

What does an Obama presidency mean for the American equity market?

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The American people have spoken in unprecedented numbers. The economy was central to the election, and stimulus policy was a core plank on both platforms. In practice the Obama team are likely to press ahead with a package of fiscal spending and changes will be on the margin versus what would otherwise have occurred. On balance we will see less emphasis on tax cuts (corporate or personal) and more emphasis on the 'safety net' to protect the poor/unemployed and on spending money (think roads and bridges).

What does this mean for the equity market? In the short term there remains a risk that the recent rather modest rally of equities will be capped by some of the less equity-favourable aspects of Obama's policies. For example, it is safe to assume that the McCain proposal to cut corporate taxation is dead, whereas the energy windfall tax plan might re-appear in a modified form.

However, in our view there is no risk that Obama will do anything to destabilise the fragile recovery that is underway in the financial system. If that means that his more progressive initiatives have to wait then we would expect that to be the course he takes. It is increasingly evident that the 'real economy' weakened substantially in September and October, and so we expect any early pronouncements and policy initiatives to be focused on trying to provide fuel for the economy.

The recent policy initiatives to repair the financial system will continue, they were broadly bipartisan in any case. Great care will be taken to 'handover' the Treasury, and indeed we expect Obama to announce his Treasury Secretary very soon, in order to work closely together with the outgoing Paulson team.

We think the appointment of Timothy Geithner for Treasury Secretary is pretty much a done deal. He's been involved in the crafting of most of the Fed/Treasury policy with regard to the economy/financial crisis and was a Treasury undersecretary in the Clinton Administration. However, this does not seem to be quite as consensus a view as we would expect, and Lawrence Summers, who held the role during the Clinton years, is another name in the frame.

Healthcare is a core plank of Obama's 'change programme', but it is our view that the economy will swamp other policy and so meaningful change in this area will have to wait, possibly until 2010.

In terms of foreign policy, there appears to be more of an expectation of immediate change overseas than there is in the US. It seems very unlikely that US actions in Iraq and Afghanistan will change in the short-term. Similarly we do not expect Congress to accept defence cuts, even if the White House attempts to save some money.

In the Senate, it is still unclear whether the Democrats will reach the magic 60 seat number required to prevent a 'filibuster' of legislation. But will be so close that on most subjects they should be able to count on some more moderate Republican's to support their programme.

Barack Obama has a strong mandate to forge ahead with his programme. The economic situation is now so important that it will be the major focus for the foreseeable future. Both outgoing and incoming administrations will work to ensure a smooth handover and continued work on new economic stimulus that cannot wait until the inauguration.

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