From the Fund Manager's desk...

When the World's largest economy goes to vote...

While United States of America (US) is the largest economy of the world, interestingly it is also the longest standing democracy in the world with its constitution coming into effect in 1789, ~230 years ago. Since then, the country has been served by 45 different Presidents. On November 3rd 2020, USA will vote for their 59th Presidential election and choose between the two candidates – Donald Trump (Republican Party) and Joe Biden (Democratic Party). In addition to this, they will also vote for the 435 seats of House of Representatives (Lower House of the US Congress) and 35 seats (out of 100) of the US Senate (Upper House of the US Congress).

In a Globalized and much more connected world that we live in today, these elections hold significant importance to global geopolitical and economic situation. In this note, we look at what the polls are indicating (2016 reminiscence) and the possible impact on Indian and Global economy each of these candidates will have.

What are the polls indicating?

According to the polls, a few weeks back, Mr. Joe Biden was in a better position than any challenger since 1936. But if recent history has taught us anything, it is that how unpredictable these polls can be. Nevertheless, they serve as a good indication of the public expectation and possible outcomes.

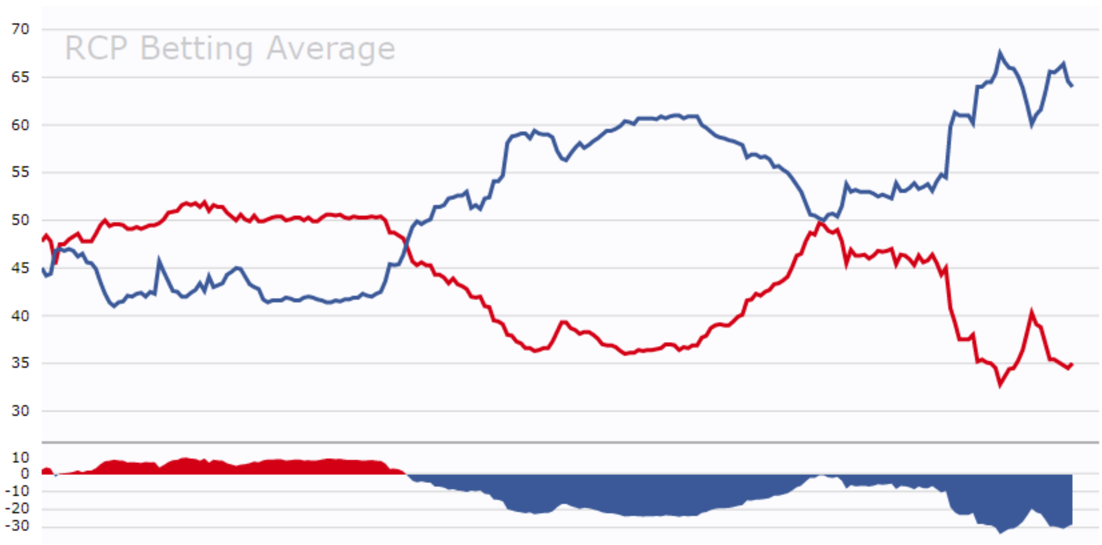
Exhibit 1: Almost all major polls indicating a Joe Biden (Democrat) victory

Biden Leading | Trump Leading | Within Margin of Error, No Clear Leader

	QUINNIPIAC UNIVERSITY 10/16/20-10/19/20	IPSOS/REUTERS 10/16/20-10/20/20	NEW YORK TIMES/SIENA COLLEGE 10/15/20-10/18/20	KAISER FAMILY FOUNDATION 10/7/20-10/12/20	NPR/PBS/MARIST 10/8/20-10/13/20	UMASS LOWELL 10/5/20-10/12/20	NBC/WSJ 10/9/20-10/12/20
BIDEN	51%	51%	50%	49%	54%	53%	53%
TRUMP (Incumbent)	41%	42%	41%	38%	43%	43%	42%

Source: Ambit Asset Management, CNN. Last updated – Oct-22, 2020

Exhibit 2: Various betting platforms overseas provide the odds of each candidate winning. The chart below is an average of betting odds for each candidate across various platforms.



Source: Ambit Asset Management, Real Clear Politics. Blue line implies Joe Biden (Democrat) while Red line implies Donald Trump (Republican). As on Oct-27 2020

Different policies, different implications...

In the table, we have laid down each candidates standing on key issues relating to the US economy which may impact companies in those sectors. Following which we analyse the impact each candidate may have on global financial markets.

Exhibit 3: Key promises and actions (by incumbent President Donald Trump) on major political issues

Issues	Joe Biden	Donald Trump
Economy as a whole	1) $400bn pledge to buy American goods 2) $300bn federal government investment in US-made materials, services, research and technology 3) Rescinding Trump-era tax cuts 4) Raising federal minimum wage to $15/hr	**1)** Advocate of 'America First'. Emphasis on bringing Jobs and manufacturing back to US **2)** Emphasis on Lower taxes, fewer regulations **3)** Wants to offer tax credits to entice US firms to move factories out of China
Health Care	**1)** Supports Affordable Care Act (Obamacare) which he intends to improve and strengthen **2)** Supports policies that seek to limit increases to prescription drug prices **3)** Provide all Americans the option to enrol in a public health insurance option similar to Medicare and to lower the age of eligibility for Medicare itself from 65 to 60 **4)** Proposal to set up a group to evaluate the "fair" values of drugs. Biden's plan would allow the government to negotiate "maximum prices" that apply to all payers	**1)** Opposes the Affordable Care Act **2)** Promised to unveil a Republican-backed Health plan **3)** Promised to bring down drug prices in the US and brought in various measures for the same **4)** Offered $1.8bn in federal funding to states for prevention, treatment and recovery measures of the Opioid crisis
Immigration	**1)** Against building a wall **2)** Reverse policies that separate families **3)** Supports a path to citizenship for immigrants in the United States	**1)** Reduced legal immigration, especially for refugees or asylum seeker
Climate change	**1)** $2tn Investment in green energy	**1)** Rolled back hundreds of environmental protections, including limits on carbon emission **2)** Withdrew the US from the Paris climate agreement
Trade / Foreign Policy	**1)** Focus on national issues first **2)** Promised to repair relationship with allies, especially NATO **3)** Indicated of an International coalition on holding China accountable instead of unilateral tariffs	**1)** "America First" - Protect local manufacturers from foreign competition **2)** Renegotiated past trade deals like NAFTA while leaving a few like Trans-Pacific Partnership, outright **3)** Promised to fixed Trade Deficit Gap in 2016 which did decline in 2019 **4)** Trade war with China has raised border taxes on close to $500bn of annual trade

Source: Ambit Asset Management, BBC, Tampa Bay Times

1. **Impact on the US Economy and the markets**
   While Trump plans to extend corporate tax cuts to individuals, Biden proposes to reverse the Trump era tax cuts. Biden also intends to raise top individual tax rate and utilize the proceeds in increased public spending, especially Infrastructure spend. He intends to spend $2tn in clean energy and use climate policy as a tool for economic development.

   Over the years***, it is generally believed that a Republican victory will be favourable for Equity Markets because of their market friendly policies (like tax cuts) and loose monetary policies resulting in a weaker dollar.*** Data ***(Ref to Exhibit: 4)*** suggests that this may not always be the case.

- While the change in regulations (like tax-cuts) may give a boost to corporate earnings in the short run, investment in economy via increased public spending has a positive overall impact in the long-run leading to market outperformance.
- Increased public spend (especially) infrastructure is a strong tool to create jobs and boost the economy.
- Any tax-cut roll back will have a negative impact on the market, especially given the near-term COVID led uncertainty. However, it may well turn out to be a blessing-in-disguise for the economy in the longer run by improving US's fiscal situation and job creation via increased public spend implying better market returns.

Exhibit 4: Dow Jones returns under various US Presidents since 1900

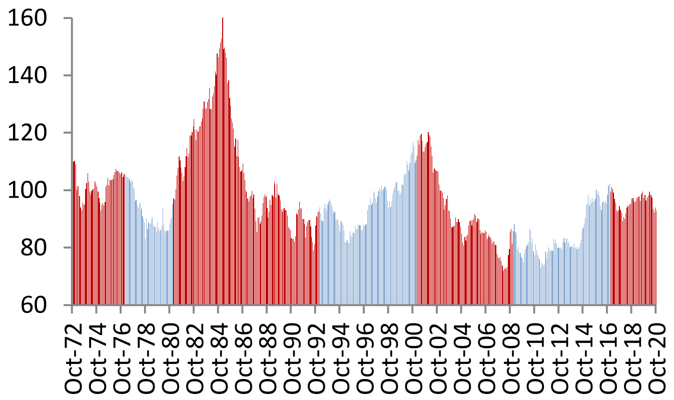
President	Party	Start	Tenure (Years)	Absolute Return	Annualized return
T Roosevelt	Republican	1901	8	21.6%	2.7%
Taft	Republican	1909	4	-1.3%	-0.3%
Wilson	Democratic	1913	8	-6.9%	-0.9%
Harding	Republican	1921	2	17.4%	6.9%
Coolidge	Republican	1923	6	255.9%	25.5%
Hoover	Republican	1929	4	-82.8%	-35.6%
FDR	Democratic	1933	12	194.4%	9.3%
Truman	Democratic	1945	8	81.7%	8.0%
Eisenhower	Republican	1953	8	120.3%	10.4%
JFK	Democratic	1961	2	12.2%	4.1%
Johnson	Democratic	1963	6	30.9%	5.3%
Nixon	Republican	1969	6	-16.5%	-3.2%
Ford	Republican	1974	2	23.4%	8.9%
Carter	Democratic	1977	8	-0.9%	-0.2%
Reagen	Republican	1981	8	135.1%	16.9%
Bush I	Republican	1989	4	45.0%	5.6%
Clinton	Democratic	1993	8	226.6%	28.3%
Bush II	Republican	2001	8	-24.9%	-3.1%
Obama	Democratic	2009	8	149.4%	18.7%
Trump	Republican	2017	Ongoing	38.5%	9.6%
Average				**61.0%**	**5.8%**
Average Republican				**44.3%**	**3.7%**
Average Democratic				**85.9%**	**9.1%**

Source: Ambit Asset Management, Business Insider. As on 27-Oct-2020

2. **Impact on Interest Rates and the global reserve currency – the US Dollar**
   Interest rates which are an important determinant of liquidity in the markets have played an important role in stock market movements over the years.

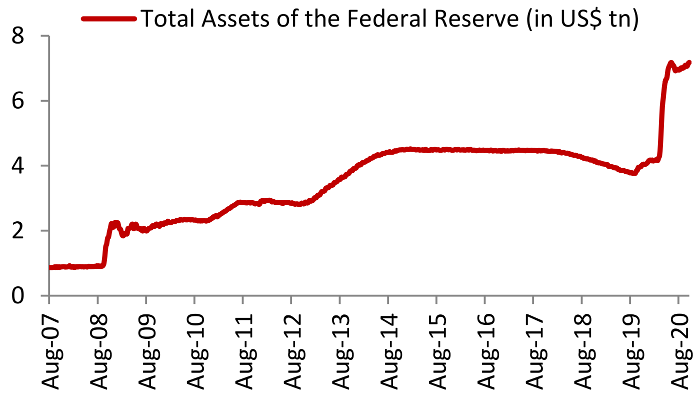
- Donald Trump has been quite a vocal critic during his current tenure of the US Fed for not reducing the interest rates enough to encourage economic growth. Joe Biden on the other hand favours a more independent operating of the Federal Reserve when it comes to monetary policy.
- While Presidents nominate the top Federal Reserve officials, the Federal Reserve is designed to operate independently without much political pressure / intervention.
- Historical data ***(Ref to Exhibit 5)*** points towards weak Dollar index during Republican presidency (mainly because of relatively looser monetary policy) which strengthens during a Democratic Presidency resulting in commodity and EM Equities outperformance. Increased volatility and uncertainty in the short run may lead to risk aversion and 'flight safety' leading to a strong dollar index and EM outflows.

Exhibit 5: Dollar Index is generally weaker during the Republican tenure



Source: Ambit Asset Management, investing.com

Exhibit 6: Current balance sheet expansion (during COVID) dwarfs the one undertaken during GFC



Source: Ambit Asset Management, US Federal Reserve

3. Trade policy, especially with India and China

Donald Trump in his current term as president has sought to reduce US's trade Deficit with other countries such as - China, Mexico and India.

- US, in 2019, withdrew India's preferential status under the GSP (Generalized System of Preferences) program which had earlier allowed for Duty-Free entry of ~$5.5bn worth of goods from India to US. USA is an important trading partner for India accounting for ~17% or US$53bn of India's total exports in FY20. We believe that foreign relations with India is one area where both the candidates do not differ much. While some regulations like immigration and Drug Price control may impact industries with huge export to US, we believe the broader issues (like withdrawal of GSP status, etc) are nothing that cannot be resolved with a meaningful, diplomatic dialogue.
- In the case of China, Trump has tried to clamp down heavily resulting in border tax being raised on ~$500bn worth of annual trade. While Joe Biden has talked about a collective action by many global democracies on China, Trump is expected to continue with the clampdown on trade and sanctions. While the US has found it difficult to reduce its Trade Deficit with China in a big manner, the intent is definitely there in terms of shifting manufacturing and dependence away from China. This is expected to bode well for other Emerging Countries like India, Vietnam and Indonesia. ***(Ref to Exhibit 7)***

Exhibit 7: US imports from Vietnam are up significantly since the start of trade war

Source: Ambit Asset Management, FRED Economic Data

4. Foreign policy and Geopolitical implications

- ***Donald Trump*** has been quite active on the foreign policy front during his tenure. He renegotiated past trade deals like NAFTA (North-Atlantic Free Trade Agreement) which he felt were unfavourable to US while leaving a few others like the Trans-Pacific Partnership, INF Treaty and UNESCO, outright. While he helped broker peace between Israel-UAE-Bahrain via the Abraham accord and Serbia Kosovo peace agreement, he also stirred a few nerves with countries like Mexico (over building a wall), Iran (Nuclear deal) and China.
- ***Joe Biden*** has promised to restore US's relationships with its key allies if he is elected while calling for a collective action with other democracies against China.
- ***Commodity & Crude*** Foreign policy and Geopolitical events play a great role in influencing Financial and Commodity markets, especially Crude oil prices. Incremental sanctions on Iran and increased Middle East tension may lead to increased Crude Prices.
- ***Relations with China*** will have an impact on other commodities and metal prices. High commodity prices, especially Crude, will be a negative for India and huge deterrent in coming out of the current crisis.
- ***With Trump, one can expect status-quo of existing policies, while Joe Biden is expected to be less aggressive and more balanced in his approach which would imply better geopolitical outlook.***

5. Presidential Candidate is not the only determinant

- In addition to the post of President and Vice-President, all 435 seats of House of Representatives (Lower House of the US Congress) and 35 seats (out of 100) of the US Senate (Upper House of the US Congress) come into play.
- For any Bill to become a Law it has to be passed through both the House of Congress and therefore the Presidential Election outcome cannot be viewed individually when assessing possible impact on markets. Majority in each of the houses is something which the market will be eyeing closely.

Conclusion-

Going by the campaign promises of Joe Biden and Donald Trump, both of them differ hugely on most of the policies. However, we would like to highlight that –

a) The implementation of any policy will also depend on other factors such as majority in the congress without which passing any bill will become difficult

b) Some of the policy changes we discussed above ***(Ref to Exhibit: 3)***, if implemented, impact all the companies in that respective industry. In the long run however, companies which are leaders in their respective industries with winning traits and are agile enough to turn these challenges into opportunities will thrive.
For eg, some Indian pharma companies are already planning to shift important drug manufacturing to US while some IT companies are ramping up hiring in neighbouring countries like Mexico and Canada in light of immigration related uncertainties.

c) Recent election polls and betting odds indicate that a Biden victory is being expected. However, the eventual majority in the congress will be a key indicator to watch out for. All this said, Capital market volatility during a US Presidential election is a given. From the perspective of Indian markets, our analysis of market movements post last 5 US elections indicates that while there may have been some extreme immediate movements, the market always stabilized in the following 3-6 month period ***(Ref to Exhibit: 8).***

d) ***While Black Swan events like COVID cannot be explicitly planned for, we intend to try and find out companies with experienced management team that have put in place processes enabling them to withstand any uncertainty. We are an advocate of "time in the market" rather than "timing the market". We feel it would be wise to not react to short-term event based market movements. While near term volatility may lead to wild swings, we believe that in the long-run these high quality companies will continue to outperform and will sail through these near term disruptions unscathed.***

Exhibit 8: Nifty-50 movement in the months following the US elections

Year	1M Return	3M return	6M return
2016*	-5.2%	2.6%	9.0%
2012	3.1%	4.1%	3.8%
2008**	-15.5%	-11.4%	10.6%
2004	8.2%	13.6%	4.9%
2000	4.2%	11.3%	-9.4%
Mean	**-1.0%**	**4.0%**	**3.8%**
Median	**3.1%**	**4.1%**	**4.9%**

*Source: Ambit Asset Management, investing.com, *-DeMonetiztion, ** - GFC*

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