CETERA® INVESTMENT MANAGEMENT

COMMENTARY

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Gridlock Expected as Joe Biden Declared President

- Over the weekend, Joe Biden was declared the next President.
- With Republicans likely to hold the Senate, expect a divided government.
- Markets like gridlock as it limits legislative policies and uncertainty.

Over the weekend, challenger Joe Biden was universally named the President-elect. The 2020 election took longer to decide than most elections. Voter turnout was one of the highest in modern history as a percentage of eligible voters and over half the ballots cast were mail-in-ballots. In Congress, Democrats lost seats but still will maintain control of the House of Representatives, while Republicans will likely eventually hold their Senate majority, though races in Georgia are headed to a January runoff. Since investors believe Republicans will likely win at least one of the Georgia elections, the divided result of the election is what the markets have favorably embraced.

We believe a divided government presents investors with a potential best-case scenario: fiscal stimulus with no tax increases. Both political parties know the importance of additional fiscal stimulus for this fragile economic recovery, however, each side remains split on its size and composition. We still expect a stimulus package of some kind that perhaps could be passed during the lame-duck session, but it will probably be much smaller than hoped given the lingering disagreements and recovery in the labor market seen in Friday's payroll report. President-elect Biden ran on a platform of tax reform and climate change; however, the divided government will likely keep the market-disrupting aspects of this referendum in check.

On the investment front, winners may include financials, health care, industrials, multinational companies, and international companies. Financials could benefit from a steepening yield curve caused by the Federal Reserve keeping short-term rates low coupled with less prospects for more regulations. Health care may benefit from less movement on drug prices and Obamacare not likely being replaced. Industrials could strengthen on bi-partisan infrastructure initiatives. With Biden likely to maintain a more predictable foreign policy, multi-national companies should benefit. Lastly, a weaker dollar should benefit international and emerging markets. Investments likely to struggle in the foreseeable future include other cyclicals and smaller companies, as less fiscal stimulus is expected, and municipal bonds as tax increases seem less likely.

Despite the possibility of court challenges, this weekend gave us more clarity around the final election result of a divided government and continued gridlock. This election was very emotional, but perspective is always important in these times. Regardless of who won or lost the election, there are larger economic forces at play in the global economy. In this current environment, COVID-19 and social distancing measures enacted around the world to contain it will likely be the largest factor on corporate earnings and the economy. Your financial professional can help you stay focused on your long-term risk and return goals and help you with your personalized investment objectives.

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow @CeteraIM on Twitter.

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