

No Wave is Good News For Stocks

While the election is still not certified, and court battles will drag on, it appears that we can draw two firm conclusions from the 2020 election. First, the pollsters were horribly wrong again. Secondly, American voters do not want a radical shift in economic policy.

While Vice President Biden declared victory based on statistical evidence compiled by the media, there remains some ambiguity. States have not yet formally certified their election results, President Trump is pushing back with court cases, and recounts will be automatic in some states because of the closeness of the results. That said, the odds favor a Joe Biden Presidency for the next four years.

But, for at least the next two years, he will be interacting with a Congress that looks much different from the Blue Wave that pollsters expected. We know it is 2020, and anything can happen, but after Alaska and North Carolina report, it appears that Republicans will have at least 50 seats in the US Senate. The outcome of two runoff elections in Georgia, taking place in early January, will determine the final Senate make-up and it appears Republicans will win at least one of those.

In addition, Democrats lost perhaps 10 seats in the House of Representatives and when all the counting is done, we expect the Democrats will have about 224 seats versus about 211 for Republicans. Because mid-term elections have historically favored the party out of power, this result is causing the moderate wing of the Democrat party to push back against their more progressive members.

This pushback has teeth because Republicans around the country, in both House and Senate races, generally won by greater margins or lost by narrower margins than President Trump in their districts and states. And Republicans increased their power at the state legislative level.

As far as policy goes, what all this means is that a major tax hike, the Green New Deal, Medicare for All, and court packing are off the table. Yes, a Biden Administration will generate more rules and regulations, but the federal courts and all those Trump appointees during the past four years are

likely to make sure agencies and departments stick to their legal mandates as passed by Congress.

In terms of legislation, we do expect Congress to pass a stimulus bill in the lame duck session, but it will not be the \$3 trillion that Speaker Pelosi and the Democrats were pursuing before the election. It will not bail-out the states, which is particularly painful for Illinois, but we still expect a \$1 trillion package to help with distributing a vaccine and provide more money for unemployed workers.

Next year, investors should expect some sort of infrastructure spending package, passing with bipartisan support. Because President Biden will need to get some sort of tax victory, look for an increase in the itemized deduction for state and local taxes, to around \$20,000 from the current level of \$10,000. Normally the GOP would oppose this policy change – it's a bigger tax cut for residents in high-tax states, who tend to vote for Democrats, than for people in low tax states, who tend to vote for Republicans – but it's still a tax cut, not a hike.

Trade wars are off the table, however, it will be hard for a new White House to justify going soft on China or for reversing progress made toward peace in the Middle East.

Meanwhile, the economy continues to grow and corporate performance continues to improve. According to FactSet, 89% of all S&P 500 companies have reported earnings for the third quarter and 86% of them have reported earnings above expectations. This is happening for two reasons. First, revenues have been better than expected, and second, costs have been cut as companies have adapted to challenging times. Productivity is up 4.1% from a year ago.

With news of an effective vaccine, expectations that fiscal policies will not change in any major way, continued low interest rates, and the entrepreneurial power of the US economy, the stock market is well on its way to continue making new highs. As we have reminded investors over and over, personal political preferences can cloud judgement. This past week makes that point, powerfully.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-12 / 7:30 am	Initial Claims – Nov 7	725K	731K		751K
7:30 am	CPI – Oct	+0.2%	+0.2%		+0.2%
7:30 am	“Core” CPI – Oct	+0.2%	+0.2%		+0.2%
11-13 / 7:30 am	PPI – Oct	+0.2%	+0.2%		+0.4%
7:30 am	“Core” PPI – Oct	+0.3%	+0.2%		+0.4%
9:00 am	U. Mich Consumer Sentiment -Nov	82.0	82.3		81.8