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Topic

THE IMPORTANCE OF THE SUPREME COURT FOR THE US ELECTION CAMPAIGN

On November 3, the President, a new House of Representatives and a third of the Senate will be elected in the United States. With the death of Supreme Court Justice Ruth Bader Ginsburg, a new topic moves into the focus of the election campaign. It is expected that the upcoming Presidential elections will lead to increased volatility in capital markets.

US-ELECTION:

CLOSE PRESIDENTIAL RACE, DEMOCRATS TO RETAIN CONTROL OF THE HOUSE OF REPRESENTATIVES

In national surveys, support for the Democrat candidate Joe Biden is currently at 49 percent, ahead of the Republican incumbent Donald Trump with 43 percent. These numbers must be taken with a grain of salt, however, as it is not the most votes that decides the election, but the votes of the electors from the individual states. Biden needs a vote lead of about 3 percentage points to draw even. Another factor to consider is the usual margin of error in

surveys. We compared the polling average on the evening before the election with the actual results of Presidential elections since 1980. The average error rate was 2 to 3 percentage points. All things considered, the two candidates are very close. On the other hand, the Democrats will certainly keep control of the House of Representatives.

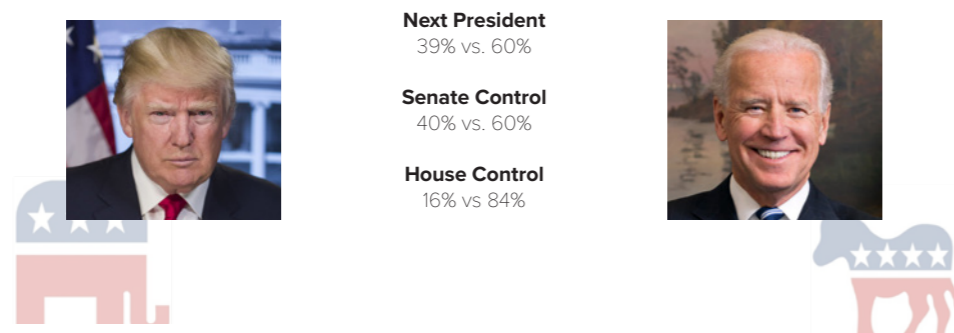


Figure 1: US Election Probabilities
 Source: Election Betting Odds, Betfair, PredictIt, Bergos Berenberg, Data as of 09/30/2020

This means that a re-elected Trump would not be able to push through further tax cuts. He could be expected to continue the trade dispute with China in the same manner as before and possibly even extend it to Europe. This would be negative for international equity markets. By contrast, a President Joe Biden would not resolve the trade conflict with China, in all probability, but would pursue it with a more objective and moderate tone, which would be less negative for equity markets.

The same cannot be said of his tax plans: If the Democrats win the House of Representatives and the Senate, Biden could partially reverse Trump's tax reform. The corporate income tax, which was reduced from 39 percent to 26 percent on average under Trump, could be raised again to around 33 percent. This would burden after-tax profits of companies and therefore also impact equity prices.

SUPREME COURT TO INFLUENCE THE ELECTIONS

A major new issue became the forefront of the election campaign with the death of Ruth Bader Ginsburg at the end of September. This event is more likely to benefit the Republicans than the Democrats. The liberal icon Ginsburg was a Justice on the Supreme Court, which now has only three liberal judges and five conservative judges. Trump has already announced that he will quickly nominate a successor, who will then have to be confirmed by the Senate. There was a similar situation four years ago. The conservative Supreme Court Justice Antonin Scalia died in February 2016. The Republican-dominated Senate refused to confirm the successor nominated by the Democratic President Barack Obama before the elections. That benefited Trump and likely gave him the decisive votes. Republican voters who were uncomfortable with Trump in 2016 voted for him anyway because he would at least nominate conservative judges. Also now, Republicans hold a slim

majority in the Senate and chances are fairly good that Trump's nomination will be approved before the elections.

The Supreme Court is extremely important in the United States and it can even affect the outcome of a Presidential election. The disputed election result in 2000 was finally settled by the Supreme Court, where conservative Justices had a majority of five to four. One of the important decisions in this case was decided along these lines and the Republican George W. Bush was ultimately confirmed as President. The Supreme Court has now emerged as another major issue along with the coronavirus pandemic and its impact on the economy and domestic security.