

The Markets, the Election, and the Vaccine

November 9, 2020

That was the week that was!

The title of an age-old TV comedy/news program captures the past few days. The outcome of the national election was not a real surprise although it started out as though President Trump was going to get re-elected but absentee ballots continued to role in making apparent that Joe Biden would be our next president. Even though President Trump is contesting the close call, there appears little chance that the outcome will be overturned.

The change in leadership could have a substantial impact on financial markets—as a matter of fact it already has. Since the election, equity markets have surged, and the market rally is broadening out to include sectors that had not participated in the rally so far this year dominated by large cap growth stocks. One concern is the prospect for tax rate increases and especially the doubling of the capital gains tax that could reduce the attractiveness of investing in the stock market. There are also radical ideas circulating in progressive circles that could prove painful for equity investors. A Republican-controlled Senate could put a damper on any tax rate increases that could damage the economy.

We awakened this morning to news that Pfizer had created a vaccine with a 90% success rate! As could be expected, we all jumped for joy in the hope we can get back to “normal” and equity markets responded with a huge rally (the DJIA rose over 1,600 points in the opening minutes). The prior coronavirus losers such as cruise lines and hotels leaped while companies that had benefited from forced shutdowns and working from home gave back some gains. Once the realization that the landscape has changed and normalcy should return sometime next year, the entire stock market should continue to do well as many companies recover and benefit from the efficiencies that were forced upon them.

The impact of the virus could continue to benefit many of the winners this year especially those that cater to work at home and home schooling as the forced lockdown has led to a different way of conducting business that was, in many cases, an attractive way to do business even after the effects of the virus were minimized. Many an important lesson has been learned from this painful experience and will likely add to our ability to defend ourselves against future virus attacks. Of note is the fact that a mutation of the virus appeared in Denmark among mink animals that are raised to produce fur for the luxury market. The Danish government reacted quickly and ordered the destruction of the entire mink population on fears that the virus would jump from animals to humans. As might be expected, the decision was not well received by animal lovers around the world and many multi-generation mink farmers have lost their life’s work.

We are not out of the woods yet as the number of virus cases spiral higher both in Europe and the U.S. Some governments continue to opt for another shutdown and the economic misery that can come with that decision. So far, investors are betting that at least one vaccine will be available by year-end. Our bets are on the latter and that we may be seeing light at the end of a very long tunnel.