

# What the Biden win could mean for Japan equities

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We assess the US election outcome from the perspective of the Japanese equity market, focusing on the economic and policy changes that are expected to accompany the change in US leadership.

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## Introduction

Following a closely contested election at the start of November, Joe Biden beat Donald Trump to become the 46<sup>th</sup> US president. We assess the election outcome from the perspective of the Japanese equity market, focusing on the economic and policy changes that are expected to accompany the change in US leadership.

## Main focal point: US consumer demand

The main focal point from the perspective of the Japanese equity market is whether the Biden administration will increase US demand through its plan to boost social security and Medicare, which could help assuage concerns about the future and lead US consumers to spend more and save less. If demand from the world's biggest economy increases, it will benefit Japan both directly and indirectly. This is not only because Japan's exports to the US would increase, but that its exports of parts and machinery-related infrastructure to other countries, notably those in Asia which cater to the US market, would also increase.

## Trade issues

Another focal point is trade, which has received considerable attention during the Trump administration. While the incoming administration may not ease the trade rhetoric on China, its stance on its allies such as Japan is likely to be more benign relative to its predecessor; compared to Trump, Biden is expected to take a more low-key approach to Washington's trade deficits with its allies. Biden's "Made in America" plan to bring back critical supply chains to the US is a potential concern for export nations, but its impact is likely to be relatively limited on Japan which already possesses significant US production capacity.

## Tax and other policies

While it is uncertain if Biden's plan will come to fruition, he has campaigned for sweeping changes to the US tax code, including raising taxes on corporations—a proposal, if realized, that is seen negatively impacting the US markets and possibly beyond. From the perspective of exporting countries such as Japan, however, a corporate tax hike in the US could provide Japanese companies with relative advantages over their tax-burdened US counterparts. The increased taxes could also fund Biden's social security and Medicare agendas and lead to increased consumer demand as we mentioned earlier.

From a fiscal perspective, we focus on Biden's policies related to infrastructure. The US is seen shifting from oil and gas to themes such as renewable energy and electric vehicles under Biden's bid to counter climate change. While the impact on Japanese corporations from such a shift is likely to be limited, companies such as auto makers could face headwinds if tougher emissions standards are implemented.

### Conclusion

From a long-term perspective, the Japanese market's concern is whether Biden can make wise spending choices for the US economy, while its main hope is for the US savings rate to drop and consumer spending to recover on coronavirus and social security measures.

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