



US Election Implications—Technology

Authored by Brian Chiu, Credit Analyst,
Global Fixed Income team

The technology sector has been increasingly thrust into the spotlight as a result of US-China tensions, antitrust scrutiny, and debates over the moderation of social media content, among other issues.

While President Trump and former Vice President Biden have a few technology-related policy differences, their proposals and rhetoric have aligned across several key themes. Importantly, under a second Trump administration or a Biden presidency, the US will likely maintain a high level of scrutiny over Chinese investment into the US technology sector, and access to US technology more generally.

Biden's Key Differentiators

We believe former Vice President Biden's greater focus on tax reform, data privacy, and environmental issues should drive his main technology policy differences versus President Trump. Under the Tax Cuts and Jobs Act, the corporate tax rate was lowered from 35% to 21%. In contrast, Joe Biden believes that tax bills of enterprises are too low. Singling out Amazon, he commented that the company "should start paying [its] taxes".¹ The former Vice President has proposed several tax reform ideas, including increasing the corporate statutory tax

rate to 28%, doubling taxes on certain foreign income, and implementing a minimum tax rate. In addition to tax reform, former Vice President Biden has placed some emphasis on data privacy issues, noting the US should set privacy "standards not unlike the Europeans".² Several of his proposals have also focused on the importance of American electric vehicle creation. A push toward electric vehicles should benefit several semiconductor providers, as electric cars contain more chip content per vehicle than their internal combustion-powered alternatives.

US-China Relationship

Escalating US-China tensions have led to greater bipartisan focus on American technology supply chains and the role of technology in national security. Following discussions with President Trump, Taiwan Semiconductor Manufacturing Co. (TSMC) announced it would construct a new \$12 billion fabrication facility in Arizona. In former Vice President Biden's \$700 billion manufacturing plan, he states he will "put Americans to work,"³ producing semiconductors and communications technology in the US. His high-level proposals mention potential tax credits, matching funds, and R&D support, among other items. These monetary incentives could lead to the duplication, reshoring, or relocation of fabrication facilities, which would benefit semiconductor capital equipment providers.

As a result of security concerns surrounding the growing foreign direct investment by international (primarily Chinese) firms in US tech companies, President Trump has moved to place additional scrutiny around this investment and place restrictions on certain Chinese technology firms. President Trump signed the Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018, which expanded the scope, influence, and scale of the Committee on Foreign Investment in the United States (CFIUS)⁴. CFIUS has reviewed

1. CNBC.

2. *The New York Times*.

3. *JoeBiden.com*.

4. CFIUS is an interagency committee that is authorized to review certain transactions involving foreign investment in the US in order to determine potential impacts on US national security. For additional information, please see <https://home.treasury.gov/policy-issues/international/the-committee-on-foreign-investment-in-the-united-states-cfius>.

and influenced numerous high-profile deals in recent years, including Broadcom’s attempted takeover of Qualcomm, which was ultimately blocked. The number of deals involving Chinese companies reviewed by CFIUS has dropped each year from 2017 to 2019 – likely an outcome of declining US-China relations and the heightened influence of the Committee, which could drive more selective deal-making.

Consistent with its strengthening of CFIUS through FIRRMA, the Trump administration has also taken unilateral action against Chinese technology firms, where it believed threats against US national security existed. Notably, the administration placed restrictions on Huawei’s ability to source supplies made with American technology. In August, President Trump also signed executive orders imposing limits on Chinese social media apps, TikTok and WeChat.

Former Vice President Biden has echoed a similar tone regarding national security, and in July, his campaign told its staff to delete the TikTok app, citing national security and privacy concerns. Overall, we would expect a President Biden to hold a heightened level of scrutiny toward Chinese technology firms, and we would expect him to maintain CFIUS’s current level of influence over foreign investment transactions. However, in contrast with President Trump, we would expect a President Biden to take a multilateral approach toward China given his prior experience on the Senate Foreign Relations Committee and a more traditional establishment orientation

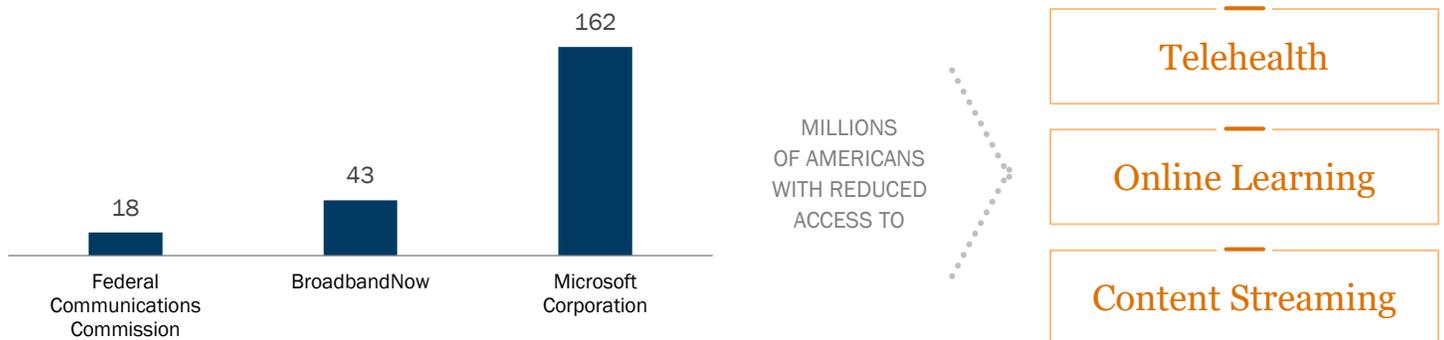
toward alliance-based action. Essentially, we would expect a President Biden to take a tough stance on China, while using policies more globally coordinated and less abrupt than what has been employed to date by President Trump.

Communications Infrastructure Investment

Both President Trump and former Vice President Biden have expressed support for US 5G investment and increasing broadband access for Americans. As the world becomes increasingly digitized, a growing digital divide has emerged between Americans who benefit from internet-enabled services such as telehealth, online learning, and content streaming, and those who lack basic broadband access. President Trump highlighted investment in increasing broadband access as part of his proposed largescale infrastructure plan. Similarly, former Vice President Biden has proposed investing \$20 billion to improve rural broadband access as part of his Plan for Rural America.¹

Both candidates have emphasized the importance of having the US become a global leader in 5G technology. In addition to broadband access, President Trump called out 5G investment as part of his proposed infrastructure plan. Former Vice President Biden shares similar views and has proposed a \$300 billion investment in R&D for “breakthrough technologies”² including 5G. While national-scale, fully commercially viable 5G infrastructure is unlikely to be

FIGURE 1: NARROWING THE “DIGITAL DIVIDE”—A BIPARTISAN FOCUS
AMERICANS WITHOUT BROADBAND ACCESS² | Estimates in Millions of People



Source: FCC, BroadbandNow, Microsoft. See footnote 2 below for additional information.

1. JoeBiden.com

2. Federal Communications Commission (FCC) utilized Form 477 deployment data, which is collected at the census block level, in its 2020 Broadband Deployment Report. For FCC reporting purposes, a census block is counted as served if the Form 477 data indicate that service is available anywhere in the census block. This is consistent with FCC’s data collection methods since its deployment data collection began in 2014. BroadbandNow utilized individual address level data collection, checking internet availability for a pool of randomly selected addresses. Microsoft Corporation used anonymized data to arrive at its estimate as part of its larger Airband Initiative.

available in the near term, mobile carriers have aggressively marketed 5G’s capabilities, and handset manufacturers have been racing to make 5G-enabled phones. As a result, we would expect a mobile handset refresh cycle, which would benefit device manufacturers and various semiconductor companies. Over the longer term, we would expect communications infrastructure investment, alongside corresponding data growth, to benefit a host of technology end markets including internet, consumer electronics, and semiconductors. These trends are likely to occur under either a second Trump administration or a Biden presidency.

Antitrust Scrutiny and Big Tech Influence

Enhanced antitrust scrutiny of technology companies is likely to remain a bipartisan area of focus. Under the Trump administration, the Department of Justice, Federal Trade Commission, and House Judiciary Committee have launched sweeping reviews of the influence of large technology firms. As technology platforms have grown in scale, questions around self-moderation of content have risen to the forefront. Both President Trump and former Vice President Biden have called for the revocation of Section 230 of the Communications Decency Act of 1996, which generally exempts online platforms from liability relating to content that users post. President Trump believes that the self-moderation of content

by social media companies under Section 230 has led to a suppression of conservative voices through biased content removal. Conversely, former Vice President Biden believes the liability shield under Section 230 has led to relaxed content moderation, enabling the spread of disinformation. If Section 230 is revoked and the subsequent liability shield protecting social media companies is removed, we would expect heightened self-moderation of content by these companies, as they look to mitigate legal risk. We believe increased content moderation could have adverse effects on the total number of social media users and overall user engagement on these platforms.

Conclusion

Due to factors such as growing digitization and innovation, technology has become an increasingly influential piece of the global economy and geopolitical landscape. Under a second Trump administration or a Biden presidency, we would expect continued review of potential Chinese investments in the US technology sector, continued scrutiny of the influence of large US technology firms, and a prioritization of communications infrastructure investment. Given this, we expect the 2020 US election to have far-reaching implications for the US technology sector, regardless of outcome.

FIGURE 2: ELECTION IMPLICATIONS ON TECHNOLOGY

	Biden	Trump
DATA PRIVACY	<ul style="list-style-type: none"> Calling for US standards “not unlike the Europeans”, referring to The General Data Protection Regulation (GDPR) 	<ul style="list-style-type: none"> Administration has criticized GDPR
TECHNOLOGY SUPPLY CHAINS	<ul style="list-style-type: none"> States he will “put Americans to work” making semiconductors and communications technology as part of proposed \$700 billion manufacturing plan Envisions using tools such as tax credits, matching funds, and R&D support to incentivize creation of manufacturing facilities in the US 	<ul style="list-style-type: none"> Continued emphasis on reshoring of international supply chains TSMC constructing \$12 billion semiconductor fabrication facility in Arizona
NATIONAL SECURITY	<ul style="list-style-type: none"> Expect scrutiny of Chinese technology firms as well as potential transactions involving US companies where national security interests are concerned 	<ul style="list-style-type: none"> Likely to maintain scrutiny of Chinese technology firms as well as potential transactions involving US companies where national security interests are concerned
5G INFRASTRUCTURE	<ul style="list-style-type: none"> Proposed \$300 billion investment in R&D for “breakthrough technologies” including 5G 	<ul style="list-style-type: none"> Stressed importance of US 5G leadership, called out 5G investment in proposed infrastructure plan
BROADBAND ACCESS	<ul style="list-style-type: none"> Proposed \$20 billion investment in rural broadband access as part of Plan for Rural America 	<ul style="list-style-type: none"> Highlighted importance of expanding broadband access as part of proposed infrastructure plan
INFLUENCE OF BIG TECH	<ul style="list-style-type: none"> Enhanced antitrust scrutiny Calling for revocation of Section 230 of the Communications Decency Act of 1996 	<ul style="list-style-type: none"> Enhanced antitrust scrutiny Calling for revocation of Section 230 of the Communications Decency Act of 1996

Sources: JoeBiden.com, politico.com, Bloomberg.com, Governing.com, JoeBiden/rural.com, realDonaldTrump, [The New York Times](http://TheNewYorkTimes)

NOTE ABOUT ISSUERS

Any issuers cited herein do not represent portfolio positions of the Global Fixed Income team at MacKay Shields, nor are any views being expressed, positive or negative, on such issuers. No representation is being made that the securities of such companies were or would be profitable.

NOTE TO EUROPEAN INVESTORS:

This document is intended for the use of professional and qualifying investors (as defined in the Alternative Investment Fund Manager's Directive) only. Where applicable, this document has been issued by MacKay Shields UK LLP, 200 Aldersgate Street, 13th Floor, London EC1A 4HD, which is authorized and regulated by the UK Financial Conduct Authority (FRN594166) and/or MacKay Shields Europe Investment Management Limited, Hamilton House, 28 Fitzwilliam Place, Dublin 2 Ireland, which is authorized and regulated by the Central Bank of Ireland.

IMPORTANT DISCLOSURE

Availability of this document and products and services provided by MacKay Shields LLC, MacKay Shields UK LLP and MacKay Shields Europe Investment Management Limited (collectively, "MacKay Shields") may be limited by applicable laws and regulations in certain jurisdictions and this document is provided only for persons to whom this document and the products and services of MacKay Shields may otherwise lawfully be issued or made available. None of the products and services provided by MacKay Shields are offered to any person in any jurisdiction where such offering would be contrary to local law or regulation. This document is provided for information purposes only. It does not constitute investment advice and should not be construed as an offer to buy securities. The contents of this document have not been reviewed by any regulatory authority in any jurisdiction.

This material contains the opinions of the Global Fixed Income team but not necessarily those of MacKay Shields. The opinions expressed herein are subject to change without notice. This material is distributed for informational purposes only. Forecasts, estimates, and opinions contained herein should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Any forward-looking statements speak only as of the date they are made and MacKay Shields assumes no duty and does not undertake to update forward-looking statements. No part of this document may be reproduced in any form, or referred to in any other publication, without express written permission of MacKay Shields LLC. ©2020, MacKay Shields LLC. All Rights Reserved.

当資料は、一般的な情報提供のみを目的としています。

当資料は、投資助言の提供、有価証券その他の金融商品の売買の勧誘、または取引戦略への参加の提案を意図するものではありません。

また、当資料は、金融商品取引法、投資信託及び投資法人に関する法律または東京証券取引所が規定する上場に関する規則等に基づく開示書類または運用報告書ではありません。New York Life Investment Management Asia Limitedおよびその関係会社は、当資料に記載された情報について正確であることを表明または保証するものではありません。

当資料は、その配布または使用が認められていない国・地域にて提供することを意図したものではありません。

当資料は、機密情報を含み、お客様のみを提供する目的で作成されています。New York Life Investment Management Asia Limitedによる事前の許可がない限り、当資料を配布、複製、転用することはできません。

New York Life Investment Management Asia Limited

登録番号関東財務局長（金商）第2964号

一般社団法人日本投資顧問業協会会員

一般社団法人第二種金融商品取引業協会会員