



CONWAY • JARVIS LLC

Investment Outlook

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Update

Investors Are Betting on Gridlock

This week began with the stock market launching into rally mode in the days before the election and then following through with the biggest post-election day advance in history. That leaves the benchmark averages within whispering distance of their record highs. Uncertainty over the election result seemed to peak last week as any good news was viewed as a reason to sell. This week, expectations for a contested presidential election failed to dampen enthusiasm for stocks. What changed? Investors apparently now believe that gridlock in D.C. will persist.

While the polls and media focused on the “battle” for the presidency, investors never forgot that policy formation in the US is a team sport. Their focus, along with ours, remained on the balance of power within Congress and the risk of a dramatic shift in fiscal and regulatory policy following the election. A *divided* government would mean business as usual for the pandemic-burdened economy. The markets much prefer that to any radical policy change that could derail the recovery.

While it *appears* the balance of power in Congress is likely to remain unchanged, we may have to wait until January’s Georgia runoff election to know for certain. As for the race to the White House? Counting the votes will only be the opening act. The aftermath will be the main event. What’s sure to follow are recounts and litigation that will rekindle memories of the 2000 election that wasn’t decided until early December. With results being challenged in *multiple* states, the final outcome could take longer. How will markets react?

So far, investor sentiment is focused on Congress and the balance of power there remaining unchanged. *If* that comes into question, the result for the presidency takes on more importance. That could *increase* uncertainty for investors and trigger a jump in volatility that might unwind this week’s rally and more. We’re hoping that clarity is gained with each day that passes. While happy with this week’s advance, we’ll continue to watch results and look for any opportunity to add positions on weakness.

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