

COMMENTARY

January 7, 2020

Stocks Rise as Investors Weigh Georgia Results

- Democrats may control the Senate and House in 2021.
- Democratic majority is a slim margin, and not seen as a referendum.
- More aggressive policy agendas like raising taxes still seem off the table.

The Associated Press proclaimed both Democratic candidates as winners in the Georgia run-off election yesterday. This means the Senate will likely be split 50/50 between Democrats and Republicans, including the two independent senators, Bernie Sanders and Angus King, who tend to vote with the Democrats more than the Republicans. With President Trump likely running out of legal challenges, Vice President-elect Kamala Harris would then be the tiebreaker in the Senate, giving the Democrats a slim control of this chamber of Congress. While this does change our base case scenario of a Democratic-led House of Representatives and a Republican-led Senate, the small margin of control in the Senate will be an obstacle for passing more aggressive and/or controversial legislation. In addition, the Republicans picked up seats in the House of Representatives, narrowing the Democrats' control there.

So, what does this mean for markets? Stocks rallied yesterday, even with the social unrest gripping Washington D.C. The markets have been largely immune from the social unrest we have seen over the last year, so this is not that surprising. The markets also seem disconnected from fundamentals recently, so we won't read too much into one day's stock market performance either. Overall, we believe investors think the odds of higher tax rates are relatively low with the narrow Democratic majority. Equity investors are also anticipating more fiscal stimulus as stimulus is less controversial than taxes. While gridlock was largely seen as a goldilocks scenario for stocks this year, a narrow Democratic majority is not too far from that and has some benefits with the potential for more stimulus.

Looking at stock sectors, we think winners could still include financials, health care, industrials, multi-national companies, and international companies. Financials could benefit from a steepening yield curve caused by the Federal Reserve keeping short-term rates low, though increased chances of regulation may be more of a concern now. Health care may benefit from less movement on drug prices and Obamacare still not likely to be replaced. If Biden continues with a foreign policy similar to the Obama Administration, multi-national companies could benefit from a more stable environment. Lastly, a weaker dollar should benefit international and emerging markets. We think cyclical and smaller companies may struggle more under a Biden Administration, but they could benefit from more stimulus now with the Democratic wins in Georgia.

So, with the prospects of more stimulus and static tax revenue, national debt is set to rise even more than previously expected. Bond investors are taking notice and sold bonds, demanding higher bond yields. 10-year Treasury bond yields are now over 1%, but still at a historically low level. Mortgage rates correlate with these Treasury bonds, so we will be keeping an eye on yields as they impact mortgage costs.

As we keep reiterating, elections are only one market factor and there are bigger forces at play in financial markets and the economy. This recovery will be largely determined by the direction of the virus and efforts to contain it. We are focusing on the near-term effects of the virus on economic indicators and have created a [social distancing recovery dashboard](#) to monitor these conditions on a weekly basis.

This election was extremely emotional and, as we said in our prior commentaries, voting with your portfolio is not a wise investment strategy. 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.

About Cetera® Investment Management

Cetera Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. Cetera Investment Management provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

About Cetera Financial Group

“Cetera Financial Group” refers to the network of independent retail firms encompassing, among others, Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors), Cetera Financial Specialists LLC, and First Allied Securities, Inc. All firms are members FINRA / SIPC. Located at 200 N. Pacific Coast Highway, Suite 1200 El Segundo, CA 90245-5670

Disclosures

Individuals affiliated with Cetera firms are either Registered Representatives who offer only brokerage services and receive transaction-based compensation (commissions), Investment Adviser Representatives who offer only investment advisory services and receive fees based on assets, or both Registered Representatives and Investment Adviser Representatives, who can offer both types of services.

The material contained in this document was authored by and is the property of Cetera Investment Management LLC. Cetera Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Cetera Investment Management and did not take part in the creation of this material. He or she may not be able to offer Cetera Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Cetera Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Cetera Investment Management, please reference the Cetera Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your adviser is registered with. Please consult with your adviser for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

A diversified portfolio does not assure a profit or protect against loss in a declining market.