Update from the Symmetry Desk: 2020 US Presidential Election

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We, on the Mackenzie Multi-Asset Strategies Team, thought that it would be useful to send a quick note to Symmetry Advisors and investors on the Team's thoughts on the outcome of the US Presidential election.

Background and context

The US Presidential election of 2020 has been, without a doubt, one of the most important geo-political events in recent times. Hanging in the balance are a number of near-term issues that are of significant importance to investors, including the direction of our response to the ongoing global health crisis (COVID-19) and economic priorities (examples being personal and corporate tax policy and fiscal policy stimulus initiatives). What makes this election so important is the severity of the economic recession in Q2 associated with steps taken to contain the COVID-19 virus.

For some, this election has been a referendum on character and on whether Donald Trump exemplifies what is expected of a President or whether Joe Biden better fits the profile. For others, it has been the opportunity to shape important policy decisions that will define the trajectory of the US economy in the years to come. In the end, democracy has won out and the US electorate has had their say. It is encouraging that voter turnout was very high; this election galvanized a strong, widespread response from voters. The big losers were the pollsters who, once again, were widely off mark on the likely outcome.

Results

While the details of the outcome remain murky, results suggest that we are headed for divided government. The construct of the Legislative branch of the US government will likely remain as it was going into the election (with the House of Representative controlled by the Democrats and the Senate controlled by the Republicans). As for the Executive branch of the US government (the Presidency), vote tallies counted to date and projections of the mail-in and absentee votes currently being counted suggest that Joe Biden is likely to win by a narrow margin. Given how close the vote is though, there will likely be litigation by the Trump administration.

In any event, divided government is a different outcome than what had been built into market expectations (which was for Democrats to run the table and control both Houses of Congress and the Presidency, the so-called "Blue Wave"). This could, in fact, be very equity market positive as the Republican-controlled Senate will moderate some of the less market-friendly aspects of the Democratic policy agenda. In the team's view, big initiatives such as creating a public option as an expansion of the Affordable Care Act and increased corporate and individual tax rates are likely off the table as Joe Biden is unlikely to be able to stick-handle that legislation through the Republican-controlled Senate (See **Table one** below).

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Table 1 | Major Trump/Biden Policy initiatives

	Trump	Biden
Fiscal policy	• Extend provisions of TCJA, temporary payroll tax cut • New spending on infrastructure, large spending cuts elsewhere	• Net tax increases of $2.4tn • New spending of $6.8tn on infrastructure, health care, education
Trade	• Protectionist policies continue • Trade war with China resumes, escalates • Tariffs imposed on European auto imports	• Modest easing • Tariffs on traditional allies lifted • Only minor relaxation of China tariffs initially
Immigration	• Strict Stance on immigration continues • Net immigration falls to 200k per year	• Raise net immigration rises back to 1mn per year • Supports path to citizenship for 11mn undocumented
Climate and Energy	• Roll back environmental regulations • Promote fossil fuels use	• Reimpose regulations • Reduce net greenhouse gas emissions to zero by 2050
Health care	• Repeal ACA (no replacement yet) • Lower drug costs, permit imports from other countries	• Expand ACA, create new public option • Lower drug costs, permit imports from other countries, allow Medicare to negotiate with drug companies
Minimum wage	• N/A	• Increase to $15 over six years
Financial sector	• Deregulation	• Stronger regulation

Source: Oxford Economics, www.joebiden.com, www.donaldjtrump2020.com

Economic and market implications

Near-term (12 – 24 months)

There are several key economic and market considerations. In the near term, markets will be focused on the likely size, timing and configuration of any COVID-related economic stimulus package. Will the package be between $1.5 - $2.0 trillion of initiatives as Democrats had wanted, or will it be scaled back to below that level, in line with levels that Senate Republicans have previously expressed support for? Will it be implemented shortly after inauguration, or will a fiscal stimulus package be accelerated given the need for economic support in the very near term? Finally, what support will be provided (for example, relief to local governments and replacement of lost income)?

Long term (next decade)

Markets will focus on those aspects of the Biden policy agenda that are likely to make it past a Republican -controlled Senate to be enacted into actual legislation. Items that will be problematic include bigger initiatives such as higher tax rates (an increase in corporate income tax rates and higher capital gains tax rates for individuals) and an expansion of the Affordable Care Act that includes a public health care option. The whole “progressive tilt” that many had expected to occur had a Blue Wave come to fruition will be rolled back. For instance, investors had concern that a Blue Wave would usher in stricter regulatory oversight in the Technology and Energy sectors and the appointment of progressive candidates such as Elizabeth Warren and Bernie Sanders to key posts. In our view, that will be meaningfully moderated. Instead, we are likely to get increased spending in areas that share bipartisan support in areas such as targeted increases in infrastructure spending, a reduction in drug costs and support to state and local governments.

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Implications for Symmetry

Overall, we expect our current positioning in Symmetry to perform best if we see a risk-on response to the election. Specific considerations are as follows:

Asset allocation

Symmetry portfolios (other than Conservative Income and Balanced) currently have a higher long-term, strategic allocation to equities versus their peers. Consequently, an election outcome that favours stocks would be positive for the Symmetry portfolios.

Liquid alternatives

Our exposure to liquid alternatives remains a key differentiator versus our managed solutions peers. Alternatives, such as our Global Macro fund, provide us with tools that aim to add value in rising or falling market conditions and increase portfolio diversification by providing a more balanced set of risk exposures compared to traditional strategies.

F/X

Our largest active currency positions include long EUR and short GBP in all Symmetry portfolios. These positions help to diversify our active risk across different geographies and countries. Our view is that the long EUR position could outperform over time in a risk-on market response to the election or in the unlikely event of a flight out of USD denominated assets.

Relative investment return across the Symmetry platform have benefited from portfolio enhancements implemented over the course of the past 12-months. We expect this improvement to continue.

Please feel free to reach out via your Mackenzie Wholesaler if you would like further input and insight from Mackenzie's Multi-Asset Strategies Team. We are happy to share our views on both the broad macro-economic and capital markets outlook and on the positioning of the Symmetry portfolios.

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