09 November 2020

LEADING THOUGHTS

Don’t Forget the Winners and Losers that Weren’t on the Ballot

Beyond all the victorious and defeated candidates, the U.S. election marked some fresh directions that investors need to watch.

The 1884 presidential campaign included charges of personal corruption and children out of wedlock, and yet Walt Whitman managed to celebrate the majesty of “America’s choosing day” as its “powerfulest scene and show.” It’s a good reminder as we navigate last week’s laborious tabulations, mounting litigation threats and ominous street protests.

Two conclusions stand out. Americans are engaged in politics in ways we have not seen in a long time, even if they remain deeply divided. The economy still looks like it’s headed for a slow, uneven recovery, as long as fresh COVID-19 cases don’t trigger significant new restrictions. This, at least, is the picture that emerges from winners and losers that were not explicitly on the ballot last week.

Winners

Political Participation: As a percentage of eligible voters, this was the highest voter turnout rate since 1900. Buoyed by high emotions and extended early voting periods, more than 160 million votes were cast. For a country that constantly broods over voter apathy, there is fresh engagement in both parties.

Corporate America: Even if Democrats take control of the Senate, which now looks dependent on January run-off elections in Georgia, their majority will be small and reliant on centrists. Big corporate tax hikes look much more difficult, as does major new legislation to cap drug prices or regulate big tech firms. Banks will also heave a sigh of relief that a Biden cabinet will not likely include Elizabeth Warren at the Treasury Department.

“The close result still represents a resounding victory for Trump’s refashioning of the Republican Party around a more nativist political philosophy and barehanded governing style. Ronald Reagan’s party, which embraced free markets and global engagement, looks gone forever.”

Brand Trump: Even without securing re-election, President Trump’s large vote total represents a resounding victory for his refashioning of the Republican Party around a more nativist political philosophy and barehanded governing style. Ronald Reagan’s party, which embraced free markets and global engagement, looks gone forever.

Stocks: More fiscal stimulus looks to be firmly on track, although the ultimate size will depend on the final Senate tally. A Democratic president and Republican Senate may deliver a package that is closer to $1.5 trillion than $2 trillion, but Biden is planning a second round of spending on infrastructure that a narrow Republican majority will find difficult to resist. A Trump victory could have even delivered a package during the “lame duck” session of Congress next month, but that would require a president that is not distracted by vote count litigation. Unless COVID restrictions force significant restrictions in activity, all of this bodes well for growth and risk assets next year.

Climate Policy: Assuming the Biden lead holds until the Electoral College assembles, there will be a dramatic shift in federal efforts on climate change. Rejoining the Paris Climate Accord, which the U.S. officially left last week, is a promise for "Day One" but the complex effort to reverse much of the Trump administration's deregulation will begin soon thereafter, even if sweeping legislation proves difficult.

Losers

Pollsters: Everyone's favorite scapegoat has been the "prediction" industry that broadly painted a picture of smooth Democratic success, especially in battleground states. It turns out, of course, that their task is no easier than those of economic forecasters or epidemiologists. It seems that this time they struggled with measures of turnout and voting that occurred over several weeks. In the absence of anything better, like a Ouija board, expect the fresh polls to start predicting the mid-term elections of 2022 before Washington's cherry blossoms next appear.

Globalization: The flows of goods and services around the world will hardly stop, but efforts to open new markets, align international standards and deepen economic integration are on extended hold. Biden may be more of an internationalist than Trump, but neither will push for major trade agreements in the next four years, and neither will shy away from tariffs when they think the leverage helps.

China: While the relationship under the Trump administration turned difficult and dramatic, the complexities will only grow under a Biden presidency. For all his rhetorical flourishes, Trump's engagement with China remained laser-focused on the bilateral trade balance. While Biden's style would be more traditional, he would be just as focused on trade, but would also bring in more emotional issues around Hong Kong, Taiwan and the South China Sea. These will likely make progress harder rather than easier.

Treasury Bonds: Rates will be low under any circumstances with a Federal Reserve committed to providing support to the recovery. But if the recovery continues and fiscal policy lends some support, then yields look more likely to drift higher than lower in the near term. Again, this all depends on pandemic dynamics not taking a dramatic turn for the worse.

Britain: While President Trump had little patience for European institutions, a Biden administration will likely re-engage with the European Union and its largest members quickly. Boris Johnson's hopes for a quick U.S. trade deal after Brexit were never realistic and seem likely to suffer a further setback.

*****

Overall, it's a picture of a country that is engaged, divided and changing fast. Yet it's still an economy that is recovering steadily from severe lockdowns and ready to throw some money at the problem. It's also mildly good news for investors, as long as they can peer through the thick "leaves of grass" for what comes next.

**As of September 30, 2020*
20-1402658