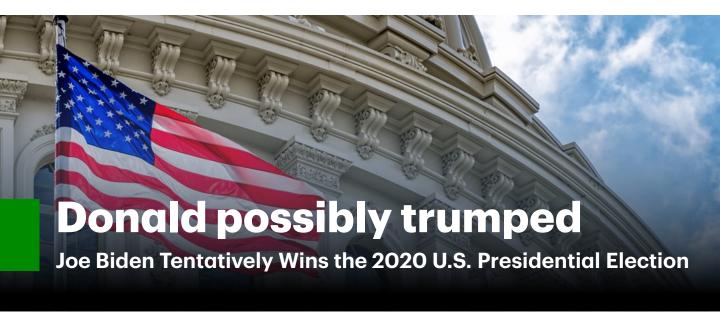


# **Current** Perspectives



#### At a glance

- Joe Biden has, tentatively, won the 2020 U.S. Presidential Election, however, the results have been contested by current President Donald Trump
- If the results are upheld, we still may not know until January whether Congress will remain split. A
  split Congress would likely mean gridlock for Biden in the form of significant hurdles to policy
  achievement and a reliance on executive orders during his term
- It is expected that this would be good news from the standpoint of market volatility, and we
  would not anticipate a dramatic negative market reaction despite Democrats controlling the
  White House
- We don't believe that positioning portfolios based upon election outcomes is a sustainable investment approach and, as always, have sought to position portfolios to minimize potential negative impacts while also seeking long term opportunities to benefit from attractive valuations, possible market overreactions and the economic impact of policy changes

The U.S. public has "tentatively" declared they will be "ridin' with Biden" as Joe Biden appears to have won the 2020 U.S. Presidential election. One of the most intense, and often hostile, U.S. presidential election campaign seasons finally appears to have come to a close with a Joe Biden win, however, current U.S President Donald Trump, has contested the results. If Biden does eventually take over from a sitting Republican President, we expect that in large

measure the status quo will be maintained, particularly as the Republicans likely have retained control of the Senate, ensuring a continuation of the current "divided" government (more on this in a bit). Biden will undoubtedly want to make some policy changes, but the big question for investors is, will he have the power to do so and how will they impact markets?

### A contested result - short-term volatility

Markets abhor uncertainty and any significant delays to the final results due to Trump's challenge would likely lead to market turbulence. It is possible that the market could be in store for an extended period of uncertainty until the outcome is resolved. In 2000, the Presidential win hinged on the results of a single state (Florida) during a period of much less partisan division; and the markets sold off 8%. This time around, we would expect a sell-off in the 5-15% range. However, investors have been well aware of the risk of a contested result and had already begun to price it in.

#### If the Biden win becomes official, what does it mean for markets?

Overall, if the Biden win holds and Congress does remain split, this should be good news from a market volatility standpoint, and we at TD Asset Management Inc. (TDAM) do not anticipate a dramatic negative market reaction despite Democrats now controlling the White House. Several months of polling strongly predicted a Biden win and the market has had ample opportunity to adjust in advance.

Granted that while Biden's higher tax plan could hinder domestic profitability (with some forecasts suggesting a -12% impact on corporate earnings), his less restrictive immigration policies and globalist approach to trade could increase and diversify the labour market and reduce trade barriers respectively, while contributing to a more balanced expansion of the global economy.

A Biden administration would also look to implement changes that benefit environmental sustainability. "Greening of the economy", a Biden focus, would seek U.S. re-entry into the Paris Agreement. His administration would also likely commit to spending approximately \$2 trillion over four years on a green energy plan. The plan includes infrastructure initiatives that cover higher efficiency buildings, sustainable housing and agriculture and carbon free power infrastructure, possibly creating jobs in these emerging sectors of the economy.

#### Senate Control: The More Important Election?

While the Presidential race garners the lion's share of election coverage, we can't overlook the importance of the House of Representatives and Senate seats which comprise Congress and were also up for grabs. Policy implementation for either candidate was always going to depend on whether their affiliated party was able to capture full or partial control of Congress.

Assuming Trump's challenge fails, we still may not know until January whether Congress will remain split. A split Congress would likely mean gridlock for Biden in the form of significant hurdles to policy achievement and a reliance on executive orders. Cynically, this would likely be a good outcome for financial markets. Biden would effectively be a "lame duck" President, unable to enact major domestic change without significant compromise as bills would otherwise die in the Senate. There would likely be some infrastructure spend, but it would be more modest than his ambitious proposals. Foreign policy would be more coordinated with traditional allies, as opposed to unilateral tariffs and tweets, leading to less geopolitical volatility. The U.S. may also return to the bargaining table with Iran, to the detriment of oil prices. Policy volatility would decrease and as a result financial market volatility would also likely decline.

However, one thing for investors to consider is that companies and economies usually have time to adapt to change. While certain policy measures, if possible to enact, could alter the corporate landscape and impact spending, legislative changes are rarely, if ever, implemented overnight. Affected sectors of the economy will typically have months or longer to adapt to the impending changes to their industries, which should help minimize potential negative implications.

## TD Wealth Asset Allocation Committee (WAAC) Perspective

Our investment teams don't believe that positioning portfolios based on election outcomes is a sustainable investment approach.

That is not to say that we don't monitor the potential implications of policy changes on economic growth, capital markets and the impact on companies.

Ultimately, our goal is to ensure we are allocated to companies with strong earnings visibility, sustainable free cash flows and quality management teams. We believe these factors ultimately drive outperformance well beyond the election.

Within our investment mandates, our portfolio

managers have been carefully assessing the many risks on the horizon, including potential effects from the outcome of the U.S. election. As always, they have sought to position their portfolios to minimize potential negative impacts while also seeking long term opportunities to benefit from attractive valuations and possible market overreactions. They will continue to monitor and evaluate the risks and rewards around the globe and to assess conditions with the objectives and best interests of our clients in mind.

# Perspectives

#### Robert Vanderhooft, CFA

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Chair, TD Wealth Asset Allocation Committee

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