RBC Global Asset Management

INVESTOR INSIGHTS

2020 U.S. election proves a tight race

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The long-anticipated U.S. election is now complete, but the tallying is hardly done and the results are proving surprising so far.

Whereas the polls, betting markets and models had universally predicted Democratic nominee Biden winning by a fairly wide margin, the actual race is proving much closer. For a second straight election, Republican President Trump is substantially outperforming expectations.

This isn't to say that Trump has won the race. But, his significant outperformance in Florida and a number of other southeastern states means his chance of victory is real. Reflecting the high level of uncertainty, odds on the PredictIt betting website varied wildly across the night. Having swung at one point as far as assigning Trump an 80% chance of victory, they have since reversed to the point that Biden is being given a 79% probability of winning. This is also well short of certain, though clearly more likely than not.

The final result now appears to come down to Pennsylvania, Wisconsin, Michigan, Nevada, Georgia and Arizona. Biden needs to win several of these states. In fairness, he is expected to – with fresh market-assigned probabilities that Biden will pick up each state currently ranging between 57% for Georgia to 95% for Arizona. Of course, it is hard to forget Biden's serial underperformance elsewhere. Pennsylvania is especially pivotal and close (PredictIt currently assigns a 63% chance that Biden will win the state), and not expected to yield a final result for several days. As such, clarity may not come for some time.

In the meantime, incomplete state results are less useful than usual in reflecting the overall preferences of each state given varying practices with regard to whether election-day votes are revealed before or after mail-in ballots. The former are thought to be heavily pro-Trump while the latter are expected to be nearly as heavily pro-Biden. As such, the actual outcome could yet deviate significantly relative to the interim results, even when a relatively small number of uncounted ballots remain.

The closeness of the race also substantially increases the likelihood that the results will be contested, potentially delaying the result by weeks. It is worth remembering that the 2000 U.S. election was not resolved until mid-December. Complicating matters, President Trump has declared victory prematurely, has asserted that voting fraud occurred, and is threatening to take the matter to the courts.

The most likely Senate outcome is now that the Democrats pick up a single seat, leaving an 83% chance that the Republicans will remain in control of the chamber. This is a sharp increase from the 46% chance assigned before the election. However, the House of Representatives looks to remain comfortably in Democrat hands, though it does appear the party may have lost a few seats.

If President Trump wins a second term, this brings a variety of tentative implications. Trump mostly ran on status-quo policies, meaning no major pivot would be expected. Nevertheless, this outcome would still represent a substantially different future than the one espoused by Biden. The President has promised further tax cuts and more fiscal stimulus, though the stimulus is not on the same scale as what the Democratic Party pledges. Deregulation efforts would likely continue. The U.S. would probably remain on an isolationist trajectory, limiting immigration and impeding free trade. The U.S. response to COVID-19 would probably remain milder than in many other countries, which is positive from a very short-term economic perspective but arguably negative from a longer-term perspective to the extent the virus might continue to circulate freely. Unencumbered by future election worries given the two-term limit for U.S. presidents, Trump might feel free to pursue bolder policies than over his first term.

Conversely, if Biden manages to hang on for the win, several thoughts are relevant from an economic perspective. Biden is fundamentally a moderate Democrat, and so unlikely to pursue radical policies. Nevertheless, his vision of the U.S. is considerably further to the left than Trump. A key part of his platform is the delivery of massive fiscal stimulus in an effort to keep the U.S. recovery moving forward. Higher taxes have also been pledged, both as a means of partially paying for this largesse and dealing with inequality. Biden would espouse a more cautious approach to COVID-19 from a human health perspective, though in fairness most pandemic policymaking appears to occur at the state and local level. A Biden presidency would likely enable more immigration and incrementally improve the environment for international trade. We have estimated that a Biden administration would ultimately be a moderate positive for economic growth relative to a Trump win, both in the short and long run.

Regardless of the presidential victor, the rising prospect of a divided Congress will limit bold action, including the extent of any fiscal stimulus delivered during the lame duck period or in early 2021.

Financial markets have tended to view a Trump victory as negative for bond yields and – over the past few months – potentially also negative for stocks. Conversely, a Biden presidency has been viewed as bond yield-positive and perhaps stock-market positive. Alas, a period of post-election uncertainty may limit risk appetite until the final result is known.

Biden platform relative to Trump and its implications

Biden policy stance vs Trump	Short-term economy	Long-term economy	Equities	Bond yields
Stricter COVID-19 controls	–	+		
Tax increases		–	– –	
Fiscal stimulus	+ +	+	+ +	+
Trade/Immigration		+	+	
Regulations		–	–	
Overall	+	+	Debatable – now positive?	+

Source: RBC GAM. As of October 30, 2020.

The result of this election is not just consequential for the U.S., but also for the world, potentially affecting the relationship between the U.S. and China – the world's two superpowers. It also may affect other nations via the the degree of U.S. isolationism, the support given to multinational institutions, and the extent to which the U.S. partners with other countries on climate change policies.

All of this said, it is worth appreciating that – over the next year – COVID-19 developments will likely be more consequential to the economy and financial markets than who occupies the Oval Office. And, over the long run, political developments often act like a pendulum. After swinging for a period of time in one direction, public preferences usually begin to swing back in the opposite direction. This is not to say that this election result doesn't matter or that future election outcomes are pre-ordained, but that if U.S. policies drift too far from the centre, the U.S. public can usually be counted on to pull them back over time. Midterm elections are especially famous for swinging in the opposite direction of the prior presidential election.

We are hesitant to reach sweeping conclusions about what this election says about U.S. society as a whole. Not only is the result itself unknown, but a small change in preferences would yield an entirely different result. For that matter, the popular vote may yet differ from who receives the most Electoral College votes.

A final aside. Economists usually have empathy for their fellow forecasters: epidemiologists, meteorologists, pollsters and the like. Predicting the future is hard. But that sympathy is wearing awfully thin with regard to U.S. pollsters who have now been unacceptably far from the mark in two straight elections.

Publication date: November 04, 2020