

Election 2020: Initial Market Reactions

November 4, 2020

As widely predicted, it appears there won't be a final decision in the presidential election until possibly the end of the week. Pennsylvania, Michigan, Wisconsin and Georgia are still too close to call. While Joe Biden seems favored to win as of this writing, the polls were once again incredibly wrong. There will not be a "Blue Wave" sweeping the Democrats into control of both the executive and legislative branches.

The lack of an immediate decision led to a volatile evening in equity market futures, although equities are advancing strongly today. President Trump prematurely claimed victory last night and said he would ask the Supreme Court to rule on the ballot counting process. A long, drawn-out legal battle for the presidency and certain Senate seats could be disconcerting to equity markets over the coming weeks.

A narrow Biden victory with a Republican Senate would likely lead to a more moderate legislative agenda, with any meaningful tax increases off the table. Additionally, his cabinet appointments may comprise more moderate Democrats who can work better with the Senate. Biden has a history of working effectively with Senate Majority Leader Mitch McConnell, which could help facilitate a COVID-19 relief package, perhaps even before the inauguration.

See-Sawing Equity Futures

An interesting dynamic occurred throughout the evening. Equity futures advanced when Biden's odds improved and fell when President Trump took the lead. Looking more granularly, the so-called growth/value differential is leaning towards growth outperformance as the probability of a massive fiscal stimulus package wanes with a Democratic White House and Republican Senate. Part of NASDAQ's outperformance has been attributed to the surprise wins for Uber and Lyft in California, where voters elected to keep drivers as independent contractors. The notable decline in longer-term interest rates, which is more favorable for faster-growing equity sectors, has also been a factor.

Pressure on the Dollar

The approximately 0.11% (11 basis points) decline in the 10-year Treasury to 0.77% is likely indicative of a smaller fiscal expansion package, leading to fewer Treasury securities being issued in 2021. The dollar also benefited in overnight trading on the prospects of a lower fiscal deficit. That said, even a smaller package will increase the deficit, putting downward pressure on the dollar. Another source of downward pressure could be a more conciliatory approach to trade relations under a Biden administration. This would be particularly true of relations with Europe and Mexico. However, a strained relationship with China will likely persist. International equities may be able to close the performance gap with the U.S. under this environment.

What This Means for Investors

Established trends in equity markets evident before the election generally continue after the vote. The choppiness since early September is a reminder that the economic environment is the ultimate driver of equity prices. The progression of the virus will likely have a more significant impact on the market than the election. With the current spike in the U.S. and Europe, concerns abound over renewed economic lockdowns. We will continue to monitor hospital capacity utilization as the primary determinant of government-imposed restrictions or continued hesitancy of the consumer to completely re-engage in the economy's services sector.

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