



MCMURTRY INVESTMENT REPORT

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The Upcoming US election and its effects on the markets

The upcoming US election this fall will create a lot of uncertainty that clearly is not currently being reflected yet in the stock market, apart from the recent 5% correction. Equity market valuations are elevated currently, being propelled by an ever accommodating zero interest rate policy of the Federal Reserve Bank and by the gradual ending of all the lockdowns from the pandemic. Normally in a period with this much political uncertainty equity markets do not go straight up. However, there are many factors involved in the market's meteoric rise from the ashes just several months ago. Almost daily positive announcements about possible vaccines encourages the markets to move higher, even though the jury is still out in regards to the efficacy of any vaccine produced so quickly in time.

In the US there are three levels of government – The Office of the President, the Senate and the House of Representatives. Currently the Republicans control the Office of the President and the Senate, with the Democrats controlling the House of Representatives. This division of power amongst the two political parties is the principal reason that a lot of proposed legislation never passes both houses. This situation is comparable to a minority government in Canada like we have today. Historically equity markets take a breather before most US federal elections in an attempt to absorb all the uncertainty from a possible change in government.

During Obama's first term of office, the Democrats swept all three levels of government and had full control of all proposed legislation ensuring quick approval. While we take universal health care for granted in this country, the coverage in the US before Obamacare virtually excluded 30-40 million American citizens. Their health care protection was principally provided by private non government insurance companies, with public government coverage pretty marginal at best. The introduction of Obamacare changed all that. For the last four years under Trump, the Republicans desecrated as much of Obamacare as they could, once again leaving millions of low-income Americans with no medical coverage.

This upcoming US election will most likely come with a bunch of surprises. The pandemic has encouraged many citizens to vote by mail. While there is absolutely nothing wrong with this, Trump and his goons have indicated this may lead to voter fraud. In fact, Trump mentioned specifically that he may not accept the results on election night should his party be defeated. Some political strategists expect that the final outcome of the election may not be decided until at least one month after the vote. This seems preposterous to me and confirms that the US is inching closer and closer to becoming a banana republic.



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All of these possibilities create a great deal of uncertainty. The most possible outcomes of the election are as follows:

Biden and the Democrats sweep all three levels of government.

Biden and the Democrats win the Presidency and the House of Representatives, with the Senate resting with the Republicans.

Trump and the Republicans sweep all three levels of government.

Trump and the Republicans win the Presidency and the Senate, but not the House of Representatives.

A Biden or Trump sweep of all three levels of government could lead to a lot of uncertainty.

A partial victory for either party – winning the Presidency plus either the Senate or the House but not both would be the best scenario for the equity market and probably result in the status quo for the immediate future.

A Biden and Democrat sweep of all three levels of government would very definitely lead to some immediate new legislation on the following:

Increasing corporate and personal income taxes

Increasing minimum wages to \$15 per hour

New legislation on drug pricing and bank reform

Higher taxes would hurt corporate profitability somewhat. Increasing the minimum wage would improve consumer spending but would pressure industries that are labour intensive and where price increases are not possible. These industries would include bars, restaurants and retail bricks and mortar stores. However, a Biden sweep would most likely lead to an improving trade situation between the US, Europe, Canada and China. This would help global economic growth, differing markedly from Trump's current trade protectionist policies.

Industries that could benefit from a Biden and Democrat sweep would be infrastructure, renewable and green energy and public transportation. Industries that may be negatively affected are fossil fuels, prisons, defense and health care.

It is interesting to note that historically the stock market has performed better under the Democrats than under the Republicans, but the Republicans are trying to tell the electorate otherwise.



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Conclusion

Taking into account the recent strong performance of the stock market, despite the recent correction over the past few days, the uncertainty created by a federal election should not be taken lightly. A short-term correction of 10-15% would be a healthy development under the circumstances.

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