



Senate Runoffs Put Georgia on Investors' Minds

Outcomes could affect the size and scope of U.S. fiscal stimulus.



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The results of the two U.S. Senate runoff elections in Georgia on Jan. 5 could determine the size and scope of fiscal stimulus to address economic strains caused by the coronavirus pandemic.

A shift in the Senate's partisan majority could swing the one-year outlook for fiscal stimulus by at least USD 1 trillion, in our view. That difference will have important implications for the U.S. economy, the broader market, and specific sectors targeted by a potential spending bill.

Bipartisan Relief Bill

Facing two December deadlines—one to continue funding the government and another to address the year-end expiration of critical relief programs—Republicans and Democrats finally agreed on a much-needed and hard-fought relief bill to shore up the economy.

This measure authorizes about USD 900 billion in fiscal stimulus. Key elements include direct payments to households as well as funding for the paycheck protection program and temporary increases in unemployment benefits.

For President-elect Joe Biden, the quick passage of a follow-up to the Coronavirus Aid, Relief, and Economic Security (CARES) Act should enable his administration to focus on addressing



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the public health crisis and pushing through additional fiscal stimulus in the form of an economic recovery plan. Meanwhile, passing a bipartisan relief bill could give Republicans the political ammunition to derail subsequent spending and tax changes proposed by the Biden administration.

Size and Scope of Fiscal Stimulus Come Down to Georgia

Depending on the outcomes of the runoff races in Georgia, the political calculus for future spending will shift meaningfully—potentially affecting the pace of economic recovery. Democrats would need to win both seats to retake control of the Senate, which could prove difficult.

With the expected acceleration of coronavirus vaccine distribution in 2021, Senate Republicans may have little appetite for further fiscal stimulus beyond the bipartisan relief bill. With

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a Republican Senate majority, that dynamic could force Biden to rely on expanding existing spending programs to move the needle, potentially through surface infrastructure funding or other current government programs. Any corporate tax increases would also be extremely difficult to pass, as would federal financial support for state and local governments facing coronavirus-driven revenue shortfalls.

If Democrats take both Senate seats in Georgia, Vice President-elect Kamala Harris would cast the deciding vote in the event of a tie. Importantly, Democrats would control the Senate agenda and Senate committee chairmanships, giving Biden better odds of pushing through expanded fiscal stimulus measures that we believe could range between USD 1 trillion and USD 2 trillion. In that scenario, Democrats would have another

chance in 2021 to provide state and local government relief. Subsequent spending on the economic recovery, likely through the budget reconciliation process, could incorporate more funding for renewable power and the greening of American industry and transportation. 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.

Tight Balance of Power in Senate to Exert Moderating Effect

Regardless of the outcome in Georgia, the narrow margin between Republicans and Democrats in the Senate could shift the balance of power toward centrist senators from both parties, forcing the Biden administration to moderate its legislative proposals.

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