



Implications of a Democratic Senate

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The Senate races in Georgia have given Democrats complete but narrow control of Congress and changes the expected policy landscape. There is now greater latitude to enact portions of Biden's economic agenda including increased stimulus, a large infrastructure package, higher taxes, and additional regulatory scrutiny. However, narrow majorities in both chambers should lead to scaled back versions of his campaign proposals.

While much attention has been given to which party controls the Senate, an equal if not greater constraint on the Democratic wish list will be their slim majority in the House of Representatives. Democrats lost about a dozen House seats in the November elections and several reside in districts that are more moderate than the traditional Democratic base. In the Senate, although Democrats will now control which bills come to the floor for a vote, we expect the filibuster to remain in place meaning most bills will require 60 votes to pass. The once per year "reconciliation" process that allows for a spending and taxation bill to pass with a simple majority is likely to become a primary tool for the Democratic agenda.

The first priority of the Biden administration will be COVID-19 related measures, which will likely include additional checks to individuals and funds for city and state governments. Democrats may also seek to pass a large spending bill through the reconciliation process that includes sizable expenditures on infrastructure, green energy, healthcare, and education. In order to offset some of this additional spending, personal and corporate tax raises, including those on capital gains for high income earners, may be on the agenda.

Another implication of Democratic control will be a more forceful regulatory policy. All chairmanships of the powerful Senate committees will pass from Republican to Democratic, changing their agendas significantly. The installation of more progressive cabinet officials and political appointees will also be easier as Senate confirmation only requires a simple majority. We expect increased regulation in the areas of energy, banking and technology.

In terms of U.S.-China policy, we believe Biden's initial strong rhetoric will fade as we move through 2021 and 2022, and that tariffs and technology restrictions will gradually ease in exchange for climate change commitments and greater access for U.S. companies. The prospect of multi-lateral pressure on Beijing is fading even before Biden takes office given China and the European Union recently signed an investment deal despite requests to the E.U. from the incoming Biden administration to wait and first coordinate policy with the U.S.

Overall, the coming political landscape makes for a less business friendly environment and likely brings higher taxes, yet we remain bullish on risk assets given unprecedented fiscal support and what remains a very dovish and accommodative Fed. Further, the narrow Congressional majorities limit the latitude to implement some of the wider-reaching – and less market friendly – proposals in the Biden agenda. COVID-19 vaccinations greatly reduce pandemic risk into the late spring and summer, and we expect a vigorous economic recovery to take hold around that time. Our recommended portfolio changes this past November – which included upgrades to both U.S. small cap and emerging market equities – have performed well in the face of a shifting political landscape, and we expect that to continue going forward.

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