
BEST ELECTION OUTCOME FOR THE MARKETS

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Last week's *Behind the Markets* podcast reflected on the market environment following the election and what lessons can be learned from the polls ahead of this election with Wharton Professor Jeremy Siegel, Brian Wesbury, chief economist at First Trust, and pollster John Zogby.

This weekend, the Associated Press finally called Joe Biden the winner of the Presidential election. Though the Congressional votes are still being counted, it appears that Republicans will retain control of the Senate and the Democrats will hold onto the House of Representative. A divided government is the ultimate best case for the equity markets, according to Professor Siegel.

As the election results unfold, a radical left agenda is off the table, and most importantly, the negatives for the equity markets—higher corporate taxes and a hike in capital gains taxes—will also be staved off with Republicans retaining the Senate. Biden is poised to lower uncertainty around global trade dynamics, and Professor Siegel believes Biden will reach out and collaborate with Mitch McConnell in the Senate better than Trump did. Both politicians have extensive history working “across the aisle” for legislative deal-making, so this outcome was very positive for equities.

The Senate is still not a 100% lock for the Republicans—there is going to be a runoff for two more seats. On Friday, the odds markets put it at just under 80% that the Republicans keep the Senate and at least one, if not potentially both, of the two Senate seats that will be decided in the January 5 runoff.

Wesbury's read of the election outcome, in which Republicans picked up 10 seats in the House and kept the Senate, is that the electorate voted to ensure there would be no radical changes in policy, with no Green New Deal, no Medicare for All and no big tax hike. But the electorate also wanted some peace and quiet, with no tweets at 3:00 a.m.

Importantly for the reopening of the economy, Professor Siegel thinks we will have positive developments in vaccines over the coming weeks. Siegel believes this latest surge in the virus is going to be the “last surge,” and we'll have a stronger economy in 2021.

While everyone was focused on the election, on Friday we had a blockbuster employment report, with private payrolls coming in 300,000 better than expected and an unemployment rate that ticked down to 6.9%. While this is still high, employment is trending well.

Where did pollsters go wrong?

Most pollsters expected a “blue wave” with even further gains than Biden looks to have won by. We talked about the challenges of polling with pollster John Zogby. One of the challenges is that two-thirds of people would answer phone calls and talk to surveyors back in the 1980s, but that number has declined to 15% and is likely to continue falling. So, getting the right sample for polls is growing increasingly complex.

Behind the Markets on Wharton Business Radio · Behind The Markets Podcast: Jeremy Siegel, Brian Wesbury, & John Zogby

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