



JPMORGAN ASSET MANAGEMENT

Election 2020: Results and Consequences **November 8, 2020**

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On Saturday morning, the Associated Press called Pennsylvania for Joe Biden, pushing him beyond the 270 total Electoral College votes necessary to win the presidency. After a dramatic and confusing several days, the election outcome appears to be a divided government, with Biden in the White House, a Republican-majority Senate¹, and a Democratic-majority House of Representatives.

Last week, equity markets appeared to take the uncertainty in stride, with the S&P 500 closing the week up 7.3%. The U.S. 10-year Treasury, on the other hand, fell to 0.82% by the end of the week. While some lingering uncertainty could still foment volatility in the markets in the coming weeks, in the long run, it is policy, not politics that matters most for the economy and markets. In a divided government, political gridlock is likely to temper significant policy changes proposed during the campaigns, but the outcome of this election, of course, has implications for macroeconomic, domestic and international policies over the next four years.

MACROECONOMIC POLICY

From a macroeconomic standpoint, a follow-on fiscal package has been one of the most eagerly anticipated policy items by the markets, households and businesses. Although fiscal package discussions have been at an impasse for months, without the spotlight of an election looming and with households and businesses struggling, we could still see a fiscal package near 1 trillion USD. This could help stabilize the economic recovery, but it may not necessarily ensure its durability as the pandemic continues. For that reason, an accommodative Federal Reserve may end up doing more of the heavy lifting to support the economy.

A divided government is unlikely to agree on tax priorities, creating obstacles for Biden's proposed corporate and individual tax hikes. However, at least more muted spending in the face of gridlock could help begin to chip away at growing deficits and debt, particularly with a more modest fiscal package that would result in a lower deficit in 2021. Still, if meaningful attempts to restore federal finances through tax hikes or spending

cuts are not made at some point, inflation and higher rates are likely, which could both hurt the bond market and challenge equity valuations in the long run.

DOMESTIC POLICY

Other key domestic policy areas include infrastructure, health care, energy and climate change, and regulation. An infrastructure bill is something both sides have expressed interest in, and could certainly provide a welcome boost to growth and employment, and provide a tailwind for industrials and materials. However, as with the fiscal package, the key will be if both sides can compromise on the specific priorities.

In health care, the Affordable Care Act is unlikely to see significant changes under a divided government, but the Biden administration could increase funding, a positive for some subsectors within health care.

Similarly, there is not likely to be significant structural change in energy, although the executive branch does wield some power in this area, so under a Biden administration there may be more re-regulation through the Environmental Protection Agency, and perhaps a movement toward clean energy. Biden would also likely recommit to the Iran Nuclear Agreement, which could bring more oil supply from Iran back online and therefore put pressure on oil prices.

There also may be more regulation for technology sectors, as there does appear to be political will to enact greater anti-trust legislation, a potential headwind for these sectors.

FOREIGN POLICY

Finally, from a foreign policy perspective, the focus will likely remain on China and trade. Biden would still likely be tough on China, although perhaps primarily through multi-lateral trade agreements aimed at putting pressure on China. More importantly, a Biden administration could yield a more predictable policy approach, which could reduce market volatility and business uncertainty relating to U.S.-China trade. This would also likely put downward pressure on the U.S. dollar, which would be supportive for international equities.

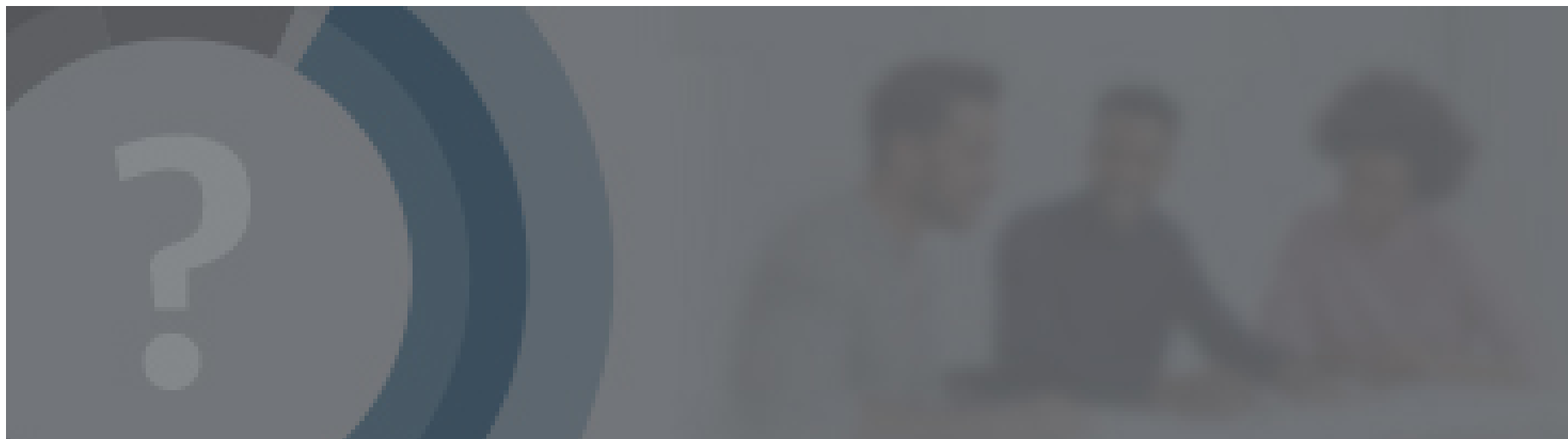
A Biden administration would also have a looser stance toward immigration, although sweeping immigration reform would be limited by a divided Congress. Incremental additional immigration would boost labor supply, and therefore, in the long run, growth.

INVESTMENT IMPLICATIONS

From an investment perspective, under a divided government, the economy is likely to rebound more slowly from the pandemic recession. The Fed will continue to be accommodative, with less risk of early tapering of asset purchases than in more pro-growth sweep environment, meaning lower rates for longer and a flatter yield curve. In this environment, growth could outperform value, and large caps could outperform small caps. In addition, a lower dollar could be positive for returns from international assets in general and emerging market stocks in particular.

It should be noted that, at this stage, the Trump campaign has not conceded the election and we could still see some political and legal maneuvering in the days ahead (although we don't believe this will alter the outcome of the election). This could create some market turmoil and investors would be well advised to keep their portfolios diversified to weather this volatility. Investors should also remember that in the long-run, markets have continued to rise and the economy has continued to grow regardless of the political configuration, and divided governments are the most common configuration of government.

¹ Pending results from North Carolina and Alaska, in which Republican candidates hold the lead, and two run-off Senate seat elections in Georgia taking place on January 5th.



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