

Iowa and Beyond

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A look at the US Democratic candidates' chances and platforms

- Iowa decides on just 1% of the delegate votes to choose who will fight against Trump in the US presidential election. Historically, however, it has had an important bearing on the candidates' chances.
- While the vote count delays have complicated things, current tally shows Bernie Sanders in a leading position (which is expected) and Pete Buttigieg coming up from nowhere, seemingly.
- With the big caveat that it is still early days, we take a closer look at the chances of these and various other candidates here. We also weigh whose economic platforms will have bigger market impact.

To help you navigate through the complicated political processes in the US and to have a sense of the market impact, we have brought back our hypothetical client, Mr. Q, who has a penchant for asking incisive questions about matters on hand.

I need a break from hearing about the virus and how hard it is to find masks. Can you tell me what's going on with the US election? What's this Iowa thing?

Well, me too, although I am curious where you managed to get hold of masks since you are wearing one. In any case, back to your question, I guess you are referring to the Iowa Caucus. It marks the first of many state-by-state contests whereby the Democrats will choose who they want to nominate as their presidential candidate, i.e. who will fight against Trump in November this year.

If it's just the first of many contests, why are my American friends going on and on about it?

The Iowa contest alone decides just around 1% of total delegate votes, so in the grand scheme of things it is immaterial on paper. However, it matters since momentum is an important element in any electoral campaign. If a candidate wins in Iowa, he or she will get ample media coverage and a boost to campaign contributions that would take on a life of its own.

Indeed, if you look back historically, any candidate who has won the Iowa Caucus and the New Hampshire Primary, which comes next on Feb 11th, has gone on to win the Democrat ticket ultimately. And let's not forget, Barack Obama was just a little-known junior senator from Illinois before he somehow won the Iowa Caucus in 2008 and surged on the national stage. He, of course, managed to build on his momentum and went on to win the White House.

Okay. Fine, I get you. Iowa is important. So, who won?

Well, technically, no one – yet.

Global Snapshot

5 February 2020

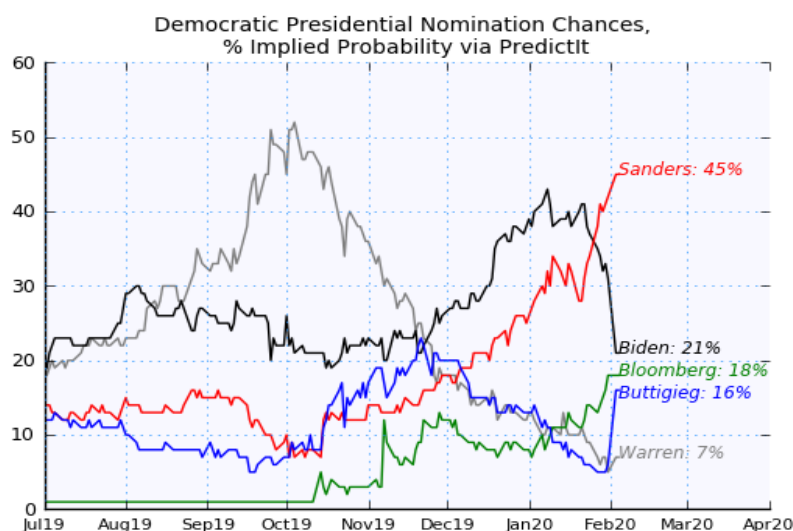
What?

It's a long story. But they have refrained from announcing the final results because of irregularities with the vote count. You would think they have learned a thing or two from past mistakes like the hanging chad and all that.

Still, this hasn't stopped the candidates from talking up their success and for Bernie Sanders and Pete Buttigieg to declare themselves winners effectively.

While Sanders was indeed expected to win, judging from the prior polls, Buttigieg's supposed victory would have come as a big surprise of the night. Already, odds from the prediction market show a big jump for his chances in clinching the ultimate prize of Democratic nomination.

Figure 1. Buttigieg's chances appear to have improved considerably.



Source: OCBC, PredictIt, Bloomberg.

So, market will be happier if what's-his-name won Iowa?

The short answer is probably yes, followed by a scramble to know what Buttigieg's economic platform is; of which we know relatively little. He likes to style himself as a moderate in most issues, but perhaps that is less clearly so on the economic front. On trade deals, for instance, he claimed that NAFTA with Canada and Mexico has cost America irreversible job losses. So, I suspect he will not exactly be rushing to get US back into the folds of TPP and such.

He does have a lot to say about the impact of innovation on the economy, however. He probably is correct in saying that manufacturing jobs are not going to return. Automation puts paid to that, and the focus should be on preparing the workforce for the future.

That's probably a bitter message for most to stomach. However, Buttigieg is keen on setting himself apart from the pack by using his youth – just 38 years old – and representing a clean generational break in thinking and approach to

policies. Hence, he will probably be banging the drums on the impact of automation and new technology in general.

And, if Sanders wins, market will slump?

Given that the polls suggested he would, and that it is still a long way to go, the immediate impact will likely be limited. Still, Sanders has been a long-time proponent of redistributive economic policies. He talks about ensuring employees can select 45% of board directors of major companies and assume 20% controlling stakes in them, for example.

On the fiscal side, an expansionary stance will also invite questions about US debt sustainability in the long run. From Medicare-For-All to free tuition for everyone at public colleges, what's not to love? The problem is how US is going to pay for such largesse.

Tax the rich, isn't that Sanders' grand plan to fund it all?

He has indeed highlighted plans to enact a wealth tax, starting from 1% annually on households with net worth of \$32mn and as much as 8% per year for those with \$10bn or more. Estate tax rates will be hiked to a maximum rate of 77% for those worth more than a billion.

Sanders also plans to raise the corporate tax rate to 35% from 21% currently. A so-called "income inequality tax" is in his pipeline too. Companies which pay their chief executives at least 50 more times than their average worker will see their tax rate go up by 0.5ppt. If the pay-gap ratio goes up, so will the additional tax rate, by up to 5ppt.

Okay, now I can start to see why market might not warm up to Sanders.

Yes, indeed. And the irony is that, for all his socialist platform, he graduated from the University of Chicago, where free market economics is practically a religion, for better or worse.

Now, isn't Elizabeth Warren offering pretty much the same platform? Why do I not hear of her much these days?

There is indeed a sense that her popularity has declined from the height of last year, with recent poll numbers in the mid-single digits. Her flip flop on health insurance has cost her sizable support apparently.

Well, if Sanders embraces the 'socialist' label, Warren still does insist that she is a capitalist who "believes in markets" but one who places a huge emphasis on the role of rules and regulation. "Market without rules," she said, "is theft."

In terms of specific policies, there are broad similarities indeed. She wants to raise corporate tax rate to 35% as well. She too talks about wealth tax, albeit with different brackets, levying 2% rate on those with more than \$50mn and up to 6% for billionaires and above.

Tax the rich. Is that why Bloomberg is running?

Well, he is very wealthy indeed at \$58bn worth of assets, ranking him as the 9th richest in the US and 14th globally. His decision to enter the race in November 2019 was apparently driven by the concern that Biden's chances of clinching the Democratic ticket is low, and that would leave the field open to more radical candidates with the so-called "progressive" economic policies.

Given his financial sector background and centrist platform, he would be seen as a safe pair of hands by the market. On the issue of raising the minimum wage to \$15/hr, for example, he said he agrees to it, in part to be seen as acknowledging the need to battle inequality. However, his proposal to raise it gradually to that level by 2025 can be seen as a more measured way to do so.

Nevertheless, there are obviously questions about how voters – especially working-class population in swing states – would support a billionaire like him.

Have you forgotten about how Trump won in 2016?

Fair enough. The fact of the matter is the race is still relatively early. Perhaps there is something to his self-funded campaign after all, including the \$10mn spent on a 60-second Super Bowl ad. Going by betting odds for instance, Bloomberg's chances have moved from nothing to 18% now.

How did Bloomberg do in Iowa?

Given his late start, Bloomberg skipped the early races altogether to focus his campaign on later contests in bigger states with more delegates. In fact, the key date is March 3rd, also called "Super Tuesday", where more than a third of total delegates will be decided. If he is to have any chance of winning, Bloomberg, like any other candidate, needs to show good results here.

Figure 2. Key events in the Democratic presidential nomination.

Key Dates	Events	Significance
3 Feb	Iowa Caucuses	The first two states to hold contests for the Democratic presidential nominee. Historically, any candidate who has won both Iowa and New Hampshire has gone on to win the party nomination. The reverse is not true, however. Some candidate had lost these but still won the Democratic ticket ultimately, including Bill Clinton who went on to win the presidential race.
11 Feb	New Hampshire Primary	
29 Feb	South Carolina Primary	First primary in a southern US state; also the first state with a sizable African-American population - an important constituency for the Democrats - to vote. Important for Biden to win , given his supposed support among this group, partly due to his association with Barack Obama.
3 Mar	Super Tuesday: Contests in 14 states	Multiple primaries and caucuses across the country, with 1358 of delegate counts at stake; more than a third of total . Include contests in the populous states of Texas and California - important barometer for national race. Bloomberg has skipped earlier contests to focus on winning on this day. The success of his late entry into the game will hinge upon his performance here.
Through to end March	More primaries, including populous Illinois and swing state Michigan, etc.	By end of March, elections covering more than half of total delegates will have taken place. Traditionally, by now, there is good visibility on who the ultimate Democrat candidate will be.
13-16 Jul	Democratic National Convention	Delegates to vote in multiple rounds to decide. Winning candidate needs to win the majority of delegate votes Round 1. If no winner, delegates go "unpledged", i.e. they can vote freely in subsequent rounds. So-called "super delegates" - including state governors and members of Congress - can now vote, to the advantage of "establishment" candidates.

Source: OCBC, CNN, Reuters, Bloomberg.

Global Snapshot

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How's Biden doing? Not so good?

Well, I guess his campaign has been lacklustre and the Iowa preliminary results show him in a distant 4th. With him unlikely to win New Hampshire next – Sanders is the favourite there – the most important contest for Biden will be South Carolina's on Feb 29th. It's a state with significant African-American population, and Biden's association with Obama has made this constituency an especially important one for his chances of a rebound.

His voters appeal aside, the fact that Buttigieg did well in Iowa might inadvertently reduce Biden's odds, as well. After all, before this and before Bloomberg's entry, some Democrats might have supported Biden because he was the only major candidate with a centrist platform. Now there are others.

Okay. Fast forward to summer. Democrats have chosen their candidate, be it these few folks we have talked about or someone else altogether. The question ultimately is: Can he or she beat Trump?

It depends.

I knew it! You economists can never give straight answers. Okay, go on, depends on what?

First of all, it depends on who is the one fighting him obviously. So far, the polls suggest the candidates would have a hard time. There are some hopes that Bloomberg might be able to stand up most strongly to Trump, in a sort of New York B2B (billionaire-to-billionaire) showdown, although Bloomberg will have to win the Democrat ticket first for that to happen.

As it stands, Trump's approval rating, according to Gallup poll, just reached 49%, which is less than half, but the highest since he took office. Interestingly, his support among independents has also reached its highest at 42%.

Much would, of course, also hinge upon how the economy is doing this year. Which is why his rants against Powell and the Fed are not going to stop anytime soon.

Okay. Think I have had enough of American politics for now. Plus, it's time for my Vitamin C intake to protect myself.

Could you spare me one of those pills at least? In return, I'll give you a cheat sheet on who the major candidates are and what key economic policies to look out for.

[Pauses in deep consideration] Okay. Just one.

That cheat sheet had better be good.

Background and Key Economic Policies of Major Democratic Presidential Candidates.

Candidates	Top Things to Know	
	General	Economy
Pete Buttigieg (38) 	<p>One of the youngest candidates running, and he has positioned himself as a moderate who can offer a generational change in national politics.</p> <p>Served as mayor of South Bend, Indiana. Previously a naval intelligence officer and a McKinsey consultant after attending Oxford on Rhodes Scholarship.</p> <p>There are apparently four ways to say his last name. As a sign of confusion about it, a survey of 6000 people came out with 168 ways to spell it.</p>	<p>While he has positioned himself as a centrist on broad issues, it is less clearly so on the economic front. He has said that trade deal with Canada and Mexico has cost significant and largely irreversible job losses, for example.</p> <p>Have a lot to say about the impact of innovation on the economy. To him, manufacturing jobs are not going to return much due to automation, and policies should focus on preparing the workforce for the future, including through a \$500mn "Regional Innovation Clusters" program.</p> <p>More liberal on immigration issues. Would create "Community Renewal Visas" program to attract high-skilled migrants who stay in rural communities for three years.</p>
Bernie Sanders (78) 	<p>Senator for Vermont since 2006; a Congressman before that for 16 years. Curiously enough, he studied at the University of Chicago, the epicenter of freemarket economics.</p> <p>Technically an independent who calls himself a "Democratic Socialist", but caucuses (votes alongside) the Democrat party.</p> <p>Surged in polls in recent weeks after a lull last year. His health may become a campaign issue due to bouts of cardiac issues.</p>	<p>A longtime proponent of heavily redistributive economic policies. His rise in 2016 nomination battle against Hillary Clinton pushed the party's economic policies leftward and laid the groundwork for a new "progressive" wing.</p> <p>Has a plan to guarantee that workers would assume 20% of controlling stakes in large companies by issuing new stocks. Employees to elect 45% of company board directors.</p> <p>Has ambitious spending plans, including Medicare for All and free public college tuition. To fund all the goodies, he would slap a wealth tax of up to 8% annually, raise the corporate tax rate to 35%, hike the estate tax to as high as 77%.</p>
Joe Biden (77) 	<p>Former VP during Obama's term, after spending 36 years as a senator for Delaware. Have been in an elected office longer than some of his contenders have been alive.</p> <p>Seen as the "establishment" candidate with a safe, centrist platform.</p> <p>Lackluster polling has caused concerns and catalyzed Bloomberg's entry into the race.</p>	<p>His candidacy depends on appealing to working class in swing states, in particular. Hence, his platform centers on rebuilding the middle class as "the backbone of the country".</p> <p>With attention on wealth redistribution, focused on the need to build an economy that "rewards work, not just wealth." He pushes for a \$15 minimum wage, for instance.</p> <p>Looks to repeal Trump's tax cuts. Talks about raising the top-bracket individual income tax rate to 39.5%; to raise corporate tax rate from 21% to 28%.</p>
Michael Bloomberg (77) 	<p>Former mayor of New York City (2002-13). Founded Bloomberg LP in 1982. Headed equity trading and systems development at Salomon Bros prior to that.</p> <p>He is rich. No, very rich. At \$58 billion, he ranks as the 9th richest in the US and 14th in the world, allowing him to self-fund. His 60-second Super Bowl campaign ad alone cost \$10 million.</p> <p>Entered the race late, with an official launch only in Nov 2019. His decision to enter is said to be driven by concern that Biden's chances are low and there would not be any viable centrist option left to take on Trump.</p>	<p>Broadly seen as the most market-friendly candidate given his background. However, his electability may be hurt, precisely of this as well in the current political climate.</p> <p>In part to battle the perception, he has a housing proposal that would increase federal funding for housing grants and tax credit provisions. He talks about increasing minimum wage to \$15 too, albeit gradually by 2025.</p> <p>Partly because of the late start, his campaign is lacks specific economic proposals thus far, although Jan 8th "All-In Economy" agenda zeroes in on the anti-Trump fight, offering to provide "jobs and economic opportunity to the people and communities left behind by President Trump."</p>
Elizabeth Warren (70) 	<p>Senator for Massachusetts since 2013. A former law professor at Harvard who specialized in bankruptcy law.</p> <p>She was a prominent campaigner of stricter oversight on finance after the 2008 Crisis. Served as a special advisor to Obama, in which she helped to create the Consumer Financial Protection Bureau.</p> <p>The one-time frontrunner in the contest has been losing ground in polls. In part, her decline in popularity has been due to her supposed flip-flop over her support for Medicare-for-All plan.</p>	<p>Outside of Sanders, she is considered as another standard-bearer for the leftist wing of the party. While she claims that she is a capitalist who "believes in markets", she emphasizes the role of regulation. "Market without rules is theft."</p> <p>Against what she calls overreach by big businesses. She has advocated breakup of big tech firms such as Google, Facebook and Amazon. Also in favor of reinstating a version of the Glass-Steagall Act, which would separate out commercial and investment banks and place curbs on private equity businesses.</p> <p>One of the few candidates to spell out views on FTAs. Said will renegotiate them to make sure trading partners live up to higher standards on a number of issues, including human rights, labor protection and environment practices, etc.</p>

Source: OCBC, various media outlets. Note: The list is not exhaustive. There are other candidates that we have not focused on.

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