Election 2020's Impact on Financial Markets - Two Initial Takeaways

Key Takeaways

- A Biden administration with a split Congress reduces the odds of near-term tax hikes and regulatory changes.
- We maintain our current ratings due to a continued focus on a central bank liquidity tailwind and low interest rates.

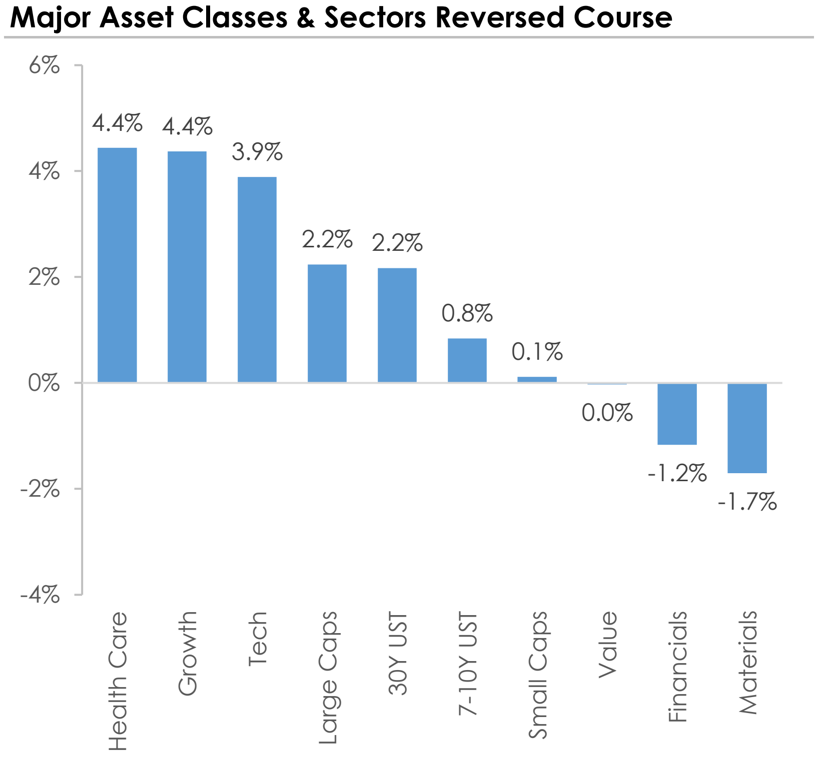
Here is what we know after a day filled of vote counting and posturing from both parties. Joe Biden is the presumed frontrunner to win the U.S. presidency based on a combination of already counted votes and the 'profile' of not yet counted votes (e.g. primarily mail-in ballots in urban & suburban locations). Down-ballot at the Congressional level, the projected 'blue wave' did not materialize. Republicans appear positioned to maintain control of the Senate, while Democrats maintained control of the House despite Republicans flipping multiple seats.

The first takeaway is the stock market appears more than content with a Biden administration and split Congress - Here's why: From an international perspective, a Biden administration provides more stability and a less hawkish trade policy. Joe Biden (a six-term senator and former Vice President) is an institutionalist and would mark a return to a more traditional foreign relations policy. From a domestic perspective, a split Congress would act as a check on the Biden administration and significantly reduces the odds of any near-term tax hikes and regulatory pushes. However, a Biden administration could use government agencies to push a regulatory agenda and reinterpret laws already passed by Congress. We expect regulatory agencies and states will be a solid source for investment idea generation.

The second takeaway relates to fiscal stimulus. The expected split Congress outcome dramatically reduces fiscal stimulus projections, a risk we consistently highlighted the past few weeks as investors overestimated a 'blue wave' and banked on large fiscal stimulus and infrastructure packages. **Figure 1** highlights yesterday's unwinding of the "reflationary stimulus" trade that recently boosted cyclical and small cap stocks. The yield curve flattened as interest rates fell, which boosted long duration U.S. treasuries and hurt Financials. The Materials sector underperformed as inflation expectations fell and infrastructure prospects worsened. Expectations for a smaller fiscal stimulus package also put the Federal Reserve firmly back in the spotlight. This shifted the focus back to the Growth trade due to a continued central bank liquidity tailwind and low interest rates. We believe the projected outcome and macro environment are favorable to our current ratings (**Figure 2**). As a result, we maintain our current ratings across sectors, factors, credit, and international markets.

FIGURE 1

Major Asset Classes & Sectors Reversed Course



Source: MarketDesk Research

FIGURE 2

Wednesday's Repricing Was Favorable to Current Ratings

U.S. Sectors					
4.3%	●	Comm Svcs	0.1%	●	Energy
3.9%	●	Tech	-1.2%	●	Financials
4.4%	●	Health Care	-1.7%	●	Materials
U.S. Factors					
4.4%	●	Growth	0.0%	●	Value
1.5%	●	Low Volatility	2.4%	●	Quality
4.5%	●	Momentum	0.1%	●	Small Caps
2.2%	●	Large Caps			
U.S. Credit					
0.9%	●	High Yield	0.2%	●	TIPS
0.7%	●	Preferreds	-0.1%	●	CMBS
1.2%	●	EM Svgn Bonds			
International					
3.1%	●	Emerging	1.1%	●	Developed
2.8%	OW Average		0.1%	N / UW Average	

Source: MarketDesk Research Strategic Ratings (11/4/2020)

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