# U.S. election: Biden win

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Joe Biden has won the contest for the White House – an outcome that signifies a return to a near-term market environment dominated by low rates, a hunt for yield and growth stocks. Against a historic backdrop of a pandemic, a victory in the battleground state of Pennsylvania pushed President-elect Biden above the 270 electoral votes needed to win the presidency. Risks to the outcome appear remote, and we prefer to look through any market volatility that legal challenges by President Trump may bring. A Democratic sweep – with Democrats also seizing control of the U.S. Senate – looks unlikely, although a runoff election for two Georgia Senate seats in January keeps the race alive.

A divided government would constrain the Biden administration's ability to implement plans for large-scale fiscal stimulus and public investment, tax, healthcare and climate related legislation. We see an increased focus on sustainability under a divided government, but through regulatory actions, rather than via tax policy or spending on green infrastructure. It also would likely signify a return to more predictable trade and foreign policy – even as U.S.-China rivalry is set to stay elevated due to bipartisan support for a more competitive stance.

Fiscal policy is critical for preventing permanent economic damage from the virus shock. Some fiscal relief looks possible in the near term during the lame-duck session of Congress, but we see the scope and size of fiscal stimulus and public investment as much more modest than what a united Democratic government might have delivered. We're monitoring the fiscal response closely, as a premature retrenchment could set back an economic restart that has so far surprised to the upside.

Long-term U.S. Treasury yields had ran up ahead of Election Day in anticipation of a Democratic sweep, bringing forward a rise in yields we expect to see in a higher inflation regime in the medium term. The prospect of a divided government removed the accelerant and brought yields down again. A slower upward move in yields bodes well for risk assets, in our view, especially for credit and growth companies that have dominated markets for much of the post-crisis period.

We expect tech and healthcare companies, the quality factor and large caps to perform well under a Biden divided government. Emerging market (EM) assets should perform on improved trade sentiment, we believe, especially in Asia ex-Japan. Many Asian countries have contained the virus and are ahead in the economic restart. We are reviewing our tactical asset views in light of the election result. Key inputs include the evolution of the virus shock and the timeline for a vaccine – and their potential to bring forward market expectations of inflation and change equity market leadership to cyclicals.

## Key market views

**A Democratic victory without Senate control would reinforce market trends such as the hunt for yield and growth stocks**

**A Biden divided government could crimp fiscal stimulus, and cap rises in bond yields and inflation expectations**

**Biden will likely bring a focus on sustainability, reregulation and a more predictable trade policy that supports EM assets**

**Bulletin**

**Nov. 7, 2020**

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