RBC BlueBay Asset Management

The US election

What does the future hold for clean energy?

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The US election is in full swing and one policy debate that remains particularly charged – no pun intended – is climate and energy.

Here we discuss:

- How the clean energy agenda could look going forward.
- The impact on fixed income investors under a Trump versus Harris presidency.
- The longer-term challenges and opportunities.

The US stands as one of the largest polluters per capita by CO_2 emissions[1]. It is also home to the world's largest bond market[2], but has yet to issue – for example – a sovereign green bond.

As such, the outcome of these elections holds the potential to have significant implications for the future of the clean energy agenda and bond markets, at both a US domestic and international level.

> "The impact on fixed income investors under a Trump versus Harris presidency could be quite pronounced, driven by each administration's economic, fiscal and regulatory policies"

[1] CO_2 Emissions by Country - Worldometer (worldometers.info).
[2] Bank for International Settlements.

Policy impact

A win for the Reds

Donald Trump has been particularly vocal about his pro-fossil fuel views. Should he be voted in, possible implications include:

- **Regulatory rollbacks:** Trump has historically prioritised deregulation, particularly in the energy sector. He might seek to roll back regulations aimed at reducing carbon emissions, such as those related to the Clean Power Plan to fuel efficiency standards for vehicles.
- **Support for fossil fuels:** a second Trump administration would likely continue to support fossil fuel industries, including coal, oil, and natural gas through subsidies, deregulation, and other policies, potentially at the expense of clean energy initiatives.
- **Reduced federal support for clean energy:** under Trump's leadership, federal support for renewable energy projects, such as wind and solar, could decrease. This could involve reducing tax incentives, cutting funding for research and development (R&D), and withdrawing from international climate agreements that promote clean energy.
- **Potential slowing of clean energy transition:** with less federal support and potential regulatory changes, the pace of the clean energy transition in the US could slow. This might also affect private sector investments in renewable energy and related technologies.
- **Impact on climate change policies:** Trump has previously expressed scepticism about climate change and withdrew the US from the Paris Agreement during his presidency. A similar approach in a future term could lead to reduced focus on climate change mitigation efforts, including those related to clean energy.

A win for the Blues

In contrast, Kamala Harris has consistently supported expanding clean energy, with her administration likely to increase federal investments through subsidies, grants and tax incentives. Other potential outcomes include:

- **Reinstatement and expansion of environmental regulations:** Harris would likely work to reinstate and strengthen regulations that limit carbon emissions and pollution such as fuel efficiency standards and methane regulations.
- **Climate change regulation:** Harris has supported aggressive climate action, including proposals similar to the Green New Deal. Her administration might pursue comprehensive climate legislation to reduce greenhouse gas emissions and promote clean energy.
- **Rejoining international climate agreements:** Harris would almost certainly ensure that the US remains committed to the Paris Agreement and might push for even more ambitious international climate goals. This would include leveraging US leadership to encourage global clean energy adoption.
- **Equitable clean energy transition:** Harris has emphasised environmental justice, which could lead to policies that ensure the benefits of clean energy transition are shared broadly, particularly in disadvantaged communities. This could include targeted infrastructure and job creation in these areas.
- **Acceleration of clean energy transition:** under Harris, federal policies would likely align with state and local initiatives, further accelerating the clean energy transition. The administration might also work to remove barriers to clean energy adoption and integrate renewable energy into the national grid more effectively.

Considerations for fixed income investors

The impact on fixed income investors under a Trump versus Harris presidency could be quite pronounced, driven by each administration's economic, fiscal and regulatory policies:

Trump presidency

Trump's emphasis on deregulation could benefit certain sectors, potentially improving credit conditions for corporate bonds, especially in the energy and financial sectors. However, reduced oversight could also increase the risk of defaults if corporate leverage increases without adequate safeguards.

More broadly, Trump has supported tax cuts and increased federal spending, which could lead to higher budget deficits. This might require the government to issue more debt, potentially pushing up yields on Treasury bonds as supply increases.

If Trump's policies lead to significant economic stimulus, particularly in a fully employed economy, there could be concerns about rising inflation, thus the risk of higher interest rates, which could increase bond yields but reduce the value of existing bonds with lower rates.

In addition, Trump has previously criticised the Federal Reserve for keeping interest rates too high. In a second term, there could be political pressure on the Fed to maintain lower rates to support economic growth, which might help keep yields lower for a time. However, the long-term effect could be uncertainty in the fixed income market.

Harris presidency

Harris is likely to support significant investment in infrastructure, green energy, and social programs. These could be funded through increased borrowing, which might also push up yields on Treasury bonds if deficits rise.

If these spending programs are inflationary, the Fed might raise interest rates to counteract inflation, leading to higher bond yields. However, if these investments boost productivity, inflationary pressure might be more moderate.

In addition, Harris might push for stronger Environmental, Social & Governance (ESG) regulations, which could influence the corporate bond market. Companies that fail to meet environmental or social standards might face higher borrowing costs, while those that excel in these areas could see lower costs and more investor demand for their bonds.

There might also be a surge in the issuance and demand for green bonds, which are fixed-income instruments designed to fund projects with positive environmental impacts.

Looking ahead

In sum, both presidencies could lead to higher yields due to increased government borrowing, but the reasons differ – Trump due to tax cuts and deregulation, Harris due to increased public investment. However, Harris' focus on green energy and infrastructure might be seen as more sustainable over the long term, potentially stabilising the market.

> "It's too early to say who the end victor could be, and polls aren't reliable enough to gauge a strong steer."

Inflation could be expected to rise under Trump due to stimulus and deregulation, potentially leading to higher rates and more volatile bond markets. Under Harris inflation risks might also rise with spending, but there might be a stronger focus on balancing these with productivity gains.

Regarding corporate bonds, Trump's derergulation could lower costs for some industries but increase risk in the long run. Harris's ESG focus might create new opportunities and risks, depending on how companies adapt to new regulations.

Overall, a Trump presidency might result in a more volatile fixed income environment, with potential spikes in yields and inflation, while a Harris presidency could bring targeted changes, with potential opportunities in ESG and green bonds, but also risks associated with higher public spending.

It's too early to say who the end victor could be, and polls aren't reliable enough to gauge a strong steer. Either way, we would anticipate pockets of volatility to emerge that should offer fixed income investors significant opportunity for alpha generation.

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