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US election campaign entering hot phase: decision in the midst of the crisis

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In the midst of the corona crisis, following the first TV debate and US president Donald Trump's infection with the corona virus, the race for the US presidential office enters its critical phase. In nationwide opinion polls, Democratic candidate Joe Biden is currently ahead of Republican incumbent Trump. According to a survey conducted by Reuters/Ipsos after the TV debate, Biden lies nine percentage points ahead of Trump.

Due to the complicated US electoral system, however, such polls only have limited informational value. In 2016, for example, Democrat Hillary Clinton lost out to Trump despite being two percentage points ahead of the Republican. After a heated exchange in the first TV debate between the opponents, described by the media as "chaotic", the president's corona infection, which became known on Friday, now introduces further uncertainty into the election campaign.

The decision of the White House's future course comes at a historic point in time. The corona pandemic has led to an unprecedented economic slump in the US, although the latest figures indicate a less severe impact as has been recently feared. In any case, Trump's initial economic successes through corporate tax cuts have been wiped out.

Corona crisis brought historic economic downturn

According to the US Department of Commerce, the gross domestic product (GDP) in the second quarter dropped by 31.4 per cent projected for the year. However, economists now see the US economy headed for a recovery again. In its latest forecast, the OECD expects the US economy to shrink by no more than 3.8 per cent in 2020, which would be a less dramatic decline than in many other industrialized countries.

Other figures confirm the picture of the struggling US economy. Despite the punitive tariffs introduced by Trump, the foreign trade deficit is close to an all-time high. Consumption, the US economy's driving force, declined by 33.2 per cent in spring due to contact restrictions and rising unemployment. Exports plummeted by 64.4 per cent due to the global recession and disrupted supply chains. Investments also suffered massively as a consequence of the pandemic.

The US labour market continued to recover from its massive slump in the Corona crisis in September; however, the recovery was less strong than had been hoped. According to the US government's monthly labour market report published on Friday, unemployment dropped significantly from 8.4 to 7.9 per cent and employment continued to rise. Economists interpreted the figures as a sign of a slowing pace of recovery. For example, companies outside of the agricultural sector created 661,000 jobs in September, while analysts had expected an average of 850,000.

Trump plans further tax cuts, Biden advocates increasing corporate taxes

Accordingly, the outcome of the elections, which will also decide the future direction of economic policy, is crucial. For one, the two opponents are pursuing opposing programmes with their taxation plans: if Trump is re-elected, he plans to continue his tax reforms until after 2025. Among other things, the incumbent president had lowered corporate tax from 35 to 21 per cent, thereby structuring an economic impulse.

Biden, on the other hand, has proposed raising the corporate tax rate to 28 per cent, which, when implemented, would put the US's corporate tax above that of many European countries such as Spain or the UK. Biden also wants to stop the outsourcing of US jobs abroad with punitive duties while granting tax breaks to companies that invest in the US. For personal taxes, Biden wants to re-introduce a progressive tax curve. However, compared to other democrats such as Bernie Sanders, Biden's tax plans are fairly moderate.

Biden could improve economic relations with the EU

The outcome of the presidential elections could also have a potential impact on the ongoing trade conflicts with China and the EU. During Trump's presidency, the trade conflict between the US and the EU escalated, with Trump introducing special tariffs on steel and aluminum imports on the grounds that he considered the EU countries' export surplus vis-à-vis the USA to be

unfair. The EU reacted with retaliatory tariffs on US products. Trump also repeatedly threatened punitive duties on car imports from the EU, which would hit German manufacturers in particular.

According to Biden's advisor Tony Blinken, Biden would end the trade conflict with the EU. "The EU is the largest market in the world, we have to improve our economic relations," Blinken recently said at an event organized by the US Chamber of Commerce. "We must end the artificial trade war the Trump administration started," the advisor said. Observers are skeptical, however, and the German Federal Association of Wholesale, Foreign Trade and Services fears a protectionist policy even with Biden as US president.

Future relations with China will also be critical. Trump recently fueled the conflict further with his campaign against popular video platform TikTok's Chinese operator, Bytedance. The US IT industry views such steps with mixed feelings: On the one hand, this opens up opportunities for US companies, but the deterioration in relations could also be a problem for industry big players like Apple, for whom China is an important market.

Other economic sectors could also be directly affected by the outcome of the election. For example, Trump has long wanted to push through his healthcare reform, thereby overturning his predecessor's Obamacare health insurance system. For the agricultural sector, Trump recently announced further billions in aid.

Trump's corona infection brings further uncertainty

It is also unclear whether Trump would accept a possible defeat immediately, as he already announced that he would suspect fraud should he lose the election. Finally, Trump's corona infection also caused uncertainty on the markets on Friday. Some analysts expect an advantage for the Democrats, others expect possible sympathy effects for Trump. Due to his quarantine, Trump is now likely to miss election campaign events in three contested US states. Either way, Trump's infection introduces further uncertainty into an election campaign already difficult to assess.

CONCLUSION: The campaign for the US presidential election is now in the hot phase. Whether under Trump or Biden – the United States, as the world's leading economic power, will continue to set the "pace" on the financial markets after the elections

Funds for the US equity market

Those who are convinced that the economic recovery after the lockdown will continue after the presidential elections have several options to invest in the US stock market.

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