



What Georgia Senate Results Could Mean for Markets



Unified government puts fiscal stimulus, tax increases on table.

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As president, Joe Biden will have a stronger hand to pursue his legislative agenda now that Democratic victories in both Georgia runoff contests will put the party in control of the Senate. With committees chaired by Democrats and the agenda set by party cohorts, we expect the administration to advance well-telegraphed efforts to expand fiscal stimulus and partially restore higher corporate tax rates, among other measures.

The administration's top priorities have not changed since the Georgia Senate wins. Above all, the Biden team will be tasked with bringing the coronavirus pandemic under control, stabilizing the economy, and setting the stage for recovery.

Biden will need to walk a tight legislative rope. The Democrats' majority in both chambers of Congress will be thin, requiring intraparty cohesion and a tie-breaking vote from Kamala Harris, the incoming vice president, to achieve a simple majority in the Senate. The administration may find itself bargaining with members of its own party, a dynamic that is likely to shift power toward centrists in the Senate and progressives in the House of Representatives.



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At some point, too, congressional Republicans could resurrect deficit reduction as a tool to obstruct spending legislation. The intense partisan divisions in Washington could create periods of political and market volatility.

Expanded Fiscal Stimulus

Democratic control of the Senate creates the possibility for an additional USD 1 trillion to USD 1.5 trillion in fiscal stimulus, most likely through the budget reconciliation process.

Besides further relief for U.S. households, these measures could include financial support for state and local governments to shore up their ailing balance sheets and other economic measures to alleviate the pandemic—both of which would help to boost the economic recovery, in our view.

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Significant infrastructure spending also appears to be back on the table, with the Democrat-controlled Senate likely to favor traditional transportation projects as well as more funding for renewable power, electric vehicles, and the greening of American industry. Potential beneficiaries from these measures could include electric utilities, companies in the electric vehicle supply chain, and industrial names that promote efficiency and the clean-energy transition.

If vaccination efforts and other measures help rein in the coronavirus to the point that economic activity begins to normalize, fiscal spending could accelerate the recovery, to the benefit of cyclical industries. Such a scenario could also cause investors to revisit their outlook for inflation—a development that would have important ramifications for markets.

Tax Increases

Investors must also factor in the potential for increased taxes, a possibility that reemerged when the Democrats won control of the Senate. The Biden administration regards tax policy as a means of partially funding fiscal stimulus and as an important tool for addressing income inequality.

However, the delicate balance of power in the Senate may limit the potential for

some controversial revenue-generating measures—a levy on financial transactions, for example—and should temper the magnitude of increases on existing tax provisions. In our view, measures with a higher chance of making it through the Senate include an increase to the corporate tax rate from 21% to a level that comes in below the 28% that Biden targeted on the campaign trail. That level is below the 35% rate that was in effect prior to passage of the 2017 Tax Cuts and Jobs Act. Moderate tax increases on corporations' foreign income could also be in play. At the individual level, income and estate tax rates could also increase for the highest earners, and we could see pressure to increase rates for capital gains and dividends.

The Regulatory Front

A Democrat-controlled Senate should accelerate approval of Biden's nominations for cabinet positions and agency heads, potentially ushering in changes sooner than if Republicans held the majority. With regulatory and executive actions likely to remain a critical avenue for the Biden administration to implement some of its policy goals, having top leaders in place to run departments and agencies could help the president advance his agenda—especially as it relates to trade, the environment, and health care.

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