

Weekly Briefing

SKYView: Election 2020 – What We Know So Far

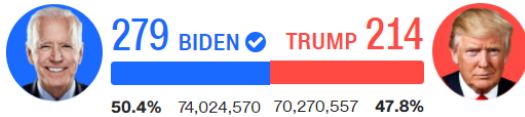
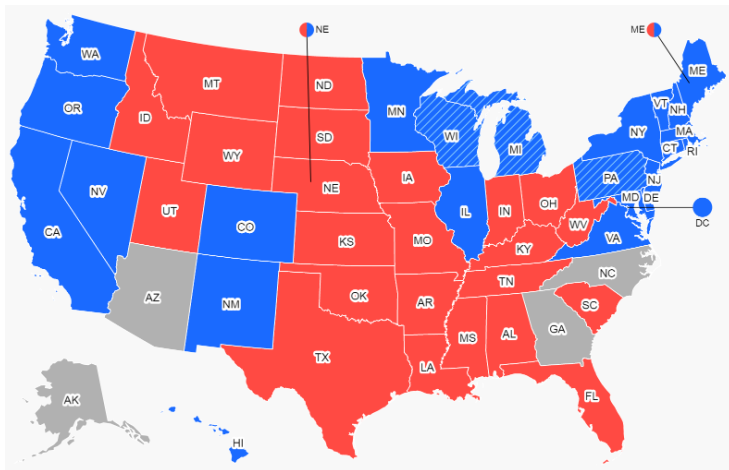
One of the most contentious elections in American history is (mostly) behind us, the awarding of Pennsylvania’s 20 electoral votes now sufficient to get former Vice President Joe Biden beyond the 270 threshold and become the 46th President of the United States. Despite expectations for a comfortable victory that was supposed to usher in a Democratic Sweep, the election proved much closer than most experts had predicted. Calls for recounts and numerous lawsuits notwithstanding, results as they currently stand are not likely to reverse, and we therefore turn our attention to what a new Biden administration likely means for our markets. In this *Weekly Briefing*, we discuss what we know so far, what still needs to be resolved, and what catalysts remain on the horizon now that election day has come and gone.

US Presidency

Though closer than pre-election polls had predicted, it now appears certain that Joe Biden will be sworn in as President on January 20, 2021. In doing so, he will inherit an economy just beginning to recover from damage inflicted by the coronavirus pandemic. We will delve into Senate race specifics in the next section, but consensus thinking is that Republicans will maintain a majority in the upper chamber of Congress for the next two years (75% odds according to PredictIt.org, as of the time of writing), which means Biden will be forced to work with a divided government upon taking the oath of office. Contrary to dynamics associated with a Democratic Sweep, a divided Congress will materially weaken Biden’s chances of implementing a liberal fiscal agenda. Among other things, this likely means a smaller next round of stimulus spending, as well as diminished odds of significantly increased taxes on corporations and high-income Americans. Markets were quick to react to this new reality – in the week ended November 6, risk assets rallied, the dollar index declined, and Treasuries remained range-bound (benign tax outlook, uncertainty stemming from a contested election, both sides re-engaging for a stimulus bill, and the trade-off between smaller stimulus spending but lower for longer rates).

Biden Victory in PA Likely Ends Trump's Bid for Re-Election

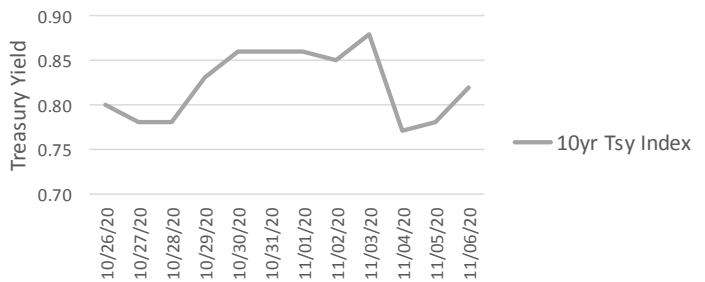
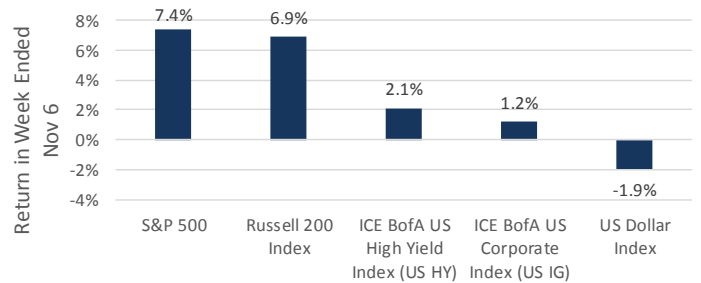
Electoral college map; Blue = Biden, Red = Trump, Grey = Undecided



Source: SKY Harbor, Bloomberg, CNN, The Associated Press, ICE Data Indices

Market Reaction to Likely Divided Government

week ended November 6, 2020



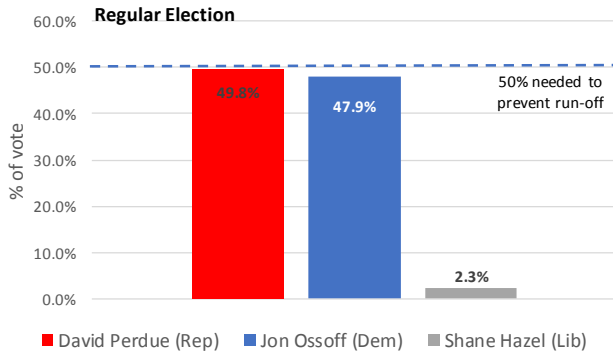
US Senate

Despite lofty expectations for a Democratic Sweep, it appears as though Republicans will hold onto the Senate, though by only the smallest of margins. At the time of writing, called elections show Republicans control 48 seats, with a tight race in North Carolina and a presumptively large advantage (though not yet counted) in Alaska also expected to remain with the GOP. As such, two run-off races in Georgia – scheduled for January 5, 2021, and necessary because no candidate reached the required 50% vote threshold – are likely to determine the balance of power within the Senate for the next two years. A tie-breaking vote goes to the Vice President (Democrat Kamala Harris), so Republicans will need to win at least one of the Georgia seats to extend control of the chamber.

Incumbent Sen. Perdue (Rep) has a 1.9% lead over challenger Jon Ossoff (Dem) in Georgia’s regular election, but at this point (99% of precincts have reported) has failed to reach the 50% vote threshold (49.8% at the time of writing) to prevent a run-off in January. In Georgia’s special election, Raphael Warnock (Dem) leads a pool of 20 candidates at 32.9%, but in aggregate Republican candidates have garnered more votes than Democrats (49.3% vs. 48.4% at the time of writing). These results, coupled with Georgia’s historically conservative voter base, make it likely (though not certain) Republicans will pick up at least one of the two seats up for grabs. Uncertainty, however, will persist until January given the timing of the run-off election, and we suspect significant attention (as well as a lot of money) will be spent on the remaining races in the meantime.

Georgia Regular Senate Election

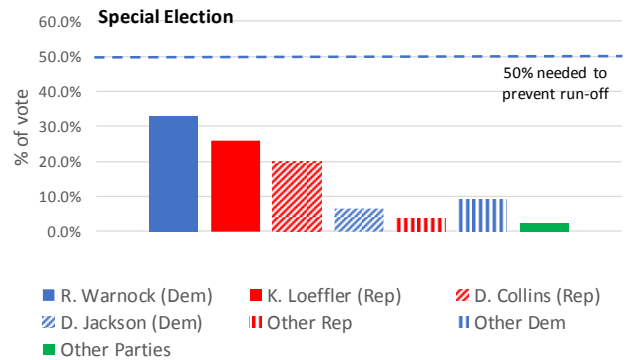
data as of November 8, 2020; 99% of vote counted



Source: SKY Harbor, The Associated Press

Georgia Special Senate Election

data as of November 8, 2020; 99% of vote counted

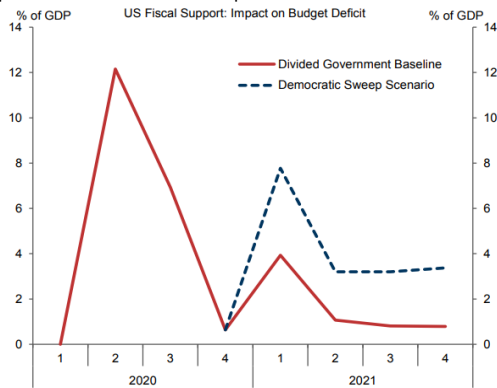


Stimulus & Tax Implications

One impasse after another stymied a second COVID relief package over the last three months, but consensus thinking is that both sides may be able to find common ground and inject dollars into the economy now that a bitterly contested election is (nearly) in the rear view mirror. A bipartisan stimulus package, though likely to be much smaller than the \$2tn + plan envisioned by Democrats when they were on the precipice of a sweep, continues to be negotiated on both sides of the aisle. Leadership – House Speaker Pelosi and Senate Majority Leader McConnell – has recently expressed openness for compromise, and Fed Chairman Powell urged additional fiscal support in his November 5 press conference. In aggregate, Goldman expects a \$1tn stimulus plan to be approved under a divided government (see chart below), nearly equivalent to 5% of the nation’s GDP. The Fed has also been supportive, announcing that rates and the pace of asset purchases will remain unchanged during the most recent FOMC meeting last week. Several economists now predict no rate hikes until 2025.

Goldman Expects \$1tn Stimulus Package Under Divided Government; Key Players Appear Motivated Post Election

post-election estimates and quotes



"While we prepare for the new Biden administration, we must also move swiftly for a new coronavirus relief bill. We want the Republicans to come back to the table."
- House Speaker Nancy Pelosi (Dem)

"We need another rescue package. The Senate goes back into session next Monday. Hopefully the partisan passions that prevented us from doing another rescue package will subside with the election. And I think we need to do it and I think we need to do it before the end of the year."
- Senate Majority Leader Mitch McConnell (Rep)

"I think we'll have a stronger recovery if we can just get at least some more fiscal support."
- Fed Chair Jerome Powell

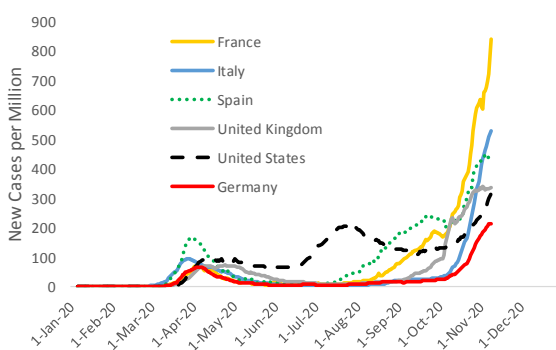
Source: SKY Harbor, Goldman Sachs Economics Research, The Washington Post, Federal Reserve

COVID Remains a Concern

Though stimulus spending is likely to boost sentiment and help companies recuperate losses stemming from the pandemic, a rising number of new COVID-19 cases in both the US and Europe pose a threat to an already tenuous recovery. Many European nations – including France, Italy, Spain, Germany, and the UK – have been forced to re-implement lockdown measures to halt a second wave of the virus, which scientists believe may become increasingly problematic given falling temperatures in the northern hemisphere. While a second lockdown in the US has not materialized, cases remain similarly elevated. At the same time, however, scientists appear to be getting closer to a viable vaccine, with leading forecasters now believing wide-spread inoculations may become reality by the first half of 2021. Such a breakthrough should allow economies to rebound from additional headwinds a second virus wave may cause.

Colder Weather Brings New Cases & Lockdown Risk

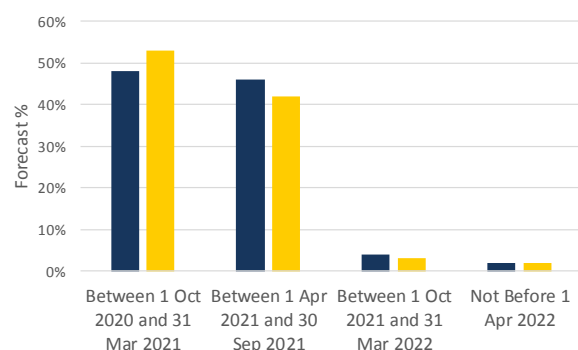
new cases per million, smoothed



Source: SKY Harbor, ourworldindata.org, Good Judgment

Good Judgement Superforecasters Predict a Near-Term Vaccine

timing of FDA-approved COVID-19 vaccine to inoculate 25mm people in US?



Lawsuits and recounts aside, Joe Biden is set to become the 46th President of the United States, defeating incumbent President Trump in a closer than expected, but nevertheless historical, race. Unfortunately, political uncertainty will persist until early January given the need for run-off elections in Georgia to ultimately decide the majority party in the US Senate (prediction markets put a 75% chance it remains in Republican hands, but the outcome is far from certain). The President-elect, therefore, will likely need to work under a divided government, making passage of his fiscal policy substantially more difficult than would have been the case under a Democratic Sweep. Regardless, markets have taken news of a divided US government in stride, with the disappointment for a scaled-down stimulus packaging more than offset by the prospects of a less onerous corporate tax environment. In the meantime, the primary risk to markets remains an uptick in coronavirus cases, particularly if the US is forced to re-implement lockdown measures currently being undertaken in many parts of Europe. Though this would represent a setback to the economy, advances in the quest for a vaccine remain a significant and exceedingly positive catalyst on the horizon. On balance, our view of US high yield markets is of cautious optimism.

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