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

Could see increased support for clean energy under Biden, and infrastructure spending plans are likely to focus on renewables and electrification initiatives. Both would yield capital opportunities for utilities. If there were an increased corporate tax rate, regulated utilities would be able to pass this increase along to customers.

Consumer staples

Elevated tobacco excise taxes are likely under a Democratic administration. Excise tax regulation on sugary beverages presents more risk, and stricter ESG mandates, e.g., green packaging, water usage, carbon may be likely.

Materials

Materials may benefit from trade and infrastructure policy. The U.S. is a significant exporter of grains and other agricultural products, particularly to China, so a more constructive trade environment would be positive for agriculture. Improved trade would benefit chemicals exports, on which the domestic industry is heavily dependent. There might be a negative impact if the growth in renewable fuels displaces oil, as lower oil prices would flatten global cost curves and pressure margins. An infrastructure plan could also benefit steel, as well as copper and, to a lesser extent, aluminum, particularly if it contained a “buy America” provision or a “green/electric vehicle” provision.

At risk in a Biden win

Financials

Tax hikes and increased regulatory scrutiny are the significant potential negatives for financials companies. New heads of financial regulators (OCC, CFPB, FHFA, SEC, Treasury, etc.) would likely be less friendly to financial services. More scrutiny of large-scale M&A among financial services firms is expected and higher capital requirements are possible. Tax increases, higher capital requirements, and greater price competition from the government’s mortgage insurer could weigh on mortgage insurers. Property and casualty insurers are less likely to see a COVID safe harbor/tort reform in a Biden presidency.

Energy

Biden’s most impactful policy for traditional U.S. oil and gas companies may be a ban on either new leases or new permits on federal lands. New permit bans would reduce long term activity in the Gulf of Mexico, Alaska, New Mexico and Wyoming. There is also an increased risk to the permitting process: approval may take 15-18 months vs. 6-9 months currently. U.S. refiners could be negatively affected by tax reform.

Healthcare

A Biden presidency with Democratic control of both the Senate and House could lead to meaningful change in healthcare. If that happens, drug pricing, hospital costs and lowering the age for Medicare eligibility could all be addressed. Lowering the age for Medicare enrollment from 65 to 60 could add 23 million newly eligible people and come at the expense of commercial insurance, which could shrink by 13 million members. In medical technology, dialing back trade rhetoric would likely benefit life science tools companies, but generally, the outlook for medtech looks relatively status quo with a Biden or Trump presidency.

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