



# U.S. Election Results Appear Market-Friendly

Divided government likely would produce moderate policies.

December 2020

## KEY INSIGHTS

- Initial market reactions to the U.S. election results have been favorable, but the potential remains for near-term volatility.
- If Republicans keep control of the Senate after two runoff elections in Georgia, divided government could impede the Biden administration's legislative agenda.
- GOP Senate control almost certainly would rule out any significant tax increases. The Biden presidency might focus more on regulation and foreign policy.

After an initial period of uncertainty, recent steps by the Trump administration to cooperate in the transition seem to guarantee the inauguration of Joe Biden as president on January 20, 2021. Two runoff elections in Georgia on January 5 will determine the balance of power in the Senate. Currently, a continuation of divided government appears most likely, with Democrats having narrowly retained control of the House.

While capital markets appear to have reacted positively to these results, the postelection transition, while formally underway, creates a potential for market volatility. However, T. Rowe Price investment professionals believe that other issues, such as the potential rollout of coronavirus vaccines, are likely to be more critical in the months ahead.

"I think eyes will remain more on the response to COVID than on politics," says John Linehan, CIO, Equity.

## Election and Policy Issues

With Congress entering the "lame duck" period before President-elect Biden's inauguration, markets will focus on the prospect for additional fiscal relief. Negotiations on such a package broke down shortly before the election.

Katie Deal, the Equity Division's Washington analyst, sees only a "slim chance" of significant fiscal legislation before the end of 2020, with negotiations beginning in earnest for a 2021 stimulus package. Given the slim majority either party may hold in the upcoming Senate, Democrats will struggle to match their previous USD 2.2 trillion package, which failed to move beyond the House.

Divided government likely will dominate the fiscal picture in 2021—assuming Republicans hold at least one of the two Georgia Senate seats headed for runoff elections. "In a GOP Senate, a proposed tax rate increase of any magnitude would be dead on arrival," Linehan predicts.



**Katie Deal**

*Washington Analyst,  
U.S. Equity Division*



**John Linehan, CFA®**

*CIO, Equity*



**Mark Vaselkiv**

*CIO, Fixed Income*

“With Congress entering the ‘lame duck’ period before President-elect Biden’s inauguration, markets will focus on the prospect for additional fiscal relief.”

In a divided government, the fiscal debate eventually could return to the question of what to do about exploding federal deficits, suggests Mark Vaselkiv, CIO, Fixed Income. For now, however, both parties appear to recognize a need for fiscal accommodation. Failure to pass additional fiscal stimulus early next year could increase the risk of a double-dip recession, Vaselkiv warns.

### **Outlook for Monetary Policy**

One significant factor that the election almost certainly will not change is the Fed's massive liquidity support for the economy and the capital markets, which has pushed credit spreads down and enabled a surge in both investment-grade and high yield corporate debt. "What the Fed has done has been extraordinary," Vaselkiv notes.

Yet, despite surging liquidity, short-term and long-term Treasury yields have remained relatively low and stable—a sign that inflation expectations are still muted. This could allow the Fed to avoid raising rates through 2024 and perhaps even into 2025, Vaselkiv adds.

### **Regulatory and Trade Policy**

With major fiscal initiatives less likely in a divided government scenario, the Biden administration might look to regulatory policy to advance its agenda. This could include efforts to shift the U.S. energy base away from fossil fuels and toward renewables. While new energy regulation could deter capital spending in the sector, it might have an offsetting benefit of reducing supply and boosting energy prices, Linehan says.

Major changes in health care policy—such as adding a public insurance option to the Affordable Care Act—appear unlikely, Deal says. And while both parties have expressed interest in regulating the big technology platform companies, their proposals are very different, making quick action doubtful.

Trade policy is another area where the new administration might try to differentiate itself, Deal says. Biden has expressed a desire for normalized relationships with traditional U.S. trading partners, such as the European Union, Japan, and South Korea. However, China may prove a different case. Biden may find it politically difficult to roll back Trump's tariff regime without first making demonstrable progress with Beijing, Deal argues.

### **Capital Market Implications**

For equity investors, the election is unlikely to change the trend toward wide return dispersion—especially between growth and value—that has gapped wider over the past year. However, much depends on the course of the pandemic. Further vaccine progress and stronger economic growth potentially could benefit cyclical sectors such as energy, Linehan says.

In U.S. credit markets, low interest rates, declining default rates, and Fed liquidity support are likely to remain positive factors in the postelection period. However, longer-term Treasury yields could drift higher in early 2021 if the economic recovery accelerates, Vaselkiv says.

A steeper yield curve should improve net lending margins—and, thus, profitability—for banks and other lenders. However, even a modest rise could produce capital losses on longer-duration securities, he warns. He suggests that investors may want to consider high yield bonds and floating rate bank loans, which are less sensitive to duration risk.

### **Conclusions**

Although continuing political uncertainty raises short-term issues for U.S. and global capital markets, we believe that most investors would be best off focusing on their long-term investment strategies.

“The potential costs of shifting in and out of asset classes in response to shorter-term political events can be steep.

— **Mark Vaselkiv**  
*CIO, Fixed Income*

Historically, U.S. equity market performance has been relatively consistent across presidents from both parties, Linehan notes, suggesting a long-term perspective is most appropriate. The potential costs of shifting in and out of asset classes in

response to shorter-term political events can be steep, Vaselkiv adds.

“It’s very easy to get consumed by the election results,” Linehan says. “But we think having a balanced approach to investing, and being thoughtful and careful, could be critical to long-term investment success.”

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

**T.RowePrice<sup>®</sup>**

### Important Information

**This material is being furnished for general informational and/or marketing purposes only.** The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

**Australia**—Issued in Australia by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. For Wholesale Clients only.

**Brunei**—This material can only be delivered to certain specific institutional investors for informational purpose upon request only. The strategy and/or any products associated with the strategy has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

**Canada**—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

**China**—This material is provided to specific qualified domestic institutional investor or sovereign wealth fund on a one-on-one basis. No invitation to offer, or offer for, or sale of, the shares will be made in the People's Republic of China ("PRC") (which, for such purpose, does not include the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the PRC. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the PRC. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the PRC that are expressly authorized under the laws and regulations of the PRC to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the PRC. Potential investors who are resident in the PRC are responsible for obtaining the required approvals from all relevant government authorities in the PRC, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the PRC, or nationals with permanent residence in the PRC, or to any corporation, partnership, or other entity incorporated or established in the PRC.

**DIFC**—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

**EEA ex-UK**—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

**Hong Kong**—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

**Indonesia**—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

**Korea**—This material is intended only to Qualified Professional Investors upon specific and unsolicited request and may not be reproduced in whole or in part nor can they be transmitted to any other person in the Republic of Korea.

**Malaysia**—This material can only be delivered to specific institutional investor upon specific and unsolicited request. The strategy and/or any products associated with the strategy has not been authorised for distribution in Malaysia. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

**New Zealand**—Issued in New Zealand by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

**Philippines**—THE STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

**Singapore**—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

**South Africa**—T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

**Switzerland**—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

**Taiwan**—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

**Thailand**—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

**UK**—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

**USA**—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2020 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.