

Market Commentary

INVESTMENT STRATEGY GROUP | NOVEMBER 19, 2020

Looking Ahead to a Post-Election World

This year has been unique and unpredictable, and Americans were filled with anxiety and uncertainty leading into the November elections. Many people were particularly focused on who would win the presidency and if a Democratic “Blue Wave” might occur leading to potential large-scale policy change.

Election Observations

As numbers began to roll in on election night, it appeared as though Trump had won four more years in office with political futures briefly giving him an 80% chance of reelection. However, once the mail-in ballots were counted, the advantage swung to Biden. As of now, most media outlets have declared Joe Biden the winner, but Donald Trump has filed several legal challenges alleging voter fraud around mail-in ballots and faulty voting machines, among other things. As we know, the president is not determined by the media, but rather by the Electoral College vote on December 14. While anything could happen, particularly in a year like 2020, history would suggest a small probability of Trump overcoming the obstacles ahead of him and therefore, we expect to see Biden inaugurated on January 20, 2021.

Regardless of the ultimate outcome, the presidential race was much tighter than expected and the House of Representatives and Senate races had some surprises of their own. Republicans fared much better than expected in both chambers of Congress. Many forecasters expected the GOP to lose double-digit seats in the House, but instead they appear to have gained eight representatives if current projections hold.

Perhaps the biggest disappointment for Democrats was the Senate results, where 35 seats were up for grabs.

Republicans were able to secure 50 Senate seats with two races left in Georgia that will be determined by a runoff on January 5. If Biden does become president, Republicans will need to win at least one of those seats to maintain their majority, which would drastically limit Democrats’ ability to enact major policy change.

Market Response

Coming into November, many investors were fearful of a potential market selloff following the election, particularly if Democrats won handily or if there was controversy around the results. While we have experienced ambiguity around the final results, markets reacted strongly with the S&P gaining more than 4% in the two days following the election. It appears markets liked the prospect of a divided Congress, which would limit the ability for extreme change in either direction.

While a divided government may make stimulus negotiations more challenging than if one party were in control, both sides still appear eager to pass more relief packages once the dust settles from the election. Overall, we believe these results mean we are in for more of a policy tilt than sweeping change.

In terms of the current market environment, the focus appears to have already shifted back to COVID-19, as recent market moves were driven by rising infection rates and promising vaccine trial results. Despite this, we still expect to see the markets influenced by any unexpected news around election controversies or legal challenges.

Our Perspective

When determining how to position our portfolios in light of recent events, we look at how that event may impact both the future economic outlook and current market prices. Given that we view both the recent vaccine developments and lower potential for vast political change as positives for future growth, we would have seen a market selloff as a potential buying opportunity. However, since equities rallied, the outlook has mostly remained the same for the broader markets. Therefore, we will continue to look for areas within each market that give us the greatest combination of growth potential and reasonable prices, while also staying diversified.

With that approach in mind, the two Georgia Senate runoff elections remain incredibly important, as they have the potential to completely change the narrative if Democrats win both seats. While history and current projections make this scenario unlikely, it is not completely implausible, and the market could react strongly as a result. This outcome would increase the potential for more disruptive policy shifts. However, it's

difficult to imagine some of the more extreme measures, like packing the court or adding states, happening with such a narrow majority. If these changes were to occur, our process would remain the same: We would evaluate the potential economic impact, as well as market prices, and adjust accordingly.

We believe the greatest lesson we can take from these election results is the danger of trying to predict short-term outcomes. Like in 2016, many experts were incorrect—both with how the elections played out and how the markets responded. A diversified portfolio can help insulate you from the impact of an outcome you weren't expecting. Additionally, we should always expect uncertainty in markets.

In the short term, anything can happen, and you should protect short-term assets from this ambiguity. However, long-term investors should not fear volatility but instead focus on the long-term return potential of equities. Our advisors can help you calibrate your portfolio to decide which mix of investments aligns with your financial plan.

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