The Country and Investors Await Election Results

At dawn on Wednesday, the votes are still being counted to determine who will be the next President of the United States. The so-called blue wall battleground states of Pennsylvania, Michigan, and Wisconsin, and their combined 46 electoral college votes, will hold the key, as anticipated, with final results not expected for some time. Nevada, Arizona, and Georgia also remain undetermined, and their combined 33 electoral college votes will also play a roll. The winner needs 270 electoral college votes to be declared the winner. Final results are being delayed by the sheer volume of early votes that are still being counted. As of this writing, the Biden campaign has a lead in Wisconsin, Arizona, and Nevada, while the Trump campaign leads in Pennsylvania, Michigan, and Georgia.

Several Senate contests also remain undetermined at this hour, but the current status of those races suggest that the Republican party will retain control of the Senate. Each side has so far picked up one seat, with seven races yet to be determined, but many of those are in traditional Republican strongholds.

The Polls Got it Wrong Again; Futures Fluctuated Wildly Through Election Night

The election has turned out to be far closer than many expected. Polls had for weeks showed a consistently comfortable lead for the Biden camp, leading some to predict a so-called blue wave that would deliver both the White House and the Senate to the Democrats, who already controlled the House. Clearly, regardless of the final outcome, the polls got it wrong again, as they did in 2016.

Futures prices fluctuated wildly throughout the evening as the fortunes of the two candidates rose and fell. The yield on the ten-year Treasury note, which ended the cash session on Tuesday at 0.90 percent, swung as high as 0.94 and as low as 0.76 percent overnight. After the S&P 500® index ended the trading day on Tuesday at 3369, futures traded as high as 3425 and as low as 3320 overnight. At one point in the evening, futures on the Nasdaq had to be halted because prices had risen 3.5 percent, high enough to trigger an automatic pause in trading. With three hours to go before Wednesday’s cash trading session begins, S&P futures are trading higher by 15 points, or 0.4 percent, and Nasdaq futures are higher by 236 points, or 2.1 percent. In European equity markets, where early trading is already underway, stocks are modestly higher.

Election Implications for Investors Remain Unclear, But Markets Historically Like a Divided Government

In the absence of clarity regarding the final outcome, the implications of the election for investors remains unclear. But, it appears to be quite likely that we will have a divided government when the final votes are counted, as we do now, with Republicans controlling the Senate and Democrats controlling the House.
However, with equity futures markets currently indicating outperformance of growth stocks in general, and bond futures showing a sharp drop in yields, investors appear to be discounting the chances of a meaningful increase in fiscal spending that a Biden victory might bring, and outperformance by cyclical stocks along with it. Of course, that could change as the remaining votes are counted.

Our analysis of market behavior in presidential election years indicates that equities fare best three and nine months after an election when the incumbent wins. It also indicates that, regardless of the outcome, volatility should begin to subside. Both of these outcomes, of course, remain to be seen. If the government remains divided, as appears likely, markets historically are said to take some comfort in the prospect of policy gridlock, under the assumption that nothing too damaging to the economy is likely to occur.

It is unclear when the results will be final. Some are suggesting that it could be several days before all the votes are counted. As we learn more, we will provide updates of the results, as well as analysis of the implications for investors.

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A futures market is an auction market in which participants buy and sell commodity and futures contracts at a specified price with delivery set at a specified time in the future.

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