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## A Democratic sweep could mean more stimulus, but more taxes

◆ Recent polls are showing an increased probability of Democrats taking the Senate, aside from showing a wider lead for Senator Biden.

◆ If Democrats take the White House and the Senate, they are likely to push through stimulus packages worth nearly US\$3.8 trillion based on Senator Biden's government plan and recent bills in the House of Representatives.

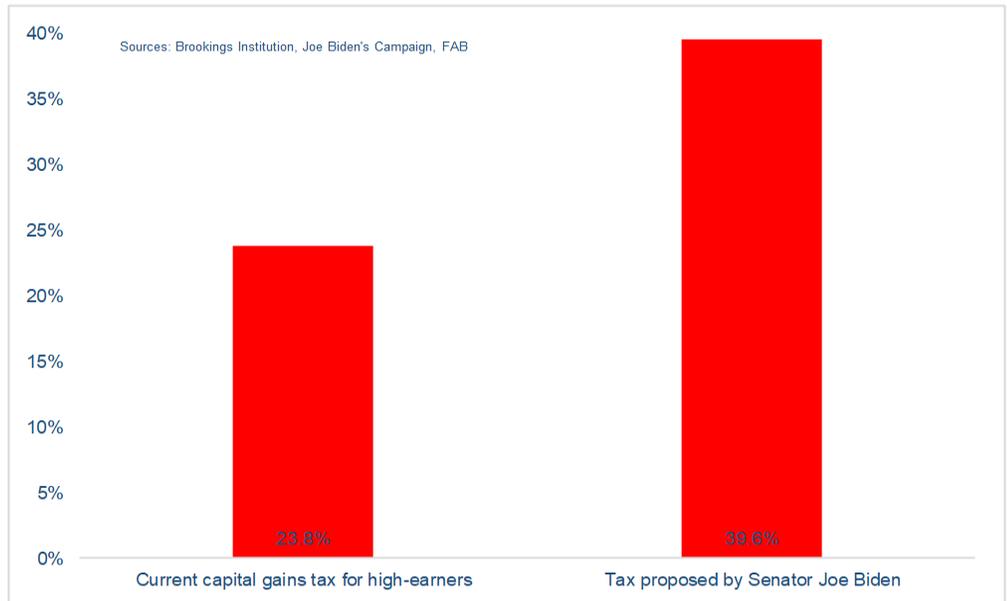
◆ However, Senator Biden is also proposing an increase in corporate taxes to 28% from 21% and a 64% hike in capital gains taxes.

◆ The latter, in particular, could prompt year-end selling as high-earners take profits within the current tax system.

◆ The FAB AAC remains underweight equities and overweight gold and investment grade bonds.

Markets were in relief mode today as President Donald Trump made TV and public appearances to reassure people that he was recovering well from his Covid-19 infection. Along with the signs that his health is improving, there were early indications that his illness may have increased the public sympathy for the President, something that could help him stay in office, even though the latest polls show Senator Joe Biden far ahead.

With only 29 days to go before the election, investors are increasingly aware of what the outcome could mean for the US stock market, which often paces most other risk assets. In that sense, the Senate races matter nearly as much, and the latest polls also suggest Democrats could take control of the Upper House.



These polls, therefore, draw three scenarios: one in which President Trump remains in the White House but Republicans lose the Senate, a Democratic sweep, or a continuation of the status quo. Naturally, the latter just means more of what has happened since 2018, when Democrats took the House.

The other two, however, pose serious questions for the US stock market. A situation in which President Trump is in the White House but Democrats control both the House and the Senate could mean four years of stagnation. President Trump is likely to veto many of the Democratic initiatives, including tax hikes, and lawmakers are likely to curb his spending and ability to govern. That is hardly a situation to look forward to.

The Democratic sweep scenario probably entails more action, some of which would help spur a further rally, but some which could translate into a sell-off towards the end of the year.

### Senator Joe Biden has proposed increasing capital gains taxes by 64%

On the positive side, Democrats have pushed a US\$2.5 trillion package, opposed by Republicans. If they control Congress, Democrats could pass the bill, and could also approve a US\$1.3 trillion Senator Biden's proposed infrastructure plan.

However, they may also increase corporate taxes to 28% from 21%, and increase capital gains taxes for high earners to 39.6% from the current 23.8%, as Senator Biden has proposed. The capital gains levy could prompt investors to sell winning stocks before year-end to avoid higher taxes later. The corporate tax affects more technology companies, the market winners so far. Hence, a Democratic sweep could prompt some year-end selling, but it would also usher a lot more spending ahead.

# Investment Strategy Update

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