On The Mark

November 2020

The Elections Are Over, so, Now What?

Key Takeaways

- With the election fog (mostly) lifted, stock markets celebrated the best of both worlds, a Biden presidency and split Congress.
- While markets are influenced by elections in the short term, it's important to reiterate that policies and not politics impact the state of the economy and thus markets in the long run.
- With the election results behind us, markets are likely to shift its attention towards more conventional issues like the impact of rising COVID cases on the economy.

The highly charged elections have concluded with Joe Biden declared as president-elect. Stock markets rallied sharply in the week leading to the results being declared, accepting what appears to be the best of both worlds scenario with a Biden presidency and a split Congress. This outcome would allow for more modest policies on key issues like taxes and regulations.

While the market appears to have priced in a divided government, there remain two outstanding items. First, President Donald Trump has not yet conceded the election. Second, the balance of power in the Senate remains to be determined because Georgia's two Senate races will go to runoff elections in January. Regardless, the election results to date have helped remove a sizable amount of uncertainty in the market.

While markets are influenced by elections in the short term, its important to reiterate that policies and not politics impact the state of the economy and thus, markets, in the long run. To that effect, until we know which party controls the Senate, it's difficult to identify what policy changes are likely. Amid the uncertainty, three key areas remain central going forward: fiscal stimulus, a supportive Fed, and tax changes.

The much anticipated stimulus package has been at an impasse for months and the path and size of the stimulus going forward just got trickier. Another round of stimulus is likely, but the timing and size of an aid bill remains uncertain. J.P. Morgan estimates we could see a fiscal package near $1 trillion[1], a skinny version of the $3 trillion bill passed by the House of Representatives earlier this year. As many households and busineesses have continued to struggle amid rising COVID cases, an economic stimulus bill remains imperative. In addition, fiscal stimulus may also come in the form of infrastructure spending, a rare common ground across both parties.

With a smaller economic stimulus bill, the markets will continue to expect ongoing monetary stimulus from the Fed. To date, monetary stimulus has kept liquidity flowing in the market and going forward the Fed may need to do more of the heavy lifting to support the economy.

Finally, on tax changes, the message from the markets has been simple, don't expect any tax changes in a divided Congress. On the other hand, a narrow Democratic majority in the Senate, would allow for potential tax increases across corporate, personal and capital gains for the wealthiest filers. As we have stated in the prior publication, a tax increase alone does not necessarily mean doom for stocks as it's often counterbalanced with economic stimulus. Finally, given the delicate nature of the economic recovery, it's likely tax changes may not be implemented until 2022.

Now that the election fog is (mostly) behind us, markets are likely to shift attention toward more conventional isues like the impact of rising COVID cases on the economy. That's because a large fiscal stimulus would have made it easier for markets to look past any potential negative near-term developments. However, with the size and timing of stimulus less certain, any negative developments in new COVID cases or a positive development for a vaccine are likely to carry more importance. Investors should recognize there is still a long road to recovery and seek balance within portfolios.

[1] https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/market-insights/election-2020-results-and-consequences?email_campaign=203014&email_job=230540&email_contact=003j0000018VhGdAAK&utm_source=clients&utm_medium=email&utm_campaign=ima-us-insights-mi-election-bulletin-funds-11042020&memid=7220927&email_id=45978&decryptFlag=No&c3ch=email&c3nid=203014&e=ZZ&t=&f=001j000000sQxnPAAS&utm_content=feature_readnow

Brian A. Nolan, CLTC
Nolan Wealth Management, LLC
475 Wall Street
Princeton, NJ 08540

Tel. – Main: 609-920-0321
Toll Free: 877-NOLANWM (877-665-2696)
Fax: 609-651-8209
Email: bnolan@nolanwealth.com
Website: www. nolanwealth.com

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