

Trump's Crowning Achievements

Thursday's WSJ banner headline:

MOB STORMS CAPITOL

Lawmakers reconvene hours after pro-Trump rioters break into halls of Congress

BY LINDSAY WISE AND ANDREW DUEHREN

A mob of President Trump's supporters stormed the Capitol, overwhelming police and creating a chaotic, violent scene that derailed for several hours the ratification of President-elect Joe Biden's victory in the 2020 election. ...

From Thursday's NYT's The Morning:

They listened to the president

Donald Trump has been attacking American democracy for much of his time as president.

He has told repeated lies about voter fraud, undermining people's confidence in elections. He has defied parts of the Constitution. He has spent his final weeks in office pressuring other government officials to overturn the result of an election he lost. He has occasionally encouraged his supporters to commit violence.

Yesterday, hundreds of those supporters decided to take Trump literally.

They fought their way through armed police, smashed windows and stormed the U.S. Capitol to prevent Congress from certifying President-elect Joe Biden's victory. They then spent several hours inside the building, vandalizing offices and the House floor. They injured at least 14 law enforcement officers. Vice President Mike Pence, members of Congress and others fled for their safety.

In the end, the rioters — and Trump — will fail in their effort to keep him in power. At about 3:45 a.m., Congress did confirm Biden's victory. Thirteen days from now, he will take the oath of office and become president of the United States.

But a physical assault on the nation's seat of government is no small thing. And it was not a onetime event. It was a logical extension of the message that



President Trump spoke to his supporters, directing them toward the Capitol. Pete Marovich for The New York Times

Trump has long been telling his supporters — that American democracy is a fraud, that his opponents are traitors and that his allies need to fight back. ...

Trump, speaking to the protesters at a rally hours before they burst into the Capitol, referred to his political opponents as “bad people” and “the enemy of the people.” He described his allies as “warriors” and encouraged them to stop “fighting like a boxer with his hands tied behind his back.” He added, “We’re going to have to fight much harder.”

At the same rally, Rudy Giuliani said that Trump’s opponents should go to jail and added, “Let’s have trial by combat.” And Donald Trump Jr., addressing congressional Republicans who planned to split from his father, said: “We’re coming for you, and we’re going to have a good time doing it.”

After the violence, Trump himself wrote on social media, “These are the things and events that happen when a sacred landslide election victory is so unceremoniously and viciously stripped away from great patriots who have been badly & unfairly treated for so long.”

Trump’s efforts are failing in large part because a significant number of Republicans have refused to go along with him. But many other high-level Republicans have echoed and encouraged him. Josh Hawley, Ted Cruz and dozens of other members of Congress have fanned voters’ anger by promoting Trump’s lies about the election. ... They have joined his attempts to undermine the American system of government.

“This is what you’ve gotten, guys,” Senator Mitt Romney, the Utah Republican, yelled as the rioters breached the Capitol yesterday. He was addressing his colleagues who have supported Trump’s efforts to overturn the results of the election.

Shortly afterward, uniformed police officers evacuated senators and reporters from the chamber to the basement, before rushing them through underground tunnels to a secure location in a Senate office



A crowd gathered on the west front of the Capitol. Roberto Schmidt/Agence France-Presse — Getty Images



Senator Josh Hawley gestured to Trump supporters outside the Capitol. Francis Chung/E&E News and Politico, via Associated Press

building. There, Romney saw Jonathan Martin, a Times reporter, and called for Jonathan to come over and talk. In 15 years of covering him, Jonathan said he had never seen Romney so alarmed.

“This is what the president has caused today, this insurrection,” Romney, with fury in his voice, said.

- Twitter and Facebook temporarily locked Trump’s accounts, after he had issued statements that mixed praise for the rioters and calls for peace.
- The police appeared unprepared for the onslaught Trump initially [rebuffed requests](#) to send the National Guard to the Capitol. Pence eventually approved the order.
- Former President George W. Bush said he was “appalled by the reckless behavior of some political leaders since the election and by the lack of respect shown today for our institutions, our traditions and our law enforcement.”
- James Mattis, former defense secretary under Trump, said: “Today’s violent assault on our Capitol, an effort to subjugate American democracy by mob rule, was fomented by Mr. Trump.”
- “This is not dissent,” Biden said in a speech as the chaos was unfolding. “It’s disorder. It’s chaos. It borders on sedition and it must end now.”



Capitol Police trying to prevent pro-Trump extremists from entering the House chamber. J. Scott Applewhite/Associated Press

Ian Bremmer, whose analyses we frequently share, is widely regarded as one of the top Geopolitical Strategists in the country. From Jan. 5th's Signal:

Top Risks 2021

Every year, Eurasia Group ... produces its list of the top 10 geopolitical risks for the coming year. ...

For 2021, Bremmer and Kupchan double down on the accelerating [polarization](#) at the heart of the world's sole superpower. Last year's [report](#) opened with the question "Who Governs the US?" Top Risk #1 centered on the election-year threat to the integrity of American political institutions.

This year's **Top Risk #1** is titled "**46***," as Joe Biden's term opens the era of the asterisk presidency, a time when every Oval Office occupant is seen as illegitimate by roughly half the country — and (some of) the lawmakers that election skeptics send to Congress. This week's [expected insurrection](#) by dozens of Republican lawmakers on behalf of outgoing President Trump and his charges of election fraud on the floors of the US House and Senate underline the depth of partisan bitterness.

The significance beyond US borders is that Republicans and Democrats will disagree sharply — with each other and among themselves — over most of the objectives of [US foreign policy](#).

In addition, the size of Trump's base, and the [broadening of that base](#) to include more minority voters, leaves allies and potential partners wondering whether the next "America First" president and foreign policy are just four years away.

<https://www.gzeromedia.com/video/watch-ian-bremmer-explain-the-top-risk-of-2021-divided-us-domestic-politics> (3 min.)

The headline that would otherwise have appeared at the top of Thursday's WSJ sat at the bottom, and yet will likely be far more consequential over at least the next two years:

Democrats Win Control of Senate

By Joshua Jamerson, Cameron McWhirter and Valerie Bauerlein

Democrats Jon Ossoff and Raphael Warnock won both Senate runoff races in Georgia, giving Democrats control of the U.S. Senate and easing the path for President-elect Joe Biden's appointments and legislative agenda. ...

Rusty Paul, a former chairman of the Georgia GOP, said Mr. Trump's efforts to overturn the November results and his insistence that he won were "a huge, huge burden that the candidates had to bear. The president put himself on the ballot again and the anti-Trumpers came out in full force." ...

The following Analysis also appeared on the front page:

Political Violence Shakes Country

By Gerald F. Seib

Never in recent memory have the events of a single 24-hour period so shaken two presidencies, the very Capitol of the United States and the nation itself as they did on Wednesday.

The remarkable scenes of political violence that broke out amid what was to be a peaceful confirmation of the transfer of power are testing America's democratic institutions, and it's far from clear how they will respond.

President Trump's term, which began with Republicans fully in charge of Washington and the promise of a new kind of populist leadership, effectively came to an end Wednesday with his party aflame and out of power, some of its leaders excoriated by a president they had loyally backed, and a mob of Trump supporters occupying and vandalizing the Capitol.

The effects will ripple out for years to come and the full consequences will be left for historians to sort out. It seems likely, though, that the chances that other Republicans will see Mr. Trump as the leader of their party after he leaves office have been diminished significantly. ...

Meanwhile, the efforts of President-elect Joe Biden to calm and unify the nation have become more complex. On the one hand, the willingness of Trump supporters to resort to violent behavior on the Capitol grounds shows how deeply they question his legitimacy, and how unwilling they are to accept him as their president.

On the other hand, it's possible the sheer horror that most Americans felt, and that most Republicans expressed, at the mayhem will cause everyone to take a step back from divisive political behavior and look harder for common ground.

It's surely an exaggeration to say the Trump supporters who stormed the Capitol did Mr. Biden a favor (**we are not so sure**), but they lent new urgency to his calls to back away from the bitter politics of the past few years.

Mr. Biden sounded that note when he delivered a televised response to the violence, calling for "the renewal of a politics that's about solving problems, looking out for one another, not stoking the flames of hate and chaos."

A key question now is how, far beyond Washington, the country at large reacts. Will voters on both sides of the partisan divide now see compromise and consensus as preferable to continued deep divisions, or will they see the day's events as further evidence of how far apart they are from countrymen with whom they disagree?

The day began with the electoral process playing out according to the mandate of the Constitution. Results of two runoff elections for Senate seats in Georgia were arriving, with both seats falling to the Democrats. ...

Meantime, the Congress convened to conduct the normally constitutional process of counting the Electoral College votes that will officially make Mr. Biden the next president. There figured to be hours of debate as Republican lawmakers lodged protests over alleged election irregularities and potential fraud, but the outcome was guaranteed: Mr. Biden's victory would be confirmed.

But Mr. Trump was hearing none of it. At midday, he appeared at a rally his team had organized just beyond the White House grounds and launched a full-scale verbal attack not just on the election process, but on his own party and its leaders. He repeated a long list of complaints about voting irregularities and alleged fraud, and proclaimed: "We will never give up. We will never concede."

He excoriated "weak Republicans, pathetic Republicans" who weren't supporting him, criticizing some by name. And he urged the crowd to march down Pennsylvania Avenue to the Capitol. The fire was set.

At the Capitol, Mr. Trump's own vice president, Mike Pence, was presiding over the task of counting the nation's electoral votes. Mr. Pence had just proclaimed he would defy the president's wishes that he seek somehow to unilaterally overturn the results of the presidential election.

Senate Majority Leader Mitch McConnell, in his own break with the president he had steadfastly defended, said none of the alleged election irregularities, even if they took place, were nearly large enough to change the outcome. He declined to support any effort to overturn the results.

And then the mob arrived. Mr. Pence had to be whisked away in protective custody to protect him from supporters of his own boss.

The task of counting electoral votes—a process the nation's leaders have previously carried out in good times and in bad, during war and peace—was suspended as the nation's elected leaders went into lockdown.

By nightfall, the nation's capital was under a curfew, and lawmakers were under guard. ...

So how did the markets react? "**The yield** on the benchmark **10**-year Treasury note rose above 1% for the first since March. ... U.S. stocks were mixed, with the Dow and S&P 500 rising 1.4% and 0.6%, respectively, while the Nasdaq fell 0.6%." And yet small-cap stocks surged 4%. According to SentimenTrader, "Never before had the Russell 2000 rallied so much on a day it scored an all-time high."

From Morningstar:

Democrats Sweep in Georgia to Win Senate Control--Now What?

Corporate business taxes set to rise, but not up to 2016 levels.

Aron Szapiro

Jan 6, 2021

Democrats pulled off an improbable double victory in Georgia, winning both special elections, an outcome [we pegged at around a 20% possibility](#). With the Democratic candidates' wins, the Senate makeup will be 50 Democratic senators and 50 Republican senators, with Democratic Vice President-elect Kamala Harris acting as a tiebreaker in votes.

Democrats already hold a majority in the House of Representatives, so the victories in the Georgia races mean President-Elect Joe Biden will likely have an easier time with at least some of his agenda under the new Senate control.

We think the biggest effect a Democrat-controlled Congress could have on investments is a likely increase in the corporate business tax rate, probably up to 28%, with fewer or no changes in the rate paid on offshore income. Such a change would likely be for the 2022 tax year.

We also think this new Senate majority opens up possibilities for changes in energy and health policy, as well as further momentum for more stimulus, including additional direct payments to most Americans and funds to stabilize state and local governments' finances. But we don't believe many of these changes will dramatically affect valuations, except for a near-certain increase in the corporate business tax rate.

Even With Senate Control, There Are Limits to What Democrats Can Realistically Achieve

The Democrats' sweep in Georgia opens up possibilities for them to pursue their agenda that would not be available with a divided government. However, the narrow majority will largely constrain Democrats from pursuing the more-ambitious aspects of Biden's campaign platform, much less the more-left-wing vision on which some members of the caucus have run.

The table below shows the probabilities we assign to various initiatives given a Democratic Senate. These probabilities have some interdependency on each other. Congress can only do so much in the 2021-22 legislative session. To the extent that Congress needs to do more to respond to the coronavirus pandemic, there will be less room for other priorities.

Policies and Probability of Enactment Given a Democratic Senate

Issue/Policy Measure	Probability Under 50/50 Senate
<i>Revenue raisers of any kind</i>	High
Increase corporate business tax to 28%	High
Increase marginal tax rates on families earning more than \$400,000	High
Increase effective offshore tax rates	Medium
Financial transactions tax	Very low
<i>Stimulus including state and local government aid</i>	
Large ~ \$1.8 trillion including any lame-duck appropriations	High
Very large > \$2.5 trillion	Low
<i>ACA reform</i>	High
Medicaid expansions or higher exchange subsidies via legislation and executive action	High
Public option	Low
"Medicare for All"	Very low
<i>Climate change action</i>	Medium
Restore and increase tax credits aimed at consumers	High
Increased enforcement of existing laws, revised fuel economy standards, and a new clean power plan	High, with some uncertainty attributable to inevitable litigation and evolving jurisprudence
Major investments in new energy research	Low
Legislation to codify caps on emissions beyond those done by agencies under current legal authority	Very low

Source: Morningstar.

Our baseline view is that Democrats will reverse some of the cuts in the Tax Cuts and Jobs Act and then use the money to expand Medicaid and add some incentives for consumers to reduce their greenhouse-gas emissions through buying electric vehicles, solar panels, and other substantial purchases. We believe any further stimulus would not be paid for with taxes.

Implicit in our assumptions is that senators will typically vote along party lines with few defections, leading to at least as much party cohesion as we saw from Democrats during the first legislative session during Barack Obama's Administration and from Republicans in the 2017-18 legislative session under the Donald Trump presidency.

We assume Democrats will need to act unilaterally to accomplish most of their priorities, and, given the low levels of ticket-splitting among voters, as well as the fact that most members of Congress run on national rather than local issues these days, there is a reasonable chance they will have enough party cohesion to do so on modest healthcare reforms, increasing corporate taxes, and fiscal stimulus. All of these changes can happen without the 60 votes needed to overcome a filibuster. Climate change and energy policy will be much more difficult for a narrow Democratic majority to address.

A handful of [Democratic policy priorities](#) can be accomplished solely through executive action, and we expect a potential Biden Administration to pursue these priorities unilaterally. ...

Tax Hikes Are Likely Under Democratic Senate Control, but Not for Everyone

At the top of any Democratic agenda will be new sources of revenue. Other policy priorities require new infusions of money, and that could mean an increase in taxes for corporations and possibly high-income workers. Democrats have generally followed “pay-go” rules, meaning they will attempt to pay for new policy initiatives with new funds or spending cuts over a 10-year window. While these provisions may rely on gimmicks like deferred revenue-raisers to some extent, there are enough centrist Democrats that the caucus will insist on increasing revenue to pay for new programs.

Outside of increasing marginal tax rates on high earners, the most obvious place to raise revenue is by reversing the corporate business tax cuts that were reduced to 21% from 35% --which was the centerpiece of the 2017 Tax Cuts and Jobs Act. We think an increase to around 28% is very likely. That’s because as a candidate, Biden repeatedly said he would not increase taxes on those earning less than \$400,000 annually, leaving few opportunities to raise revenue.

Democrats may also seek to increase taxes on the offshore earnings of U.S. corporations. However, it will be more difficult for Democrats to keep their caucus together to do so. Arcane tax issues are hard to explain to the public, and there are fierce lobbying interests across many industries seeking to keep these taxes low. But, to the extent that Democrats need this revenue for healthcare spending, we think there is at least a reasonable chance of them raising this money by increasing the rates on global intangible low-taxed income.

[Our back-of-the-envelope math suggested](#) that an increase in the corporate tax rate to 28% from 21% would reduce U.S. corporate aftertax earnings by an average 6%. If we also saw increased taxes on offshore earnings, that could reduce aftertax earnings by perhaps a total of 9%. ...

We think any additional revenue Congress raises through tax increases--including from any surcharges for families with more than \$400,000 in annual income--will be offset with new spending as outlined, or with tax expenditures such as an increase in the Child Tax Credit.

New Stimulus May Not Be Crucial for Economic Recovery, but Vaccine Distribution Is

Next on the priority list will be additional stimulus, despite the \$900 billion-plus package Congress passed in December 2020. Unlike other policy efforts, Congress will likely suspend “pay-go” rules for further response to the pandemic. Democrats will almost certainly issue additional direct payments to make good on the \$2,000 stimulus checks they promised during the campaign, which Congressional scorekeepers estimate will cost [almost \\$464 billion](#). Democrats will also look hard at stabilizing the finances of state and local governments, probably around the order of \$350 billion to \$500 billion. ... Widespread deployment of a vaccine in the first half of 2021 should enable the economy to largely return to normal ([we have serious reservations here](#)). ...

Healthcare May Not Change Much Under New Leadership

While Democrats have largely run on healthcare since the 2018 election cycle, they will likely make only marginal changes to the Affordable Care Act at least in terms of the effect on equity valuations, unless the Supreme Court were to invalidate the law and require a legislative fix. The Supreme Court is very unlikely to do so given the case it heard on Nov. 10 and the questions key justices asked.

Given their narrow Senate majority, Democrats are extremely unlikely to legislate a high-impact public option that would substantially affect our valuations. Democrats have primarily run on defending some of the protections in the Affordable Care Act. And while some Democrats want a “Medicare for all” universal single-payer system, their nominee and now president-elect has been clear since the primaries that he does not support these efforts. Also, such a major expansion of publicly provided healthcare would cost a lot of money--more than can be raised with the tax changes we think are viable with the narrowest of majorities.

We think it also will be hard for Democrats to even add a public option for the individual marketplace. And if they did, that marketplace covers only a fraction of the people covered by the workplace market.

We believe Democrats are much more likely to expand Medicaid coverage to include people further from the poverty line or increase the subsidy in the individual marketplaces to reduce the costs for lower-income households. Such an expansion could cost between \$85 billion to \$105 billion annually. Either approach would rely on the existing private insurance system, and we don't believe it would dramatically affect valuations for most firms we cover.

It's important to keep in mind that even if the Supreme Court strikes down the ACA, it will be on very narrow, technical questions. Specifically, the court is considering the constitutionality of a now-meaningless mandate that is no longer associated with a tax and the severability of this provision from the broader law. In the unlikely event that the court strikes down the law, Congress can fix it without changing it significantly, and we believe it will restore the full act. While there may be some political wrangling around questions of religious exemptions, there will be overwhelming pressure to restore the law.

Climate Change Action Won't Likely Be Transformative

Addressing climate policy via a large spending bill will be more politically feasible than hard caps on emissions or other harsh regulations, we believe. But we also think the probability of major new investments in clean energy are quite low.

Given the geographic and economic makeup of the Senate, a Democratic caucus will have senators from coal-producing states and states that skew more to the political right than the country as a whole. Unless there is bipartisan momentum on climate policy--which we think is unlikely--Democrats would have needed a much larger majority to maintain enough votes for the kinds of GHG regulation that Biden floated on [his campaign's website](#). While there will be support for minor investments in clean energy, a major package is unlikely to garner support from Democrats hailing from Montana and West Virginia, and, without a bipartisan consensus, Democratic leaders will need those votes to advance a package.

In terms of executive action, a Biden Administration [does have some scope to enact major policy changes](#) ... **and** will likely seek to increase fuel economy standards for passenger vehicles, as well as increase renewable energy's share of U.S. electricity generation, among other measures. ...

From BCA Research's

January 6, 2021 US Political Strategy:

Buy Reflation Plays On Georgia's Blue Sweep

The special US Senate elections in Georgia produced a two-seat victory for Democrats on January 5 and have thus given the Democratic Party de facto control of the Senate.

Financial markets have awaited this election with bated breath. The “reflation trade” – bets on economic recovery on the back of ultra-dovish monetary and fiscal policy – had taken a pause for the election. There was a slight setback in treasury yields and the outperformance of cyclical, small cap, and value stocks, which rallied sharply after the November 3 general election (**Chart 1**).

The Democratic victory ensures that US corporate and individual taxes will go up – triggering a one-off drop in earnings per share of about 11% ... (**Table 1**). But it also brings more proactive fiscal policy. Since the Democrats project larger new spending programs financed by tax hikes, the big takeaway is that the US economic recovery will gain momentum and will not be undermined by premature fiscal tightening.

Republicans Snatch Defeat From Jaws Of Victory

... Our quantitative Senate election model had given Republicans a 78% chance of winning Georgia. This they did in the first round of the election, but conditions have changed since November 3, namely due to President Trump’s refusal to concede the election after the Electoral College voted on December 14. ...

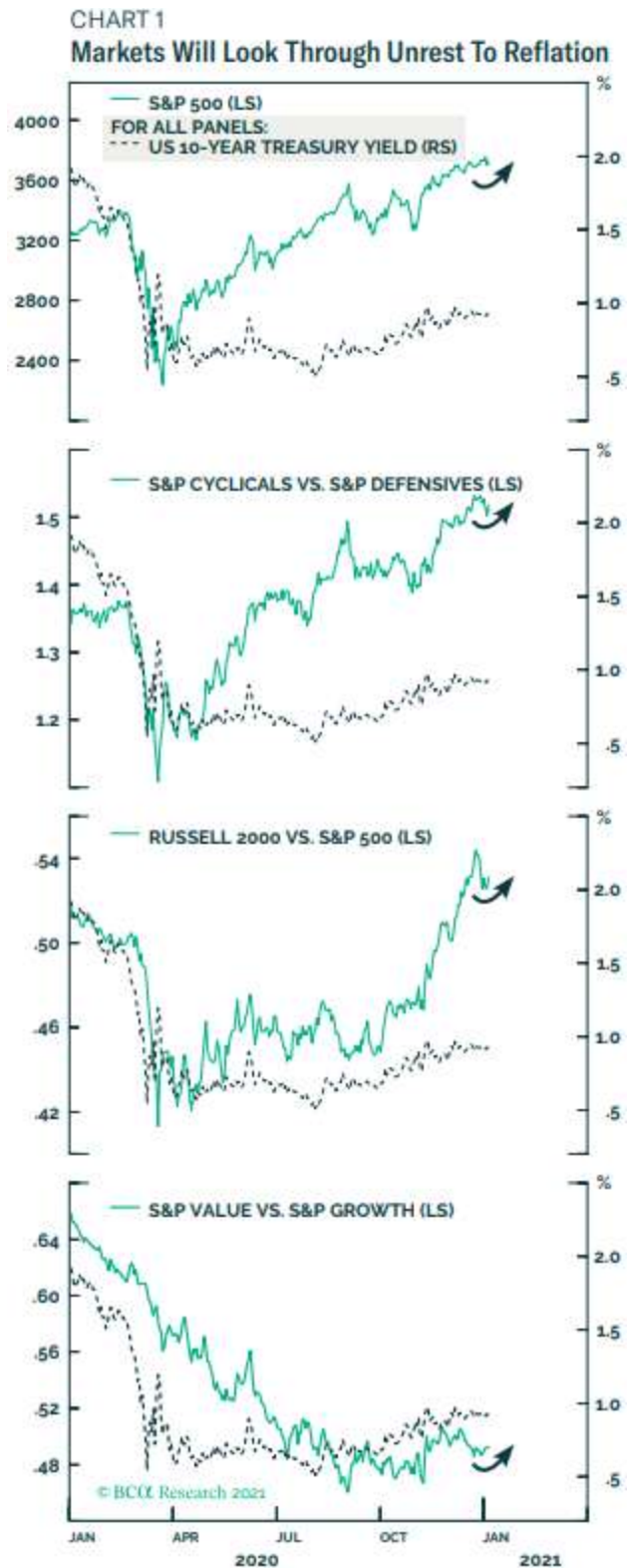
COVID-19 likely took a further toll on Republican support in the interim between the two election rounds. The third wave of the COVID-19 pandemic has not peaked in the US or the Peach State

Lame Duck Trump Risk

Before proceeding to the policy impacts of the apparent Democratic sweep of both executive and legislative branches, a word must be said about the presidential transition and President Trump’s final 14 days in office.

... US political polarization is reaching extreme peaks which are putting strain on the formal political system, but Trump lacks the strength in key government bodies to overturn the election.

... there was no willingness of state legislatures to challenge their state executives on the vote results. This has to do with the evidence upon which challenges could be lodged, but there is also a built-in constraint. Any state



legislature whose ruling party opposes the popular result will by definition put its own popular support in jeopardy in the next election.

... the Supreme Court largely washed its hands of state-level disputes settled by state level courts.

Historically, the Supreme Court never played a role in presidential elections. The year 2000 was an exception, as the high court said at the time. The 2020 election has established a high bar for any future Supreme Court involvement, though someday it will likely be called on to weigh in. Hysteria regarding the conservative leaning on the court – which is now a three-seat gap – was misplaced. The three Supreme Court justices appointed by Trump took no partisan or interventionist role. Nevertheless, the court’s conservative leaning will be one of the Trump administration’s biggest legacies. The marginal judge in controversial cases is now more conservative and will take a larger role given that Democrats now have a greater ability to pass legislation by taking the Senate.

... There is zero chance of a successful military coup or anything of the sort in a republic in which institutions are strong and the military swears allegiance to the constitution. Attempts to oppose the Electoral College and Congress will be opposed – and ultimately they will be met with an overwhelming reassertion of the rule of law. All ten of the surviving secretaries of defense of the United States have signed an open letter saying that the election results should no longer be resisted and that any defense officials who try to involve the military in settling electoral disputes could be criminally liable.

With Trump’s options for contesting the election foreclosed, he will turn to signing a flurry of executive orders to cement his legacy. His primary legacy is the US confrontation with China, so he will continue to impose sanctions on China on the way out, posing a tactical risk to equity prices. The business community will be slow to comply, however, so the next administration will set China policy.

There is a small possibility that Trump will order economic or even military action against Iran or any other state that provokes the United States. But Trump is opposed to foreign wars and the bureaucracy would obstruct any major actions that do not conform with national interests. Basically, Trump’s final 14 days may pose a downside risk to equities that have rallied sharply since the November 9 vaccine announcement but we are long equities and reflation plays.

Sweeps Just As Good For Stocks As Gridlock

... The majorities are extremely thin, which means that although Democrats now have control, there will remain high uncertainty over the passage of legislation, at least until the 2022 midterm elections. Investors can now draw three solid conclusions about the makeup of US government from the 2020 election:

1. The White House’s political capital has substantially improved – President-elect Joe Biden no longer faces a divided Congress. He won by a 4.5% popular margin (51.4% of the total), bringing the popular and electoral vote back into alignment. He will have a higher net approval rating than Trump in general, and

TABLE 1
What EPS Hit To Expect?

GICS1 SECTOR	AVERAGE TRAILING TAX RATE*	CHANGE IN TRAILING EPS**
REAL ESTATE	4.1	-24.9%
TECHNOLOGY	16.8	-13.5%
HEALTH CARE	17.2	-13.1%
UTILITIES	17.9	-12.3%
CONS. DISC.	19.8	-10.2%
COMM. SERVICES	19.9	-10.1%
FINANCIALS	19.9	-10.1%
MATERIALS	20.5	-9.4%
CONS. STAPLES	21.3	-8.5%
INDUSTRIALS	21.4	-8.4%
ENERGY	28.0	-0.1%
S&P 500	18.8	-11.4%

* CY 2019
**CHANGE IN TRAILING EPS IF THE CORPORATE TAX RATE HAD BEEN 28%

household sentiment, business sentiment, and economic conditions will improve from depressed, pandemic-stricken levels over the course of his term.

2. The Senate is evenly split but Democrats will pass some major legislation – Thin margins in the Senate make it hard to pass legislation in general. However, the budget reconciliation process enables laws to pass with a simple majority if they involve fiscal matters. Hence, Democrats will be able to legislate additional COVID relief and social support that they were not able to pass in the end-of-year budget bill.

They can pass a reconciliation bill for fiscal 2022 as well. They will focus on economic recovery followed by expanding and entrenching the Affordable Care Act (Obamacare). We fully expect a partial repeal of Trump's Tax Cut and Jobs Act, if not initially then later in the year.

3. Democrats only have a five-seat majority in the House of Representatives – Democrats will vote with their party and thus 222 seats is enough to maintain a working majority. But the most radical parts of the agenda, such as the Green New Deal, will be hard to pass. With the thinnest possible margin, the Senate has a highly unreliable balance of power.

Table 2 shows top three Republicans and Democrats in terms of age, centrist ideology, and independent mentality. Four senators are above the age of 85 – they can vote freely and could also retire or pass away. Centrist and maverick senators will carry enormous weight as they will provide the decisive votes. The obvious example is Senator Joe Manchin of West Virginia, who has opposed the far-left wing of his party on critical issues such as the Green New Deal, defunding the police, and the filibuster.

The Democrats could conceivably muster the 51 votes to eliminate the filibuster, which requires a 60-vote majority to pass most legislation, but it will be very difficult. Senators Dianne Feinstein (D, CA), Angus King (I, ME), Kyrsten Sinema (D, AZ), Jon Tester (D, MT), and Manchin are all skeptical of revoking this critical hurdle to Senate legislation. We would not rule it out, however. The US has reached a point of “peak polarization” in which surprises should be expected.

By the same token, Republican Senators Lisa Murkowski and Susan Collins often vote against their party. Collins just won yet another tough race in Maine due to her ability to bridge the partisan gap. There are also mavericks like Rand Paul – and Ted Cruz will have to rethink his populist strategy given his thin margins of victory and the Trump-induced Republican defeat in the South. Not shown are other moderates who will be eager to cross the political aisle, such as Senator Mitt Romney of Utah.

None of the above means Democrats will fail to raise taxes. All Democrats voted against Trump's Tax Cut and Jobs Act, which did not end up being popular or politically beneficial for the Republicans. The Democratic base is fired up and mobilized by Trump to pursue its core agenda of increasing the government role in US society and the economy and redressing various imbalances and disparities. This requires revenue, especially if it is to be done with only 51 votes via the budget reconciliation process.

The two Democratic senators from Arizona are vulnerable, but they will toe the party line because Trump and the GOP were out of step with the median voter. Moreover, Arizonians voted for higher taxes in a state ballot measure in November.

Since 1980, gridlocked government has resulted in higher average annual returns on the S&P500. But since 1949, single-party sweeps have slightly edged out gridlocked governments in stock returns, though the results

TABLE 2
The Senate Will Hinge On These Senators

Senior Senators										
Name	State	Party	Age	Elected	Next Election	Ideological Ranking*	State Ideological Ranking**	State Governor Party	Margin of Victory***	Biden's Margin of Victory****
Diane Feinstein	California	Democratic	87	1992	2024	-0.267	D+12	Democrat	8.4%	29.2%
Chuck Grassley	Iowa	Republican	87	1981	2022	0.346	R+3	Republican	24.4%	-8.2%
Richard Shelby	Alabama	Republican	86	1987	2022	0.429	R+14	Republican	28.1%	-25.5%
Jim Inhofe	Oklahoma	Republican	86	1994	2026	0.555	R+20	Republican	30.1%	-32.1%
Patrick Leahy	Vermont	Democratic	80	1975	2022	-0.359	D+15	Republican	28.3%	35.4%
Bernie Sanders	Vermont	Democratic	79	2007	2024	-0.529	D+15	Republican	40.0%	35.4%

Centrist Senators										
Name	State	Party	Age	Elected	Next Election	Ideological Ranking*	State Ideological Ranking**	State Governor Party	Margin of Victory***	Biden's Margin of Victory****
Krysten Sinema	Arizona	Democratic	44	2019	2024	-0.101	R+5	Republican	2.4%	0.3%
Mark Kelly	Arizona	Democratic	56	2020	2022	-0.064	R+6	Republican	2.4%	0.3%
Joe Manchin	West Virginia	Democratic	73	2010	2024	-0.056	R+19	Republican	3.3%	-38.9%
Susan Collins	Maine	Republican	68	1997	2026	0.114	D+3	Democrat	8.6%	9.1%
Lisa Murkowski	Alaska	Republican	63	2002	2022	0.212	R+9	Republican	15.2%	-10.1%
Shelley Moore Capito	West Virginia	Republican	67	2015	2026	0.263	R+19	Republican	43.3%	-38.9%

Wayward Senators										
Name	State	Party	Age	Elected	Next Election	Ideological Ranking*	State Ideological Ranking**	State Governor Party	Margin of Victory***	Biden's Margin of Victory****
Ted Cruz	Texas	Republican	50	2013	2024	0.828	R+8	Republican	2.6%	-5.6%
Rand Paul	Kentucky	Republican	57	2011	2022	0.876	R+15	Democrat	14.6%	-25.9%
Mike Lee	Utah	Republican	49	2011	2022	0.917	R+20	Republican	41.1%	-20.5%
Mark Kelly	Arizona	Democratic	56	2020	2022	-0.064	R+6	Republican	2.4%	0.3%
Joe Manchin	West Virginia	Democratic	73	2010	2024	-0.056	R+19	Republican	3.3%	-38.9%
Elizabeth Warren	Massachusetts	Democratic	71	2013	2024	-0.772	D+12	Republican	24.2%	33.5%

* SOURCE: VOTEVIEW.ORG
 ** SOURCE: COOK POLITICAL REPORT.
 *** MARGINS OVER THE THE LARGEST OPPOSING PARTY'S CANDIDATE OR SAME PARTY'S CANDIDATE (IN CA).
 **** BIDEN MINUS TRUMP VOTE SHARES.

are about the same (**Chart 8**). The point is that gridlock makes it hard for government to get big things done. Sometimes that is positive for markets, sometimes not. The macro backdrop is what matters.

The Federal Reserve is unlikely to start tightening until late 2022 at earliest and fiscal thrust in 2021-22 will be more expansionary now that the Democrats have control of the Senate. This policy backdrop is negative for the dollar and positive for risk assets, especially equity sectors that will suffer least from impending corporate tax hikes, such as energy, industrials, consumer staples, materials, and financials.

Meanwhile, Biden will have far less trouble getting his cabinet and judicial appointments through the Senate. His appointees so far reflect his desire to return the US to “rule by experts,” as opposed to Trump’s disruptive style of personal rule. Investors will cheer the return to technocrats and predictable policymaking even if they later relearn that experts make gigantic mistakes too.

Fiscal Policy Outlook

The critical feature of the Trump administration was the COVID-19 pandemic, which sent the US budget deficit soaring to World War II levels relative to GDP. In the coming years, the change in the budget deficit (fiscal

thrust) will necessarily be negative, dragging on growth rates. Fiscal policy determines how heavy and abrupt that drag will be. ...

The “Democratic Status Quo” scenario assumes that the \$600 per household rebate will be increased to \$2,000 per family and that the remaining \$2.5 trillion of the Democrats’ proposed HEROES Act will be enacted. The “Democratic High” scenario adds Biden’s \$5.6 trillion policy agenda on top of the Democratic status quo, supercharging the economic recovery with a fiscal bonanza. Biden will not achieve all of this, so the reality will lie somewhere between

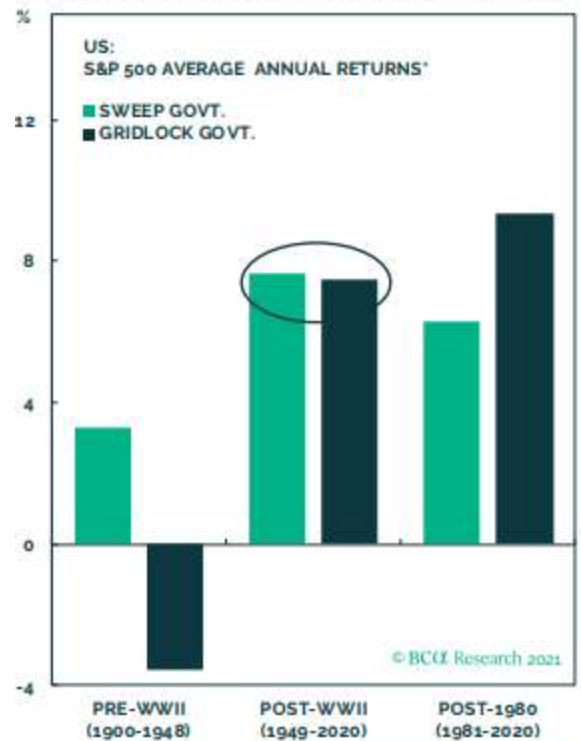
This Democratic status quo implies a 6.9% of GDP expansion of the deficit in FY2021. It also implies that the deficit will contract by 12.3% of GDP in FY2022 The economic recovery will be better supported. So, too, will the Fed’s timeline for rate hikes – but the Fed’s new strategy of average inflation targeting shows that it is targeting an inflation overshoot. So the threat of Fed liftoff is not immediate.

The longer the extraordinary fiscal largesse is maintained, the greater the impact on inflation expectations and the more upward pressure on bond yields. Big Tech will be the one to suffer while Big Banks, industrials, materials, and energy will benefit.

Our US Political Risk Matrix

There is no correlation between fiscal thrust and equity returns. This is true whether we consider the broad

CHART 8
Sweeps Don't Always Underperform Gridlock



NOTE: 2020 DATA IS CALCULATED USING JANUARY AND OCTOBER VALUE. 2001 IS CONSIDERED AS A UNIFIED CONGRESS. * CALCULATED AS THE PERCENTAGE CHANGE FROM JANUARY TO DECEMBER USING MONTHLY S&P 500 DATA.

CHART 13
Energy And Financials Turned Around With Vaccine



* SOURCE: PREDICTIT AND BLOOMBERG FINANCE L.P.
NOTE: SECTOR PERFORMANCE RELATIVE TO S&P 500.

market, cyclicals/defensives, value/growth stocks, or small/large caps. Normally, fiscal thrust surges when recessions and bear markets occur, leading to volatility in asset prices.

However, in the new monetary policy context, the risk is to the upside for the above-mentioned sectors, styles, and segments. Looking at sector performance before and after the November 3 election and November 9 vaccine announcement, there has been a clear shift from pandemic losers to pandemic winners.

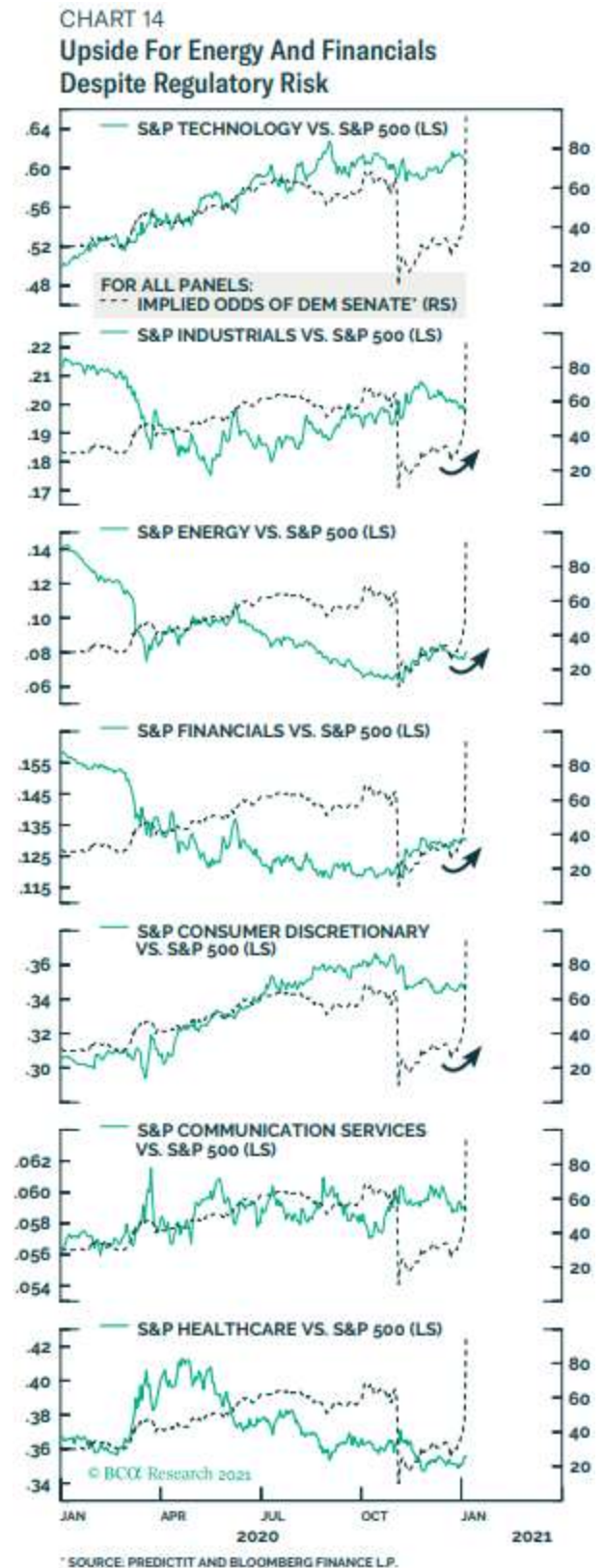
Big Tech and Consumer Discretionary (Amazon) thrived during the period before the vaccine, while value stocks (industrials, energy, financials) suffered the most from the lockdowns. These trends have reversed, with energy and financials outperforming the market since November (**Chart 13**).

The Biden administration poses regulatory risks for Big Oil and arguably Big Banks, but these will come into play after the market has priced in economic normalization and the emerging consensus in favor of monetary-fiscal policy coordination, which is very positive for these sectors.

In the case of energy, as stated above, the Biden administration will still struggle to get anything resembling the Green New Deal approved in Congress. Nevertheless, environmental regulation will expand and piecemeal measures to promote research and development, renewables, electric vehicles, and other green initiatives may pass. Large cap energy firms are capable of adjusting to this kind of transition. Coal companies are obviously losers.

In the case of financials, Biden's record is not unfriendly to the financial industry. His nominee for Treasury Secretary, former Fed Chair Janet Yellen, approved of the relaxation of some of its more stringent financial regulations under the Trump administration. Big Banks are no longer the target of popular animus like they were after the 2008 financial crisis – in that regard they have given way to Big Tech. Our US Investment Strategist argues that the Democratic sweep will smother any gathering momentum in personal loan defaults, which would help banks outperform the broad market.

Biden's regulatory approach to Big Tech will be measured, as the Obama administration's alliance with Silicon Valley persists, but tech stands to suffer the most from higher taxes, especially a minimum corporate tax rate. With a unified Congress, it is also now possible that new legislation could expand tech regulation. There is a



bipartisan consensus emerging on tech regulation so Republican votes can be garnered. Tech thrives on growth-scarce, disinflationary environments whereas the latest developments are positive for inflation expectations.

In the recent lead-up to the Georgia vote, industrials, financials, and consumer discretionary stocks have not benefited much, even though they should (**Chart 14**). These are investment opportunities. ...

Investment Takeaways

... for now suffice it to say that extremist events will galvanize the majority of the nation behind the new administration while also driving politicians of both stripes to use pork-barrel spending to try to stabilize the country.

Congress will err on the side of providing too much fiscal stimulus just as surely as the Fed is bent on erring on the side of providing too much monetary stimulus. That means reflation, which will ultimately boost stocks in 2021. We also expect stocks to outperform government bonds

As the above makes clear, we prefer value stocks over growth stocks. Specifically we favor cyclical plays like materials over the big five of Google, Apple, Amazon, Microsoft, and Facebook. An infrastructure bill was one of the few legislative options for the Biden administration under gridlock, now it is even more likely.

Infrastructure is popular and both presidential candidates competed to see who could offer the bigger plan. Moreover, what Biden cannot achieve under the rubric of climate policy he can try to achieve under the rubric of infrastructure. ...

From this morning's The Morning:

The drumbeat for a second Trump impeachment is getting louder.

Speaker Nancy Pelosi could bring a new article of impeachment to the House floor as early as Monday, charging President Trump with “incitement of insurrection” for his role in encouraging a mob that went on to ransack the Capitol on Wednesday.

Privately, Republican leaders said conviction was not out of the question.

... Lisa Murkowski and Patrick Toomey became the first Republican senators to publicly join the multitude of calls for Mr. Trump to resign.

No president has ever been impeached twice. If Mr. Trump were convicted, the Senate could vote to bar him from holding office again. ...

President-elect Joe Biden sidestepped the issue, saying that “what the Congress decides to do is for them to decide,” focusing instead on the urgency of the health and economic crises facing the country.

The Capitol rioters had different perspectives — QAnon, Proud Boys, elected officials, regular Americans — but one allegiance.

All had assembled in response to President Trump’s repeated appeals to march to the Capitol on Wednesday, a day that he promised would be “wild.” Many Americans thought the rally near the White House beforehand was

just one more salve for Mr. Trump's ego, wounded by losing the election. But supporters heard something else — a battle cry.

In the end, five people died, including Brian Sicknick, a military veteran and experienced Capitol Police officer. A Confederate flag was carried into the Capitol. Lawmakers, aides and journalists feared for their lives.

Some of the people pictured in viral photos and videos from the raid on the U.S. Capitol have been arrested and charged, including 13 who face federal charges. Dozens of cases are pending.

In the end, it was two California billionaires who pulled the plug on President Trump.

In a watershed moment in the history of social media, Twitter permanently suspended Mr. Trump's account "due to the risk of further incitement of violence," and Facebook banned the president at least through the end of his term.

Jack Dorsey of Twitter and Mark Zuckerberg of Facebook had been under pressure for years to hold Mr. Trump accountable. ...

Many of Mr. Trump's followers derided his banishment as an example of Silicon Valley's tyrannical speech controls, but the First Amendment is not on their side. ...

A fit epitaph for the Trump Presidency appeared in the WP on Saturday:

MAT DAVIES ©2021
NEWSPAY
ARTIST'S RES. 9/10

