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Indecision 2020

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It's characteristic of the most bizarre year in memory that the presidential election has ended with a big "TBD." An unsurprising outcome given the dynamics of voter turnout and mail-in ballots, as well as an almost perfectly polarized political climate.

What continues to surprise is how little impact this uncertainty has had on the capital markets. At this writing the Dow is up over 2000 points since last Friday, heading towards the 29,000 territory it reached in September. Bond yields sank only mildly on views a divided government was bearish for any immediate stimulus package.

Meanwhile both high-yield bond and large cap loan issuance continue apace. October's junk volume of $34.2 billion (per S&P LCD) was the second highest October, after 2012's $40.4 billion. BSL activity reached about $44 billion for the month – with September's $50 billion, the best two-month performance since pre-COVID.

Bringing us to the larger point: the course of the pandemic remains far more a driver of commercial trends than election results. Even with a new administration, the next three months could unravel progress with business openings made since last March. In the past week, almost 600,000 new infections have been reported in the US.

As our *Chart of the Week* suggests, this is not where we hoped to be when the crisis began. Yet developments in Europe – 1.5 million weekly cases and Germany, France, and the UK re-entering lockdowns – suggest a similarly worrisome path here.

A second COVID wave could certainly lead to a double-dip recession if it's severe enough, and without additional stimulus spending. A divided government would seem to spell less likehood of higher taxes, but also a smaller chance of economic relief.

Long-term, additional rescue dollars would likely push the already $3.1 trillion US deficit higher. Eventually, economists suggest, accelerated government spending could awaken inflation. But unless growth kicks into a higher plane, the Fed isn't likely to hike rates before 2024. Just in time for the next presidential election!

The outlook for private credit remains constructive, regardless of the White House sweepstakes winner. Congressional gridlock is also not necessarily problematic for a reasonable business outlook. More effectual are state and local regulations. California's Prop 22, for instance, will benefit gig economy companies.

Our colleagues at Nuveen published their post-election investment outlook [link] yesterday. This excerpt says it all:

"Lack of policy uncertainty tends to allow measurable fundamental factors like valuations, structural dynamics, demographics and the like to have a greater impact on asset class prices. As we have emphasized throughout this election season, it is these very factors – and not the makeup of the federal government – that tend to drive long-term investment returns."