



# Biden Win Might Bring Mixed Outlook for Investors



November 2020

Additional fiscal stimulus likely, tax hikes uncertain.

## KEY INSIGHTS

- T. Rowe Price investment professionals expect President-elect Joe Biden to push for another fiscal stimulus package, including funding for municipalities.
- While Biden supports corporate tax increases, it is far from certain they would be enacted in the next Congress.
- Biden has suggested taking a tough stance toward China on market practices, though he may seek multilateral partnerships to address these issues.

Democrat Joe Biden's policy proposals as the next U.S. president (pending the outcome of potential legal challenges) could have mixed implications for investors if implemented, according to T. Rowe Price investment professionals. On the positive side, many see Biden as likely to prioritize additional major fiscal stimulus to help the economy continue to recover from the steep downturn caused by the coronavirus pandemic. However, Biden also supports corporate tax increases that would be used to fund some of the additional spending. It is far from certain that they would be enacted given Republican opposition.

## Spending and Taxes

Mark Vaselkiv, T. Rowe Price's chief investment officer (CIO) for Fixed Income, believes that Biden is likely to seek additional funding for states and municipalities. "The economy is weakest at the state and local level, where governments need help to mitigate cuts in essential services amid quickly

declining revenues," Vaselkiv asserts. This push for funds for localities could help stabilize and support the credit quality of municipal debt for years to come as the economy recovers from the pandemic, he says.

Biden has proposed raising corporate taxes to halve the tax cut enacted by the Tax Cuts and Jobs Act (TCJA) of 2017. Biden's plan involves increasing the corporate income tax rate—currently a flat 21%—to 28%. That would still leave the rate meaningfully lower than the pre-TCJA rate of 35%. President-elect Biden would also likely try to boost taxes on the foreign income of U.S. companies and institute a form of alternative minimum tax for corporations. However, Republican opposition could limit or prevent some of these measures to increase taxes.

## Short-Term Effect on Corporate Earnings

Biden's outlined tax hikes, if implemented, could reduce after-tax corporate earnings.

“Tensions with China seem to resonate across the political divide.

— Quentin Fitzsimmons

*International Fixed Income  
Portfolio Manager*

David Giroux, T. Rowe Price CIO of Equity and Multi-Asset and head of Investment Strategy, says that the tax rate increases proposed by Biden could collectively reduce after-tax profits for companies in the S&P 500 Index. However, some industries could benefit from increased spending. Global Focused Growth Equity Strategy Portfolio Manager David Eiswert agrees that U.S. companies would experience an “earnings reset” if the Biden tax plan passes, although he also believes that the effects would be “manageable and likely offset, in part, by fiscal stimulus.”

Looking at corporate bonds, Vaselkiv asserts that “Biden’s tax increases would impact equities more directly than corporate credit, probably hitting the wildly profitable giant tech stocks the hardest.” A tax hike would not necessarily hold back growth, Vaselkiv adds, noting that U.S. corporate earnings and the broader U.S. economy both continued to grow after tax hikes during the Clinton and Obama administrations.

According to T. Rowe Price Chief U.S. Economist Alan Levenson, the first order of fiscal business for Biden will likely be a debt-financed coronavirus response and economic rescue package. Biden will probably wait until later in 2021 to try to implement his broader vision for economic renewal, with roughly half of the 10-year cost expected to be offset by tax and other revenue increases. “The implied addition to debt is manageable because borrowing rates are low relative to the economy’s potential growth,” he explains.

#### **Pressure on China to Continue**

All signs suggest that, as president, Biden will take a tough stance toward China on market practices and human rights issues, though he will likely seek multilateral partnerships and engage levers beyond trade in any renegotiation of the U.S.-China relationship.

“Tensions with China seem to resonate across the political divide,” says Quentin Fitzsimmons, a London-based T. Rowe Price International Fixed Income portfolio manager. He believes Biden will maintain pressure on China to address concerns about intellectual property rights in the technology sector. “It’s tough to say how U.S.-China relations will evolve in a Biden presidency,” Science & Technology Equity Strategy Portfolio Manager Ken Allen states, “but if volatility were to lessen, that could be a positive for technology companies that are perceived as having some exposure to trade tensions between the two countries.”

However, according to Levenson, Biden may face tensions between reengaging more constructively with allies on trade while seeking to re-shore critical supply lines and manufacturing jobs in general.

#### **Industrials Could Benefit From Push Toward Energy Efficiency**

Biden has indicated that he will seek higher levels of federal procurement spending and tax incentives to create jobs and drive economic development by rebuilding critical infrastructure. This push would focus on reducing carbon emissions and investing in clean-energy technologies, although it could face opposition from Republicans in Congress.

Jason Adams, portfolio manager of the Global Industrials Equity Strategy, believes that, if implemented, Biden’s ambitious plans could accelerate advances in energy efficiency and emissions reductions. “Many industrial companies are part of the solution in this regard,” he says. Potential beneficiaries, he adds, could include companies specializing in air compressors, rail transport, commercial aircraft, electric vehicles, and industrial gases.

Conversely, U.S. defense spending “faces the prospect of several years of a modest downward trajectory after a seven-year upcycle, which would have been likely

“We don’t think there’s anything Biden will do that would change our view that... oil will remain in a long-term bear market....”

— Shawn Driscoll

*Global Natural Resources Equity Strategy Portfolio Manager*

regardless of who was elected as the next president,” Adams asserts.

### **Health Care Policies May Expand Market for Medicare-Focused Firms**

Expanding access to health insurance also appears to be a priority for Biden, who has proposed lowering the age requirement for Medicare eligibility to 60 years from 65 and creating a new Medicare-administered public option that would automatically enroll low-income Americans who aren’t eligible for Medicaid. Health Services Analyst Rouven Wool-Lewis believes that, if implemented, these policies could expand the market for Medicare-focused managed care organizations while potentially siphoning away some customers from private health insurance providers.

President-elect Biden and President Trump advocated different solutions to curb drug costs. Pharmaceuticals Analyst Jeff Holford says such proposals are more likely to be enacted in the Biden administration, which could negatively impact pharmaceutical stocks. Holford also notes, however, that the politics of health care legislation are complicated given the strong relationships that politicians across the political divide have with the pharmaceutical industry.

### **Potential for Heightened Bank Regulation**

The Biden administration might seek to impose stricter rules and enforcement

policies for banks. These potential measures could include additional limits on bank dividends and share buybacks as the U.S. recovers from the pandemic and its fallout. However, Gabriel Solomon, portfolio manager of the Financial Services Equity Strategy, believes that the regulatory environment may prove “less adversarial” than during the Obama administration, after lax bank regulation was widely viewed as contributing to the global financial crisis of 2008–2009.

### **Regulatory Moves Likely to Have Little Impact on Oil Market**

Biden’s platform, as well as his comments on the campaign trail, suggests that he will try to tighten regulation of the fossil fuels industry, which would likely result in higher compliance costs for oil and gas companies. Biden has also voiced support for a moratorium on new oil and gas lease sales on federal lands and potentially halting the issuance of new drilling permits in these areas.

Shawn Driscoll, portfolio manager of the Global Natural Resources Equity Strategy, contends that conditions in the global oil market, not the regulatory implications of Biden’s election, are likely to have more influence on energy company earnings. “We don’t think there’s anything Biden will do that would change our view that, outside of the occasional countercyclical rally, oil will remain in a long-term bear market because of rising productivity and falling output costs.”

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

**T. Rowe Price**<sup>®</sup>

### Important Information

**This material is being furnished for general informational and/or marketing purposes only.** The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

**Australia**—Issued in Australia by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. For Wholesale Clients only.

**Brunei**—This material can only be delivered to certain specific institutional investors for informational purpose upon request only. The strategy and/or any products associated with the strategy has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

**Canada**—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

**China**—This material is provided to specific qualified domestic institutional investor or sovereign wealth fund on a one-on-one basis. No invitation to offer, or offer for, or sale of, the shares will be made in the People's Republic of China ("PRC") (which, for such purpose, does not include the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the PRC. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the PRC. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the PRC that are expressly authorized under the laws and regulations of the PRC to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the PRC. Potential investors who are resident in the PRC are responsible for obtaining the required approvals from all relevant government authorities in the PRC, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the PRC, or nationals with permanent residence in the PRC, or to any corporation, partnership, or other entity incorporated or established in the PRC.

**DIFC**—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

**EEA ex-UK**—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

**Hong Kong**—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

**Indonesia**—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

**Korea**—This material is intended only to Qualified Professional Investors upon specific and unsolicited request and may not be reproduced in whole or in part nor can they be transmitted to any other person in the Republic of Korea.

**Malaysia**—This material can only be delivered to specific institutional investor upon specific and unsolicited request. The strategy and/or any products associated with the strategy has not been authorised for distribution in Malaysia. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

**New Zealand**—Issued in New Zealand by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

**Philippines**—THE STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

**Singapore**—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

**South Africa**—T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

**Switzerland**—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

**Taiwan**—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

**Thailand**—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

**UK**—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

**USA**—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2020 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.