October 2020

Red, Split or Blue?

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In these tumultuous times when society is fighting both a global pandemic and managing tensions around racial and economic inequality, Americans are heading to the polls to determine their leader for the next four years. While Joe Biden currently leads in the polls, it's important to remember that polls have been wrong three times in the post war era (1948, 1976 and 2004). As is our process with most "known unknowns," we look at the various outcomes and how they are likely to affect the economy, capital markets and our portfolios.

The best-case scenario for the markets is to have a clear winner. Stock markets are likely to increase because there is less uncertainty or stay neutral because that outcome is already priced in. A contested election would heighten uncertainty and lead to prolonged volatility. Also, while the president does hold a great deal of power, the outcome of the Senate and House elections are equally important. To help understand these implications, we've examined three scenarios of what could happen once a winner is determined.

Split decision

In a divided government, gridlock will persist and meaningful legislation will be difficult to pass. This could also affect appointments to key posts like the Chair of the U.S. Federal Reserve and the implementation of regulations. In this scenario, the impact to the economy would be more muted but fiscal spending and a growing deficit will continue to support a recovering economy.

Blue sweep

Democratic control of the House, Senate and the Presidency would feature a progressive agenda of more taxes and spending. Taxes will likely focus on corporations and high earners, and spending will be directed to health care, infrastructure and clean energy. The winners in this case would be construction materials, renewable energy and non-luxury retailers. We could also see an increase in regulation focused on energy, finance and possibly the technology sector. Stricter regulations may hurt the energy and banking sectors, but higher interest rates and inflation would provide some offsetting impacts. Increased immigration and less tariff threats could counterbalance the impacts of regulation on the tech industry.

Red sweep

While this is the most unlikely outcome according to the polls, it still warrants some consideration. Expect much of the same as we saw in 2017: tax cuts, deregulation and foreign policy unilateralism. We'd also likely see some volatility immediately following the election as this outcome is not priced in.

In summary, an election-related spike in volatility is likely in the near term, while more fiscal spending regardless of the outcome bodes well for markets next year. Looking beyond the election, the course of COVID-19 and monetary policy will ultimately have an impact on the markets as well. We continue to position our portfolios prudently and stand ready to take advantage of the opportunities that volatility creates.

Combined top 15 equity holdings as of September 30, 2020 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:

1. Microsoft Corp.	6. CGI Inc.	11. Empire Company Ltd.
2. Amazon.com, Inc.	7. Brookfield Asset Management Inc.	12. Alimentation Couche-Tard Inc.
3. Alphabet Inc.	8. Fortis Inc.	13. Facebook Inc.
4. Visa Inc.	9. Franco-Nevada Corp.	14. Royal Bank of Canada
5. Prologis Inc.	10. Apple Inc.	15. Thomson Reuters Corp.

Source: Bloomberg Finance L.P. and CI Multi-Asset Management as at October 9, 2020.