

As Biden Preps For Presidency, Senate Sway May Mean More For Credit

Nov. 19, 2020

Key Takeaways

- As President-elect Joe Biden prepares to take office in January, much of what he can accomplish depends heavily on the partisan makeup in Washington. Ultimate Senate control, to be set by two run-off elections in Georgia, could significantly influence the new administration's policy agenda.
- Still, the new president could accomplish a fair amount through executive orders and other non-legislative actions. Mr. Biden has pledged to tighten environmental regulations, which could add to costs for certain industries. On trade, it seems unlikely that he would move quickly to reverse the Trump Administration's policies or to take a much friendlier stance toward China.
- The key issue for the broader U.S. economy in the near term is the prospect of further federal fiscal stimulus designed to offset the effects of the coronavirus pandemic. Reports that at least two experimental vaccines are highly effective and might gain initial approval by year-end may give the new administration a leg up in battling the health and economic crisis—and could be the most important factor for longer-term growth.

With Democrat Joe Biden having won the race for the White House (subject to recounts, ongoing lawsuits, and vote certifications), the president-elect will face a number of challenges, perhaps even before he takes the oath of office on Jan. 20.

As it stands, control of the Senate will remain up in the air until at least Jan. 5, given that both Georgia seats will be decided in run-off elections on that date—two days after the 117th U.S. Congress (House and Senate) is scheduled to be sworn in. Whether Republicans can hold onto their majority in the upper chamber or Democrats can complete a sort of delayed “blue wave” could have significant ramifications for the Biden Administration's policy agenda. If Democrats take both Georgia seats, the resultant 50-50 split in the Senate would give them effective control, with the vice president holding any tie-breaking vote.

Moreover, Republicans currently hold 22 of the 34 Senate seats at stake in the 2022 midterm election—and so Democrats would have another opportunity at a Congressional majority during Mr. Biden's first term. However, with all House seats on the ballot once again, there's no guarantee that Democrats will retain control of the lower chamber.

While recognizing that promises often go unfulfilled, with new presidents typically taking a measured approach to spending their political capital, it's clear much of what the Biden Administration can and will accomplish depends heavily on the partisan makeup in Washington. Even with a 50-50 Senate, Mr. Biden could face hurdles pushing through a planned increase in taxes on corporates and wealthy individuals, as he would need all of his party's senators (a group that includes two independents who caucus with Democrats) to approve the legislation, or to sway some Republicans to go along with the measure.

On the surface, taxes appear to be the issue with the most potential ramifications—although S&P Global Ratings believes there would be little effect on credit even if Mr. Biden can push through his plan to raise corporate rates. Under his proposal, the statutory rate for U.S. corporations would likely raise the effective rate most companies pay, absent tax-planning offsets. We expect companies and sectors with large overseas earnings would likely see even bigger increases in their effective rates as steeper taxation of foreign earnings would add to the effects of the domestic increase. But while the change, if enacted, would have mixed consequences on our adjusted ratios,

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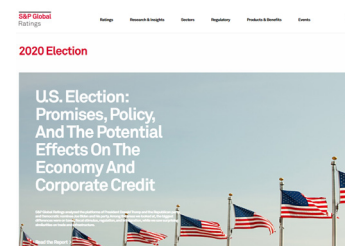
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we don't foresee ratings changes solely due to an adjustment of the tax code (see "[U.S. Corporate Tax Policy Post-Election Won't Likely Affect Ratings, Regardless Of Election Results](#)," published Oct. 19).

The issue looms somewhat larger for U.S. banks, which also benefitted significantly from the Trump Administration's Tax Cuts and Jobs Act of 2017 (TCJA). An increase in the corporate rate could be incrementally punitive if, as we expect, lenders' profitability remains pressured by the long-lasting effect of a low interest rate environment. Still, it's possible that the earnings hit could be offset if the Biden Administration were more liberal in terms of consumer relief—through, for example, higher unemployment benefits, continued deferment of past-due loans, and additional small-business lending—that could help mitigate the charge-off levels banks ultimately endure.

In the near term, the most important issue for the broader economy is the prospect of further federal fiscal stimulus designed to offset the effects of the coronavirus pandemic—especially given the likelihood for tighter social restrictions in parts of the country as case counts surge and winter looms (see chart 1). Longer-term, the reduction of record-high fiscal deficits while maintaining the momentum of the economic recovery poses a bigger challenge.

Chart 1

What A Biden Administration Means For Credit



Economy. The most important issue for the broader economy is further **federal fiscal stimulus** designed to offset the effects of the coronavirus pandemic—especially given the likelihood for the reinstatement of social restrictions in parts of the country as case counts surge and winter looms.



Corporates. President-elect Biden's plan to **raise the corporate tax rate** has the most potential ramifications from a credit perspective, but we don't foresee many ratings changes solely due to an adjustment of the tax code. Either way, the new administration would face difficulty in passing any such legislation, even with a 50-50 partisan split in the Senate.



Financial Services. An increase in the corporate tax rate could be especially punitive for banks if the pandemic continues to pressure profitability. Still, the hit could be offset if the Biden Administration were more liberal in terms of **consumer relief**—i.e., with higher unemployment benefits, continued deferment of past-due loans, and additional small-business lending.



U.S. Public Finance. A delay in federal fiscal stimulus or **premature austerity** from the federal government would draw out the time frame for state and local governments to regain their fiscal balance. Many states and municipalities have already started slashing their budgets, and would have to cut even deeper without federal help.



Structured Finance. Further stimulus would **support credit in various structured finance areas**, including consumer ABS, RMBS, multifamily CMBS. Some of the more stressed areas, such as retail /hotel CMBS and aircraft would likely only see indirect benefit from any stimulus, and instead must rely on a vaccine—and a reopening of businesses, as people become more willing to go out and travel.



Insurance. President-elect Biden's goal of near-universal healthcare coverage (he has targeted lowering the uninsured rate to 3%) would **be credit-positive for the health insurance industry**. However, the path he takes to get there is crucial, especially what role the industry will play in reaching this goal.

Source: S&P Global Ratings.

U.S. state and local governments are eagerly awaiting such stimulus, as they are under increasing budget pressures, with tax revenues tumbling and virus-related government spending costs climbing. A delay in stimulus or premature austerity from the federal government would draw out the timeframe for state and local governments to regain their fiscal balance, weighing on U.S. GDP in the process (given that state and local governments account for about 11% of the world's biggest economy). Many states and municipalities have already started slashing their budgets, and would have to cut even deeper without federal help.

Clearly, the White House would be hamstrung if Republicans retain their slim Senate majority. Still, Mr. Biden could accomplish a fair amount through executive orders and other non-legislative actions. For example, he has pledged to tighten environmental rules generally, which could add to costs for companies (while, from a macroeconomic perspective, also potentially creating jobs in “green” industries as an offset). Mr. Biden is said to already be preparing a number of executive orders that would reverse his predecessor’s policies, including the withdrawal from the 2016 Paris Agreement on climate change—which can be done simply through a letter to the U.N. and would take effect 30 days later. He is also reportedly looking to cancel a 2017 executive order that lifted restrictions on offshore oil drilling, and could halt the fast-tracking of reviews of pipelines and other fossil-fuel projects.

All told, his clean-energy plans could have a profound and direct effect on the U.S. energy sector broadly, and oil and gas production, in particular. A ban on new oil and gas permitting on federal lands could weigh on many oilfield-services companies, especially offshore drillers, given potentially significant effects on capital spending (see [“How Diverging Energy Policies In The U.S. Presidential Election May Affect Credit Quality,”](#) published Oct. 23).

Other areas in which the new administration could effect change without the help of Congress (in particular, with regard to the broader economy) include trade and fiscal stimulus. Regarding the former—specifically, the trade dispute with China—the new president will have a wide berth in which to operate. But it seems unlikely that Mr. Biden would move quickly to reverse many of the Trump Administration’s policies or to take a much friendlier stance toward China. This is especially true given that Americans increasingly view the country as a competitive threat, and without sweeping changes coming from Beijing, the deep-seated tensions between the countries look set to persist.

More likely, Mr. Biden could look to repair the U.S.’s relationship with its European allies. Tensions with the E.U. escalated recently when the economic bloc said it would levy tariffs on a wide range of American goods in retaliation for what the World Trade Organization (WTO) ruled was years of illegal subsidies given to Chicago-based aircraft manufacturer Boeing, the largest American exporter. (The move comes after the Trump Administration last year slapped tariffs on European goods following the WTO’s determination that Airbus, the European multinational that is Boeing’s main rival, received illegal subsidies.)

Aside from direct stimulus, the new administration could look for other ways to spur private-sector demand if Congress can’t find common ground on new measures. This could include shifting some funds from the \$2.2 trillion package enacted in March—in particular, the hundreds of billions of dollars for the Paycheck Protection Program that weren’t distributed. There has also been some talk that Mr. Biden would look to provide student-loan relief by directing the Department of Education to forgive debt up to a certain amount for lower-income Americans. Additionally, he could use executive authority to raise the minimum wage for federal contractors to \$15 an hour, from the current \$10.60.

More broadly, reports that at least two experimental coronavirus vaccines are highly effective and might gain initial approval by the end of the year may give the new president a leg up in battling the pandemic and its economic effects—and, in fact, could be the most important factor for GDP growth. But the development of effective immunization is merely the first step; widespread availability is just as crucial. Even assuming a vaccine is approved by the end of the year, there will likely be uneven distribution (perhaps initially to health-care workers and first responders such as police and firefighters).

Altogether, the change in the presidency will have ramifications for many of the borrowers we rate, including nonfinancial corporates, banks and other lenders, insurers, states and municipalities, and structured finance.

Corporates: Taxes, Trade, And Stimulus

Clearly, if Democrats win both runoff elections for Georgia's Senate seats and deliver the president-elect what would effectively be a Congressional majority, the ramifications for the corporate borrowers we rate would be more pronounced than a continued partisan power split would. Specifically, if Mr. Biden can push through changes to the corporate-tax regime, the higher rates that companies would pay could dent their bottom lines and curb business spending.

The proposed increase in the statutory rate would claw back half of the reduction under the TCJA, which brought the nominal rate to 21% from 35%. A review of our rated universe of approximately 1,200 public U.S. nonfinancial corporates showed that the average pre-TCJA effective tax rate was 22%, and that it fell to 13% after the law took effect. S&P Global Ratings believes changes in line with Mr. Biden's proposal would mean most U.S. companies would pay somewhat higher effective rates, absent the effects of tax planning, and with variability among sectors. Still, such an increase wouldn't likely result in ratings changes in and of itself, despite potential effects on cash flows.

Mr. Biden has also said he would reinstate the corporate alternative minimum tax that the TCJA eliminated (albeit with a different calculation based on book income), in an effort to ensure all American companies pay at least some U.S. federal tax when profitable. Moreover, proposed changes to the Global Intangible Low-Tax Income rules would increase the minimum tax U.S. multinationals pay on their foreign earnings.

Beyond taxes—the increase of which would weigh on nearly all borrowers we rate—many corporates face sector-specific issues (see chart 2).

Aerospace and defense

While total defense spending is unlikely to be materially different in a Biden Administration, spending priorities could shift, especially if there is a major change in U.S. foreign policy. Commercial aerospace could benefit in the long term from better relations with China and diminished trade tensions in general, with the pandemic being a much bigger issue in the next four years. The sector could also face tighter aircraft-emissions regulations and certification standards (already tightened after the two Boeing 737 MAX crashes), but this would likely take a long time to affect earnings or cash flow.

Autos

The easing of uncertainty around further tariffs would be a positive for several players in the auto industry—and will ultimately reduce the risk of supply-chain bottlenecks or higher costs to consumers. Any tightening of recently eased fuel-economy standards (which seems unlikely) would pressure profits in the short-term, but long-term infrastructure investments for clean energy, electric-vehicle (EV) charging, and EV subsidies could help the U.S. move more in line with rest of the world by 2030. This would be a positive for the long-term competitive positions of General Motors, Ford, and Tesla, as well as electric-powertrain and battery suppliers.

Building materials, forest products

Companies we rate in the building materials sector are sensitive to various types of construction, labor, and imports. We expect these companies would view an agenda that supports fiscal stimulus for employment and clarity on trade as beneficial. A clear plan for infrastructure would also be a plus. Tariffs on products from China have been a drag on profitability for companies moving production elsewhere, but most issuers have little exposure. Tariffs on small components are the most pertinent supply-chain issue facing U.S. building materials companies but affect less than 10% of the industry's costs or revenues. Much of the sector's revenues are commoditized and sourced domestically, but advanced manufactured products such as fixtures use numerous imported parts for assembly in the U.S. or even Mexico.

The change in presidential administrations is unlikely to have a direct material effect on forest products companies we rate, given that many producers have Canadian and U.S. operations. That

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said, stricter environmental policy (including the reinstatement of certain restrictions on logging in national forests) could have a somewhat negative effect on credit.

Chart 2

Policy Effects On Corporate Sectors In Two Scenarios

Scenario 1: Biden Presidency And Mixed Congress

Sector	Trade/supply chain	Environmental regulation	Antitrust regulation	Labor regulation	Other policy area	Policy area details
Aerospace and defense	Somewhat positive	Neutral	Neutral	Neutral	Neutral	Defense spending
Autos	Somewhat positive	Neutral	Neutral	Neutral		
Building materials	Somewhat positive	Neutral	Somewhat negative	Positive		
Capital goods	Somewhat positive	Neutral	Neutral	Neutral		
Chemicals	Neutral	Neutral	Neutral	Neutral		
Consumer products	Somewhat positive	Neutral	Neutral	Neutral		
Forest products	Neutral	Neutral	Neutral	Neutral		
Health care	Somewhat negative	Neutral	Somewhat negative	Somewhat positive	Neutral	Affordable Care Act
Homebuilders	Somewhat positive	Neutral	Neutral	Positive		
Leisure and sports	Neutral	Neutral	Neutral	Neutral		
Media and entertainment	Somewhat positive	Neutral	Somewhat negative	Neutral	Somewhat negative	Social media and media ownership regulations Coal regulations
Metals and mining	Neutral	Neutral	Neutral	Neutral	Neutral	
Midstream energy	Somewhat negative	Somewhat negative	Neutral	Neutral		
Oil and gas	Neutral	Somewhat negative	Neutral	Neutral		
Oil refineries	Somewhat negative	Somewhat negative	Neutral	Neutral		
Pharmaceuticals	Somewhat negative	Neutral	Neutral	Somewhat positive	Neutral	Drug pricing
Regulated utilities	Neutral	Neutral	Neutral	Neutral		
REITs	Neutral	Neutral	Neutral	Neutral	Somewhat negative	Eviction moratorium and rent freezes
Retail	Neutral	Neutral	Neutral	Somewhat negative		
Technology	Somewhat positive	Neutral	Somewhat negative	Positive		
Telecom	Neutral	Neutral	Neutral	Neutral	Neutral	Net neutrality
Transportation	Neutral	Neutral	Neutral	Neutral		
Unregulated power	Neutral	Neutral	Neutral	Neutral	Neutral	Renewables

The impact descriptor (positive, somewhat positive, neutral, somewhat negative, negative) is our qualitative view of the policy effect on sectors. It does not directly translate to risk of rating actions. Source: S&P Global Ratings.

Scenario 2: Biden Presidency And Democratic Congress

Sector	Trade/supply chain	Environmental regulation	Antitrust regulation	Labor regulation	Other policy area	Policy area details
Aerospace and defense	Somewhat positive	Somewhat negative	Neutral	Neutral	Neutral	Defense spending
Autos	Somewhat positive	Somewhat negative	Neutral	Neutral		
Building materials	Somewhat positive	Neutral	Somewhat negative	Positive		
Capital goods	Somewhat positive	Somewhat positive	Neutral	Neutral		
Chemicals	Neutral	Neutral	Neutral	Neutral		
Consumer products	Somewhat positive	Neutral	Neutral	Neutral		
Forest products	Neutral	Somewhat negative	Neutral	Neutral		
Health care	Somewhat negative	Neutral	Somewhat negative	Somewhat positive	Somewhat positive	Affordable Care Act
Homebuilders	Somewhat positive	Neutral	Neutral	Positive		
Leisure and sports	Neutral	Neutral	Neutral	Somewhat negative		
Media and entertainment	Somewhat positive	Neutral	Somewhat negative	Neutral	Somewhat negative	Social media and media ownership regulations
Metals and mining	Neutral	Somewhat negative	Neutral	Neutral	Neutral	
Midstream energy	Somewhat negative	Negative	Neutral	Neutral		
Oil and gas	Neutral	Negative	Neutral	Neutral		
Oil refineries	Somewhat negative	Negative	Neutral	Neutral		
Pharmaceuticals	Somewhat negative	Neutral	Neutral	Somewhat positive	Somewhat negative	Drug pricing
Regulated utilities	Neutral	Neutral	Neutral	Neutral		
REITs	Neutral	Neutral	Neutral	Neutral	Somewhat negative	Eviction moratorium and rent freezes
Retail	Neutral	Neutral	Neutral	Somewhat negative		
Technology	Somewhat positive	Somewhat positive	Somewhat negative	Positive		
Telecom	Neutral	Neutral	Neutral	Neutral	Somewhat negative	Net neutrality
Transportation	Neutral	Somewhat negative	Neutral	Neutral		
Unregulated power	Somewhat positive	Somewhat positive	Neutral	Neutral	Positive	Renewables

The impact descriptor (positive, somewhat positive, neutral, somewhat negative, negative) is our qualitative view of the policy effect on sectors. It does not directly translate to risk of rating actions. Source: S&P Global Ratings.

Capital goods

Some easing of trade tensions could benefit capital goods issuers we rate, particularly those with a sizable export base. Increased spending on infrastructure and climate change could drive higher capital spending. All told, the impact could be low to medium.

Chemicals

The U.S. chemicals sector would benefit from any resolution of uncertainties related to trade, especially the dispute with China. This would be as—if not more—important than the specifics of any trade deals. There are chemicals subsectors that benefit from protection against imports. However, the sector would benefit more from being able to export freely given the large amount of capacity in subsectors such as petrochemicals that are built with export markets in mind.

Health care and pharmaceuticals

Healthcare was a top campaign issue, and the recession-related spike in unemployment that left an estimated over 5 million Americans without health insurance brought it into greater relief. Mr. Biden has called health care a top priority, although his stance is more moderate than that of many others in his party. He has said he won't seek to implement "Medicare for All," but rather to expand the Affordable Care Act (ACA), perhaps with a public option. However, the potential loss in coverage for millions of Americans, increasing Medicaid enrollees, and state budget shortfalls, along with the uncertainty surrounding the Affordable Care Act, may increase pressure on Washington to act.

For pharmaceuticals manufacturers, we believe the industry remains relatively more vulnerable to legislation, given the bipartisan support on the issue of pharmaceutical spending and the similarities between the two parties' proposals. Still, given the complexity of implementing potentially game changing proposals, such as international pharmaceutical price indexing, we think the likelihood of something being passed in the near term unlikely.

Homebuilders

An agenda that supports low interest rates and fiscal stimulus for employment is beneficial for homebuilders. And while higher taxes could slow home-price appreciation, underlying demand will likely outstrip the industry's capacity to acquire land or labor for several years to come because of demographic shifts in the workforce. Increased labor availability amid looser immigration enforcement could ease conditions and allow more growth for homebuilders. Trade would only affect homebuilders' credit quality if higher materials costs coincided with a slide in U.S. housing prices and starts. Lower home prices from higher taxes (or rising interest rates) could hit homebuilders' cash flows, as several shift their mixes to lower price points.

Media and entertainment, leisure

While the potential effects of the election results on the media sector will likely be low, the Biden Administration could pursue a more progressive regulatory regime. Either way, government efforts to increase regulation of social media, which is popular with both political parties, will likely continue. At the same time, China has used its control of state media and its control of intellectual-property distribution to punish Hollywood (movie studios) and American sports leagues amid the trade dispute with the U.S. The world's second-biggest economy is an important growth opportunity for American media and entertainment companies, but not yet a significant source of revenues and cash flows.

Because the leisure sector relies so heavily on discretionary consumer and business spending, additional stimulus and policies that accelerate a medical solution to the pandemic (or increase confidence in consumer safety) would likely enhance the recovery. Conversely, any federal mandates or policies that tighten restrictions on leisure travel or entertainment would weigh on credit. On another front, a divided Congress would likely make it harder—if not impossible—to implement labor reforms, such as raising the federal minimum wage, which would raise costs of retaining unskilled workers in hospitality and leisure.

Metals and mining

The equity and credit performance of steel and aluminum producers has deteriorated dramatically since the Trump Administration imposed tariffs in March 2018, leaving weakened primary producers with higher downstream costs. The dollar's inverse relationship with dollar-denominated commodities (which are cheaper outside the U.S., where most metals are consumed) could boost prices significantly if the dollar continues to weaken. This would be better than tariffs for U.S. manufacturers, lowering costs compared with global competitors.

Looser regulations under the Trump administration failed to arrest the decline in thermal coal consumption, which is overwhelmingly driven by the shift to attractive-cost natural gas and renewables. Conditions under a Biden administration will likely become more difficult for thermal

coal producers, cementing the permanent transition from this fuel with high greenhouse gas emissions for electricity.

Oil and gas production, midstream energy

The upstream and midstream energy sectors face headwinds that are making for a difficult operating environment, regardless of who occupies the White House. Still, there are measures the president-elect has proposed that could have a notable effect on the industry.

We think the Biden Administration will look to restrict or halt new leases on federally owned land/waters and seek to make this policy permanent. This is crucial given that approximately 22% of U.S. oil production and 13% of natural-gas production comes from federally owned land/water, according to the Department of the Interior. However, the Biden administration is unlikely to issue an immediate moratorium on existing drilling or permits. Also, Mr. Biden's plans don't call for a ban on hydraulic fracturing (fracking), and any such measure, in our opinion, would meet stiff resistance, considering the economic importance and importance to the nation's power grid—with natural gas accounting for more than one-third of U.S. electricity generation.

The president-elect has also called for the elimination of certain subsidies, as well as tax breaks and royalty-payment relief, for the oil and gas industry. We believe any such rollbacks would target intangible drilling costs, credits for enhanced oil and gas recovery methods, and the percentage deduction for depleting oil and gas wells.

Regulated utilities

We don't see a change in White House as having many consequences for credit quality among the regulated utilities we rate, as the industry has managed credit risk well under both Democratic and Republican administrations. The biggest single issue would be something akin to the "Green New Deal" whereby utilities would be forced to further transform their businesses at an accelerated pace that burdens customers.

Renewable energy

With a planned phase-out for wind-power credits next year and step-downs for solar investment tax credits (ITC), we expect a decline in installations for renewable energy. However, a Democratic sweep in Congress could accelerate renewables policies and demand in the U.S. In such a scenario, residential-solar companies would likely benefit, and battery-storage investment and adoption would increase. One proposed bill includes a five-year extension of the 30% solar ITC through 2025.

A Biden task force included several solar-specific recommendations we think are noteworthy. First, it recommended a target of installing 500 million solar panels in the next five years—or roughly 30 gigawatts (GW) of annual installations in this period. To put that into context, the peak solar installations year for the U.S. so far was around half that level, at about 15 GW. The proposal would also put the U.S. on the path of cutting net carbon emissions from electricity production to zero by 2035. (This would include the use of nuclear power, the country's largest zero-carbon electricity source, along with wind and solar.) As part of his plan, Mr. Biden has also proposed upgrading or retrofitting 4 million commercial buildings and weatherizing 2 million homes in four years to make them more energy-efficient.

Retail and consumer products

Policies that support the consumer (e.g., direct stimulus checks, enhanced unemployment benefits) are most relevant for this sector. We assume a Democratic administration and Congress would enact more generous policies of this nature, which would be a plus for consumers. However, conventional wisdom holds that Democratic policies are not broadly business-friendly which could have a cooling effect on the economy and in turn consumer confidence and spending.

For consumer products manufacturers, an easing of trade tensions will likely have the biggest effect, especially since durable-goods makers have been hit hard by increases in steel prices.

Technology

If Mr. Biden focuses on reducing trade barriers and building an international coalition to stand up to China, rather than relying on tariffs as a tool, this would be a positive for U.S. hardware and semiconductor vendors. On another front, a friendlier U.S.-EU relationship could result, and a tax on U.S. digital sales in EU could be removed.

With regard to antitrust measures—with Alphabet (Google's parent company) and other large tech companies being investigated—our view is that antitrust actions could cause some to modify their business practices to limit their regulatory exposure, or result in fines, either of which would be manageable. We see a low probability of the break-up of these companies, given the lack of precedent and challenges in representing material consumer harm; also, any regulations would take time, and tech companies can in the meantime change their business practices to avoid break-up.

Telecom

We believe so-called net neutrality (under which internet-service providers can't discriminate or charge users differently) will again emerge as a priority under a new Federal Communications Commission (FCC), through a reversion to Title II, which the FCC used to impose net neutrality regulations in 2015—with more permanent legislation less likely given other priorities. While we don't expect broadband providers would be subject to price regulation in the next few years, this could be a longer term risk.

Transportation

The potential reversal of tax benefits would be a mild negative, but most transportation companies are asset-intensive and tend to minimize their taxes through depreciation. Railroads and big package-express companies are the most profitable in the sector, and did benefit from tax cuts, but a reversal wouldn't be a huge factor, in our view. Contentious trade relations and increased deglobalization tend to be unfavorable for air travel (although the effects have been dwarfed by those of the pandemic) and trade in goods, which affects many freight transportation companies.

Financial Services: Regulation In Focus

If Republicans retain control of the Senate, there's clearly a greater chance that the status quo with regard to taxes and regulation will be maintained. But, for banks, that still leaves a fairly high bar when it comes to prudential standards for capital and liquidity, and even during the Trump Administration, there hasn't been much significant easing, in our view, when it comes to the country's biggest banks.

Banks liquid assets have increased significantly, largely because of the Federal Reserve's asset purchases as part of its quantitative easing measures. Regulatory capital ratios have generally risen as the Fed also restricted large lenders from repurchasing shares or raising their dividends through the end of the year. The central bank has also provided some regulatory relief regarding the calculation of capital ratios, including a delay of the effects of the new current expected credit losses (CECL) accounting standard for setting allowances. In contrast, banks' risk-adjusted capital (RAC) ratios—based on our measure—have seen more pressure without those temporary relief measures.

Key appointments (and the ramifications thereof) are always tough to predict, but we believe it is less likely that we will see a substantive reconfiguration of the banking industry. Still, some incremental earnings pressure could materialize, with even a partial reversal of the 2017 tax cuts. Regulatory enforcement and penalties will likely get a bit stiffer, and the focus on consumer advocacy will likely gain ground—although we think this is likely less material for banks than for nonbank entities such as payday lenders.

Similarly, we don't think the Biden presidency will have a significant effect on our ratings on fincos, but certain aspects of the Democratic platform could provide some benefit. To the extent that broad initiatives to boost employment and disposable income for the middle class help temper delinquencies and defaults on consumer loans, this could be a boon to consumer finance companies. Infrastructure investment—in particular, clean energy projects—could create additional opportunities for specialty finance companies focused on this asset class. On the downside, a strengthened Consumer Financial Protection Bureau could weigh on certain companies, especially the consumer payday industry. For asset managers, too, more spending—e.g., through plans to extend unemployment insurance, as well as measures to boost employment and disposable income—could bolster the economic recovery and financial markets.

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U.S. Public Finance: Fiscal Stimulus Is Key

The pandemic and related recession have hurt states' credit quality, with more than one-quarter of our ratings in the sector having a negative outlook or having been lowered. With the path to economic recovery unclear—and showing substantial regional variation—federal stimulus would provide credit support, the absence of which could have budget and economic implications (see [“The Post-Election Landscape For U.S. Public Finance,”](#) published Nov. 18).

To date, stimulus has done little in the way of replacing lost revenues. Many ballot measures were successful in legalizing recreational drugs and various types of gaming—and both will provide new and additional revenues to states where taxed, although the amount is insufficient to offset what has been lost to the pandemic. Because other tax-generating measures have failed, some states continue to face budgetary imbalances for the remainder of fiscal year 2021 and into fiscal 2022.

Meanwhile, local governments remain on the front lines of the fight against the pandemic, and with little movement toward a sizable stimulus package benefiting state and local governments, we expect some municipalities will be forced to make big spending cuts. Many issuers set aside stimulus from earlier this year in anticipation of subsequent spikes in COVID-19 cases; that will help manage costs but won't cure the budget gaps caused by revenue shortfalls. The severity and duration of the anticipated coronavirus wave this autumn and winter will play an important role in how prepared local governments are for 2021, particularly if any enhanced social-distancing measures result in a notable slowdown in economic activity.

From a public health perspective, movement toward a national COVID-19 strategy could relieve funding pressures for frontline responders across U.S. public finance and may help with challenges associated with a very uneven health recovery. Clearly, the widespread distribution of a vaccine would also have significant beneficial economic implications. Further, support for the ACA is crucial for the not-for-profit healthcare sector and states. While major healthcare policy changes appear unlikely, policy direction remains a major driver of the economy.

Elsewhere, a federal infrastructure program would be a positive development across U.S. public finance, carrying substantive economic benefits. While there has been broad bipartisan support over time for infrastructure in the abstract, there hasn't been broad bipartisan support for funding it. Still, an increase in federal infrastructure spending (the economic benefits of which S&P Global Ratings has long extolled) is a possibility, even with a divided legislature—especially one with such a slim margin. Given years of neglect regarding American infrastructure, the current environment represents a great opportunity to invest, as we believe the causal link between prudent spending and the benefits to an economy is undeniable. This spending can boost an economy in many ways, including adding jobs—mostly middle-class positions (and not just during a project's construction)—increasing income, and raising property values. With interest rates at historic lows, materials costs affordable, and high unemployment, now could be the time to strike (see [“Infrastructure: What Once Was Lost Can Now Be Found—The Productivity Boost,”](#) published May 6).

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Insurance: Prospects For A ‘Public Option’

President-elect Biden’s goal of near-universal healthcare coverage (he has targeted lowering the uninsured rate to 3%) would be credit-positive for the health insurance industry. However, the path he takes to get there is crucial, especially what role the industry will play in reaching this goal (see [“The Health Care Credit Beat: U.S. Election Issue—Industry Reform Will Likely Remain Gradual, Though Wildcards Abound,”](#) published Oct. 29).

Depending on how it’s structured, a “public option” (which, as the debate about Obamacare raged in 2009, the Congressional Budget Office suggested would entail to roughly 6 million people, or less than 2% of the population) could pose the most risk for the industry. The lowest-risk scenario would involve a privately run public option that fills existing coverage gaps, such as those in states that didn’t expand Medicaid, without destabilizing the employer-group market. The highest-risk scenario would be a government-run public option that pays Medicare provider rates and competes against the industry in the individual and employer-group markets. However, we believe the public option is unlikely to happen as some moderate Democrats may be in opposition.

We see Mr. Biden’s other coverage proposals, such as enhancing the ACA’s exchange subsidies and new incentives for Medicaid expansion, as generally credit-positive for providers that focus on those customer segments. As for his plan to lower the eligibility age for Medicare to 60 from 65, the key to its effect would be whether private Medicare Advantage plans play a role and if it’s done as a Medicare “buy-in” plan or a true expansion of the program, which would affect the employer-group market. However, similar to the public option, we believe lowering the Medicare eligibility age is unlikely to happen given the election results.

The effects of the new administration’s various coverage programs on provider rates could have a profound effect on the industry. If private insurers are involved and can pay Medicare-like provider rates, it would level the playing field for various players. However, if providers simply respond by requesting/receiving significantly higher commercial payment rates, this could render the industry’s commercial products too expensive and uncompetitive.

Structured Finance: Little Change To Start

In general, we see few near-term effects specific to structured finance under a Biden Administration. It seems that even a divided Congress’s first priority is a stimulus package—though we’d expect a larger one if Democrats can pull even in the Senate. This would support credit in various structured finance areas, including consumer asset-backed securities (ABS), residential mortgage-backed securities (RMBS), and multifamily commercial mortgage-backed securities (CMBS). We expect that under a Biden Administration there will be some form of government payment to help reduce the debt load for borrowers struggling to pay off federal student loans. This type of government intervention will lead to large prepayments in U.S. student loan ABS. This in turn could strengthen student loan ABS ratings by offsetting slower than expected borrower payments, which have contributed to rating downgrades. Some more stressed areas, such as retail/hotel CMBS and aircraft, would likely enjoy only indirect benefits from any stimulus; instead, a coronavirus vaccine—and the concurrent reopening of businesses, along with a rebound in travel—are more important. While the Federal Finance Housing Agency (FHFA) would like to see the Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac exit Conservatorship (the largest issuers of RMBS in the U.S.), it remains unclear whether this process will begin in the near term—especially under a Biden Administration, which might be concerned with more pressing issues. In the longer term, more focus on regulation could come if Democrats gain power either in January or during the 2022 midterm elections.

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Related Research

- [Next Steps For President-Elect Biden: Containing Coronavirus And Stabilizing The U.S. Economy](#), Nov. 19, 2020
- [The Post-Election Landscape For U.S. Public Finance](#), Nov. 18, 2020
- [U.S. Regulated Utilities' Credit Metrics Could Strengthen Under Proposed Biden Tax Plan](#), Oct. 29, 2020
- [How A Big Win For Democrats On Election Day Could Alter U.S. Prison Phone And Private Prison Industries](#), Oct. 29, 2020
- [The Health Care Credit Beat: U.S. Election Issue—Industry Reform Will Likely Remain Gradual, Though Wildcards Abound](#), Oct. 29, 2020
- [How A Big Election Win For The Democrats Could Affect U.S. Telecom And Cable Companies](#), Oct. 27, 2020
- [How Diverging Energy Policies In The U.S. Presidential Election May Affect Credit Quality](#), Oct. 23, 2020
- [U.S. Election: Promises, Policy, And The Potential Effects On The Economy And Corporate Credit](#), Oct. 19, 2020
- [U.S. Corporate Tax Policy Post-Election Won't Likely Affect Ratings, Regardless Of Election Results](#), Oct. 19, 2020
- [Regulators Lean In To U.S. Big Tech Firms](#), Aug. 25, 2020

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. Reports that at least one experimental vaccine is highly effective and might gain initial approval by the end of the year are promising, but this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

This report does not constitute a rating action.

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