2020 election: potential sector impacts

- Columbia Threadneedle equity analysts have been working to understand the prospective impact of a Biden presidency.
- Analysts identified the core policy initiatives of the Biden campaign and then scored their coverage names on a scale of -2 to +2, with +2 being very favorable and -2 being very unfavorable relative to the current environment (i.e., existing conditions = 0). The policy initiatives evaluated included:
  - Trade
  - Taxes
  - Regulation
  - Banks/finance
  - Housing
  - Defense
  - Healthcare
  - Energy
  - Social policies
  - Education
  - Labor
  - Immigration
  - Election reform

A second Trump term could see a continuation/acceleration of existing policies, including seeking further limits on immigration and trade, tax cuts and deregulation, and an infrastructure initiative. Under Biden, the sector winners and losers are likely to change. In either case, the degree of change will be dictated by the party composition of the House and Senate.

Columbia Threadneedle Investments sector favorability score: Biden presidency

Utilities	Consumer staples	Materials	Real estate	Consumer discretionary	Information technology	Industrials	Communication services	Healthcare	Energy	Financials
0.7	0.6	0.4	0.3	0.2	0.1	-0.1	-0.3	-0.9	-1.0	-2.0

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Potential beneficiaries of a Biden win

Utilities 0.7

Fiscal spending and possible tax changes are the principal drivers for positive change in the utilities sector. Infrastructure spending plans are likely to focus on renewables and electrification initiatives. If there were an increased corporate tax rate, regulated utilities would be able to pass this on to customers.

Consumer staples 0.6

A Biden win could be an incremental positive for cannabis companies in the staples sector, particularly if we see marijuana decriminalized at the federal level. There is elevated risk for consumer products, namely tobacco and sugary beverages, in the form of higher excise taxes and greater regulation.

Materials 0.4

It pays to think expansively here, considering the impacts of trade, fiscal spending and regulation. Improved trade would benefit exports, which would benefit many U.S. materials companies, including exporters of agricultural products and grains (particularly to China). There might be a negative impact if higher cost renewable fuels are mandated to replace lower cost oil.

Consumer discretionary 0.2

Affordable housing, an expanded minimum wage and made-in-America initiatives would be positive for companies selling trucks and SUVs (as would an emphasis on greener vehicles). Tax increases could be a headwind, but balanced with a less aggressive trade stance, many consumer brands could see gains.

Information technology 0.1

A small slice of big tech has been the principal driver of the recovery in U.S. stocks since March, and the rising scale of big tech could inspire greater government intervention/regulation. A break-up of big tech has potential to unlock opportunities for smaller technology companies. A more open immigration policy would be a benefit here, encouraging non-U.S. tech talent to work in America.

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At risk in a Biden win

Industrials -0.1

Infrastructure spending would be a positive for the sector overall, but a lower dependence on fossil fuels would hurt oil/gas investment. Defense stocks might come under pressure due to higher U.S. budget deficits and proposals to curtail military spending.

Communication services -0.3

Similar to technology, oversight and regulation have the prospect of impacting the operating environment for the communication sector. Anti-trust enforcement and data regulation could weigh on the stocks.

Healthcare -0.9

Drug pricing, expanded Medicare and hospital costs are all possible targets for change and will always be a concern in the U.S. A Biden presidency with a split Congress is unlikely to be able to effect significant change, but if Democrats have control of the Senate, House and presidency, more impactful measures could emerge.

Energy -1.0

Biden has made renewable and green energy a significant plank in his agenda. A ban on either new leases or new permits on federal lands for energy exploration would be a significant challenge for traditional U.S. oil and gas companies.

Financials -2.0

New heads of financial regulators would likely be less friendly to financial services companies and a corporate tax hike would hurt banks more than most sectors. More scrutiny of large-scale M&A among financial services firms and potential for higher capital requirements could also present challenges.

Biden tax plan

- Plan would raise an estimated $4 trillion of federal revenue over 10 years, or 1.6% of GDP. The tax burden is equally split between individual taxes (48%) and corporate taxes (52%).
- -5% estimated impact to S&P 500 EPS with nearly every sector being affected.*
- Two-thirds of the $4 trillion in revenue would come from:
  - Increase the corporate tax rate to 28% ($1.3 trillion).
  - Applying a 12.4% payroll tax (via Social Security) to earnings greater than $400,000 ($963 billion).
  - Tax capital gains/dividends at same rate as ordinary income above $1 million and eliminates capital gain adjustment at death ($448 billion)

Individual income implications

- The Tax Policy Center estimates minimal change to after-tax income for the lowest through fourth quintiles of income:
  - Lowest quintile (incomes < $26,000) would see an average tax increase of $30
  - Middle income quintiles ($52,000-$93,000) would see an average tax increase of $260
- The top 1% incomes are hit hard with estimated income declines ranging from -17% to -23%
  - Top 1%: income more than $837,000 would see an average tax increase of $299,340
  - Skewed by top 0.1%: average increase $1,830,770
- Top 1%-5%: average increase of $10,860

* The S&P 500 Index tracks the performance of 500 widely held, large-capitalization U.S. stocks. It is not possible to invest directly in an index.

Disclosures

Past performance does not guarantee future results.

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