What Does a Biden Victory Mean for Me?

With the long-awaited election results certified and a Democratic leadership driving our next four years, many investors are asking themselves what to expect from the markets.

After a decade-long bull run was interrupted by a global pandemic, investors are understandably seeking a return to baseline, turning to pundits to predict our best chances to do so. Unfortunately, an election taking place at the height of an unprecedented global pandemic doesn't exactly lend itself to historical comparisons. Still, there are some patterns we can look toward to understand where we are and where we might be going.

Rally Red or Booming Blue?

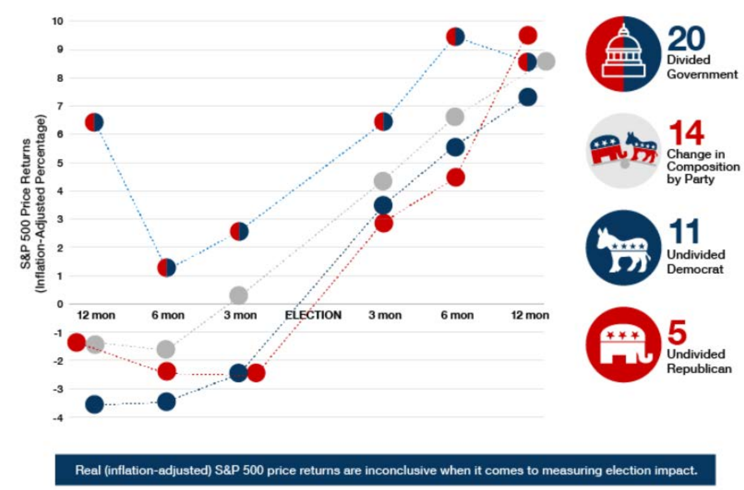
If you've read *The 2020 Election and the Star-Spangled Stock Market*, you already know that political party doesn't historically have a huge impact on market performance. Even when you account for party lines shifting across history, the truth is, presidents don't operate in a vacuum, and a few major corporations most heavily influence the markets. So, if you were thinking of pulling your funds based on party affiliation, evidence suggests you best stay put and stick to your long-term plan.

Unified Government:

Another piece for investors to consider is that we're moving into an all Democratic-lead leadership. The Georgia runoffs left us with a 50-50 split in the Senate with the Vice President-elect casting the tiebreaking vote. Despite this control, President-elect Joe Biden’s ambitious agenda will be somewhat constrained by a thin 12-seat margin. As you can see in *Figure 1*, a divided government has historically produced the best returns overall with an undivided Democratic government on a steady yet less aggressive rise. While past performance can't guarantee future results, making major change in this environment places a heavy challenge on the incoming administration.

Figure 1

MARKET RETURNS BEFORE AND AFTER ELECTIONS



Source: Lord Abbett analysis of Bloomberg data tracking S&P 500 price returns from 1948 through November 2017.

Biden's Tax Plans:

Many investors are concerned about the impact that Democratic leadership will have on their tax bill more so than their portfolio performance. It's a valid concern, but a divided government would likely have resulted in more moderate tax law changes than a Democratic leadership, the Biden proposals still need the nod of a substantial number of Republicans in order to make any major changes.

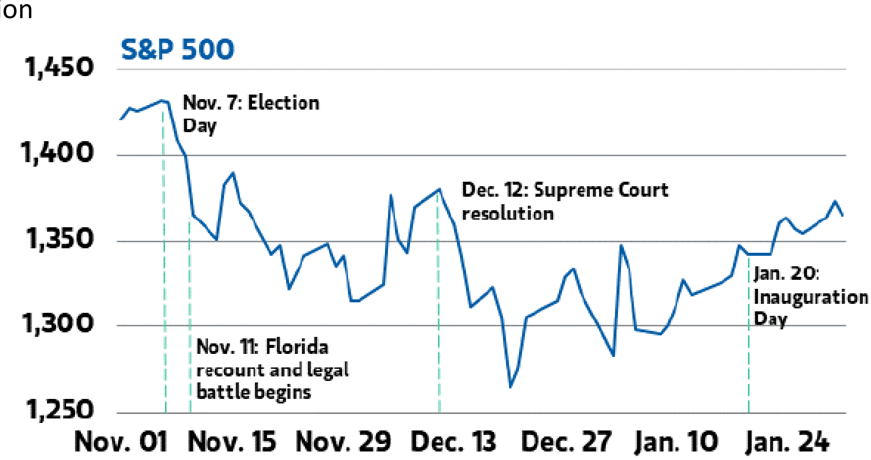
Some of the proposed changes include:

- Raising the top individual tax rate from 37% to 39.6%
- Extending the Social Security tax from earnings *up to* $137,700 to earnings *over* $400,000
- Raising the capital gains rate to 39.6% for taxpayers with income over $1 million

If you're concerned about how any of these shifts may affect you, now is a great time to speak to a financial professional about how you can prepare to face these changes with certain tax-advantaged vehicles. There are many tools designed to restructure your investments in a tax-efficient way while continuing to work toward your long-term objectives.

The Impact of a Contested Election:

Figure 2:
Performance during 2000 Election to Inauguration



Source: Bloomberg, Morgan Stanley Wealth Management as of Oct. 20, 2020

A piece of bad news: a contested election typically results in a period of volatility. The most recent experience we have to reference is the 2000 election between George W. Bush and Al Gore. After Florida was called in favor of Republican candidate Bush, the results were called into question. Voters in one Florida county claimed that the "butterfly ballot" was confusing and many feared they didn't vote for their intended candidate. The recount process marked a period of volatility for investors, as demonstrated in *Figure 2*.

20 years later, we see are experiencing a Trump versus Biden contested election compounded by the COVID-19 economic uncertainty. Experts suggest that we may favor a more defensive market until the dust settles. If Congress provides additional stimulus, a spur in spending might continue the rise of stocks such as renewable energy and the expectation of small caps to outperform just as we saw in 2000.

Of course, 2000 was a very different election—particularly since only one state—won by a very narrow margin—was contested.

Although the markets are likely to react to such a period of uncertainty, it behooves investors to remember that a resolution will ultimately be made, and the markets will stabilize once again. While it may be tempting to "opt-out" during this period or even attempt to "time the markets," periods of volatility don't only move in one direction, and the high points tend to follow the low points very closely. In our whitepaper, *The 2020 Election and the Star-Spangled Stock Market*, we demonstrated how missing just the best ten days of market performance can cost investors dearly, and the best course of action has historically been to play the long game.

Coronavirus

We can't talk about market performance in 2020 without mention of the Coronavirus. In terms of the pandemic, we aren't out of the woods yet. The full economic impact remains to be seen, as does the new administration's approach to solving it. As with much of the pre-election volatility, it won't be easy to pinpoint which moving parts of the economic landscape are influencing the markets at any given time. One important factor to keep in mind is that the stock market and the economy aren't synonymous. While they often follow the same patterns, the stock market is comprised of corporations— predominantly five key tech giants: Amazon, Alphabet (Google), Apple, Microsoft, and Facebook, whose industry has been relatively safe from the economic shutdown while unemployment, GDP, retail spaces, and small businesses have been impacted significantly. Luckily, in terms of market performance, it appears the initial Coronavirus panic has mostly subsided. However, the path forward from an economic standpoint is still unclear.

The Horse Races

We didn't forget about those of you taking bets.

In *The 2020 Election and the Star-Spangled Stock Market*, we debunked many myths between politics and the stock market, predominantly the myth that one party is pro-business while the other is pro-labor. However, one relationship has held statistical significance: when the markets are up the months preceding the election, the incumbent party is likely to be reelected. When the markets are down, the opposition is more likely to win. The historical manifestation of this relationship is shown in *Figure 3*.

During the 2020 election, the S&P 500 was down .04% for the 3rd quarter of the year, and the opposition party was elected over the incumbent, which makes this election the 21st (out of 24) to be correctly predicted by this method.

Figure 3

Election Year	S&P 500 Return	Incumbent Party
'80	6.9 ▲	Lost
'84	3.6 ▲	Won
'88	2.8 ▲	Won
'92	-0.4 ▼	Lost
'96	6.7 ▲	Won
'00	-3.4 ▼	Lost
'04	2.8 ▲	Won
'08	-24.8 ▼	Lost
'12	1.9 ▲	Won
'16	-2.3 ▼	Lost

Source: Fox, Matthew. "The stock market has correctly predicted who will win the presidency since 1984. Here's what to look for as we approach the November election." Markets Insider Jun. 29, 2020 Accessed Sept. 11, 2020

The sage wisdom "only time will tell" can often feel anti-climactic and even frustrating when faced with concerns about the future. It is, however, one of the great lessons from a year that has been a whirlwind of historic hurdles and uncharted territory for individuals and the community at large. Only time will tell if this new administration will positively or negatively impact the markets; only time will tell if we're at the end or at the height of the pandemic. But if time has told us one thing: your best bet is to stay true to your long-term strategy. Working with a trusted professional who listens and understands your unique circumstances and objectives can help you stay the course with a plan that doesn't break at the first sign of disruption. Now is a great time to evaluate your portfolio and ensure that your long-term objectives are front-and-center of your financial plan.

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