

Who will be the winners and losers of the US election?

Peter Anderson, CIO US Equities at RCM, the active equity company within Allianz Global Investors, offers his outlook on the implications of the forthcoming US election:

“It appears increasingly likely that Barack Obama will win the US Presidential election. The Democratic party is likely to add significantly to its majorities in the House and Senate, which theoretically would prevent Republicans from mounting a filibuster against key legislation.

“An Obama administration is likely to be greatly constrained by an enormous budget deficit which could reach \$1.5 trillion in 2009. Nor is the withdrawal of American forces in Iraq likely to provide a ‘peace dividend’ given the need for additional troop deployments in Afghanistan.

“Despite these constraints, we anticipate the passage of two fiscal stimuli bills in the next six months. The first \$150 billion is likely to be passed before the end of this year. The second bill could be as large as \$300 billion in the first quarter of 2009. Both bills will provide for tax rebates and tax reductions for middle and lower income earners, while also focusing on infrastructure spending for various transportation projects.

Other key components of an Obama programme are likely to be:

1. Significant changes in America's energy policies with an emphasis on the development of alternative energy sources. This is likely to be coupled with a carbon tax, higher automobile mileage requirements and other efforts to reduce the US dependence on carbon fuels.
2. Spending on basic research and development, including materially higher funding levels for the National Institution of Health.
3. Increased regulation for a wide variety of industries. Banks, brokers, hedge funds and insurance companies are likely to be primary targets. We will also see more intense regulation of the healthcare industry and food producers.
4. A sharp increase in aid to state and local governments as Washington seeks to bail out government entities suffering from a steep decline in tax revenues.
5. America's unions are now almost an irrelevance – representing only 7.3% of the workforce. A Democratic administration is likely to take radical steps to make unionisation of the workforce far easier.

6. Rising taxes for higher income groups. We anticipate that combined state and federal marginal tax rates will exceed 50% in many regions. In addition, social security taxes and medicare taxes will rise and means testing is likely. The good news is that such tax increases may be delayed until 2010 or even 2011 given the current recessionary environment.

“In summary, we anticipate more taxes, more regulation, a bigger government and a massive budget deficit. This sets the stage for a potential inflation bubble of massive dimensions, but that is unlikely to occur until 2011-2012 at the earliest. It is in that environment that the dollar is likely to resume its decline against both the Euro and Yen, but that's another story.”

The major winners and losers under an Obama administration are likely to be:

WINNERS

1. The middle and lower classes will be the recipients of tax reductions and subsidies.
2. Mass retailers such as Walmart are likely to benefit from income redistribution.
3. Companies that supply equipment associated with research and development efforts will be helped by higher research and development spending.
4. Beneficiaries of infrastructure spending including cement producers, engineering firms and producers of heavy equipment.
5. Solar, wind, biomass and other alternative energy producers and those who supply them will be helped by new energy and environmental policies and regulation.

LOSERS

1. Upper middle and higher income groups will suffer from relentlessly increasing tax rates at the local state and federal level.
2. Those who cater to higher income groups will suffer as a consequence, including but not limited to high-end retailers and luxury goods producers.
3. Credit card companies, insurance companies, hedge funds, banks and brokers will all be negatively impacted by a massive increase in regulation.
4. Large pharmaceutical companies and health insurance companies will see pricing pressures increase as new healthcare programmes are introduced and efforts are made to reign-in rapidly escalating medical costs.
5. Carbon based energy companies will experience more regulation and higher taxation.

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Notes to Editors:

About RCM (all data source: RCM as at 30/06/08)

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