

Opinion **The Long View**

US election: what investors are anticipating

Bets rise on a Democratic 'blue wave' in the White House and Congress

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Current betting odds are 65 per cent for the Democrats' Joe Biden versus 35 per cent for Republican Donald Trump © AFP via Getty Images

Michael Mackenzie OCTOBER 17 2020

Every four years, markets are vexed by anxiety and volatility from the race for the [US presidency](#). But a historical lesson for long-term investors is clear.

Ignore the short-term market noise and stick with equities and other assets that will benefit from the secular forces driving the economy and the business cycle into the next presidential term and beyond.

Proponents of such a stance need only look at the past eight decades of alternating periods of conservative and liberal stewardship of the US economy. The market verdict has been a consistent trend of broadly appreciating equity prices, with brief interludes of negative performance.

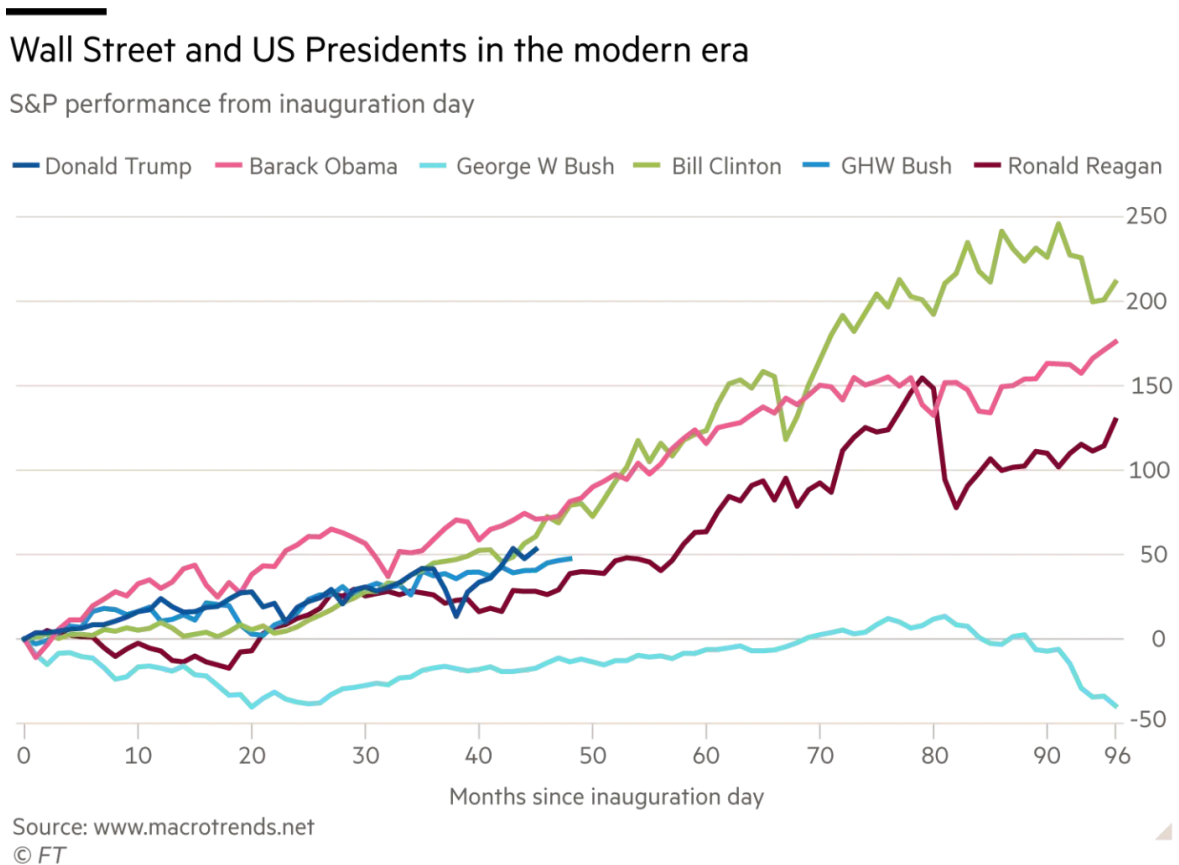
“Changes in presidential administrations rarely lead to material fundamental changes in how the US economy works,” argues Colin Moore, global chief investment officer at Columbia Threadneedle Investments.

The average of betting odds tabulated by [Real Clear Politics](#) indicates the Oval Office awaits a new occupant. After being roughly 50/50 six weeks ago, current odds are 65 per cent for the Democrats' Joe Biden versus 35 per cent for Republican Donald Trump.

If he does lose, Mr Trump will leave the White House with the S&P 500 up 53 per cent over 45 months in office. The gains trail those recorded under Barack Obama (71 per cent) and Bill Clinton (61 per cent), but eclipse Wall Street's run under Ronald Reagan and George H.W. Bush.

The real driver, of course, of many of those gains is the US Federal Reserve. After crushing [inflation under Paul Volcker](#), the central bank has stabilised numerous bouts of market turmoil in the wake of the 1987 stock market crash. The latest rescue act in March — one accompanied by central banks globally — has underwritten a powerful rebound in both equities and credit markets.

However, that does not stop many from anticipating winners and losers across various equity sectors once US voters have ticked the box for either Mr Trump or Mr Biden.



Much will depend on the clarity of the results. Some investors are betting on a [Democratic sweep of the White House and Congress](#), dubbed a 'blue wave'.

Under that scenario, investors anticipate greater regulation for energy, financial services and healthcare. Also seen coming under pressure are the big tech companies given a recent hard-hitting [congressional report](#) that accuses them of market abuse.

Within healthcare, hospitals are seen as winners from any expansion of US medical care programmes. A push to lower drug prices is likely to hit the pharmaceutical sector, although these companies are in the vanguard of finding a Covid-19 vaccine, which offsets some of that pressure.

A Democratic blue wave will increase the chance of significant spending along the lines of the [\\$3tn Heroes Act](#) that passed the House of Representatives in May but failed to gain support in the Senate. Infrastructure projects will reward the construction sector and renewable energy companies.

Further spending does pave the way for higher individual and corporate taxes. That, together with increased regulatory costs, looms as a headwind for companies' future profits growth. BNY Mellon notes that some analysts expect this additional burden "could account for as much as 10 per cent to 12 per cent of corporate earnings per share on average for the next few years".

Not an appealing prospect when the 12-month forward price-to-earnings ratio for the S&P 500 stands at 21.9 times, above the 10-year average of 15.5 times, according to FactSet. An appreciable rise in equity valuations that is not vindicated by rising earnings growth means some investors who also face higher capital gains taxes on their portfolios may well head for the exit.

One important aspect of the modern presidency is that Mr Biden does not require a unified Congress to toughen regulations and implement a green agenda. Should voters mandate a Biden presidency with the Senate remaining under Republican control, Steven Blitz, US economist at TS Lombard argues: "Biden will simply follow the Trump model, who followed Obama, and rely on executive orders to govern."

Of course, voters may confound the pollsters and award Mr Trump a second term, possibly facing the opposition of a Democratic-led House.

Under that scenario, Big Tech is likely to feel reduced pressure from antitrust remedies, although the sector will face considerable compulsion to cut ties with China. Indeed, a much more combative relationship with China and other countries over trade would loom in a second Trump term.

Any stimulus deal between the Trump White House and the Democratic House is likely to tilt towards infrastructure rather than tax cuts. Investors also expect more regulatory relief that in theory benefits energy, financials and drugmakers.

But the key theme of the Trump administration has been unpredictability and an erratic approach to the execution of policy. Unlike election night in 2016, investors may not be so easily persuaded to look on the bright side.

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