

## MARKET COMMENTARY

May 2019

### US elections might become a nightmare for capital markets

As the capital market strategist of the private bank Bergos Berenberg, Till Christian Budelmann regularly comments on events in the international capital markets, considering them in the context of economic and political trends. Since 2004, Budelmann has been responsible for various investment strategies, a member of the company's investment committee, and has been managing director of the bank since 2013.

The US presidential elections are still a good year and a half away, but even the run-up to them can have an impact on capital markets. Especially if the United States – known for freedom and competition – were to move structurally in the direction of socialism, global markets would not be spared the effects, according to the considered opinion of Till Christian Budelmann, capital market strategist of the Swiss private bank Bergos Berenberg. He delivers an economic policy appraisal of those candidates with the best chance of winning the Democratic presidential nomination, and explains why, from the standpoint of equity markets, Joe Biden would give him fewer sleepless nights than Bernie Sanders.

The American economic engine keeps on running. “We anticipate economic growth of 2.6 percent for 2019 and 2.2 percent for 2020,” says Till Budelmann. Even the damper from the trade conflict with China seems to be easing. “We still see no signs of a recession, though of course we see risks,” says Budelmann. One major risk that, in his opinion, market participants underestimate is the coming presidential elections. True, they won't be held until 3 November, 2020. However, the run-up to US elections is long and can impact global markets significantly even beforehand.

In all likelihood, incumbent President Donald Trump will run for the Republicans. He filed his re-election candidacy papers with the Federal Election Commission right after the start of his first term. He plans to use the slogan “Keep America Great” in 2020 against his Democratic opponent, though it is not clear yet who this will be. The presidential nominee is decided through primaries held throughout the country beginning in February 2020 in Iowa and New Hampshire. Currently, there are already around 20 candidates in the race for the nomination. The first public debate will take place at the end of June in Miami.

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### Proprietary election analysis tool identifies six candidates with prospects

Bergos Berenberg has its own proprietary analytical tool for assessing election probabilities, based on four pillars: surveys, statistical models, expert opinions and the prediction markets. At the current stage, the only pillars available for use are surveys and prediction markets, which reflect probabilities based on the odds. “From today's vantage point, our analytical approach shows that only six of the declared candidates reasonably stand a chance,” says Budelmann. However, the six include the party's extremes and fall into very different camps when it comes to economic policy.

Budelmann divides the six candidates into three groups based on their friendliness toward business and capital markets. In the middle block, he places California Senator Kamala Harris, Robert Francis “Beto” O’Rourke, who ran against ultraconservative Ted Cruz in midterm elections and almost won the Texas Senate seat, and Pete Buttigieg, the only 37-year-old mayor of a small city in Indiana. “None of the three can be assigned to the extreme left or the moderate wings of the party from an economic standpoint, if they have expressed clear opinions on the topic at all,” says Budelmann. Their current chances are also more in the mid-range. Candidates with more unambiguous positions are leading in the polls.

### Socialist Bernie Sanders would be a nightmare for equity markets

On one side, there is Bernie Sanders, the self-declared socialist. The 77-year-old narrowly lost in the last primaries against Hillary Clinton. He is a definite advocate for the Green New Deal, stands for less self-reliance and has declared war on multinational corporations. What's more, in Sanders’s view, share buybacks ought to be prohibited, or at least subjected to regulatory requirements. “Sanders would undoubtedly try to reverse Trump's reduction of regulations and his corporate tax reform,” says Budelmann, adding:

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“While Trump has stoked equity markets with his business-friendly policy, a President Bernie Sanders would be a real nightmare for Wall Street. In that case, the rule that political markets are short-lived would no longer apply.” Even intermediate wins for Sanders in debates and primaries could weigh on the markets.

Another candidate who must likewise be classified as extremely progressive is Elizabeth Warren. She, too, would fall under the nightmare scenario. However, the Massachusetts Senator is faring worse than Sanders, both in polls and in prediction markets.

### Joe Biden would be less business-friendly than Trump, but also less stressful

Currently, the strongest competitor to Sanders for the Democratic presidential nomination is Joe Biden. The 76-year-old is in the opposing Democratic camp to Sanders and stands for a moderate course. He was a Senator from Delaware for a long time, and then Vice-President under Barack Obama for eight years. “For the stock market, Biden is the positive Democratic candidate. He might prove to be a typical ‘Bill Clinton Democrat’ that capital markets can easily get along with,” Budelmann figures. No doubt, he will have to make concessions in the primary battle, but he will not subscribe to socialist ideas. Nor would he put in practice any Green New Deal, and probably would not fundamentally interfere with Trump's tax reform. In polls among Democrats, he is currently well in the lead as a presidential candidate. In prediction markets, he shares the lead right now with Sanders.

Trump's re-election would likely also suit the markets. Budelmann: “Aside from his trade policy, Trump's actions so far have been very market-friendly. But no question, he is a president who stresses market participants with his tweets and his political volatility. Many investors are thirsting for normalcy. So with a moderate Democratic program, Biden likely would not be so bad at all. It is true there would probably be fewer pro-business initiatives than under Trump, but the stress would be gone.”

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