

USA: State of the Union Speech Kicks off the General Election Campaign

BOTTOM LINE: President Biden's State of the Union speech Thursday evening (Mar. 7) had a heavy domestic tilt (roughly 1/6 of the speech focused on foreign policy). While it included a few new tax and health policies, the greater emphasis was on the strength of the economy and issues that rank high among voter concerns like immigration, crime, democracy, and abortion. Additional details on proposed policies, as well as additional policies not outlined in his speech, will be released on March 11, when the White House sends its budget proposal to Congress. Following the speech, the implied probability that Biden would be the Democratic nominee ticked up slightly (3pp) in prediction markets.

MAIN POINTS:

1. Taxes: Among the new policies, Biden proposed a 21% corporate minimum tax, up from the 15% tax on book income enacted in the Inflation Reduction Act (IRA), and limiting corporate deductibility of compensation expenses for annual pay exceeding \$1 million. He also reiterated his existing proposal to raise the corporate tax rate from 21% to 28%. As Congress is unlikely to consider any of these proposals this year, they would only come into play in a second Biden term, if Democrats also won House and Senate majorities. He also called on Congress to restore the expanded child tax credit; the House-passed bipartisan tax bill remains the most likely tax legislation to be enacted this year, though we continue to see slightly below even odds of passage in the Senate.

2. Immigration: Biden emphasized the need to enact the border security legislation that Congress recently declined to pass. The only immigration policy changes we expect this year will come from the Administration, which has substantial authority (e.g., visa issuance, humanitarian immigration, and border enforcement). As immigration comes into even greater focus heading into the election, we continue to expect the Administration to tighten policy (e.g., immigration has surged 20pp the last 7 months to first place with 28% in Gallup's "most important problem" survey). As such, we estimate the foreign-born contribution to monthly labor force growth will moderate from 110k/month in 2023 to around 70-90k/month in 2024.

3. Ukraine: Biden urged Congress to pass assistance for Ukraine. However, the steady slippage in public support in recent months has lowered the odds of enactment. While there is still a clear chance that such a deal could come together, for now there is no clear path forward for Ukraine aid in Congress.

4. China: Biden's China rhetoric appeared consistent with his past remarks and the

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competition strategy advanced by his Administration. He referenced standing up “against China’s unfair economic practices” and “for peace and stability across the Taiwan Strait.” However, he dedicated little time to the US-China relationship in the speech relative to other issues.

5. Healthcare: Biden proposes to expand drug price negotiations to 50 additional drugs each year (from 20 under the IRA) and to broaden access to the negotiated prices to all payers (not just Medicare). We note that such a change would likely require bipartisan support even if Democrats controlled Congress and the White House, as these policies would probably be ineligible for the budget “reconciliation” process used over the last several years to pass the IRA and other major fiscal policy along party lines.

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Disclosure Appendix

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