

CIO VIEWS

US election: The blue sweep failed to materialize



The Blue sweep failed to materialize. Over the past six months, markets became accustomed to the idea of the Democrats win. This was without counting on the unsuspected resources of candidate D. Trump in his ability to mobilize his electorate.

A surprise comeback from D. Trump after a clear lead in polls of J. Biden

The chaotic management of the Covid health crisis together with a commitment to repeal Obamacare, the American health insurance mechanism, in the midst of the epidemic, indeed seemed to have sounded the death knell for the Trump era for the presidency of the United States. The Democratic candidate had thus developed a lead in the polls of more than seven points compared to his Republican opponent. While in 2016, Hillary Clinton failed to gain the election despite a lead in polls; her lead was actually much narrower. It is clear that in 2020, Donald Trump was able to mobilize and even galvanize his electorate to make up for his delay in the polls.

Trump's clear win in Florida ends hopes for Blue Wave

Florida, with 29 of the 270 electoral votes needed to win the election, has often been the most contested "swing" state. Repealing election laws made it possible to count ballots election date, and Florida was one of the first states to release partial results in favor of D. Trump overnight. The loss of this key state makes it difficult for J. Biden to win and precludes the possibility of winning a majority in the Senate and the House of Representatives. Biden's political agenda is therefore largely blocked, as we seem to be moving towards a status quo in Congress with a Republican Senate and a Democratic House of Representatives.

Election results to be decided in new swing states

Counting of ballots is expected to continue for a few more days, in key states like Pennsylvania, no clear victory has emerged so far, and calling the new President is a stretch. While candidate Biden may have shown some restraint, Trump clearly claims victory and is threatening on the judicial front. The popular vote, like in 2016 seems to go to the democrats but this is no guide to the election results.

What implications for the markets?

Regardless of who the winner of the presidential election is, it already seems certain that Congress will remain divided with a Republican Senate and a Democratic House of Representatives. The Democrats' economic agenda is therefore called into question. We can expect a narrower support program and infrastructure spending plan compared to the one highlighted in the democrats program. At the margin this is therefore less supportive for economic growth and the reflation trade. Value and cyclical should be avoided. As for yields front, a rampant steepening of the US yield curve is also less obvious.

For markets, on the other hand, we have in mind that the Democratic program was not particularly friendly to markets. Notably proposal to hike corporate tax rate to 28% from 21% and the set up of a new capital income tax. Investors who have come to terms with the idea of a democrat administration should therefore welcome the fiscal status quo linked to the division of Congress. While it is true that markets hate uncertainty, the outcome of yesterday's election is that the US will be bi-partisan for the upcoming mandate. A status quo that could well satisfy markets.

Written on 04.11.2020 by

David Seban-Jeantet

Chief Investment Officer - Société Générale Private Wealth Management.

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SOCIÉTÉ GÉNÉRALE PRIVATE WEALTH MANAGEMENT

18, boulevard Royal

L-2449 Luxembourg

www.sgpwm.societegenerale.com