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Optimism in the face of division

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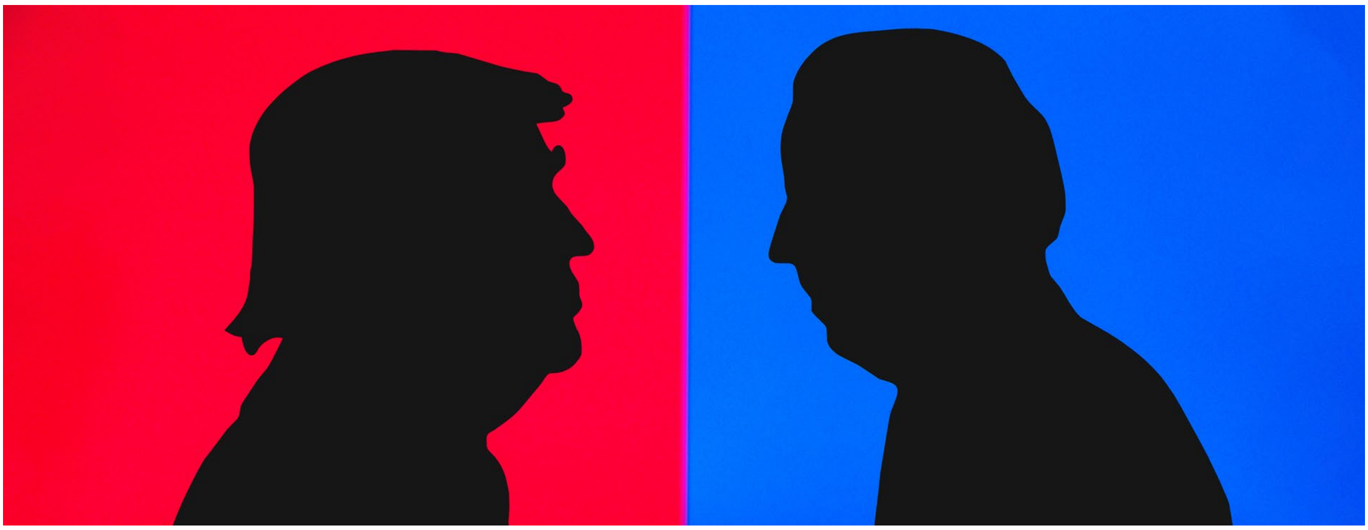
At the time of writing the final few battleground states are pointing towards a victory for Joe Biden in both the popular vote and electoral college – albeit a very narrow one indicative of the extreme polarisation of the United States along age, race and gender lines. In Congress the much vaunted "Blue Wave" appears more of a trickle. It looks highly likely to leave the senate in Republican hands (barring a surprise run off in Georgia) and the House in the control of Nancy Pelosi's Democrats.

Should he lose, Trump still has a couple of months left to cause mischief, but with the political lines becoming clearer we can begin to draw some conclusions as to what policy will look like from here. From an investment perspective a close race and split congress is no bad thing as political gridlock places a cap on the extremes of either side's agenda. It means that the name above the White House door should have less impact on the broad equity market than the incumbent might like to think.

The market could be choppy through November, but time is a great healer: by inauguration day, the stock market has been higher than it was on election day on eight of the last 10 occasions. The exceptions were 2000 (the year of hanging chads) and 2008, both of which saw elections in the midst of stock market crashes. Historically the year following an election has been a good one for equities, with the S&P rising by 11% on average in the 12 months following elections since 1976.

Optimism

There are reasons for investors to be optimistic. The failure of the Democrats to sweep the boards means that a higher capital gains tax is unlikely, as is a higher corporate tax. Tighter regulation around finance, healthcare and technology is also less likely now than before election day, although regulation of big technology



remains an area that may garner bi-partisan momentum even if the two sides are pursuing different agendas.

Conversely, the odds of a major fiscal stimulus package have fallen along with the prospects of a grandly named "Green New Deal". Some form of slimmed down stimulus package is still likely, if not this year then early next. With the economy still fragile the US needs further support for the millions still out of work as a result of the pandemic. The electorate expect it with 72% of voters (including a majority of Republicans) in favour of the proposed $2 trillion package that was on the table prior to the election. For American companies and individuals, lower taxes have a more immediate impact than higher spending.

Predictability

If nothing else, a Biden presidency should deliver a more predictable foreign, trade and investment policy. The US-China rivalry will remain live, and has bipartisan support, but the approach will lean more on traditional diplomacy and should be less disruptive for US multinationals, importers and exporters.

Whilst the shift in the political wind may be having an immediate impact on some sectors – technology, which was down 6.5% last week, has recovered all of that and more this week – the reality is that we invest in companies driven by structural rather than political factors. We expect their trajectory to continue largely irrespective of the ultimate winner of this election or even the next.