

Still too close to call, but definitely no Blue Wave

By: Edward J. Perkin, CFA | November 4, 2020

Boston - On the day after the election, we still don't know who will be the next US president. Rather than listening to pundits try to tell a story around incomplete data sets as millions of votes remain uncounted, I find the betting markets to be the most reliable source right now.

After all, these markets represent an educated guess from those putting their money where their mouths are. According to PredictIt.org as of Wednesday morning, Biden is being given an 80% chance of winning and the Republicans are being given an 85% probability of holding the Senate.

Equity market reaction so far

The S&P 500 opened up +1.5% and has climbed closer to 3% throughout the morning. This positive reaction is somewhat surprising for three reasons:

- The outcome remains in doubt, and markets tend to hate uncertainty.
- We won't get the Blue Wave result that the equity market seemed to want.
- There's still a possibility of unrest if the election ends up being decided in the courts.

If the Republicans do hold the Senate, that likely takes tax hikes off the table, which should be good for equities. Likewise, some fiscal spending priorities of the Democrats — the Green New Deal and a public option for healthcare — won't happen, which could produce winners and losers at the industry and stock-specific level.

Big divergence in growth versus value stocks

Value stocks in particular wanted the Blue Wave that would bring fiscal spending and higher interest rates. With the 10-year US Treasury yield dropping around 14 basis points this morning, banks are *down* 4% to 6%. Meanwhile, healthcare is *up* 4% to 6%, as those stocks get a stay of execution.

Bottom line: We see these equity market moves as directionally correct, but probably a modest overreaction in terms of magnitude. Stay tuned for more updates as the election uncertainty clears.

S&P 500 Index is an unmanaged index of large-cap stocks commonly used as a measure of US stock market performance.

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