

U.S. Elections Aftermath Moving On

Presidential Race: Biden has declared victory as Trump refuses to concede



Joe Biden
Democratic Party

290

31

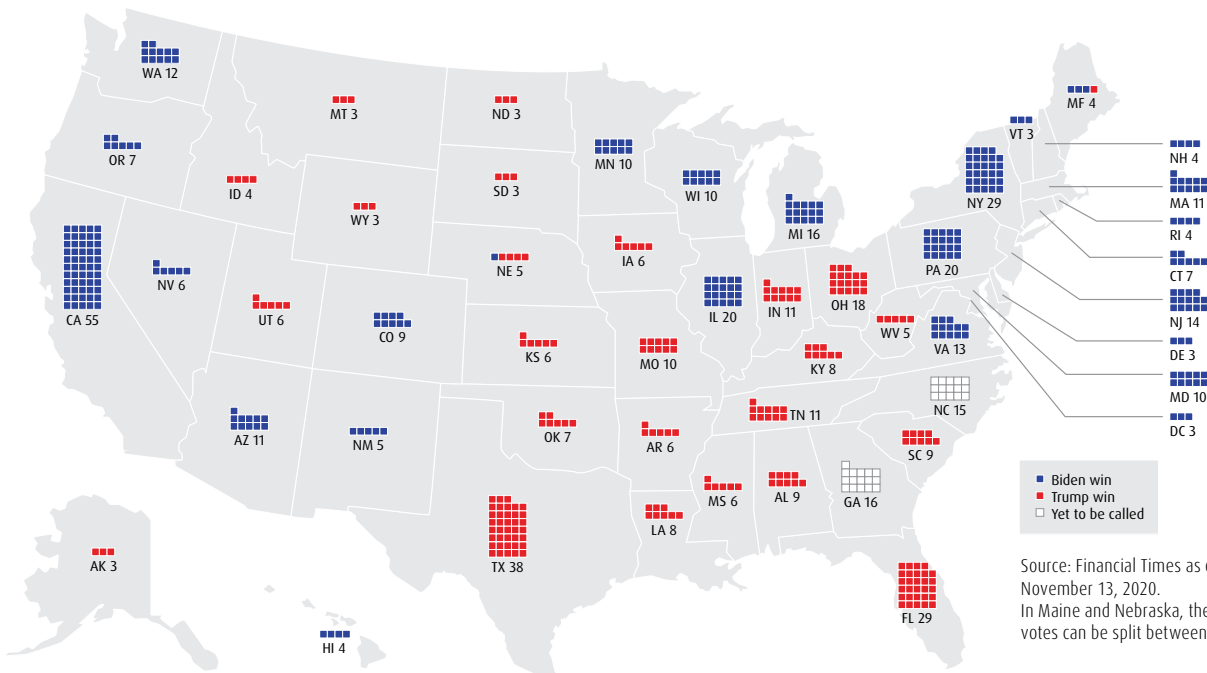
217

Donald Trump
Republican Party



Presidency: 270 Votes

Although the race was tighter than expected on election night, Biden successfully flipped key states that Donald Trump won in 2016, including Arizona, Michigan, Wisconsin and Pennsylvania. Despite Trump's continued attempts to push for recounts, the chances of a dramatic turnaround are slim



Source: Financial Times as of November 13, 2020.
In Maine and Nebraska, the electoral votes can be split between candidates.

Congress: Battle for control still up in the air, but a divided government looks likely

Senate

Democrats: 48

Republicans: 50

51 for majority

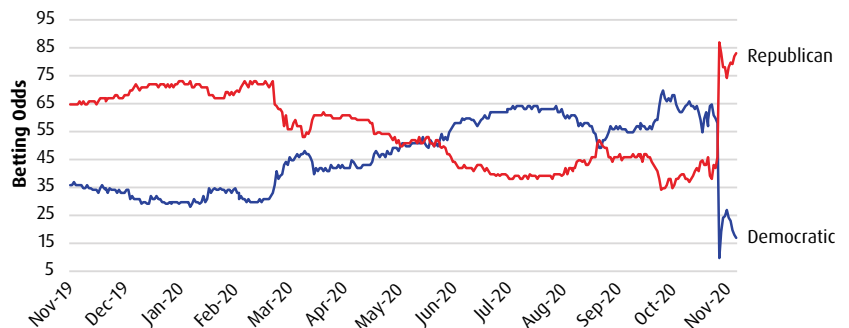
House of Representatives

Democrats: 219

Republicans: 202

218 for majority

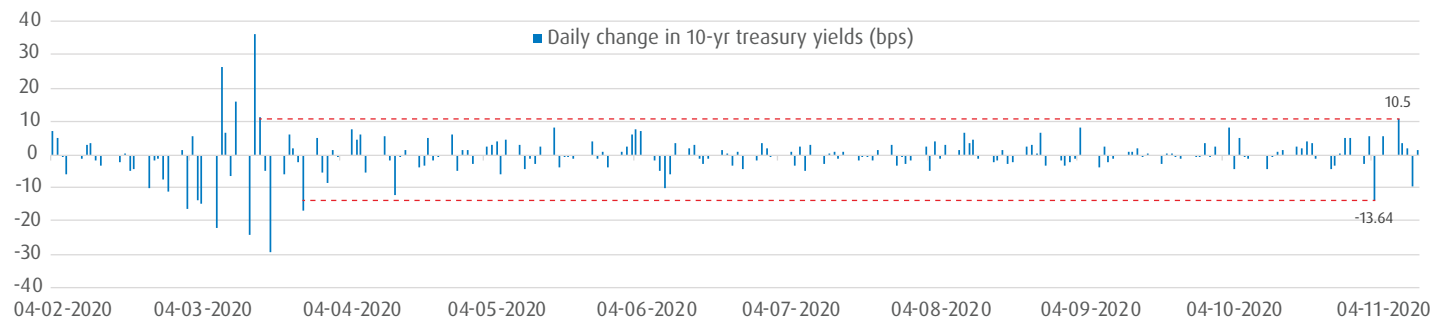
Republicans are likely to take the Senate



Source: PredictIt, Bloomberg as of 13 November 2020

How Have Markets Responded? A Tale Of Two Halves

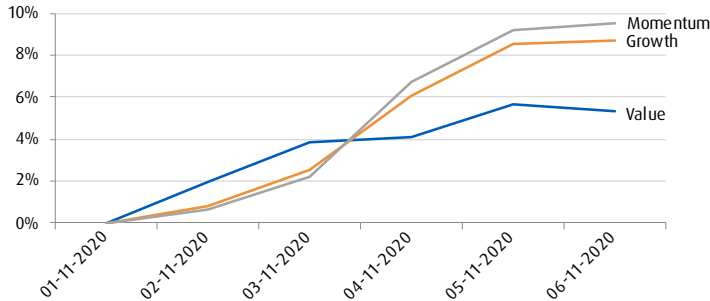
As odds of the much-discussed Blue Wave faded, the reflation trade (bets that the a Democratic government would unleash waves of fiscal spending to pump up inflation, to the detriment of government bonds and the dollar) went crashing. Investors quickly expected a slower, smaller fiscal stimulus package. With lower debt-financed spending and subsided inflationary fears, the benchmark 10-year U.S. government bond yields fell (bonds rose) by the most since March meltdown.



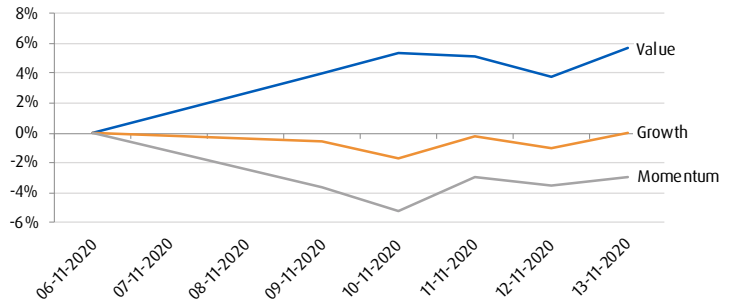
Source: Bloomberg. Data from February 1 2020 to November 13 2020.

However, it all flipped when Pfizer announced on the 9th November, 2020 a vaccine candidate that proved effective against 90% of infections. Bond yields reversed course, recording both its largest jump in a day and highest level since March. Equities, meanwhile, saw similarly wild movements.

Election Week, Pre-Vaccine



Post-Election Week, Post-Vaccine



Source: Bloomberg. Value, Growth and Momentum represented by the S&P 500 Value Index, S&P 500 Growth Index and S&P 500 Momentum Index, respectively.

High momentum and growth stocks, predominantly in the technology sector, initially feasted on the prospect of a divided government, which potentially set up a perfect environment of less stimulus, limited tax hikes and a lack of meaningful regulatory changes, as this year's theme of paying up for high growth companies with strong balance sheets looked set to resume. Meanwhile, Health Care stocks were also significantly boosted by fading odds of a public health care option

This changed drastically when Pfizer announced a strong vaccine candidate. Hopes that there would be a quicker return to normal lifted bond yields and oil prices. Value stocks had their week in the sun as investors rushed back into beaten down businesses like oil companies, banks and airlines, boosting the Energy, Financials, Industrials and Real Estate sectors. Meanwhile, the Technology darlings of the previous week quickly became the least popular stocks and finished the week lower.

Implications

Just like 2016 sprang a huge surprise with Donald Trump victorious despite polls indicating otherwise, the 2020 election week demonstrated how quickly things can change, while the vaccine announcement less than a week later was just the icing on the cake. Once again, the market has proven itself extremely difficult to time, with massive reversals happening in the space of a few days. With this in mind, here are some things to note.

Things To Note	BMO Multi-Asset Solutions Team Viewpoints
Barring a dramatic legal challenge, President-Elect Biden will lead the White House. A Biden Presidency and divided Congress is the base case.	A split Congress is modestly positive for equities. Post-election S&P 500 annual gains have averaged around 14%
Senate Control is still undecided and will be resolved in January. The "Blue Wave" cannot be completely ruled out.	Republicans are likely to keep the Senate with a 52/48 margin and have seen net gains of 10 seats in the House
Political gridlock means fiscal stimulus will likely be much smaller than Biden proposed, while drastic policy changes are unlikely.	Virus, economic and policy uncertainties are slowly abating, while central banks should keep rates low in the near term. Looking to add more risk.
Corporate tax increases and significant regulation changes are unlikely.	U.S. technology stocks' largest headwinds in the form of anti-trust regulation and tax hikes have subsided. Traditional energy will remain under pressure, as Biden can still push green initiatives despite not having the Senate.
Biden has pledged to remain tough towards China, but trade spats should dial back from Trump era levels	Emerging Markets' (EM) geopolitical risk will be reduced, while it also represents a great diversifier for a weaker US dollar.

Asset Class Ideas

Technology

Lockdown or no lockdown, there is formidable secular strength behind the sector, while its largest headwind, sweeping antitrust regulations, has abated in light of election results. Reduced overall growth, accelerated digitization and lower-for-longer interest rates continue to serve as a bedrock for U.S. technology stocks. These trends are here to stay, while the group has continued to exceed earnings expectations. Whereas they can be vulnerable to sudden rotations, as seen right after the vaccine announcement, fortress balance sheets and rich cash flows provided valuable protection against sustained downturns this year, and should be a key consideration for investors going forward.

Global Equities

With a much less erratic president, global equities can enjoy a lower geopolitical premium as trade spats scale back and multilateral trade agreements resume. Any large scale recovery with lower trade tensions should reduce demand for safe haven currencies like the U.S. dollar, and global stocks, particularly emerging markets equities, can be a compelling choice to participate in upsides while diversifying currency exposure. In addition, China's continued economic strength and success with subduing COVID-19 offers a differentiated risk-reward profile to traditional core U.S. and Canada portfolios.

Small Caps

Although likely smaller than hoped, further stimulus is on the way, and its effects will be felt more by smaller companies. Against a backdrop of low rates and a slowly but steadily improving economy, small cap stocks can also service their typically more levered balance sheets with a lower cost of capital. Pfizer's announcement is another tailwind to this beaten down group that has tended to rise quickly in recoveries. Perhaps the riskiest of the three, but it can be a great value play should further good news come on the vaccine front.

Product Roadmap

ETF Codes and Fees

Asset Class	Fund	Ticker			MER(%)
		CAD	Hedged	USD	
Technology	BMO Nasdaq 100 Index ETF	ZNQ	ZQQ	-	0.39
	BMO MSCI USA High Quality Index ETF	ZUQ	ZUQ.F*	ZUQ.U*	0.33
	BMO MSCI USA ESG Leaders Index ETF	ESGY*	-	-	0.22
Global Equities	BMO MSCI All Country World High Quality Index ETF	ZGQ	-	-	0.51
	BMO MSCI Emerging Markets Index ETF	ZEM	-	-	0.27
	BMO China Equity Index ETF	ZCH	-	-	0.71
Small Caps	BMO S&P US Small Cap Index ETF	ZSML*	ZSML.F*	ZSML.U*	0.22

Management Expense Ratios (MERs) are the audited MERs as of December 31, 2019.

*As the series of funds are less than one year old, actual Management Expense Ratio costs will not be known until the fund financial statements for the current fiscal year are published. The estimated MER is an estimate only of expected fund costs until the completion of a full fiscal year, and is not guaranteed.



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