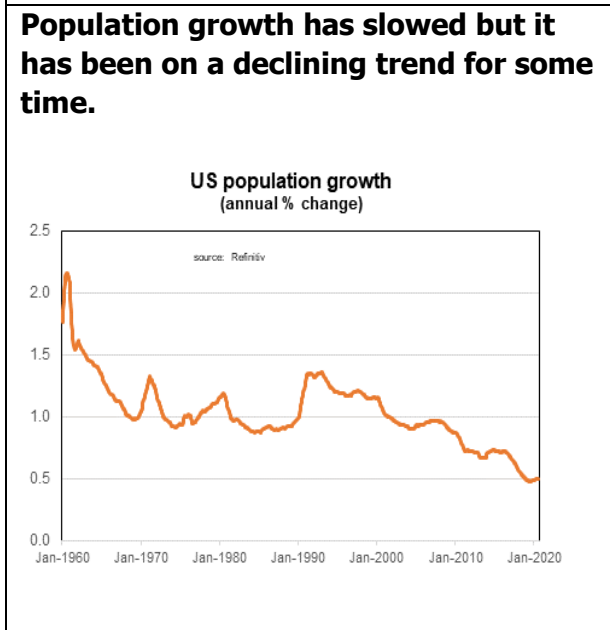
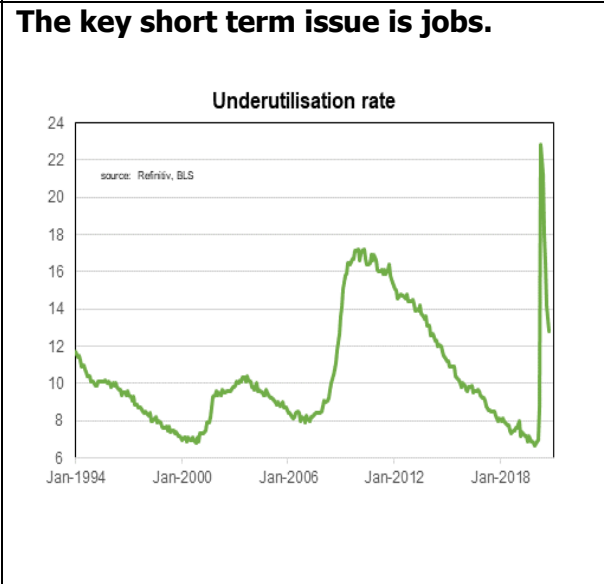
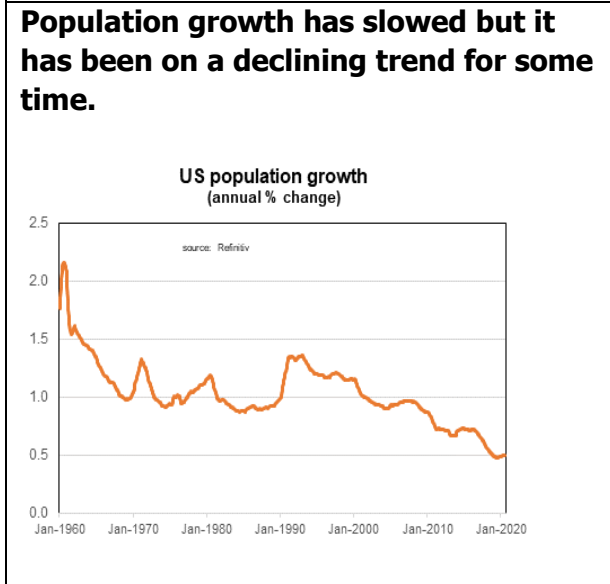
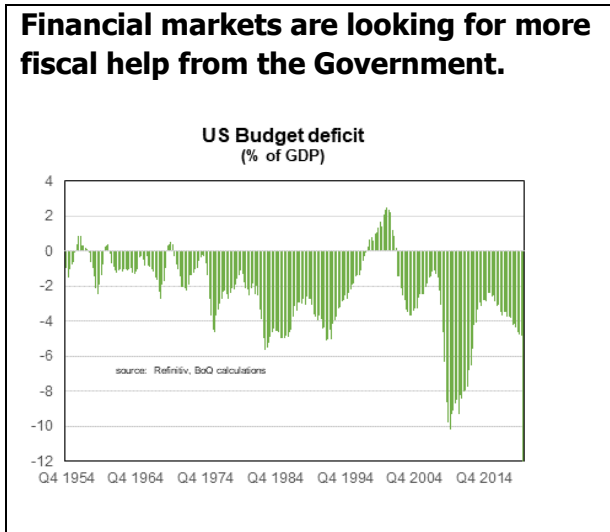
Why this election matters

All elections matter. But some more than others. Currently there are a number of 'hot button' issues where the shape of US policy could be influenced by the result of the election.

- **Trade.** During the Trump Presidency trade policy has shifted from multilateral decisions (i.e., there is a global agreement) to country-by-country deals. This has resulted in the US having disputes with a wide range of trading partners including Europe, Canada, Mexico, South Korea,

India and Japan. A Trump win would see this approach continue. A Biden victory would more likely see a return to the US agreeing to global rules.

- **China.** The main exception is relations with China (including Trade). There has been increasing disquiet for some time in the US (but also other countries) about trade relations with China (on subjects such as intellectual property). Under Trump that has resulted in a tariff war. Whether the tariffs remain in the event of a Biden victory is unclear (although the suggestion is they won't). But an aggressive stance in relations with China will most likely remain regardless of who wins. The Trade disagreement is having other ramifications, such as spurring the development of a large Chinese technology sector in competition to the US.
- **Other international issues.** Democrats are likely to be more sympathetic to global agreements on climate change. There has always been some controversy about whether multinational firms pay their 'fair share' of tax in the country they reside. This debate has re-emerged over recent years surrounding the amount of tax paid by some large technology companies. Europe has recently been pushing the idea of a digital tax although this has met resistance from the US. It is not clear what policy stance a President Biden would have on this issue.
- **Competition.** There has been growing concern around the market dominance of some large technology firms (such as Google and Facebook) It is widely perceived that if President Biden wins the Democrats may look for ways to increase competition in the sector. But the Department of Justice has recently announced an antitrust lawsuit against Google. This suggests that there is growing political agreement about the need to do something about competition in the technology sector. Any significant change will take time to implement as they would face almost certain (lengthy) court challenges.
- **Immigration.** President Trump has made reducing immigration a key plank of his policies. But when combined with a falling birth rate it has meant a notable decline in population growth. Unless that decline is offset by strong productivity growth in time this will lead to sustainably weaker US economic growth.
- **Fiscal policy.** This is the biggest issue financial markets are currently focusing on. Most analysts (and the Federal Reserve) believe that the US economy is in need of further fiscal support. If Biden becomes President and Democrats win both Houses (a 'Blue Wave' and seen to be the most likely scenario) it is expected that there will be a significant boost to Government spending next year. If President Trump wins and Democrats win both houses of Congress another significant fiscal boost is also likely (but not as big as under the 'Blue Wave' scenario with a greater focus likely on infrastructure). By contrast, if the Republicans win one of the Houses (most probably the Senate and deemed the second most likely scenario) a big fiscal boost is less likely (unless there is a major economic or financial crisis). A Republican clean sweep ('Red Wave' and the least likely scenario) would see more fiscal stimulus but in the form of tax cuts.

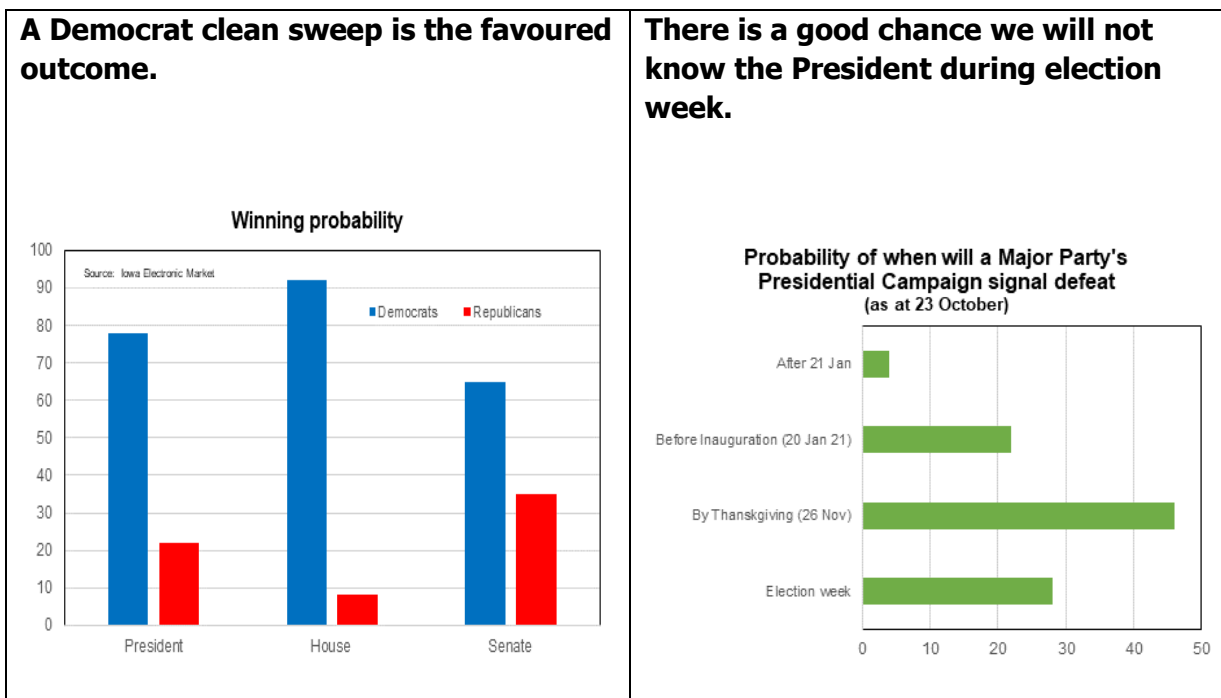


Who is going to win

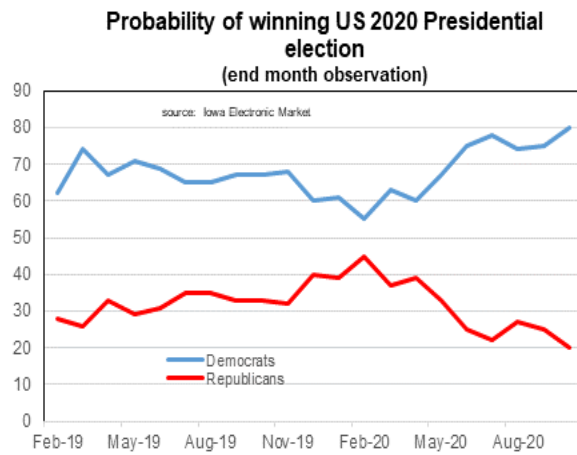
Currently Joe Biden is comfortably leading all the polls. It is true that Hillary Clinton led the polls going into voting day in 2016, won (comfortably) the popular vote but lost the Electoral College vote. But Joe Biden also leads the polls in the 'battleground states' as well as in the betting markets. It is generally thought that President Trump has lost support amongst older voters (a key base of support in 2016) who are worried about how he has handled COVID. Analysts also think he has lost some support amongst white university-educated voters (particularly women) since the last election.

A large victory by the Democrats would most probably lead to a smooth Government handover. But in the event of a narrow Biden victory there may well be Court appeals (as there was in 2000). Then it took over a month before George W Bush was named President. As at the end of October the Good Judgment Project estimated that there is about a 70% chance that a President will not be named during election week.

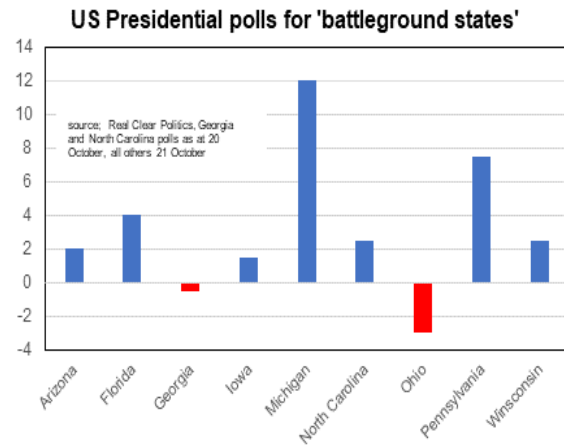
It is widely expected that the Democrats will win the House of Representatives. The political website Five Thirty Eight thinks the Democrats will win an additional 4-11 seats at this election. The Democrats are also favoured to win the Senate, although the probability of victory is assessed to be lower than for either House of Representatives or President. According to Predictit, there is about a 55% chance of a Democrat 'Blue Wave'.



A Joe Biden victory has become increasingly favoured over the course of this year.



Joe Biden is ahead in most of the 'battleground' states.



There is always plenty of global interest in US elections. But if anything this one has received even more interest because of the issues at stake and the personalities involved. The one thing that is certain is that regardless of who wins the US will be a different place in four years' time.

We live in interesting times.

Regards

Peter Munckton
Chief Economist
BOQ Group