

# Research

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*Morten Kongshaug, Chief Analyst, Equity Strategy, +45 45 12 80 57, mokon@danskebank.dk*

*Peter Passing Andersen, Senior Analyst, +45 45 12 82 29, pa@danskebank.dk*

*Mads Deth Hesselholt, Senior Analyst, +45 45 12 80 47, mhes@danskebank.dk*

*Signe Roed-Frederiksen, Senior Analyst, +45 45 13 70 19, sroe@danskebank.dk*

## US: Presidential election 2008

- **Tuesday, November 4 is US Election Day. The presidency, one third of the seats in the Senate and the entire House of Representative are up for the vote.**
- **Barack Obama has been ahead of John McCain for most of the campaign, and has recently seen his lead increase. Recent polls suggest a landslide victory to the Democrats is within reach. We take a look at the political environment facing each of the candidates.**
- **Regardless of who takes over the Oval Office in January, the new president will face enormous challenges, with the US economy in its worst condition for decades and a financial system in chaos. We take a look at the major differences between the two candidates on macroeconomic issues.**
- **Wall Street clearly points to Obama as the president it has the greater faith in, reflecting a desire for a new start that can re-establish the consumer and investor trust that is essential for the economy and the financial markets to function. What impact will the election have on equity markets and sectors?**

### Caution! Risk of landslide ahead

#### *Do not forget the election*

On Tuesday, November 4, US voters will head for the ballot box to vote for the next president of the USA, who will be sworn in on January 20, 2009.

So far, the election has not attracted that much attention in the markets due to the financial crisis. However, the election to the most prominent public office in the Western World is the main event of the week. Americans will have to choose between Arizona senator John McCain (R) and Barack Obama (D) – senator for Illinois.

The election comes at a critical time for the US and for Wall Street – a time when the world's lead-

ing economy is on its knees due to a credit crisis that is rapidly becoming the greatest economic challenge for the US since the Second World War.

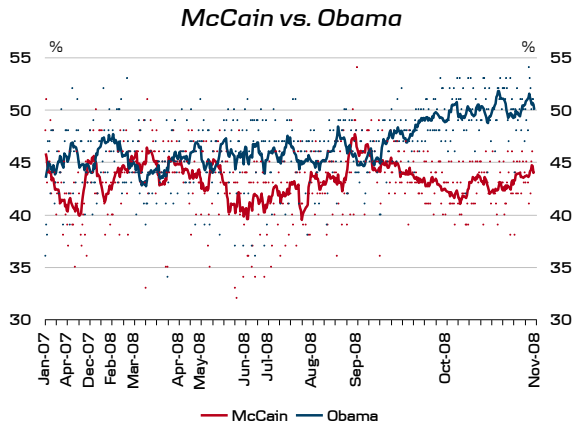
Policy differences between Barack Obama and John McCain are likely to prove important for future responses to the current financial and economic crisis.

#### *Obama vs. McCain*

For most of the campaign, the polls have put Obama ahead of McCain. Obama has been portrayed as a new start, contrary to McCain, who has had the disadvantage of being Bush's successor. The war in Iraq, the war on terror in Afghanistan, the financial crisis and the deteriorating

economy are all issues that have depressed McCain's popularity.

In recent weeks Obama has increased his lead over McCain, with the latest round of polls giving Obama a lead of between 3 and 15 points. Hence, it seems relatively likely that Obama will take over the Oval Office. Indeed some observers are now talking about the possibility of a landslide victory to Obama.



Source: Pollster.com

Note: Thick line is average of 10 most recent polls

However, the election is not just about the presidency. One third of the seats in the Senate and the entire House of Representatives are up for the vote as well. Here too, the Democrats look set to win a sizeable majority. With the Democrats perhaps gaining an even firmer hold on Congress, the political environment facing the next president is very different depending on who wins.

**The race for the Congress**

Senate		
	Poll	Current
Republican	39	49
Toss up	4	
Other	2	2
Democrat	55	49

House		
	Poll	Current
Republican	166	202
Toss up	24	
Other		
Democrat	245	233

Source: Pollster.com

If McCain wins the presidency he will face a tough time with a Democrat-dominated Congress. Indeed there is a risk of a Republican 'lame-duck-administration', which would have difficulties

achieving any of its political goals. In contrast, Obama would probably be in a very strong position as a president with the full support of Congress. Hence, for this reason alone, one should expect a Democratic administration to be more effective.

Further, with a landslide in sight for the Democrats, they could gain more than the 60% of Senate seats needed to invoke Cloture (i.e. suspend a Filibuster). This would again make a Democratic administration even more sovereign and make it much easier to pass legislation in the Congress.

**Main economic issues**

With the economy in recession, housing foreclosures at record levels and the financial system in chaos, the campaigns have heavily focused on economic and financial issues.

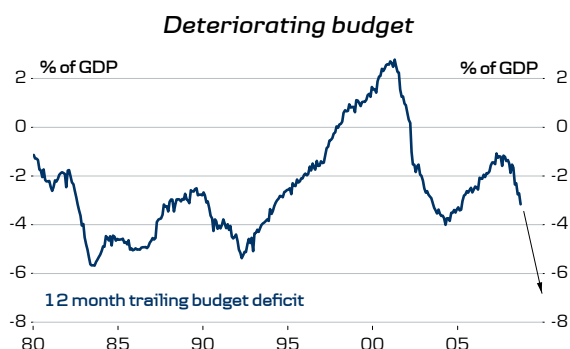
A second round of stimuli to revive the economy is now very likely irrespective of who wins. In recent weeks amounts ranging from USD 100bn to USD 300bn have been mentioned as possible totals of a new economic stimulus plan. From our point of view, it is more a matter of *how much* and *when*, rather than *if*. While an extraordinary gathering of Congress between the election and the inauguration of the new administration has been toyed with, a second stimulus bill is probably unlikely to be passed by Congress until early next year.

There are, however, important differences between how the two candidates would prefer to implement another round of stimuli. McCain is mostly advocating for tax cuts for investors, corporate businesses and senior citizens. Obama would prefer to use government spending and transfers to low-income families as his primary tool. Any Obama tax cuts would be for the benefit of small businesses and low-income families.

The housing slump is another major issue. Foreclosures are at a record high as prices continue to decline and financing costs increase. Both candidates have proposed further assistance programmes for homeowners and both support increased regulation of the mortgage and banking industries. Obama has proposed the most extensive and expensive mortgage assistance program.

The budget situation is deteriorating fast. The government is spending unprecedented amounts of taxpayer money to stabilise the economy and the financial system. Moreover, rising unemployment and negative capital gains are likely to erode the

income base substantially. This put a restraint on how many resources might be available for implementing further reforms – hence, a drawback for both candidates.



McCain is aiming for a balanced budget by 2013, while Obama has not yet made any promises.

*Financial regulation* will certainly be on the agenda in the coming year no matter who wins the election. Obama is expected to take the tougher stance on this issue, and he generally supports the idea of the Fed being a 'super-regulator'.

*Trade* policy is traditionally a political battleground in the US. Some prominent Democrats, such as NY Senator Schumer, have long been advocating that free trade is bad for the economy because it has caused substantial job losses in the manufacturing sector. With the economy currently in recession, sentiment could easily turn more protectionist – particularly with a Democrat-dominated administration. Obama has announced that he opposes several pending free trade agreements and that he would aim to rewrite some of the existing NAFTA agreement.

McCain takes the traditional Republican stance of supporting free trade.

Both candidates have expressed concern about China's exchange rate policy, though on this issue, too, a Democratic administration is likely to be the more aggressive.

#### **General market impact**

Wall Street's view of potential presidents can be very divergent, and the Street clearly points to Obama as the president it has the greater faith in. On Wall Street, too, the Republican candidate, McCain, has throughout the campaign had diffi-

culty in distancing himself from his very unpopular fellow party member in the White House.

Wall Street's more positive view of Obama reflects a desire for a new start that can re-establish the consumer and investor trust that is essential for it to function.

Historical comparisons do not give an unequivocal answer to how equity markets might react to a new start with Barack Obama.

There are two "new start" presidential elections that could be compared with the present situation: the unpopular Herbert Hoover (R) being ousted by Franklin D Roosevelt (D) in the midst of the Great Depression in 1933, and the equally unpopular Jimmy Carter (D) being replaced by Ronald Reagan (R) in 1981 in the middle of a recession.

The S&P500 rose more than 50% in 100 days when Roosevelt took over, while the market was flat 100 days after Reagan assumed office. One perhaps vague conclusion could therefore be that a new start at least does not harm Wall Street.

Of course, McCain, too, could signal a new start, though here one must remember that he would presumably have a much tougher time pushing his policies through a Congress that is forecast to be Democrat-dominated.

#### **Impact on equity sectors**

Presidential elections are usually of most importance for equity markets. When it comes to effects on specific equity sectors, the following differences and similarities could be highlighted:

*Alternative Energy:* Both candidates are considerably more positive on alternative energy investments than the current president. However, while McCain's programme largely rests on a major expansion of nuclear power, Obama's programme is broader in its reach and embraces solar, wind and nuclear power.

*Oil and Gas:* As regards fossil fuels, big oil could look forward to opportunities for profitable investments in the OCS/ANWR areas under McCain, but not Obama.

*Healthcare:* Both candidates could be tougher for this sector than Bush, as both candidates are demanding cheaper and better healthcare services for the ordinary American. McCain would, how-

ever, merely tweak the system, while Obama is aiming for a major reform that could squeeze the price on pharma products, though at the same time could perhaps lift sales volumes.

**Construction:** Obama's infrastructure plans could provide a much-needed boost to the sector, while McCain wants to limit public programmes, including federal government infrastructure investments.

**What Wall Street says: Obama vs. McCain**

	McCain	Obama
Overall investor/consumer confidence	Neutral	+
<b>Sector specifics</b>		
Alternative Energy incl. Neuclear power	++	++
Oil&Gas	+	Neutral
Health care	-	-
Infrastructure/Construction	Neutral	+
Defence	+	-
Bank Regulation	-	-

**Defence:** Major differences given that McCain wants to maintain the US presence in Iraq, while Obama favours a pull out.

**Financials:** Both candidates support increased regulation of the financial sector, and there is probably no great difference between the two candidates' initiatives to avoid a new credit crisis.

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