

The Next Four Years

Speaker Key:

KM Kevin McCreadie

GV Greg Valliere

DP David Pett

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00:00:00	DP	The US election is over, but the market implications of the result are only now beginning to play out. On this episode of Inside Perspectives, Kevin McCreadie, AGF CEO and chief investment officer, welcomes back Greg Valliere, AGF's chief US policy strategist to discuss the changing political landscape in Washington and what investors should expect over the next presidential cycle. I'm your host, David Pett. Let's get into it.
00:00:35		It's been a few weeks now since the US presidential election took place, and while some people are still not accepting of the result, most investors seem to be pretty satisfied with the result, or at the very least they've moved on from the drama that preceded the election. How do you explain the market reaction to date?
00:00:57	KM	If you looked at what we saw in the middle of the fourth quarter, earlier post-election, we saw a pretty good move in equities, pricing. And maybe that's something really adverse now under the scenario that we're living with, which is what we know today, a Biden presidency, a senate that is still controlled by the republicans for now until a runoff. But pretty much a benign outcome for markets, meaning not too hot in terms of spending or nor too cold. And then I think markets have moved to a place, has priced that outcome then, which is maybe there's not this dramatic headwind that we're going to face of an agenda that needs to be paid for.
00:01:31		If the new Green Deal had real viability under a big blue wave where you can get a lot done, that means later a lot higher taxes, a lot higher corporate taxes, what that means for earnings. And so, you've removed some of that, maybe an excess of spending

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		which would have been a good sugar high for the markets, but you also took away the negative of it. So, I think the markets have moved up pretty appropriately. I think the big thing right now is as we move forward, how do we get to the end date around the virus? Which we can talk about, because that really is the big thing.
00:01:59		COVID-19 is still with us and vibrant and surging and we're yet to see an endpoint to the vaccine that's nearer to us, we've just got to get there.
	DP	And then, Greg, just a thought from you on that in terms of how the markets have reacted since the election results rolled in.
	GV	I got the sense that during the summer and into the fall the markets were very apprehensive about big next tax increases. Biden proposals, my Lord, he had higher individual taxes, higher corporate taxes, higher capital gains rates, higher estate taxes, Wall street transaction tax, on and on and on.
00:02:30		And if, as it appears probable, not certain, but if it as it appears probable that Mitch McConnell and the republicans will control the senate, that means these tax increases probably will not occur. I think that is still another very positive development for the markets that came from this election.
	DP	Four years is a long time to contemplate, even for investors with longer-term horizons, so I'm hoping we can break down the next presidential cycle into some smaller intervals. And maybe we can start with what do markets need to watch for from now until the inauguration in late January?
00:03:05	GV	Well, we have a very unpredictable president who's got some time left before he has to leave on January 20th. There are lots of things that could occur. He could fire more people. He could pardon a lot of people, maybe even himself. He could look at regulations, maybe change some of them. He could look at geopolitical events. There's a lot of countries that he has big issues with, headed by Iran.
00:03:29		There is that possibility of Trump being unpredictable. But, frankly, David, I don't see anything that would really significantly affect the markets. If he pardons people, that'll be an interesting story, but I don't think it would affect stocks.

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	KM	I would add to that, which I don't think this story from here to the inauguration, I think it's more noise rather than impact. I think it's going to really be around the other pieces of this which are, are there discussions being had now between Biden and the senate and the house around we need to get to some stimulus?
00:04:01		With the surge in the virus that we've seen and knowing that we have this finish line, as I've said, to a vaccine, we've still got to keep people afloat. And as we pull back heading into the holidays because of this surge, there's an economic impact there. Hard to see is we'll talk about things getting done until after the inauguration, but it's going to be around the conversations being had too leading up to that as well that may be market impactful.
00:04:26	DP	On that front, Kevin, who takes the brunt of that in this in-between stage that we're at? Does that come down to President Trump or does that become more of an issue for Biden to have to worry about, this section of time?
	KV	I think what we've seen over the last couple of weeks, the Trump administration is not making things easy on the Biden transition. And so, I'd suspect that you're not going to get a lot of where is all the work together on this. But, again, I think that Greg has pointed out over time that Biden and McConnell have been in the senate for a long time. There's probably a history there that helps get to something post the inauguration in terms of a stimulus.
00:05:00		When you look through this all and look at winners and losers, I think also Greg has been very right, Nancy Pelosi walked away from a big number which she couldn't say yes to and now she's probably looking at something that is much different, much smaller and much further out the deal that could have been probably had back before the election. So, I'd say if we look at losers, I'm not sure it's Biden right now. It looks to be more like Nancy Pelosi in the fact that it's skinnier, what we're going to get, and longer dated to when we get it in terms of a stimulus.
00:05:27	GV	I think the most fascinating relationship will be between McConnell and Joe Biden. They're both 78 years old. They've served in the senate for decades. They respect each other. I'm not saying they're best friends. And they both have a very healthy opinion of their abilities to cut deals. And I do think that

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		there will be, at the least there'll be less acrimony. At the most we might get some deals. We might get a stimulus package in late January, early February that could get to a trillion or so. But as Kevin said, we had a chance for a much bigger stimulus package and Nancy Pelosi rejected it.
00:06:01	DP	Let's take the next interval being that first 90 days after the inauguration. A lot is made of the first 90 days in the White House. What can we expect over that stretch of time in terms of policy announcements or that type of thing?
	GV	Well, I think Joe Biden's going to pick up the telephone and call a lot of world leaders. He's had brief chats after the election, but I think late January he'll have substantive talks with Trudeau, Macron, Angela Merkel, Boris Johnson, maybe even Xi, maybe even Putin.
00:06:30		And I think he'll indicate to them a stability in US foreign policy, less erratic, more predictable, more centrist. But I would just add this point. I think hopes that we could see some big rapprochement with China, some kiss-and-make-up arrangement with China, I think that's very unlikely. Largely because Joe Biden's own democrats in congress are lukewarm at best at warming up to China. They see China not playing fair on so many issues, whether it's the virus or how they treat their dissidents or labor standards.
00:07:01		I think that while Biden is a pragmatist on trade and will be on tariffs with many of our allies, like Canada, I do not anticipate a quick make up with China. That's going to take a while.
	KM	From my perspective, in those first 90 days, and while Greg says he's picking up the phone, I think he also picks up the pen and the standpoint of executive orders. Because that is something the president can do. And so, there is parts of this which he'll have to appeal to the progressive left that wanted certain things done.
00:07:28		You may see some executive orders around the energy sector, fracking on federal lands. You may see some things on immigration. There are also things that have been put in place by the Trump administration here late in his term that have junked that up a bit. You'll probably see him try to undo that in the first 90 days. I'd say fully well it's not bills and laws being passed, but there are going to be orders, executive orders and probably

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		coming to start moving that agenda forward, which may have impacts for markets. We'll have to wait and see on that.
	DP	In addition to those executive orders, back to your point about foreign policy, will that resonate with markets to a certain extent, depending on how that unfolds?
00:08:03	GV	I would just say yes. I think the markets would like to see more predictability on foreign policy.
	KM	And I think you're going to set a tone, as Greg said. I think there's going to be a reach out. The Americans have a lot of damage repair to be done with the world and world leaders particularly. And so, I'd say as much as there are going to be market-friendly things and market-unfriendly things, whether it be from an executive order standpoint, I think there's going to be a calming effect over the fact that the perception is that America is going to try to repair some of the damage done.
00:08:29		And I think Greg is right on the China issue. There may not be a softening in the tone, but the fear of a much harsher trade climate is probably off the table, which will give the market some comfort. I think that risk that we would have had in a second Trump term, very heavy approach to China on trade and tariffs, is probably gone. And so, I think these first 90 days are about diplomacy, as well as the domestic side of it. And the diplomacy side may come from markets in terms of the reacceptance of America's agenda on the world stage.
00:08:56	GV	It's impossible to overstate the importance of the Georgia run-offs, these two senate races on January 5th. If the democrats win both, they have a chance. That means the senate would be tied 50-50 and the democrats would break all ties. That's the rule. If the democrats lose even one of those two, Mitch McConnell and the republicans would wind up controlling the senate. That's such a big story for taxes, for the Biden agenda. I think that if you have a senate that is controlled by Mitch McConnell, Biden will have to scale back on some of his objectives.
00:09:28	DP	And then given how that plays out, do the prospects of changes to taxes, does that happen post the 90 days? Is that something that might occur later in the year?
	GV	Even if the democrats control the senate, I'm not convinced

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		we're going to go right away for big new taxes. I think that would be unlikely. First of all, you've got two moderate democrats in West Virginia and Montana who might not even go along with taxes. That could complicate everything. But I think Joe Biden probably realizes that the economy is still going to be fragile in late January after his inauguration.
00:10:01		I think he also realizes that the financial markets would not be happy to see him right away go for tax hikes. I've thought all along that tax increases, if we get them, will come later rather than sooner.
	KM	I would agree with that. I think right now the prevailing view is that the republicans take one of those two seats and avoid this tie-breaking situation that leans to the democrats in the senate. But let's assume that prevails, the surge in the virus has really caused some pretty good economic softening.
00:10:27		You need to get the economy through to a vaccine and get it restarted again on its normalized pace before you can even probably bring forward the tax agenda. And so, I do think it's later in the year if that outcome would play out at best.
	DP	In terms of the senate and how that shapes up, that's going to have an impact on what's been called the Green Deal and the prospects for that going forward. What's your thought on how that might play out over the next little bit?
	GV	I would just say that I'm not sure Biden will have the money for the Green New Deal. That's expensive. A lot of his proposals, student loan relief, more health insurance, it's all laudable if the goals are noble, but you need more money.
00:11:04		And I'll make a fearless forecast that the republicans who did gain in the house, they're in pretty good shape in the senate, they are about to rediscover religion when it comes to deficits. For the last three or four years they were oblivious to deficits. They had tax cuts and more spending. Now that you have a democrat in the White House, I think the republicans are going to make a very big deal over an out of control spending. That's going to make it even tougher for Biden to get some of these proposals enacted.
00:11:30	KM	I would agree with that. You have to go back to the fact that the

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		New Green Deal is an ambitious project. And if you look at what happened in the house elections where the progressive agenda of the left really was held up, look at the number of losses the democrats took in the house, you look at the fact even if the senate tips by one seat to the democrats, the moderates like Joe Manchin from West Virginia, hard to see them going for this extensive New Green Deal and big tax and spend to go along with that.
00:11:56		Again, I think that agenda is off the table for now. It doesn't mean that the progressives won't try to push Biden away from the senate or move him to the left on some of these issues. It's hard to see it getting through though.
	DP	Once you get through the first year of the new presidential cycle, all of a sudden you're faced with midterm elections in the second year ramping up. What's the impact of that?
	KM	I think as you get through the first year of any president's agenda, it's about trying to check off the list of things that you said you were going to get done. In the case of this president, without a dominant position in terms of the senate it's going to be hard for him to get things done.
00:12:30		We've talked about executive orders, but the big spending initiatives are going to be held in check, and as Greg said, the republicans are going to find new religion around deficits here. I think you're going to get to, if there is a tax proposal that gets put on the table, it may be something that is moderately acceptable to the republicans. You could see that. But that becomes a firestorm as you head to those midterms. February of next year people will start, 2022 will be in full re-election mode.
00:12:55		If you're going to try to get something done, the house is, every two years they run for re-election. If you're going to get something done, it has to be done really in the end of this first year. And then I'd say depending upon how hard the agenda is to the left, it probably opens up the house to being flipped back to the republicans again. I think you have to put all this into the mix of how much can get done, how left of the center it gets pushed, and the fact that this was not a great return if you will for Nancy Pelosi and the democrats in this last election in the house.
00:13:24	GV	I agree with what Kevin said and usually a first-term president,

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		and for Biden it's probably his only term, but a first-term president usually does not have good results in the first midterm congressional election. There's usually a pushback. Also, I would add, I think the specter looking large over both houses will be Donald Trump. I think he will continue to tweet 20 times a day. He has fanatic supporters. You look at the totals, Trump got 73 million votes and I think he is not going to go quietly. He may have legal problems, he may have lots of issues, but I do think that he will be a constant irritant to Joe Biden and the democrats.
00:14:05	KM	And I think you're starting to see the narrative start to build, which is that regardless of all the noise we've been through and where we're going to the inauguration, the tale is being spun that Biden is an illegitimate president, that this was a rigged election. And that rhetoric will play out loudly over the first year, despite what he's trying to do, from those who are upset, of the 70 odd million who voted for Trump. I think that plays into how much gets done and what happens in that midterm.
00:14:30	DP	Do you anticipate that Washington will have more or less influence on markets over the next four years given everything that we've talked about so far today?
	KM	If you look at the Trump presidency, can you remember what happened that night of the election in 2016? The markets were down painfully right out of the get-go when it became clear that Trump was going to be the president. And then somewhere in the wee hours people realized that, wait a minute, this might not be so bad. You had one party now that was pro-business controlling the three houses of government and you saw the agenda. It was very clear.
00:14:58		It was going to be pro-business, which meant cutting corporate taxes, which was a huge bone for the markets as earnings for many companies were propelled forward because of that tax cut. And so, you saw many of the policies take the rhetoric and the noise out, that Trump said he was going to run and get enacted around corporate tax cuts, etc. That had a significant impact on markets. It's hard to see, given what I would say this gridlock, logjam, the inability to really drive laws and legislation. There are going to be things that move markets in dramatic senses, like the Trump administration with the corporate tax side.
00:15:31		If anything, you may see, to Greg's earlier point, we've got to pay

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		<p>for all this at some point, you may see willingness to actually raise corporate taxes a little bit here. And so, again, I don't know that you're going to have the same impact on markets. You may have very sector-specific things around some of these executive orders, like we said earlier. If he actually quickly put a pen to it and banned fracking on federal lands, people may say, I can't touch the energy sector. You'll see some of that play out, but I don't think it's going to be the same backdrop as we saw with the night of the 2016 election.</p>
00:15:56	GV	<p>Let me just say two things. I think that Biden will do something very significant in the winter of 2022 in that he will reappoint Jerome Powell as fed chairman. I think Powell will be an enormous player in the next several years. His term expires in February of 2022. I think Biden would be crazy not to reappoint him, but I think he'll be a really significant player. The other thing that's kind of a wildcard is that the progressives, the progressive left headed by this very ambitious woman, Alexandria Ocasio-Cortez, who wants Chuck Schumer's senate seat, she's probably going to run against him for his New York senate seat.</p>
00:16:33		<p>I think that the progressives will try to flex their muscles. I thought they did not have a very good night on election night, but I think they'll still be very vocal and I think for Joe Biden it's going to be a challenge for him to push back to indicate that he will not go along with some of their more exotic ideas like packing the Supreme Court. But that will be something the markets will have to focus on because the progressives really are not market friendly.</p>
00:16:59	DP	<p>Biden's going to have to manage that relationship with markets, maybe even more so than President Trump has over the past four years, given that some of his policies are going to be accepted and moves, but others may be frowned upon. How does that potentially play out for him?</p>
	GV	<p>Not to sound too cynical, I would just say that the markets contributed mightily to Joe Biden's election by a ratio of about five to one. One of the many surprises in this last election is how poorly Trump did in fundraising with the markets.</p>
00:17:27		<p>And I think Biden has good contacts on Wall Street. He has a pretty wide circle of advisors. I'm not saying he's going to be super gentle to the markets, but I do think he'll listen to them.</p>

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	KM	I'm going to add one thing that doesn't feel relevant right now. As we sit here on the horizon with the vaccine out there into the spring, doses being delivered here in the current month in some of the developed world. If it takes longer to get people vaccinated, if we have a surge post Christmas, a significant surge as families get together and the threat of a lockdown comes back, that's probably something. Again, well, the president-elect has said throughout this month, the hands are off the table.
00:18:02		You really can't rule that out if things get so dire that hospitalizations reach a point of breaking the system. I'd say something that while we think about the endgame, we talk about politics, it could be his policy around the virus and he's been very vocal obviously through the campaign about how poorly Trump handled it. And now this is going to be his turn to see what he would do different, can he do it better, and probably in going to be some of the worst-case levels we have seen over this last year. I'd say today as we sit here, heading into the holiday season in the US and around the world, it's something to keep an eye on.
00:18:33	GV	It's a great point and I would just say with all the certainties, would Joe Biden really want to raise taxes right away in 2021? I think that's unlikely.
	DP	And so, maybe I'll just end it with one last thought. Lots of uncertainty obviously headed out over the next few years, but clearly US politics and what happens in Washington is going to have an impact on markets. Fair to say?
00:18:54	KM	I think Greg said it earlier, don't mistake the fact that Jay Powell is linked to the hip to the markets right now. And we basically said we're going to be there for as long as we need to be and we're going to be there for the small business, the average worker. We're going to create liquidity for these markets. That's an implicit statement that we haven't heard in many, many years. It's one thing to hold rates at zero, it's another one to say they're not going to rise for several years. And at the back of a lot of, whether it's smaller than thought, but there will be more stimulus, but not just in the US, in the EU, in Canada even. And so, that backdrop is, I hate to use this word, it might be the ultimate Goldilocks scenario for the market.
00:19:30		If you have a president that can't get too much negative done and you see the end finally of this horrific pandemic and on the

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		back of all of that stimulus, there's nothing like a good dose of confidence. It's the greatest form of stimulus. If you feel good about your future, you go out and you buy things. And so, there's a powerful cocktail when we get into the spring surrounding the end of this virus and how it's handled, how we distribute this vaccine along with a fed that's very accommodative. That really could set up a very powerful backdrop for at least a year on these markets.
00:20:00	GV	I think that there are a lot of plusses lined up, but let me just add one cautionary note. I think there'll be a focus on Joe Biden's health. I've known him for 40 years. He doesn't seem to be quite as energetic as what I knew him 40 years ago. Sometimes he doesn't get the words out correctly. We will have to watch him, because I think Kamala Harris, if she comes into the picture in a bigger way, I think she's clearly to the left of Joe Biden on a lot of issues, like fracking, on Medicare for all.
00:20:28		I'm not predicting any big, big change, but I do think that there will be quite a focus on this 78-year-old president who sometimes does look a little frail.
	KM	And, lastly, I'd add to that, which is we are probably facing a one-term president. But as we get into 2022, this vaccine will have been out there, most of the population will have been inoculated, the recovery will hopefully be full on. And then we'll be looking at the 2024 contenders and probably it's not going to be Biden. And we're going to look back and say, okay, we've had all this stimulus, now we've got to pay for it.
00:21:00		The threat of higher tax is in front of us. The threat of higher interest rates starts to come into the fore. So, as you move into the outyears of this presidency, it could be a lot choppier for the markets than certainly the first one or two.
	DP	And that feels like a pretty good place to end. Thanks again to Greg for joining us and Kevin, until next time. For a full transcript of today's episode, visit agf.com/podcast and don't forget to subscribe to hear more from us at Apple Podcast, Spotify, Google Play Music, Stitcher, Podcast Addict and Pocket Casts.
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