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## Election dust continues to settle

Joe Biden has declared victory while President Trump continues to pursue legal challenges in multiple states. We believe that markets are expecting no change to the presumed outcome of a Biden presidency, but it is nonetheless worth noting that December 14 is the date that electoral college votes are cast.

Two runoff Senate elections are taking shape in Georgia and will soon be center stage. They are set for January 5, and voters must be registered to participate by December 7. There is both early voting and vote by mail. The remaining uncalled Senate races in Alaska and North Carolina are favored to go to Republican incumbents which would result in 50 Republican Senators. Just one of the two Georgia seats would be needed for a Republican majority in the Senate. Prediction markets favor a Republican majority Senate, but uncertainty is heightened given the extraordinary stakes.

The final Senate make-up appears to fall between a 52-48 Republican majority and a 50-50 split that gives effective “control” to the Democrats given a Vice-Presidential tie-break vote. Republican control of the Senate would almost certainly mean a spending package far below the \$5 trillion proposed by Biden and would also halt his proposed corporate and personal tax increases. If Democrats manage to sweep the runoff Georgia seats and split the Senate 50-50, both increases in spending and taxes are expected but should be partially restrained in order to keep moderate Democrats on board. While corporate tax increases are a headwind to the equity market, it is possible that a split 50-50 Senate would find a large spending package more agreeable than a large tax increase.

This election also has consequences on the international front, and we expect one difference to be Biden’s eventual China policy. In the short-term, expect the pre-election status quo as Biden cannot be seen as soft on China. “Tough” has varying

degrees though, and we do not expect Biden to tighten the screws the way that Trump may have done in a second term. According to Pew Research survey, 38% of Republicans “think of China as an enemy” and 66% of Republicans believe “it is more important to get tougher than build a strong relationship with China on economic issues.” For Democrats, those percentages are 19% and 33%, respectively<sup>1</sup>. With regard to the possible impact of (eventual) Biden trade policy, China’s economy and financial markets will face a gale, not a hurricane.

As for the equity markets, leading up to the election the S&P 500 fell sharply in late October but rallied during election week as results gradually unfolded. This surge likely had multiple factors involved – a bounce back from the recent sharp decline, a seeming resolution to the cloud of uncertainty, an expectation of do-no-harm gridlock, and importantly, a post-election statement by Senate majority leader McConnell that another fiscal stimulus package is “job one” when the Senate returns. A stimulus package of \$1 trillion, if passed, would constitute about 5% of GDP and should be enough to carry the U.S. economy through to mid-year when vaccine availability is expected to be prevalent. Indeed, the vaccine timeline that was given more credibility this morning when Pfizer (PFE) reported its COVID-19 inoculation proved more than 90% effective in trials, representing a major milestone on the road to recovery.

## Vaccine Breakthrough Emerges

The joint PFE and BioNTech (BNTX) announcement was notable given results surpassed the 60% efficacy used in their internal modelling, and significantly cleared the FDA’s efficacy threshold of 50%. Furthermore, this is a nucleic acid vaccine built on messenger RNA (mRNA) technology, which is similar in mechanism to that being developed by Moderna. This suggests additional vaccine platforms could be on the way if the PFE/BNTX proof of concept holds up to the hype. Equally important

<sup>1</sup><https://www.pewresearch.org/fact-tank/2020/07/30/republicans-see-china-more-negatively-than-democrats-even-as-criticism-rises-in-both-parties/>



was that no serious safety concerns were observed. The side-effect profile of the vaccine was also consistent with that of an earlier study – pain at the injection site and some fatigue.

The trial will next go to FDA application for Emergency Use Authorization (EUA), which is expected to occur somewhere near the third week of November. The most likely path would then be for the FDA to take approximately two weeks to review the data and present it to an advisory committee. The outcome of the committee could lead to an early December EUA approval.

It should be noted that Pfizer now believes it can produce 50 million doses (with 25 million doses designated for the United States) by the end of 2020, with 1.3 billion doses coming by the end of 2021. CDC's committee (ACIP) will then decide distribution allocation, a process that may take only a few days and potentially could be run in parallel to the FDA process.

While these results are certainly welcome news and a testament to human ingenuity, several issues remain. The vaccine needs to be kept at -94 degrees Fahrenheit, presenting a significant logistical challenge. Another question surrounds protection duration (i.e. how long the vaccine lasts), which is something we won't know for months. Finally, the World Health Organization estimate that 70% of people need to be vaccinated to achieve herd immunity, but surveys to date show reluctance in the U.S. Ultimately, the number of people agreeing to take the vaccine will impact the return to normal timeline.

Concerns notwithstanding, today's news is still decidedly positive and equity markets around the world surged as a result. In addition to travel & leisure, traditional cyclical sectors such as financials, energy and materials are leading the charge. These areas have underperformed this year, so their reversal is a welcome development for overall market breadth.

### **Economy continues to heal**

While politics and COVID-19 developments have dominated recent news flow, the U.S. economy has quietly continued to stage an impressive rebound. The October jobs report outperformed expectations with the creation of 638k new jobs and an unemployment rate falling to 6.9%. The ISM Manufacturing survey showed strong activity and new orders, with an additional tailwind from expected customer restocking of depleted inventories. The separate ISM Services survey also showed expansion, but with some deceleration relative to the prior few months.

Fortunately, the economy entered the pandemic on sound footing, without the major imbalances that have been a hallmark of past declines. Nonetheless, failure to pass a fiscal stimulus package by year end could dent the momentum and, despite the positive Pfizer news, COVID case acceleration still presents a short-term obstacle. On net, we believe that political, scientific, and economic trends continue to suggest that the U.S. equity market offers an attractive risk-reward trade-off in the current environment.



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