



FFG Market Pulse Newsletter

Election Update

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Election Update



2020 Election Update

Is everyone having fun yet in 2020?

If there wasn't enough going on this year, then throwing in a historical election is a good way to keep everyone on their toes. A few days after election night, as of 11/6, we are still awaiting final word on who won the Presidential election and final tallies on the remaining Senate & House seats. The winner of the Presidential race should be named in coming days however there is likely legal action that will take place that will need to be sorted out. The legal action will likely not change the result but will still be an overhang in the short run. The trend is looking like a divided government in Democratic President, Republican Congress and Democratic House. Historically from an investment standpoint, markets don't mind this type of setup because of the checks and balances to make sure one party doesn't have too much sway. This also potentially takes off the table any drastic legislative changes. Markets are partial to this type of set up because it can make future prognostications without worry of imminent sweeping changes. The lack of a "Blue Wave" likely takes off the table some of the hot items such as major changes to tax code, eliminating the filibuster, Supreme Court Expansion, DC/PR statehood, Green New Deal, Healthcare Public Option, Eliminate the Electoral College.

The races for majority in the Senate could have potential for high drama. Americans may not know the final party balance of the Senate until January. Currently as of 11/6, both Democrats and Republicans have 48 seats each, leaving four to be decided. The four remaining seats are the 2 in Georgia, 1 in North Carolina and 1 in Alaska. In Alaska it is presumed that Dan Sullivan (R) should likely win that seat. In North Carolina, it is too close to call but it is looking likely Thom Tillis (R) should be able to hold off Cal Cunningham. If those 2 hold it will give Republican a total of 50. Republicans would need 1 additional seat from Georgia to get to 51 seats to keep the majority because a 50/50 tie would be broken by the Vice President which is trending to Democratic.

As of Friday morning, there is no clear winner in the two Senate races in Georgia, meaning both races could advance to a runoff election on January 5. This could leave the Senate in limbo when it reconvenes early next year, with neither party having a clear majority. Georgia could become the center of the political universe. Georgia law requires their senates candidates to receive 50% of the vote to avoid a run off election. Currently, David Purdue (R) is just fractionally under 50% with some votes left to count. If he does not obtain 50%, then that race will end in a runoff in January. However, if he does obtain 50% and the aforementioned Republicans win their seats that would give Republicans the majority. The last senate seat in Georgia will already commence in January in Raphael Warnock (D) vs Kelly Loeffler (R) as neither reached 50%.



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This truly has been an election for the ages. Here are some incredible facts:

1.) Voter Turnout Highest Since 1900

Projected 160 million voted, approximately 66.8% of eligible voters.

2.) Percentage of Early and Mail in Voting

Over 100 million votes cast before election day –73.4% of the total votes counted in 2016

3.) Record Number of Early Votes

First time in history the majority of votes were cast before the election

4.) Campaign Spending Reaches a Record ~\$14 Billion

Combined presidential and Congressional campaign spending more than doubles since 2016

5.) Sitting Party Loses Presidency but Maintains Control of Senate (if current trend holds)

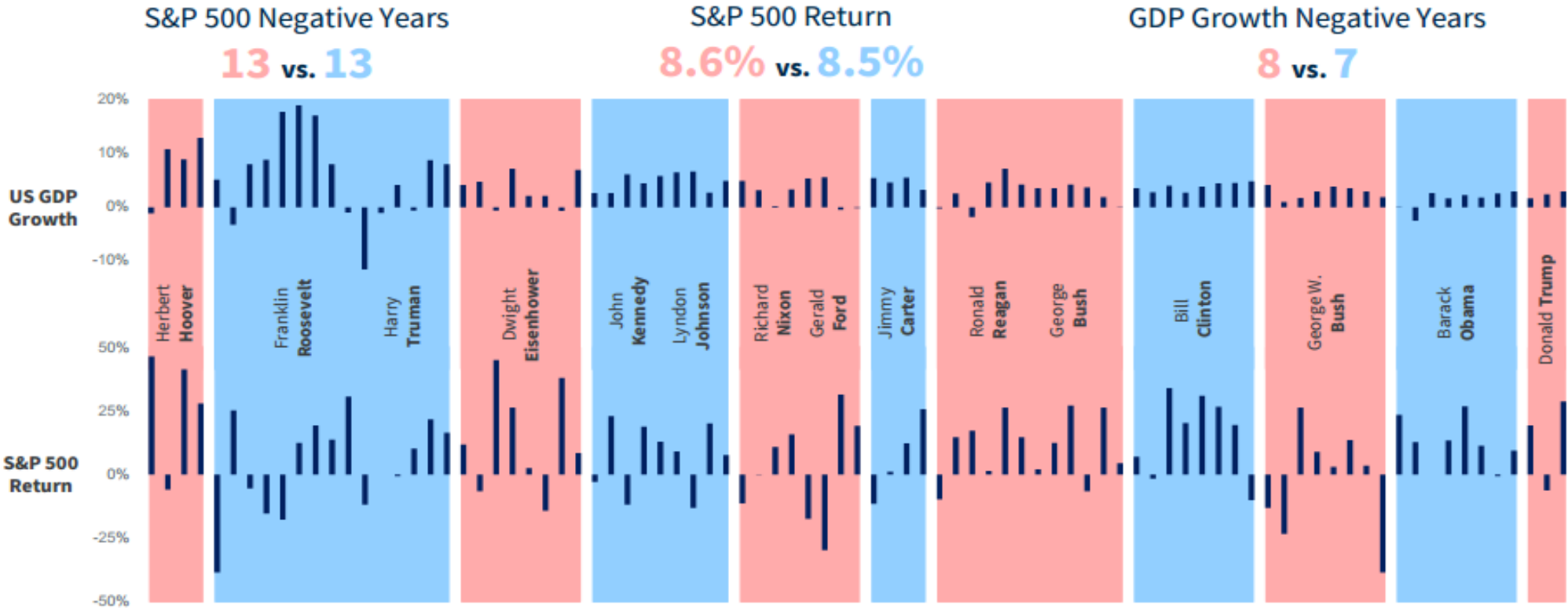
Only second time this has occurred since 1884 and first since 1968.

6.) First Democratic President, Republican Senate, and Democratic House

This composition of government hasn't happened since 1900

There is an important lesson to keep in mind. As we mentioned in our Q4 newsletter, in the long term the President/Political party doesn't hold much sway in regard to the market. The chart below is another example that makes this clear. Since 1932, both Republicans and Democrats have 13 years each where the S&P 500 was negative, have averaged almost an identical average annual return and both have had basically the same amount of years with negative GDP growth. The far more important factors in market returns are Fed policy/interest rates, Corporate Earnings/Expectations, strength/weakness of the US dollar, Inflation, Unemployment, Consumer Confidence, Behavioral Finance, Volatility, Commodity Prices, etc. All of these items are fluid and are not static like political administrations. This is why we manage our strategies the way we do to attempt to create quality risk adjusted returns as these fluid factors would create opportunities and dislocations. One strategy to offset this could be to own Gold because of the zero interest rate policy from the Fed and the potential for Inflation from US currency devaluation created from historic level of stimulus.

POLITICAL PARTY PERFORMANCE: SINCE 1932



Source: FactSet, as of 12/31/2019

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