Whitechurch Securities Ltd
WEALTH MANAGERS

The US Presidential Election: What's at Stake for ESG?

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The US election is now just two months away, and with Joe Biden formally relinquishing his bid to become a two-term President, former President Donald Trump will run against Democrat and incumbent Vice President, Kamala Harris. Under the Biden Administration, the US' standing on key ESG-related issues has undoubtedly risen. The landmark Inflation Reduction Act (IRA), introduced back in 2022, represents the largest investment in climate change mitigation in US history, while work to lower health insurance premiums led to record breaking enrolment in the Affordable Care Act. It's not all been plain sailing though – Biden's Administration also oversaw a record boom in US oil production, despite a promise to end drilling on public lands.

Under Trump, the Republican party is offering a very different vision. A return to Trump's 'America first' approach would likely herald the return of US protectionism, including further tariffs on foreign imports, a renewed effort to expand domestic energy production, and further corporate deregulation.

The Presidential elections have always carried global significance. The US is still the world's largest economy – policy decisions resonate the world over. But with the two parties promising starkly different visions, the outcome of this US election is likely to be one of the most consequential in recent years. With ESG itself a polarising subject in the US, we delve in to what's at stake:

Policy

The Inflation Reduction Act has been in the crosshairs of Republican policymakers pretty much since the day it was signed into law – not a single Republican, either in the House or Senate, voted in favour of the bill. Trump has talked about repealing part or all of the IRA, but history shows just how difficult it can be – see Democrats failed attempts to reverse Trump-era tax cuts, or Republican's failure to repeal Obamacare in 2017. Red states have also been amongst the major beneficiaries of the Act – Republican Texas now produces more renewable energy than any other US state – so a full repeal might not be universally popular. Parts of the bill are more vulnerable than others – tax credits on electric vehicles, for instance.

Upon becoming President in 2016, Trump withdrew the US from the Paris Agreement. First time around, technicalities meant that it took the US nearly four years to withdraw from the landmark climate treaty. The US only officially left the Agreement on November 4th, 2020, the day after Biden was elected. The current President re-entered the Agreement on his first day in office. This time around, Trump could feasibly exit in little over 12 months. Next year, countries are due to ramp up existing targets for cutting emissions – Republican policymakers could use this as an opportunity to water down existing commitments or cancel them altogether. With limited pressure from the US, it is highly likely other countries would follow suit, risking a global weakening of climate commitments.

Domestic energy

While Trump made the revival of the coal industry a key pledge in 2016, 'Trump digs coal' placards have been notable in their absence this time around. Even with Presidential support, the percentage of US power generated from coal fell from 31% to 20% through Trump's first term. He has been more vocal in support of oil & gas, promising to eliminate green legislation, expand offshore drilling and lift a moratorium on the liquid natural gas (LNG) export permits.

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While a Harris Presidency would likely be less supportive of traditional energy, it should be acknowledged that under the Biden Administration, US oil & gas production hit new highs – American oil & gas producers were amongst the key beneficiaries of the war in Ukraine, cashing in on (largely European) demand for non-Russian energy. As I write, the Harris campaign has announced it would not ban fracking, despite previously supporting a ban, and while a Democrat President would almost certainly do more to support the green agenda, it would be fantasy to call either nominee 'anti fossil fuel'.

Social

The Affordable Care Act, also known as Obamacare in recognition of the President who signed it into law, is once more in the headlines. The Act, designed to expand access to health insurance for millions of previously uninsured Americans, was in the crosshairs during Trump's first term, but Republican lawmakers ultimately failed to be repeal it. Under Biden, a record number of Americans were enrolled. Harris has promised to build and expand these gains. Trump, too, appears to be dialling down his previous rhetoric. In April of this year, he stated that he is 'not running to terminate Obamacare, but would aim to improve it', without providing specifics. Underpinning this apparent shift has been a gradual improvement in sentiment – in April 2024, more than 60% of the American public had a favourable view of the Affordable Care Act, up from just 33% in 2013.

Governance

Corporate governance, the often forgotten G in ESG, will also be impacted, with a second Trump term likely to result in further corporate deregulation. In March 2023, when Silicon Valley Bank (SVB) spectacularly collapsed, US Federal Reserve officials were quick to point to the 2018 roll-back of post-2008 financial crisis safeguards as a contributing factor, with a report citing culture of weak and lax supervision that favoured inaction. The bill was bipartisan, i.e., voted for by both Democrats and Republicans, but it was the latter that bore the brunt of the finger pointing. While details are lacking, Trump would likely favour further deregulation over a second term; a move likely to bolster short term productivity (and profitability), while arguably increasing long-term risks.

International relations

The outcome of the election promises to shape the US' global standing, as well as relations with allies and adversaries alike. Starting in 2018, Trump placed tariffs on imports of solar panels from major trading partners, but it was his approach to China that really caught the eye of economists. His Administration slapped tariffs on hundreds of billions of dollars' worth of Chinese goods, as well as blacklisting Chinese tech companies. The Biden Administration doubled down on Trump-era tariffs with further punitive measures on imports or electric vehicles and the battery supply chain. No matter the result on 5th November, the thorny US-China relationship looks set to continue, with tit-for-tat tariffs raising the cost of key clean technologies and slowing adoption.

It is worth reminding oneself just how much has changed in under four years since the tumultuous end of the first Trump Presidency, from the rise of Artificial Intelligence (AI) to the outbreak of major conflicts in Ukraine and the Middle East. How the next President of the United States tackles these issues will likely prove decisive for investors over the next four years, and beyond.

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