What the Markets are Saying About the 2020 Elections

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PRIOR TO THE 2020 NATIONAL ELECTIONS, many people were concerned about how the victory by one presidential candidate or the other might affect the markets. That's not unusual. Concerns always seem to surround elections, no matter how much proof there is that they don't, particularly in the long run, have much influence on the financial markets at all.

In the case of the 2020 election, the markets initially responded positively to the results. A couple factors are driving the markets higher: greater certainty about government policy (or lack of change in policy) and positive vaccine information.

Financial markets look forward. Prior to the election there was some uncertainty as to what the eventual political landscape would look like. Even before the presidency was decided the markets were taking the view that former Vice President Joe Biden would likely be the next president, and, though one runoff election is still to decide Senate makeup, the Republicans would maintain control there. Republicans also picked up 7 seats in the House of Representatives. The combination means the control of those two bodies is likely to remain as they were prior to the election, and therefore proceed much as they have over the past eight years. The markets appear to favor the expected lack of meaningful change in policy.

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The likely gridlock means that the tax cuts passed by the Trump administration should remain in place at least until the 2022 mid-term elections. Financial markets, mainly stocks, are driven by their current and expected profits. There appears to be no significant headwind on the horizon to lower profit expectations in the near term.

The news that two COVID-19 vaccines have proven effective and will be ready for market soon suggests more conservative decisions regarding long-term business lockdowns. As well, another stimulus bill is likely to get passed in 2021 after the House and Senate races are finalized.

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At this point, it appears likely that a Biden administration will have a difficult time making sweeping changes, including a substantial tax increase. As well, several Democrats in the Senate have pushed back on the more progressive agenda that was proposed by some candidates on the campaign trial.

Overall, as the noise around the election recedes, there looks to be enough of a balance of power, low interest rates, positive vaccine news, expected stimulus and continued economic growth to move the financial markets in a positive direction in the near term.

Historically the markets have moved forward regardless of the president and have performed well when there is gridlock. As always, investors are rewarded for staying the course and trying to keep emotion out of their investment decisions. History shows you can't time the markets, and U.S. history teaches us that the pendulum between conservative and liberal ideals swings back and forth to maintain an overall course marked by reason and moderation.

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