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BREAKING NEWS
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Decision 2020: What the apparent Biden victory means for the markets and investors

While some recounts and lawsuits are still pending, the "Decision Desks" of most major news organizations have called the U.S. presidential election for Joe Biden. But control of Congress could remain divided between the Democrats in the House and Republicans in the Senate. Given these results, markets and investors are to be looking ahead to a 2021 in which policy changes may be relatively modest. But we do see some different investment opportunities across asset classes.

Views from Nuveen's Global Investment Committee

WHERE DO THINGS STAND RIGHT NOW?

After states counted an unprecedented number of early votes and mail-in ballots (and pending the possibility of some contested recounts), Joe Biden now appears to be the presumptive President Elect.

The closer-than-expected election has delivered what may be another modest surprise: Current indications are that the U.S. Congress could remain divided in 2021. Republicans appear to have beaten back the blue wave scenario. And while some elections are still too close to call or are headed for runoffs, the GOP has a good chance of maintaining control of the Senate, though by a narrower margin than their current 53-47 majority. Democrats will retain the House of Representatives, as expected, but Republicans have gained seats in the House.

Should this be the case, divided government in 2021 alters the policy outlook meaningfully from what a blue wave could have produced. Taxes on individual, corporate and investment income appear unlikely to rise, something equity markets are cheering in the post-election environment. On the other hand, the size and timing of a much-needed economic relief package to help businesses and individuals affected by the pandemic has been thrown into doubt. So, while there are clear positives for the economy and financial markets coming from this outcome, there are some near-term downsides, as well.

WHAT ARE THE NEAR-TERM MARKET IMPLICATIONS?

The strong prospect of divided government seems to have produced a benign outcome for financial markets, which have never minded political gridlock. In fact, the VIX Index, a measure of equity market volatility, fell after the election despite ongoing uncertainty around the results. Should it come to pass that Democrats do manage to take the Senate, that could spark a jolt within financial markets. But we might not know for sure until January.

In any case, financial markets appear to be looking past election uncertainty and are focusing on measurable fundamental factors like valuations, structural dynamics, demographics and the like. As we have emphasized throughout this election season, it is these very factors – and not the makeup of the federal government – that tend to drive long-term investment returns.

Perhaps the most notable market reaction has been the drop in the 10-year U.S. Treasury yield, which closed on Election Day at 0.90% and since fell below 0.80%. A flight to safe assets like Treasuries during times of uncertainty is common and may be partly responsible for the rally. In addition, any fiscal stimulus package is likely to be more modest under divided government, deflating hopes that had been inflating bond yields in the run-up to the election.

This election produced relatively little equity market volatility in its run-up, and investors seem to regard the outcome – to the extent it is currently known – as benign. U.S. equity prices rallied after the election, with technology a notable outperformer. The U.S. dollar has fallen against developed and emerging markets currencies. That's consistent with our view that higher spending and a more predictable trade policy under Biden would, on balance, push the dollar down.

WHICH POLICY ISSUES SHOULD INVESTORS PAY ATTENTION TO?

We see a number of policy issues that bear watching:

- **Short-term fiscal relief and a coronavirus vaccine:** Fiscal stimulus is likely to be the first order of business for the new Biden administration. We still expect something substantial to pass through the Republican-controlled Senate. And it remains in the realm of possibility that we'll see some fiscal relief in the lame duck session of Congress before January. But as we've seen in recent months, the parties have very different priorities for how to approach economic aid. We expect to see aid for small businesses, individuals and state governments, which should boost U.S. economic growth next year and help prevent businesses from failing. The ultimate "stimulus" in 2021 would be the arrival of one or more effective coronavirus vaccines. Such a vaccine and the return to normal life it represents would be the ultimate economic stimulus, not just for the U.S. but for the entire world. The timing and efficacy of such a vaccine is all but certain to be the major force driving markets and economic output over the next 12-18 months.
- **Regulatory and tax policies:** With the Senate in Republican hands, President Biden might try to enact more of his agenda through executive actions, including stricter regulatory policy in areas like energy and financial services. Infrastructure could be another area of bipartisan compromise, though Republican Senate control may preclude any increase in taxes to pay for new spending. This removes a potential tailwind for municipal bonds, but should raise the expected after-tax return on other investments.
- **Monetary policy:** While fiscal spending, regulatory issues and tax rates depend on the partisan composition of the elected branches of government, monetary policy generally does not. We expect the Federal Reserve to maintain its dovish monetary policy and unconditional support for market liquidity throughout 2021. A sudden hawkish turn at the Fed seems improbable.
- **Trade and foreign policy:** Although skepticism about globalization is widespread and increasingly bipartisan, we expect trade policy will be less adversarial and more

predictable with Biden in the White House, with a greater emphasis on multilateral action and global cooperation. Existing tariffs may remain, however, especially those placed on imports from China.

- **Environmental, social and governance (ESG) considerations:** We think a Biden administration will create a friendlier regulatory environment for investors and issuers with policies focused on climate change, carbon reduction and income inequality. We are also focusing on regulatory changes by the Department of Labor that could make it more difficult to include ESG strategies in retirement accounts. We think these sorts of limitations would be a mistake and would hurt Americans' abilities to save for their retirement. These sorts of shifts would be examined closely, and addressed to the degree possible, with a Biden-appointed Secretary of Labor taking the reins next year.

WHAT ARE SOME INVESTMENT AND PORTFOLIO CONSTRUCTION IMPLICATIONS?

With the important caveat that we have already made that fundamentals are more important than politics when it comes to financial markets, we do see some opportunities that arise from the new U.S. political backdrop:

- **Equities and credit:** Renewable energy, auto electrification, infrastructure and firms with large international exposure may benefit under Biden policies, given expected shifts in regulatory and trade policy.
- **Fixed income:** New fiscal stimulus, if it happens, would support the economy and sustain the reflation trade, leading to a weaker U.S. dollar and TIPS outperformance; emerging markets debt could benefit from less tariff-related uncertainty and appreciating currencies.
- **Municipals:** Municipals were not pricing in a blue wave scenario, but more federal assistance to state and local governments could support the market.
- **Real assets:** Natural resources should benefit, including forests, infrastructure investments tied to sustainability and climate change, and industrial real estate oriented around production on-shoring.

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