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Election Aftermath: What Comes Next?

November 2020

Election Day has come and gone, and naturally, it being 2020, things were anything but typical. Election Day morphed into Election Week as vote counting was delayed across various states and the outcomes of multiple races, including the headline presidential race, remained unresolved. By week's end, media outlets projected former Vice President Joe Biden as having secured enough electoral votes to unseat the incumbent, Donald Trump. As of this writing, however, a recount is planned in at least one battleground state (Georgia) while the President has launched legal challenges in several others with an intent to challenge certain mail-in vote processes and tallies. Meanwhile, Congress remained unsettled, with the Democrats projected to maintain a shrinking majority in the House of Representatives and the fate of the Senate to be decided in two January runoff elections in the state of Georgia.

Surprisingly, stocks shook off the uncertainty and rallied sharply during Election Week: the S&P 500 index gained 7.3%, its best week since April and a resounding reversal of its 6% swoon over the last three weeks of October. Market observers offered a range of possible explanations for the surge, such as investors unwinding defensive pre-election positions, the prospect of a split government, improving economic data, and declining Treasury bond yields.

Should President Trump's legal challenges prove successful and he maintain his hold on the Presidency, investors will face a status quo situation in terms of the split between the executive and legislative branches and the administration's policy initiatives. If, however, the challenges fail and Joe Biden is officially elected on December 14th when state electors cast their ballots, all eyes will be on the Georgia runoff elections to see whether the government will remain split or be controlled by the Democrats. As these legal and political events unfold in coming weeks and control of the executive and legislative branches is crystalized, investors will be better able to assess the impact on certain key issues and associated economic growth. Some of these issues include the following:

- **Fiscal Stimulus**. While there is a reasonable likelihood that additional fiscal stimulus will be forthcoming regardless of final election results, the size and timing of a package remains to be determined. Should Republicans maintain control of the Senate, progress will depend on whether Nancy Pelosi and Mitch McConnell can negotiate a stimulus bill palatable to all; should, however, Democrats garner control of the Presidency as well as Congress, a larger bill may be in the cards.

- **Tax Policy**. With a Republican controlled Senate, it is unlikely that a Biden administration would be able to achieve any of its tax policy initiatives, which include increased income tax on households making over $400,000, an increase in the long-term capital gains tax, and an increase in the corporate tax rate.

- **Regulatory Outlook**. The Trump administration has had a strong bias toward deregulation, but that trend could be reversed somewhat in a Biden administration. One sector that may be impacted by additional regulation regardless is the information technology sector, as there has been bipartisan support for such regulation despite disagreement on the specifics.

- **Trade Policy**. A Biden presidency would likely seek to reduce trade tensions with China and other key economic blocks by rolling back some of the measures implemented by the Trump administration.

- **Energy**. Under a Biden presidency, the federal government will likely shift support toward clean energy, seek to rejoin the Paris Agreement, and revisit the rollbacks of environmental regulations that we have seen over the last four years. A split government, however, would constrain the enactment of more aggressive policies such as the Green New Deal.

- **Health Care**. The Supreme Court will soon hear arguments challenging the Affordable Care Act, and the new makeup of the Court increases the probability that some or all of the legislation will be struck down. Should that occur, a Biden administration will have to work with Senate Republicans to craft a bipartisan alternative.

- **Retirement Plans**. The Biden Tax Plan includes some provisions pertaining to retirement plans, but it is unlikely they would be implemented with a Republican controlled Senate. This includes replacing the traditional pre-tax savings associated with Internal Revenue Code ("IRC") Section 401(k) plans with a flat tax credit. For more background on this, click here. Additionally, the Department of Labor in late October finalized a new rule designed to curtail "ESG" investments in retirement plans, but a Biden administration may have a different philosophy and could potentially revisit and/or rescind the rule

While there is a great deal of uncertainty yet about specific laws or policies that may be adopted in relation to these issues, it is important to remember that there are multiple factors beyond politics that can impact the performance of either the economy or the stock market. One such factor is Federal Reserve policy, and the Fed's current accommodative monetary stance, which has proven a dependable tailwind for stocks over time, is projected to remain in place for the foreseeable future regardless of who occupies the Oval Office or controls Congress.

Moreover, with the election now behind us, investors may re-focus on the COVID-19 pandemic, including the virus' progression, the potential reintroduction and economic impact of mitigation efforts, and the efficacy of vaccines under development. On the latter point, investors early this week heartily cheered Pfizer's announcement of promising results on its vaccine's Phase 3 Trials.

We will continue to monitor all potential developments and assess the opportunities and risks along the way. As always, we continue to discourage market timing; rather, we encourage long-term investors to follow a disciplined approach that includes maintaining a diversified portfolio with appropriate levels of risk. Gallagher consultants can help provide the necessary guidance to structure your asset allocation to best fit your return goals and risk tolerance.

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