While the last thrashes of a dying Trump administration may have left onlookers shocked, the former president's refusal to accept what was, ultimately, a very clear cut presidential election result and his continued assertions that he, and his supporters, had been defrauded of their rightful win, was probably the most effective thing he could do to deter faithful Republicans from the Georgia election polls.

As Republican senator, Mitt Romney, was quoted as saying on 6 January, shortly after the run-off results were announced, “It turns out that telling the voters that the election is rigged is not a great way to turn out your voters”.

The run-off elections were required in January because the incumbent Republican senator, David Perdue, and the incoming Kelly Loeffler (R) both failed to poll more than 50% of the vote in November.

When the Democrats’ Jon Ossoff and Raphael Warnock (Georgia’s first black US senator) succeeded in replacing both, it delivered the party a 50:50 split in the US Senate and, thanks to incoming Vice President Kamala Harris’ deciding vote, notional control of the chamber.

Years in the making
This is the first time in six years that the Democrats have held the House of Representatives and the Senate and the first time in a decade that they’ve held both while also occupying the White House. The last time this happened was back in Barack Obama’s first administration when a strapping young Joe Biden – then only in his late sixties – was vice president.

However, just like back then, we don’t expect to see the so-called ‘blue wave’ of radical Democrat spending, stimulus and taxation emerging. The nature of US politics means that what we’re most likely to see in terms of US policy in the coming years will be more of a ‘blue ripple’. Namely, bigger direct stimulus payments, more aid to struggling states and backfilled unemployment benefits in the short term and potentially more spending to gradually improve the lot of lower-income America over the longer term.

The prospects of all this were enough to push up US equity markets and US Treasury yields when the results were announced on 6 January, but that’s likely to be the end of the matter as far as markets are concerned going forward.

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**More a ‘ripple’ than a ‘wave’**

The first problem facing the incoming Democrat administration is the tenuous nature of its control of the Senate; indeed, its majority could not be any thinner.

In theory, a simple majority is necessary to pass new legislation, but in practice a ‘super-majority’ of 60 Senate votes is required. A narrow agenda can potentially be passed with a simple majority using the ‘reconciliation’ process, but this is limited to spending, revenue and the federal debt limit and, even then, to one bill per year affecting each subject.

Reconciliation bills cannot make changes to social security or increase the federal deficit.

To have the best chance of passing legislation, the Democrats will need to ensure that every single one of their senators votes the party line and to restrict themselves to issues allowed within the reconciliation process. If history is any guide, this exercise alone will be much like trying to catch the wind in a net or the proverbial herding of cats.

Prior to November’s presidential election, the narrative on a Biden ‘blue wave’ encompassed notions of huge stimulus and worker support schemes, infrastructure and clean energy spending, headaches for both big tech and Chinese trade and big tax hikes in order to foot the bill.

However, the reality of a Senate majority that’s only really a majority on paper, is that the more unpalatable items on the menu such as steep tax hikes will be kicked into the long grass. Simple political expediency will dictate that any measures put before the Senate will need to be market-friendly enough to attract Republican support and sufficiently broad to satisfy both the far left of the Democrat party and the more centrist Republicans.

Keep in mind that, despite his direct involvement in the Capitol Hill riots in the first week of January, only 10 Republican representatives voted in favour of Mr Trump’s second impeachment; 197 voted ‘no’ while four abstained. This underlines the strength of partisan ties in Washington.

The pull exerted by these competing poles should guarantee that while new policy might have something of a blue ‘tinge’, it’s likely to remain markedly middle of the road.

**Dragging it out**

The 60 vote practical threshold is a consequence of the ‘filibuster’ – the practice of deliberately talking so long (about anything at all) that the Senate has no time to even take a vote. This can only be bypassed with a 60 vote ‘super-majority’ via the aforementioned reconciliation process.

To many Americans the filibuster, which is still enshrined in the constitution, was immortalised by actor James Stewart in the classic 1939 film *Mr. Smith Goes to Washington*.

However, the Senate’s signature procedural weapon is actually a cynical practice that’s been employed countless times by both parties to keep unpalatable legislation off the books. The current Republican minority leader, Mitch McConnell, is a grandmaster of the art and he won’t miss this opportunity to confound his Democrat foes.

The pull exerted by these competing poles should guarantee that while new policy might have something of a blue ‘tinge’, it’s likely to remain markedly middle of the road.

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The politics of the centre

Mr Biden was finally inaugurated on 20 January but on arrival he needs to deal with more than the usual partisan divides; he’s faced with a Congress that’s still deeply traumatised by recent events.

It began the year literally fleeing from an angry mob. Next, 15,000 armed National Guard descended on Washington to fortify Capitol Hill and erect barricades to defend the city from American citizens during Mr Biden’s inauguration. Meanwhile, Mr Trump’s inconvenient second impeachment will also distract their attention during a period when Mr Biden needs to make his cabinet appointments and forge ahead with his ‘first-day’ campaign promises.

The most pressing of these is the new $1.9tn coronavirus relief package he unveiled in mid-January. This requires Congress to approve another round of emergency support payments to Americans similar to the $600 they received at the start of the year.

This time, the additional cheques will be for $1,400 and, like this year’s first payment, it’s likely to push up US equity markets as many recipients choose to speculate with their relief payments.

Elsewhere on the domestic front, Mr Biden has promised to undo Mr Trump’s tax breaks for the wealthiest Americans, combat student debt and improve the minimum wage; all of which are likely on the back burner for now with a pandemic still raging and congressional approval required.

Other Biden calls to action include pledges on climate including re-joining the Paris Agreement and convening a climate world summit. This provided a healthy push for numerous ‘green’ stocks at the start of the year but any real progress could take years to deliver.

Meanwhile, trade, gun control, monopolistic technology companies, improved terms for the cannabis industry and immigration are also on the agenda with a promised “road map to citizenship” for the country’s 11 million undocumented residents.

The more things change...

Thanks to Mr Trump’s penchant for enacting policy through emergency ‘executive orders’, some of Mr Biden’s agenda can be accomplished with the stroke of a pen. Other measures will require the congressional deal-making he prides himself upon while some, thanks to partisan extremes and the use of the filibuster, are destined to die on the vine.

Ironically, this is just how US equity markets like their politics. So far, the arrival of a Democrat in the White House has coincided with a flourish in cyclical sectors and the rare outperformance of ‘value’ stocks over their ‘growth’ counterparts.

However, this juxtaposition is due to the progress major countries are making with the roll-out of their immunisation campaigns. Seen in this context, the Georgia run-off results are little more than a blip on the screen for global equity markets.

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