

Weekly Commentary with Professor Jeremy J. Siegel

What Election Outcome Would the Market React Most Favorably To ?

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Jeremy Schwartz, Executive Vice President, Global Head of Research for WisdomTree, hosts a weekly discussion with Professor Siegel, typically on the Wharton Business Radio podcast. The notes below summarize their conversation along with further commentary and context.

We are in the home stretch of the presidential election and all eyes on the markets are focused on the current political situation.

Professor Siegel thought President Trump had a much stronger debate than the first one—and that Biden actually looked a bit weak, struggling to find his words at times. Does that make a difference at this stage? Probably not, given the number of people that have already voted and decided. The prediction markets moved less than one percentage point toward Trump, still the underdog at about 2-1.

Professor Siegel is watching the three northern states—Pennsylvania, Michigan, and Wisconsin that Trump won in 2016—and he needs to win at least one of those states again. Pennsylvania is likely one of the pivotal states, and the betting markets are still suggesting 2 to 1 odds against him winning that state. If he ends up winning Pennsylvania, he likely could also win other states like North Carolina and Arizona and, in Professor Siegel's view, bring him the presidency. But that still looks improbable at this time.

In Professor Siegel's mind, what the stock market would react most favourably to would be a Biden victory with Republican control of the Senate—potentially even more than a Trump victory with a Republican Senate. There are a few close Senate races that will decide control, and the races in Iowa and North Carolina are going to be very close.

On the economic and stimulus front, there is still potential for a deal. McConnell has been expressing unhappiness with the large spending increases, while Professor Siegel believes if Trump and Pelosi can agree on the basic framework, the Senate would come along. Of course, there is the potential that this drags out until January with a new administration, and that would lead to a slower recovery than otherwise would have been the case, but not something that would cause a double-dip recession. The market would probably pop on a fiscal stimulus agreement, but it would likely fade, in Professor Siegel's view, with the election uncertainty. Lack of stimulus is a short-term downer.

The earnings reports are coming in strong, with approximately 80% beating estimates. The earnings beats are not getting rewarded in a big way—indicating markets are largely expecting this—but firms that miss earnings see losses now of 5% or more.

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What could cause a bigger surge in the market? If we have a clear election victory—with a Biden victory and a close or Republican Senate, that relief rally could take markets considerably higher.

On the interest rate front this week, the 10-year yield moved higher past 80 basis points. Back in May, Professor Siegel called for the end of the 40-year bull market in bonds. The markets are starting to price in a stronger economy, a Biden presidency and higher spending. Virus cases are up, but deaths are not moving that much higher. With a vaccine coming and therapeutics being effective, the smart money is counting on a stronger economy looking ahead.

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