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Special Coverage:
Biden drops out, Democrats starting over

Key takeaways

- President Joe Biden announced on Sunday that he has withdrawn as the Democratic Party's presidential election candidate. Even though Biden has endorsed his Vice President, Kamala Harris, for the Democratic Party's nomination, she must be selected by the party's delegates. The odds of Harris being named the presidential nominee are high.
- The "Trump reflation trade" has gathered momentum as Trump's poll numbers have improved. It's important to remember that Trump's lead remains quite small, and the Democratic Party will have to rally around the new ticket. From there, we will see what the poll numbers look like, and it's likely that the election race will remain tighter than many expect.

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- Fixed income investors should continue to look for lower policy and market rates, and keep an eye on quality, investment grade, as the business cycle slows and balance sheets feel stress. As a result, we continue to believe that in the short term, financial markets will struggle with the growth-value disparity, and relative value and small-cap stocks may continue to see upside. In the longer term, the fundamentals of the slowing economy, continued disinflation, lower interest rates, and strong gains in corporate profits will provide solid backdrop for US equities.

What happened?

- President Joe Biden announced on Sunday that he has withdrawn as the Democratic Party's presidential election candidate. He said he was withdrawing from the race, and this is in the best interests of his party and the country.
- This is only the second time that a sitting President has chosen not to run for re-election. In 1968, President Lyndon Johnson, a Democrat, decided not to seek his party's nomination for a second full term as protests against the Vietnam War mounted.
- Biden won 99% of the pledged delegates in the primaries and caucuses held in states and territories from January through June. With Biden out, the Democrats still need to officially name their nominee for the presidency at the party's national convention, scheduled to take place on 19-22 August in Chicago.
- Even though Biden has endorsed his Vice President Kamala Harris for the Democratic Party's nomination, she must be selected by the party's delegates. Under current party rules, Biden isn't allowed to pass the nomination to another candidate.

- The odds of Harris being officially nominated are high, as many experts in campaign finance believe she could keep the USD91 million in cash (and USD240 million in total funds) in Biden's campaign account if she were selected. Some of the other leading candidates for nomination include California Governor Gavin Newsom, Illinois Governor J.B. Pritzker and Michigan Governor Gretchen Whitmer.
- The debate between Trump and Biden took place on 27 June, after which Trump expanded his 2-3 points lead. On 13 July, at a rally in Butler Pennsylvania, there was an attempted assassination against Trump. From there his lead expanded further. After the Republican National Convention which concluded on 18 July, Trump's lead had narrowed to where it had been before the debate.
- Biden's decision to drop out of the race now may be odd as Trump has a wider lead against the other Democratic candidates than Biden. Obviously, the decision has left the Democratic Party with more time to rally the Party and voters in order to narrow Trump's lead and to avoid a Republican clean sweep in the House and the Senate.
- The "Trump reflation trade" has gathered momentum as Trump's poll numbers have improved. However, it's important to remember that Trump's lead remains quite small, and the Democratic Party will have to rally around the new ticket. From there, we will see what the poll numbers look like, and it's likely that the election race will remain tighter than many expect.

Investment implications

- Financial markets have shifted of late, reflecting the weakening economy and the better inflation data. The assumption is that the odds of the onset of a Fed monetary policy easing are higher. In addition, small-cap equities have rallied with the increased odds of lower interest rates.
- Fixed income investors should continue to look for lower policy and market rates. They should also keep an eye on quality, investment grade, as the business cycle slows and balance sheets feel stress.
- As a result, we continue to believe that in the short term, financial markets will struggle with the growth-value disparity and relative value and small-cap stocks may continue to see upside.
- As the FOMC's monetary policy easing cycle ensues, it has historically been quite accretive to US corporate profits and equity market returns.
- In the longer term, the fundamentals of the slowing economy, continued disinflation, lower interest rates, and strong gains in corporate profits will provide solid backdrop for US equities.

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