Global Counsel

US policy update: The US presidential race and what to expect for financial services

25th June 2020

This US election cycle, GC team members in the Washington, DC and London offices are holding a series of conversations on the elections and wider US policy issues, and how each might impact investors and companies on both sides of the Atlantic. Below is a brief extract from the eighth conversation in the series, which took stock of the latest developments in the race for the Whitehouse, before looking at what might be expected on financial services policy from a hypothetical Biden presidency. The speakers are Erin Caddell (Director, GC US) and Joe Palombo (Practice Lead, Global Investor Services). To access the full recording, email m.milne@global-counsel.co.uk

US presidential race

JP: Where are we on the state of the presidential race and what are you seeing from the DC perspective?

EC: The bottom line is that it is not going well for Trump at all. Biden now has a ten-point polling lead, with the betting markets moving to an even wider spread of 19 points. Perhaps more importantly, Biden's polling lead is at least four points in polls in Florida, Wisconsin, Arizona, Michigan and Pennsylvania, all states which Trump won in 2016. Given that another poll just out this morning has Biden with even bigger leads in these battleground states, it is pretty clear that the combination of Trump's handling of the covid-19 crisis – exacerbated by many states recently experiencing an uptick in new cases as they reopen - and his reaction to the protests against police brutality is being viewed negatively by many.

Analysts are looking at the Eelectoral cCollege math and some now give Biden a 75 per cent chance of winning. However, there is still a path, albeit a hard one, for Trump to win and given the backdrop of the pandemic a lot could change quickly over the next few months. History tells us that this is a distinct possibility. At the same point in the 1980 election cycle Democratic nominee Michael Dukakis led George H.W. Bush by 5 per cent nationally, yet he lost the popular vote in November by 8 per cent and Bush picked up 80 per cent of eElectoral cCollege votes. This was after Bush's infamous Dukakis-in-a-tank campaign ad. So, it is still far too soon to call the election and a lot can happen in four or five months, particularly in politics today.

Global Counsel 1050 Connecticut Ave NW, Suite 500, Washington, DC 20036
E: info@global-counsel.com **W:** www.global-counsel.com **@:** global_counsel

JP: Thanks Erin, it does just seem like a very few short weeks ago that some were saying this was Trump's race to lose, so it is incredible to see how quickly things can change. Assuming Biden ends up in the White House in November how might the internal tensions between progressives, who have by no means disappeared, and moderates within the Democratic party impact financial services policy?

EC: Navigating the balance between the progressive and liberal wings of the party could be the defining challenge of a Biden presidency. Go too far left and you lose the independents who lean Republican but wouldn't vote for Trump a second time; too far right, and you lose the Sanders-Warren-AOC wing who are the folks who get out the vote. We think that Biden will likely lean to the progressive side when it comes to financial services. The deep-rooted and stark wealth inequality in the US, which has arguably been reinforced by the Fed propping up asset prices in the face of the pandemic, will be a backdrop to every action Biden takes. It would be difficult, for instance, for Biden to name many financial-industry executives to his cCabinet or to head up regulatory agencies.

How could this shift impact the industry? Bank capital and liquidity requirements could go up, after going nowhere but down under Trump. The carried-interest deduction for private equity firms and a wealth tax could also be on the table, to address what will be a multi-trillion-dollar budget deficit that will greet whoever holds the White House in 2021. On mortgage policy, the "recap and release" plan advocated by some for Fannie Mae and Freddie Mac – which would return them to the private markets and full investor ownership – would also become a whole lot less likely. So, there will obviously be losers from a more aggressive regulatory approach toward financials.

But there could be winners, too. One example is alternative credit reporting bureaus. There are few competitors: three companies largely control who is deemed credit-worthy in the US and who is not. For years, advocates from both parties have said that the credit-scoring system should be opened-up to new metrics that can measure consumers' ability to repay debt such as utilities or rent payments. Critics include Republican Maxine Waters, chair of the House Financial Services Committee, and the Consumer Financial Protection Bureau, which would be empowered under Biden. Traditionally, new business models in credit scoring get scooped up by the three giants. Could the equivalent of the Fox channel (which was the competitor to the three incumbent TV channels) for consumer credit reporting emerge under Biden? Now that would be ironic.

If you would like to be added to our invite list for the bi-weekly call, please email Matilda at m.milne@global-counsel.co.uk

Global Counsel 1050 Connecticut Ave NW, Suite 500, Washington, DC 20036
E: info@global-counsel.com **W:** www.global-counsel.com **@:** global_counsel