



What a Biden Presidency Would Do to the Stock Market



(Mark Makela/Getty Images)

By Marisa Herman | Monday, 03 August 2020

Joe Biden hasn't kept his economic plan a secret. If he is elected president, he has proposed implementing higher corporate taxes and more regulation, moves that many financial experts warn could cause a stock market selloff and decline by as much as 20%.

Under President Donald Trump, Americans who are in the stock market have seen their investments and retirement plans grow. But if Biden takes office, some experts say the green period the market has been enjoying could flip quickly to red.

“There are consequences of a Biden win and a potential Democratic sweep,” industry expert John Boyd said. “Such a turn of events would create challenges for the stock market, which has had a record run under President Trump.”

A recent RBC Capital Markets survey shows that 60% of the firm’s clients think a Biden presidency would negatively impact the stock market. A majority of clients polled said another Trump win would be a positive for Wall Street.

Goldman Sachs has warned that if Biden takes office and the Democrats flip the Senate, that the S&P 500 earnings per share would drop from \$170 to \$150 for 2021.

In a note to investors, Morgan Stanley analysts wrote that a “Republican sweep would be viewed as more likely to continue on current tax policy and deficit spending trends.”

Boyd, principal of New Jersey-based The Boyd Co., said Trump took the role of serving as the country’s “chief economic development officer” very seriously and the private sector felt comfortable with Trump at the helm.

Trump’s tax cuts, deregulation and pro-energy policies all helped lead to record low unemployment rates and strong consumer confidence levels before the coronavirus pandemic, Boyd said.

“The strong stock market over the past several years, particularly under Trump, has increased and created a lot of wealth for all Americans,” he said.

He added it is because of the strength of the economy before the health crisis that has allowed the market to perform “surprisingly well” throughout the pandemic since it dropped to a low in March.

If Biden takes office, the market likely will take a turn. He said investors are particularly concerned about Biden’s pledge to raise taxes.

Biden intends to raise the corporate tax rate from 21% to 28% in order to fund his “Build Back Better” plan, which involves bumping up minimum wage to \$15 an hour, allocating \$400 billion to clean vehicle technology and a large investment in 5G and artificial intelligence.

During a recent campaign event, he told supporters that Amazon will pay its fair share of taxes.

It is that proposal that has Nigam Arora predicting a 20% drop in the stock market.

The chief investment officer at The Arora report said if Biden's plan goes into effect the drop could occur. He estimates his proposed increase on taxes would cause a sell off and S&P 500 earnings would take a hit. Because wealthy people would be taxed more, he said they would have less money to spend in the stock market. Those factors combined equate to a 20% decline, he said.

But he added there are plenty of other factors that could negate the 20% dip.

Currently, he said the market is benefiting from "momentum investors" who are buying stocks because the government has been printing and borrowing money. He said that trend could continue under Biden because it is likely he will borrow more money if he is elected.

Arora said money that Biden plans to borrow, which the Fed is printing, would likely flow back into the stock market.

"We don't know if that phenomena will last," he said. "It's like a game of musical chairs. We don't know when it ends. Does it end just before the election or just after the election or does the bubble get much bigger if Biden is elected because he is going to borrow more money?"

He said it is too early still to signal any buy or sell orders. He said he predicted Trump would win in 2016 and issued a buy signal when the stock market was down.

"I knew based on our algorithms that it was going to go up," he said. "I couldn't have said that months before that the market was going to go up."

Boyd said under a Democrat administration, several sectors that have seen large gains under Trump may face challenges. He pointed to the energy sector, pharmaceutical companies and Big Tech firms as industries that could face problems under a "blue" administration.

"The theme of the progressive movement has been to target major tech players," Boyd said. "Biden will likely be very aggressive in pursuing antitrust cases and Big Tech could potentially take a tumble."

Trump himself has claimed that a Biden presidency would send the stock market into a nosedive.

He has tweeted that Biden's "massive tax hikes" will make people "very poor, FAST!" and their 401k plans and stocks will "disintegrate and disappear."

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