

# Election Goes into Overtime

November 2020

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New answers.®

- It remains to be seen which candidate won the closely contested U.S. presidential election.
- The lack of a firm result has amplified existing political uncertainty, distracting investors from their focus on market and economic concerns.
- We are not making changes to our portfolios based on the election outcome.

It remains to be seen who will occupy the White House in the New Year. The closely contested U.S. election saw an unprecedented volume of absentee ballots. Election rules in several hotly contested states did not permit the time-consuming job of counting the votes to begin until Election Day. The lack of a clear winner has amplified existing political uncertainty and distracted investors.

No matter who ultimately wins the race to the presidency, we anticipate the outcome of this election will have a major impact on the economy and financial markets in the months and years ahead. Still, we firmly believe that it would be a mistake to base even a short-term investment strategy on a plan that necessitates accurately predicting which candidate will ultimately win the election, the policies proposed by the eventual winner, the ways in which Congress will modify those proposals throughout the legislative process, or the impact those new laws would have on the economy and financial markets.

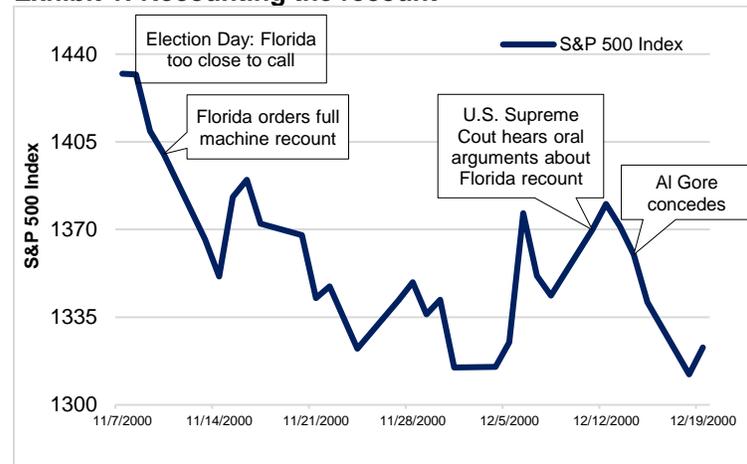
## The ghost of Bush v. Gore?

The country's final ballot count is expected to take days or weeks to complete. Even then, we would not be surprised if the result was eventually influenced by court decisions on election-related litigation.

We have been here before. The 2000 presidential election between Republican George W. Bush and Democrat Al Gore was too close to call when the polls closed on Election Day. The winner wasn't declared until six weeks later—following a time-consuming recount in Florida that was ultimately settled by the Supreme Court. Uncertainty ratcheted up financial-market volatility during that period of election limbo, with riskier asset classes broadly reacting negatively; U.S. equities, as measured by the S&P 500 Index, fell by 6.2% during the two-week period following November 4, 2000.

Only time will tell how or when the 2020 election story ends. Economists and investors alike expect U.S. equity markets to sustain an elevated level of volatility in the near term.

Exhibit 1: Recounting the recount



Source: Bloomberg

## Our view

No matter which presidential candidate assumes office next year, we expect their legislative agenda to be tempered before being put into practice. We also believe it is usually best that investors pay strict attention to the market fundamentals and ignore the politics. Accordingly, we are not making changes to our portfolios based on the election's outcome.

This does not mean we intend to ignore the final result or the implications of future government decisions. As always, we will pay close attention to policy-driven fundamental changes and the financial-market imbalances they create, in terms of the risks and opportunities they present. At present, the combination of significant U.S. government-debt issuance (due to fiscal policy decisions) and the Federal Reserve's accommodative monetary policy in the face of low inflation expectations (and that of other central banks around the globe) have impacted everything from credit markets and bank stocks, to the U.S. dollar's primacy in global trade, and more. These government decisions have introduced longer-term structural changes to the global economy. We are tracking a range of investment opportunities and will continue to position portfolios based on economic and legislative developments.

## Index Definitions

**S&P 500 Index:** The S&P 500 Index is an unmanaged, market-weighted index that consists of 500 of the largest publicly-traded U.S. companies and is considered representative of the broad U.S. stock market.

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