TWO SIDES OF THE STORY: US ELECTIONS

Dear Caspar,

When I was a New York exchange student in 2008, I was asked by a journalist for my thoughts, as an outsider, on the presidential battle between McCain and Obama. I gave my own personal preference, but also commented that it struck me that the battle was more about personalities than topical issues. That contrast has become even more extreme in the current battle between Joe Biden and Donald Trump. But doesn't this focus on the candidates' characters also conceal a grain of truth about the actual influence of the president? What will the election battle outcome mean for sustainability in an economic recovery?

In the 2016 election campaign, Trump promised that he would stop the "war on carbon"; the shale energy revolution would unlock vast wealth for American families. He did his utmost to achieve this: he overturned a number of Obama's environmental laws and appointed a former lobbyist for the carbon sector, Andrew Wheeler, as head of the EPA – the US Environmental Protection Agency. But no matter how hard Trump's administration promotes carbon, his enthusiasm has had to yield to federal courts that reverse his policy plans and also to the realities of the market: carbon power generation is less interesting to power companies because the cost price is now well above that of more sustainable energy sources.

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We can see the same thing happening with shale oil, one of the pillars of Trump's energy policy. The price of a barrel of crude oil has to be at least USD 60 to make shale oil exploitation profitable. The low oil price in recent years has brought serious financial problems to shale oil producers and over 99,000 people have been laid off work.

These developments also have an impact on the carbon emissions of the country. US emissions fell by nearly 3% in 2019, partly due to the closure of coal-fired power stations (until recently responsible for around a third of the country's total greenhouse gas emissions). This has continued the falling trend in CO_2 emissions over the years – started during Obama's presidency – and Trump's "pro-coal" policy doesn't yet have any disastrous climate consequences.

Apart from the federal courts and market impacts, a range of regional initiatives has been taken to fill the vacuum surrounding sustainability that Trump has created. Federal states, cities, companies, universities and others have joined up to coalitions supporting the Paris Climate Agreement, including We Are Still In, the US Climate Alliance and Climate Mayors. The growing momentum for climate action has delivered an impressive series of new laws and concrete measures that will be needed in order to realise the ambitious promises on climate.

While these initiatives are limiting the negative impact of Trump's intentions, experts are warning that the election outcome may prove to be a tipping point, because the US Senate has already appointed 200 federal judges under Trump – almost a quarter of the total number. If the Republicans hold on to the Senate, half of the federal judges that are appointed over the next four years would be Trump appointees, resulting in a conservative majority on the US Supreme Court.

This means that there would be few mechanisms left during a second term that could be deployed against Trump's plans to scrap the environmental laws, to improve the competitive position of the US fossil fuel sector. Large companies and financial institutions might still be able to exert some influence. The EU could introduce a border adjustment CO_2 tax. However, the brightest hope for climate activists is still predicated on avoiding a second Trump term.

So, my question for you is: how are you dealing with these uncertainties as a sustainable investor? How much will the election result of 3 November impact business' values that focus on increasing sustainability? Will you be anxiously watching the TV that night, or is the impact not that big?

Regards,

Ruud Hadders
Responsible Investment Officer – ACTIAM

Hi Ruud,

The whole COVID-19 crisis has almost made us forget that elections are being held in the USA. Four years back, we were open-mouthed in astonishment at Trump's campaign, with its bluster about building a wall between the USA and Mexico that the Mexicans would have to pay for. Trump is now the president and the American stock market is heading for its highest point ever, with the SP500 at 3440 points compared to its high point of 3580 on 2 September last. The Trump government doesn't therefore seem to have done so very badly over the past four years.

There have only been a number of significant developments in the past four years that have had a real impact on the stock market. The three biggest impacts have been 1) the tax reductions that have been passed, 2) the trade war between China and the USA, and 3) COVID-19. Two developments for which Trump is responsible and one exogenous event; one positive and two negative as regards their consequences. And yet the SP500 isn't far from its all-time peak. Briefly, it doesn't seem that Trump has done too much "bad" for the stock market.

As a sustainable investor, you might imagine that Trump's withdrawal from the Paris Climate Agreement and his mistrust of climate change would have an adverse impact on companies that had already set out their stall for sustainability. While this is logical, it's not reflected in performance of these green companies (for instance Sunrun and Solaredge, both of which are doing well from the increased demand for solar power). Compared with the wider market (in this case the SP500) over the period of Trump's presidency, "clean tech" businesses are doing 40% better.

The reason for this might be that consumers, businesses and some states in the USA are convinced that climate change has to be addressed. As well as understanding the situation, people are also actually taking action: the huge demand for electric cars shows that climate action is being taken even without the involvement of Trump's government.

> "It doesn't seem that Trump has done too much "bad" for the stock market."

We can cautiously conclude that the US stock market is not being adversely impacted, per se, under the Trump administration. If Trump is re-elected, the Chinese stock market might be bitten once more by further or longer-lasting trade wars.

Under Biden, there are actually two major policy papers that could have an impact on the stock market: 1) increasing taxes on businesses (from 21% to 28%), and 2) the grand plan (the Green Bill) for sustainable investment in infrastructure and housing (with costs of around 2 trillion dollars). On the one hand, raising taxes will depress stock prices, due to the adverse impact on profits of higher tax rates. But on the other hand, there's an immense pot of gold that would be invested in a sustainable US infrastructure. This will give a positive push to companies that have already set out their stall for mitigating climate change and the transition to a sustainable society.

To summarise, I don't think 3 November will be that nerve-wrecking. On the one hand, the US stock market hasn't performed too badly and green businesses have also been doing well. On the other hand, if Biden wins, this will impact on the entire market through tax hikes, but at the same time it will give a positive push to green businesses. Green investors already hold these green stocks in their portfolios, of course, so that at the end of the day this will either end up being neutral or give investment portfolios a positive boost.

Regards,

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