



CIBC Private Wealth Management

Elections & Financial Markets: The State of the Race

IMPORTANT NOTIFICATION

The following material is provided by a third-party strategist unaffiliated with AssetMark. The strategist is solely responsible for its content. Please read the risks and disclosures section for additional important information. AssetMark has not verified the accuracy of the information contained in this material.

For financial advisor use with advisory clients.

C20-16574 | 09/2020 | EXP 09/30/2021



ELECTIONS & FINANCIAL MARKETS SERIES: PART II

The state of the race

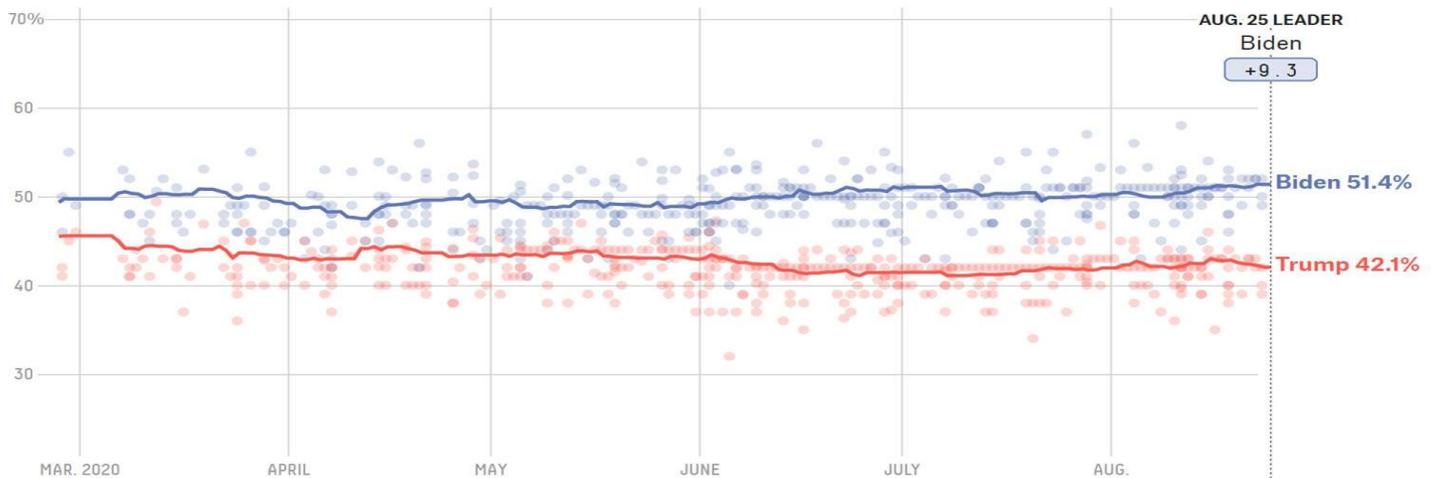
As the Republican convention winds up, the two parties are presenting a divergent assessment of the current state of the nation, and an even more different vision for the future. With barely two months to go before the election, we assess the state of the race.

What the polls say...

Former Vice President Joe Biden has a significant, but not insurmountable, lead in national polls (Exhibit 1). Prior to COVID-19 and the ensuing recession, Biden typically had a small polling lead, often within the margin of error. His lead has steadily grown since then, as the economic collapse that ensued weighed on President Trump’s approval ratings. The president’s net approval rating has fallen from -4% in late March to -11% in late August.¹

Exhibit 1: Average of presidential election polls

Registered voters



Source: fivethirtyeight.com, as of August 25, 2020. Accounts for each poll’s quality, sample size and recency.

The president is behind in this race, but his campaign has accurately pointed out that he was well behind Hillary Clinton at this point four years ago. One difference—and it could be argued as an advantage or a disadvantage—is that President Trump is now an incumbent with a track record. Four years ago, he was a celebrity with no policy record to defend. At this point in his presidency, he is likely to tout three solid years of economic growth and wage gains (before COVID-19), tax reform, trade deals and toughening U.S.-China relations; however, he currently presides over a pandemic not yet under control, a double-digit unemployment rate and a highly uncertain outlook.

Another argument often made is that national polls should be ignored because they were so wrong in 2016. Though, in reality, they were pretty accurate. The final week of polling four years ago showed a 3.1% average advantage for Hillary Clinton. On Election Day, she won the popular vote by 2.1%.²

A better argument is that national polls sometimes measure the wrong thing. Donald Trump secured a comfortable victory in the electoral college (306 to 232) by winning a handful of large swing states by very small margins. Exhibit 2 shows the 2016 victory margin in those swing states for Trump versus where he stands in the polls today.

Exhibit 2: 50 states, but these four matter most...

	2016 Trump victory margin	2020 Trump poll deficit*	Electoral votes
Florida	+1.2%	-5.9%	29
Michigan	0.2%	-8.0%	16
Pennsylvania	0.7%	-6.3%	20
Wisconsin	0.7%	-7.1%	10

*August poll averages. Source: Bloomberg.com, fivethirtyeight.com as of August 25, 2020.

Biden needs to switch 38 votes from the 2016 electoral map to win. He is currently ahead in the polls in these four states, with 75 cumulative electoral votes. There are additional states that Trump won in 2016 where Biden is polling well (e.g., Arizona, North Carolina), but the Trump campaign believes some states that favored Clinton in 2016 may switch parties in 2020 (e.g., New Hampshire, Minnesota). But the closeness of the races in the four swing states last time, and the fact that they all voted for Barack Obama twice before endorsing Trump, makes them the likely battlegrounds that will determine the outcome.

Putting it all together...

Statistical analysis in late August points to a clear polling advantage for Biden, both nationally and in key states. But, with more than two months to go and an extraordinarily unique and volatile backdrop, there are likely to be many twists and turns. Some of the important variables that could shift the race are the debates, tone of the economic data, and public perception of whether COVID-19 risks are rising or receding. Also, as discussed in the [first installment of our election series](#), a strong stock market in the three months prior to Election Day has been a good predictor of an incumbent winning reelection. So far, that indicator favors President Trump.

For those interested in how the campaign is progressing, but not interested in the details, here is a shorthand way to keep track. Follow the national poll averages like Exhibit 1. If either candidate has a lead of more than five percentage points, there is a strong likelihood that candidate's popular vote margin will translate into an electoral college victory.³ If the race gets tighter than five percentage points, it would make sense to track the polls in the four swing states discussed above as a better measure of who will prevail in the electoral college. There are numerous websites that track this data and provide it in an easy and interactive format. Two excellent sources are www.fivethirtyeight.com and www.realclearpolitics.com.

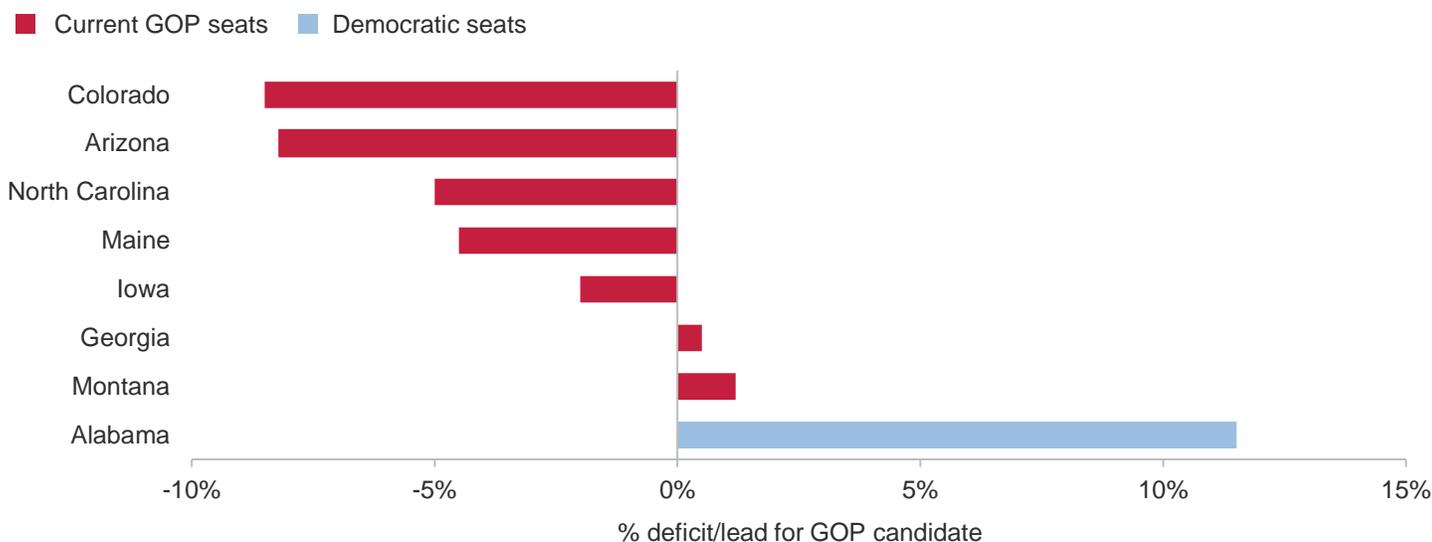
The Senate matters almost as much...

While the drama around a presidential race gets most of the attention, which party controls the Senate in January will be extremely important in determining the path of policy for the economy and financial markets in the years ahead. Currently, Republicans hold a 53-47 majority. There are 35 Senate seats being contested in November, with the Grand Old Party (GOP) currently occupying 23 of them.

Most of the 35 races are unlikely to be competitive, with Democrats from blue states and Republicans from red states gaining reelection. Election analysts are focusing on states where incumbents stand a decent chance of being defeated.

According to the *Cook Political Report*, there is one Senate seat that Republicans are well positioned to take away from Democrats; however, there are seven current GOP seats that Democrats have even (or better) odds to win.⁴ Exhibit 3 shows recent polling averages for these races.

Exhibit 3: GOP polling deficit/lead in key Senate races



Source: Average of August polls, realclearpolitics.com, as of August 24, 2020.

Current math suggests Democrats are in good shape to gain seats and to potentially attain a majority. On the latter point, the consensus of most analysts seems to be: “It is likely that whichever party wins the Presidency will win the Senate as well.”⁵ In the event of a Biden victory, Democrats would need a net gain of three seats to control the Senate, with incoming Vice President-elect Kamala Harris as the tiebreaker. A Trump victory would most likely come with Republicans retaining a narrow majority in the Senate. Democrats would require a net gain of four seats in this scenario—possible, but much less likely if the partisan winds shift such that the President is reelected.

We were unable to identify any political analyst who believe that Republicans can take back control of the House of Representatives. So, control of the Senate may well determine the scope for policy change in the years ahead. A status quo election (Trump victory, GOP Senate) would likely portend a “past is prologue” policy assumption. A Democratic sweep could lead to major differences in tax, spending and regulatory policies, and greatly impact prospects for key industries in healthcare, defense, infrastructure and others. In our next installment, we will assess potential policy implications of the upcoming election.

1. fivethirtyeight.com, as of 08.25.2020.
2. realclearpolitics.com, as of 08.21.2020.
3. University of Texas Electoral College Study, 09.06.2019.
4. Cook Political Report, as of 08.17.2020.
5. Evercore ISI, *Senate Election Polls*, Sarah Bianchi, 08.10.2020.

CIBC Private Wealth Management includes CIBC National Trust Company (a limited-purpose national trust company), CIBC Delaware Trust Company (a Delaware limited-purpose trust company), CIBC Private Wealth Advisors, Inc. (a registered investment adviser)—all of which are wholly owned subsidiaries of CIBC Private Wealth Group, LLC—and the private wealth division of CIBC Bank USA. All of these entities are wholly owned subsidiaries of Canadian Imperial Bank of Commerce.

This document is intended for informational purposes only, and the material presented should not be construed as an offer or recommendation to buy or sell any security. Concepts expressed are current as of the date of this document only and may change without notice. Such concepts are the opinions of our investment professionals, many of whom are Chartered Financial Analyst® (CFA®) charterholders or CERTIFIED FINANCIAL PLANNER™ professionals. Certified Financial Planner Board of Standards Inc. owns the certification marks CFP® and CERTIFIED FINANCIAL PLANNER™ in the U.S.

There is no guarantee that these views will come to pass. Past performance does not guarantee future comparable results. The tax information contained herein is general and for informational purposes only. CIBC Private Wealth Management does not provide legal or tax advice, and the information contained herein should only be used in consultation with your legal, accounting and tax advisers. To the extent that information contained herein is derived from third-party sources, although we believe the sources to be reliable, we cannot guarantee their accuracy. The CIBC logo is a registered trademark of CIBC, used under license. Approved 596-20. Investment Products Offered are Not FDIC-Insured, May Lose Value and are Not Bank Guaranteed.