Investment Insights
2020 U.S. Election Results and Our Immediate Views

Morningstar Associates, Inc.
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Key Takeaways

- The U.S. election delivered on its promise of being a very tight presidential race. Indeed, these are unusual times. However, the results to date seem to have narrowed potential outcomes, with a more even balance of power in the national government.
- In this environment, predictions have again proven to be overrated, but portfolio construction has never been more important. We are keeping an eye out for volatility (which may create buying opportunities), but also thinking intently about the value of cash, hedges, and the like.
- The key, in our mind, is to avoid overreacting and to focus on the longer-term changes. We are pursuing this research in earnest.

Understanding Election Results

The presidential race has delivered what many expected—a close, divided, and messy result. This reflects the uniqueness of the particular election cycle; with economic, public health, the intense polarization of the political parties, and the psychological impact of COVID-19 all influencing voters.

Biden has been named the next president; however, we did not witness a "blue wave" of Democratic wins. The Senate appears likely to remain controlled by Republicans, who also picked up more than a few seats in the House. Markets rose in anticipation of this news and jumped further on Monday with the additional news of a potentially effective COVID-19 vaccine.

Legal battles remain—no one expects Trump to go quietly. Still, the range of potential outcomes, not just for the election but what it could lead to, seems to have narrowed considerably. This balance of power will likely reduce the potential for tax increases on the wealthy and corporations, as compromise will be the way forward, in our opinion. Both parties appear keen to add stimulus to boost the economic recovery, and Federal Reserve Chairman Jerome Powell's job seems secure ahead of his 2022 potential reappointment. Regardless, both parties seem poised to maintain easy monetary policy and expansive fiscal policy. And any fears over what an opposing candidate's impact on healthcare and regulation more broadly may be assuaged by these election results.

Simply put, we think this election will lessen uncertainty for markets, at least once the legal battles are behind us. That said, we don't invest based election results, but we may invest based on responses. If fears over these legal battles lead to irrational prices, we may identify buying opportunities.

From the lens of an investor, we think prudence and patience will win. So, we favor research over reaction and urge other investors to do the same.

Mispricing Opportunities

Too often in moments of uncertainty, investors consider selling and moving to cash. There's reams of evidence that suggests this tends to destroy value for investors over time. Instead, investors should rely on their investment manager to make the most of the uncertainty.

As mentioned above, we seek to take advantage of opportunities when investors grow overly negative and prices don't reflect an asset's fair value. We haven't seen that yet in this election, but we're patiently waiting to see what the coming weeks may bring. In this sense, we are keenly looking for opportunities that will benefit goal-driven investors—by purchasing assets that will add meaningfully to returns in the future.

At a portfolio construction level, it is also important to differentiate between a cautious investor who is concerned about losing money versus an adventurous investor who is willing to take higher risk. Our exploitation of the valuation-driven opportunities that arise will seek to take account of these differences.

Dealing With Downside

Of course, the presidential race is uncomfortable for many. The election result already looks to be disputed, which could have several knock-on effects, including investor confidence, especially given that politics can make us all a little emotional.

But again, investors shouldn't feel they need to take matters into their own hands. We build portfolios with an eye toward both opportunity and downside protection, defining risk not as a financial statistic but as losing money the investor can't make back. We do this always with an eye on the long term—we believe we can help investors reach their financial goals if we're both patient and stay the course. For investors, that means sticking to their financial plan and the portfolio they rely upon.

In Summary

We appreciate that the current period is very unsettling for investors and challenging for their advisors. We will do our utmost to support clients during this time.

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