
Weekly Market Flash

Politics, Markets and the Road Ahead

November 6, 2020

Well, this has been a week. The world's eyes were on a map of 50 states, but those eyes were not fixated on the many that were confidently and immovably etched in a deep red or deep blue. The action was in that handful of "grey states" – too early or too close to call to color in red or blue. That was Tuesday night. It is now Friday morning and as of this writing no media outlet has made a formal call on the presidential contest. It is quite possible that such a call will have been made by the time you are reading this, as the vote count in the as-yet undecided states are moving fairly steadily into the column of Joe Biden and Kamala Harris.

The world pays close attention to our elections because our political system has an important impact on the world – on the global economy, on financial markets and on the civil societies that make up the world's nations. So what do we know, and what can we expect, given where things stand today?

The Volatility That Wasn't

In September we wrote about options markets that were showing historically high levels of volatility for contracts settling in the time period around Election Day. The concerns reflected in these options prices revolved around the potential for a contested outcome that could potentially lead to a constitutional crisis. Those fears abated somewhat as the days rolled by in October, with polls seeming to show an increasingly large margin for Biden and the Democrats. As the results came in on Tuesday night, though, those polls wildly missed the mark. A tight race was indeed what we got in the end.

But it was a tight race absent – at least so far – the kind of messiness that spooked options traders back in September. A record number of absentee and mail-in ballots – reflecting the reality of a country still tightly in the grip of a vicious pandemic – has resulted in a long and laborious counting process that explains why it has taken so long. But the process has been methodical, transparent and, in the end, will have done its job. Yes, there have been protests, inflammatory rhetoric and all the rest of it – but the system showed that it could deliver the results without engendering a crisis. We can be thankful for that.

Gridlock and the Markets

Investors didn't wait for official calls on any race to rush to the conclusion that the most likely outcome of a Democratic White House, Republican Senate and Democratic House of Representatives would be gridlock. In their best Gordon Gekko impersonations they seemed to say in unison: "Gridlock is Good." The S&P 500 jumped on the prospects of not much change in store for corporate or household tax rates, or regulations, or much of anything else. The upbeat sentiment was reinforced by statements from Mitch McConnell, who is set to retain his seat as Senate Majority Leader, to get on with a pandemic relief package before the end of the year. Economic relief plus no new taxes seemed to be a pretty seductive narrative for potentially another run of the bulls through the remaining weeks of the year.

Time for a New Story

That "gridlock is good" mantra may work for a short time, but it is an insufficient answer to the scope of problems we face, both here at home and abroad, in the coming months and indeed years. It is promising

that the victorious Senate Republicans are at least signaling a willingness to finally sit down and negotiate a fiscal relief package. The coronavirus pandemic is getting worse by the day, with cases soaring above 100,000 just as we are running smack into the annual flu season. Whether some of the more recalcitrant senators who stood in the way of productive negotiations earlier in the fall can be persuaded to come around is another story.

But dealing with the pandemic is job number one for everyone with policymaking responsibilities on both sides of the aisle. Bipartisanship, say many observers jaded by the institutional rot and performative silliness of American politics, is dead. Joe Biden insisted throughout his campaign that it was not dead, and that it was absolutely necessary if we are going to make a meaningful impact on the many problems we are currently facing.

We agree with that sentiment. It is time for a new story, because the old story has not worked. The oldest and most established economies in the world – in North America and Europe – are facing chronically slowing growth while those of China and the Asia Pacific region are becoming more dominant. Climate change is a fundamental threat to our way of life in an increasingly obvious way with every “once in a lifetime” hurricane, flood, wildfire or other disaster. Our infrastructure is old and needs to be brought into the twenty-first century with green and digital solutions. Our healthcare system, not in any kind of good shape to begin with, will be straining under the pressure of the coronavirus and its many long-term effects even after a vaccine finally comes to market.

It would be naïve to think that all these problems will be swiftly attended to by a bipartisan team of rational, pragmatic and far-sighted politicians on the day the new administration is sworn in. We remain a decisively divided nation, and nothing that happened this week is going to change that. But the only hope we have for lowering the fever of anger and mutual hostility is to change the story. To work on first agreeing on what our biggest problems are, and then figuring out how to fix them. To put the interests and well-being of actual flesh-and-blood constituents ahead of whatever is trending loudly on the far left and right corners of Twitter and the rest of the social media fantasyland.

Can we do this? We had better be willing to put our best efforts forward to try. Our children, grandchildren and those who follow will not forgive us if we do not.

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