
# Trump vs. Biden II: what implications could the US election have for sustainable fixed income?

## Momentum is with the green transition

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March 2024

In the end, the "Super Tuesday" of US election primaries held in early March proved conclusive. Further decisive victories in Alabama, Texas and California took Donald Trump past 1,000 Republican Party convention delegates and forced his only serious rival, Nikki Haley, to drop out of the presidential race. The stage is now set for a Biden versus Trump rematch in November. So, what does this mean for sustainable bonds?

One of the key pieces of legislation during President Joe Biden's first term was the passing of the Inflation Reduction Act (IRA). This landmark 2022 bill aimed to dampen the US inflation problem by directing almost US dollar (USD) 390 billion in tax credits and incentives towards a sweeping range of clean energy initiatives, including funding decarbonisation and the clean energy transition and encouraging the uptake of electric vehicles (EVs). As well as bringing the US closer to meeting its target of reducing its carbon emissions by 50% by 2030, the IRA is cited as a key factor in supporting sustainable bond issuance and investment, with global green and sustainable bond issuance on pace to surpass a trillion dollars in issuance for 2024.

Should Biden gain a second term, he would have the opportunity to build on the successes of his first term by enacting more progressive legislation that cements Washington's commitment to the clean energy transition. But what about his opponent? How much of a threat would a second Trump presidency be to the climate agenda, notably the transition from fossil fuels to clean energy?

## Could Trump dismantle US climate progress?

In some respects, the political distinctions between the two candidates could not be clearer. But Trump's views on green issues as a president have been vastly different to those he once held as a private citizen. Back in December 2009, he signed a full-page *New York Times* ad supporting urgent action on climate change, urging then-president Barack Obama to act. But in his first term in office, Trump was heavily opposed to any positive climate action, pulling the US out of the Paris Agreement and weakening regulation for fuel efficiency while also thwarting California's plans to set its own emissions rules. Trump today is now very much considered a climate sceptic, who, if successful in gaining the presidency, will push from day one to roll back Democrat legislation—particularly the IRA—something he has already been discussing on the campaign trail. But will he be able to achieve this once he gets into office?

It always seems unwise to take Trump's campaign statements at full value, but in our view, he may find it harder than he thinks if he does attempt to roll back the IRA and other pieces of climate legislation for several reasons. First, he may find his support in two houses of the US Congress—the Senate and the House of Representatives—to be lacking. At present the race to capture both houses is on a knife-edge, but with the Democrats looking more likely to recapture the House of Representatives. Any Trump plans to gut existing legislation could wither without clear majorities in both houses, just as it scuppered his hopes to repeal the Affordable Care Act.

Second, putting politics aside, it is impossible to ignore that the IRA has been good for the US, particularly for many so-called "red" states. According to the Center for American Progress, eight of the ten congressional districts that are set to receive the biggest clean energy investment are led by Republicans. Right now, there are 239 wind-related projects located in Texas, and more than 15,300 wind turbines. As a result, wind power now represents 28.6% of Texas's total energy generation. Despite the "drill baby drill" rhetoric, it could prove politically difficult to attempt to push through any executive orders that threaten this industry and the number of clean energy jobs that are being created. At the same time, clean energy is proving more cost-effective. According to Lazard's levelized cost of energy, land-based renewable wind and solar are the cheapest in terms of cost of energy production outside of any other energy source available. So, the economics of wind and solar suggest these clean energy sources are here to stay, and that Trump's time in office—should he get there—will struggle to overcome the direction of travel.

## Fuel efficiency

And turning to fuel efficiency (and potential rollbacks), one of longstanding attack lines is that electric vehicle (EV) take-up has been slow due to the cost of the vehicles and their limited range before needing to be recharged. However, those objections are getting closer to being dismissed.

Back in 2014, in his book *Clean Disruption*, entrepreneur, author and clean energy visionary Tony Seba forecast that lithium-ion batteries would reach the cost milestone of USD 50 per kilowatt hour by 2027. But as Seba noted in January, "it looks like China may reach that number sooner", noting that CATL and BYD are currently dropping their battery costs to as low as USD 56 per kilowatt hour. His 2024 prediction is that battery costs per kilowatt will come down by as much as 80% over the next decade, which would have enormous positive implications for the future of EVs. At the same time, with battery density improving by 7% each year, the capacity of EV batteries is also increasing.

With BYD having already launched an USD 11,000 "Seagull" hatchback EV, we are set to see a new generation of EVs dominating the whole transportation space thanks to low ticket prices and increased battery capacity. As a consequence, market forces and basic economic realities look likely to completely overwhelm any political resistance or backlash to clean energy solutions. It is going to be quite difficult for Trump to combat the market forces when the economics are undeniable.

## Green bond issuance continues

Over the last 12 months or more, sales of US ESG (environmental, social and governance)-related debt has been hampered by the backlash from Republican politicians and investors, so much so that Blackrock has been using its preferred—and more politically neutral—term of "transition investing" to attract investors discouraged by anything with an ESG label.

With a market size of USD 4 trillion globally, but with a potential market size of more than USD 10 trillion by the end of the decade, the market dynamics make green and sustainable bond issuance impossible to ignore. Trump may find that attempts to stifle green and sustainable bonds will be an argument he just cannot win. He might want to consider the words of James Carville, political adviser to Bill Clinton, who famously said: "I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody".

All of these factors suggest that there is no stopping the green transition and that despite Trump's wishes to overturn laws enacted by his Democrat predecessors, he will struggle to get buy-in from his fellow US citizens, his party, or indeed the markets. Political analysts in the US like to talk about how momentum or "the Big Mo" shapes the psychology of political races. Once momentum gathers pace, it becomes unstoppable, so the thinking goes. We would suggest that currently all of the momentum is with the green transition, regardless of who gets to return to the White House for another four years.

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