

Wednesday, November 4, 2020, 07.00 CET

November 3, 2020 US elections: 15 questions and answers

Vote counting is still under way in the US, but the preliminary results are as follows:

- Trump did better among voters on election day than expected.
- This means postal votes will decide the final outcome, which may take days or weeks.
- The Democrats are expected to retain their majority in the House of Representatives. The outcome of the Senate elections is still unclear. The Democrats have so far won a new Senate seat (Colorado) but have also lost one as expected (Alabama). The Democrats need to win 3 – 4 seats to gain control of the Senate.
- The markets have reacted with rising share prices, lower yields and a stronger USD.

This issue of *Reflections* presents 15 questions and answers about the US elections: their economic, financial market and political impact on the US and the rest of the world.

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1: Who won the US presidential election?

Answer: Voting in the 59th quadrennial presidential election is almost over. The Republicans and President Donald Trump have surprised observers with an election result that is stronger than public opinion surveys had indicated. Vote counting is still under way and the outcome may change, but right now indications are that the US will re-elect its 45th president, Donald Trump.

Results, 07.00 CET	Electoral votes
Biden/Harris (D)	223
Trump/Pence (R)	213
Total	398 of 538

2: Can the election outcome be disputed?

Answer: Ahead of the election, President Donald Trump has questioned the reliability of postal votes (mail-in ballots). Various studies at the national and state level have shown that cheating in US elections is extremely rare. The COVID-19 pandemic has sharply increased postal voting; the opportunity to vote by mail usually also increases turnout. See also question 4 below. Because of the large number of postal votes, it may take several weeks to arrive at a definitive election result.

Results, 07.00 CET	2020	2016
Voter turnout	Higher	55.5%
% of postal votes	Higher	25%

3: How will power be divided in the US Congress?

Answer: Having a majority in both the Senate and the House of Representatives makes it easier for the White House to enact its policies. The Democrats look set to retain their House majority, while the outcome is still unclear in the Senate (where the Republicans have had a majority in recent years). The results so far seem to imply that neither the Democrats nor the Republicans have lost seats in the Senate or House. The midterm election on November 8, 2022 may again change the balance of power,

since all 435 seats in the House of Representatives and 34 of the Senate's 100 seats will be up for grabs.

Results, 07.00 CET	Senate	House
Democrats	44	128
Republicans	45	146
Total	100	274 of 435

4: What happens now?

Answer: If the outcome is disputed, which must occur before December 8, a ruling on the validity of vote counting in various states may end up before the US Supreme Court (which has a conservative majority of 6-3 now that Amy Coney Barrett has been sworn in as a justice). In the unlikely event that Congress cannot agree on a president, the Speaker of the House of Representatives, currently Nancy Pelosi (D), will be appointed acting president on January 20 while awaiting the selection of a new president. If for any reason neither Trump nor Biden receives 270 electoral votes, the decision will be made by the 50 state delegations in the House – each with one vote. Today, before the new Congress convenes on January 3, the Republicans have a 26-22 majority. This could enable Trump to stay in the White House, if the Republicans hold on to this majority of states in the current election. The vice president would be chosen by the Senate, however.

Date	Key event
Nov 4? →	Joe Biden or Donald Trump will be the president-elect
Dec 8	Deadline for appealing election results
Dec 14	Electors cast their votes
Jan 3	New Congress is sworn in
Jan 6	Official counting of electoral votes by Congress
Jan 20	The new president is sworn in at noon EST

5: How have financial markets reacted to the outcome?

Answer: Financial markets seem to have been positioned for a Biden victory, but also for significant uncertainty about the election outcome even after November 3. In recent weeks, market nervousness has increased for several reasons: Biden's shrinking lead, worries that Trump will refuse to concede defeat followed by violence in American cities, the accelerating spread of COVID-19 and lack of clarity about Brexit. Despite the current uncertainty, market reactions early on Wednesday morning CET include rising share prices, lower yields and a stronger US dollar (see question 15 for six-month financial forecasts).

Levels, 05.45 CET	Quote	△ Compared to Nov 3 at 16.00 CET
US, S&P 500 futures	3 416	+2.2% (3.345)
US 10-year yields (%)	0.83	-5 points (0.88%)
EUR/USD	1,1640	-0.6% (1.1715)
USD/SEK	8.88	+0.1% (8.87)
Oil price (Brent, USD/barrel)	40.7	+1.2% (40.2)

6. What are major elements of Trump's economic policy?

Answer: Trump has provided few concrete details about his economic policy plans for a second term. Tax cuts for employees will continue. The tax cuts in Trump's 2017 reform are also expected to be extended when they expire in a few years. Trump previously planned an infrastructure programme totalling about USD 1 trillion. Fiscal policy is expected to remain expansionary overall, to a greater extent than pre-election plans indicated in keeping with experience from the first term of office. Trump can also be expected to put forward a new fiscal stimulus package to overcome the pandemic. Earlier Republican proposals point towards a stimulus package in the range of USD 500 billion to USD 1 trillion. Before the election, however, Trump was willing to accept something closer to the Democratic proposal totalling USD 2 trillion. China and trade issues will remain high priorities, and Trump would like to give companies tax breaks for bringing home production from China to the US. The policy of energy and environmental deregulation is also expected to continue.

Key data, % of GDP	2019	2020	2021	2022
Public sector balance	-6.3	-18.7	-8.7	-6.5
Public sector debt	108.7	131.2	133.6	134.5

Source: IMF Fiscal Monitor October 2020.

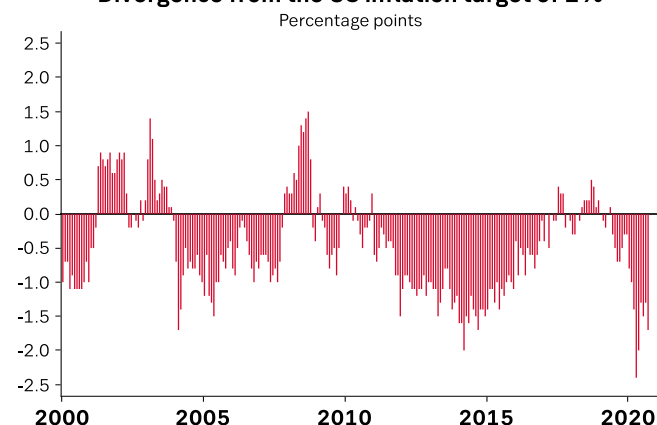
Answer: Biden's economic policy ("Bidenomics") can be summarised as a green left turn. It includes 1) tax hikes of about USD 4 trillion for companies (corporate tax would be raised from 21 to 28 per cent) and for high income earners over a 10-year period, 2) USD 2 trillion in green investments over a four-year period, 3) increased social spending for health care and education and higher benefits during absences from work, 4) a fourth stimulus package of at least USD 2 trillion in response to COVID-19. Despite tax hikes and resumption of a more regulated environment, Bidenomics may theoretically boost American GDP growth in 2021 and 2022 by a total of 2-3 percentage points.

8. Will the election outcome affect US monetary policy?

Answer: President Trump appointed the current Fed chairman, Jerome Powell, in early 2018 for a term of four years. Powell may thus be replaced in 2022. This is unlikely. A monetary policy

with a zero per cent key interest rate and, in practice, no ceiling for the expansion of the balance sheet ("money printing") is hardly an obstacle to any White House occupant. So far the Fed has bought 60 per cent of all US Treasury securities issued in 2020; under its current QE programme it is buying USD 80 billion worth of government bonds and another USD 40 billion worth of mortgage-backed securities each month. The Fed's new strategy of accepting inflation above its 2 per cent target and helping achieve higher employment is consistent with an economic policy aimed at creating stronger, sustainable and inclusive growth.

Divergence from the US inflation target of 2%



9. Our forecast for the US economy in 2021-2022?

Answer: As in other countries, US economic performance in 2021 and 2022 will be determined by the country's ability to control COVID-19 and by its economic policies (size and effectiveness). Pandemic-related fiscal stimulus measures to date total around USD 3 trillion (14 per cent of GDP). In 2020 the Fed's balance sheet has also grown by an equally large amount (USD 3 trillion). The US economy has surprised on the upside in recent months, and the recovery is expected to continue in 2021 and 2022, but in the near term the recovery is expected to lose some momentum due to accelerating spread of the virus both in the US and the rest of the world. Regardless of who is president, economic policy in 2021 and 2022 will be supportive of growth.

10. In what direction is US trade policy moving?

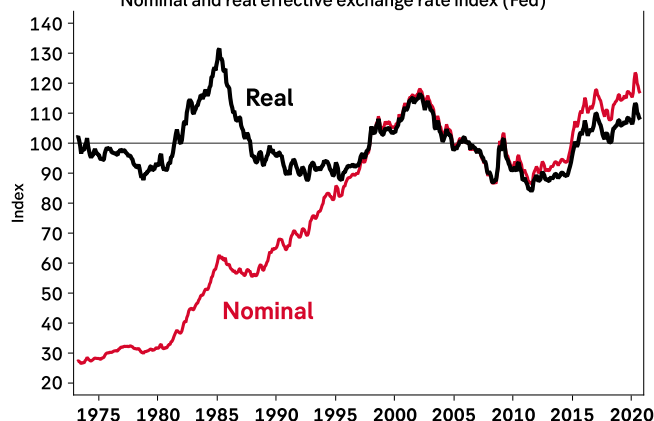
Answer: The US is the world's largest economy. Companies both there and elsewhere need predictable trade policies – especially now that many companies want to ensure the stability of their global value chains. Trump's trade policy has been erratic. As president, Biden would hardly be a strong free trade advocate but would pursue policies that honour existing agreements and that will be more predictable. This will benefit the EU in particular. For the United Kingdom, after an expected but meagre trade agreement with the EU from the beginning of 2021, there is no guarantee of a favourable trade agreement with the White House and the US.

Country/region (2019)	US trade deficit, USD bn	Country/region (2019)	US trade deficit, USD bn
1. China	401	7. Vietnam	47
2. Euro area.	156	8. Italy	33
3. Mexico	93	9. Malaysia	26
4. Japan	69	10. Switzerland	22
5. Germany	67		
6. Ireland	50	Sweden	9

Source: US Treasury, Statistics Sweden, SEB

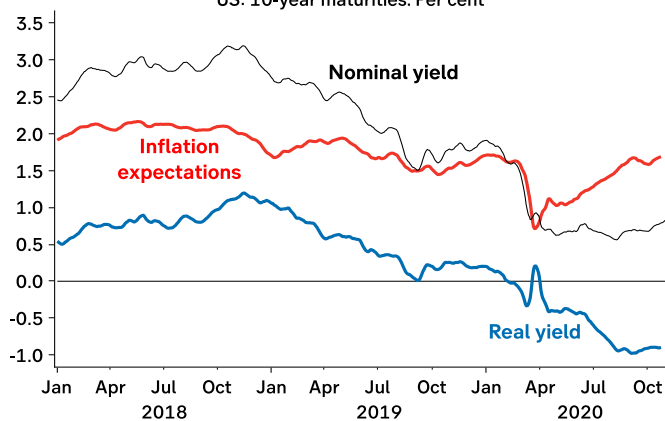
Weaker US dollar in the pipeline?

Nominal and real effective exchange rate index (Fed)



Record low real yield, stable inflation expectations

US: 10-year maturities. Per cent

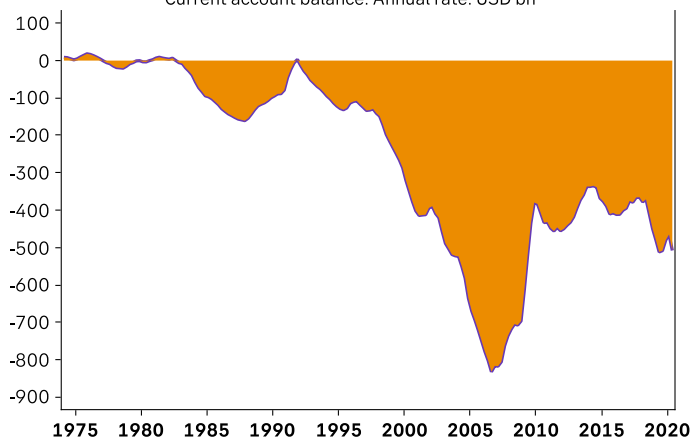


11. Are we moving back to the strong dollar policy?

Answer: The “strong dollar policy” implemented by Treasury Secretary Robert Rubin in 1995 has been repeated by several US administrations, but not in recent years. A stable dollar that does not show signs of weakness has been important, both to finance the continued US financial savings deficit (see chart) and to deal with a worryingly large net external debt of 60 per cent of GDP (June 2020). Both Republicans and Democrats pursue trade and exchange rate policies that will hardly aim for a strong dollar. In addition, today the USD is overvalued by 5 per cent (against the euro). The USD will also remain a global reserve currency and is not facing a collapse in confidence. Even China is expected to continue investing the overwhelming majority of its foreign exchange reserve in US Treasury securities. A policy that combines large public sector borrowing with financing largely by Fed purchases of such securities is not positive for the dollar.

US heavily dependent on foreign capital

Current account balance. Annual rate. USD bn



12. What will happen to long-term Treasury yields?

Answer: The US Treasury securities market is the epicentre of global yields. Nominal 10-year Treasury yields today are around 0.8 per cent. The policy of printing new money has helped normalise inflation expectations of around 1.5 per cent. Neutral yield, which is 0-0.5 per cent today, is expected to remain low in the future due to structural global savings surpluses (driven by demography, weak productivity growth and other factors). However, it should be possible to normalise the negative term premium (-1 percentage point). This suggests weakly rising long-term Treasury yields ahead. Biden’s economic policy also supports this conclusion.

13. How will the US election affect Sweden?

Answer: The US is the world’s largest economy, with the biggest financial markets. If the US economy performs well, it also contributes to GDP and job growth in other countries. Sweden will be affected politically, in growth terms and financially by the election. US-Swedish relations (financial and economic) can be summarised as follows:

Sweden’s third largest export market (after Norway and Germany); predictable US-EU trade policies are important to Sweden, where about 50 per cent of the economy is connected to the export sector.

- **44 per cent** (or SEK 1.5 trillion) of all Swedish stock market investments abroad are in the US; an additional SEK 170 billion is invested in US funds.
- **34 per cent** (or SEK 445 billion) of all Swedish fixed income investments abroad were issued in US dollars.
- **16 per cent** (or SEK 560 billion) of all Swedish foreign direct investments are in the US, the most important recipient country.

Sweden 2019. USD bn	Exports to USA	Imports from US	Net (exports minus imports)
Goods	121	40	81
Services	72	81	-9
Total	193	121	72

14. Are the Riksbank and the Swedish krona affected?

Answer: A more growth-oriented US economic policy will contribute to stronger global demand, increasing the potential for greater inflation pressure, but the effect on Riksbank interest rate decisions is expected to be marginal. However, the USD weakness we are forecasting may mean that the krona appreciates more than the Riksbank would like. But the threshold for a decision to revert to a negative key interest rate is high.

15. How will markets perform in the next 6 months?

Answer: Market drivers in the next 6 months will be connections between COVID-19, vaccines and any growth reversals, as well as the volume and effectiveness of economic policies.

The next 6 months	Movement	Comment
US (S&P 500)	↗↗	Growth-oriented policies
Europe (EuroStoxx)	↗↗	Growth-oriented policies
10-year US Treasuries	↗↗	Increased supply of securities
EUR/USD	↗	USD is overvalued, defensive
USD/SEK	↘	SEK is undervalued, cyclical
Oil prices (Brent)	↗↗	Better global growth, OPEC+