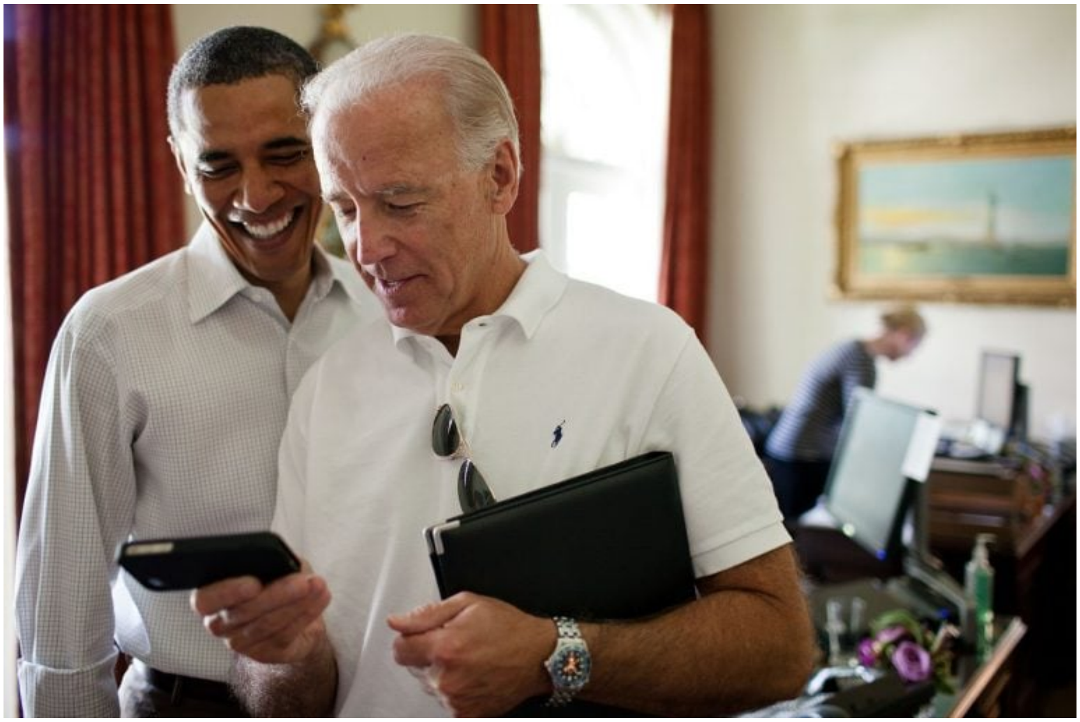
BIDEN’S BENEFITS: WHEN TO HOLD AND HOW TO SHIFT TO WIN THE BIDEN-HARRIS MARKET

Zain Jaffer - Nov 23, 2020, 1:39 pm



janeb13 / Pixabay

As votes around the country trickled in for days on end, the Democratic ‘blue wave’ forecasted by many experts seemed more of a steady blue stream. Four days after the final American votes were cast, cable news networks announced a projected Biden-Harris U.S. Election win. With keen eyes already on stock performance weeks before the results, investors around the nation are all asking the same question: what does this mean for the market?

Email Address

Subscribe

Q3 2020 hedge fund letters, conferences and more

The anticipation is understandable considering the economic moment in which the 2020 election has taken place. Amidst a global pandemic, recovering from a major spike in unemployment and juggling the consequential decisions of further stimulus and extended lockdowns, both parties have distinguished approaches that would affect market activity throughout COVID-19 and beyond. Investors are smart to use the election as an invitation to go back to the drawing board regarding their portfolios, and to make sure they're well positioned with market strategies that complement a Biden-Harris presidency. But the winners of the Biden-Harris market will be the ones who proceed with caution.

Not So Fast

Before investors make large scale portfolio edits, there are a couple crucial considerations to take into account - primarily the other electoral outcomes. The projected Democratic House and Republican Senate will constitute a split Congress. Some experts have reminded the public that a Democratic president serving alongside a split Congress has resulted in higher market returns in the past.

If confirmed, a divided Congress will have more implications than market gains, and it's a factor worth an investor's attention. ~~Larger economic stimulus packages~~, higher public spending, and more immediate tax or health reform are likely to be constrained by a split Congress, delaying or mitigating some of the major market changes that are expected as a result of Biden's economic plan. In such a case, companies that were performing well before the election are positioned to continue finding success in the market, and patience on the part of investors would be a virtue.

Another factor to consider—or *not* to consider—is the short term action in the market. On the heels of the election came a sort of market rally, a result of both the Biden victory and the reported progress of a COVID-19 vaccine undergoing development. Despite the early returns, now is a good time to keep in mind that it's probably too soon to tell; decisions that pursue the immediate gains in the market could easily lead to losses a little farther down the road.

Considering the split Congress and allowing time for the market to settle, there remain a number of sectors positioned for success under a Biden-Harris presidency, and a couple of pockets of the market that investors would do well to avoid through the next four year term.

The Winners of A Biden-Harris Administration

A common area of confidence for market analysts is infrastructure. A boom in infrastructure spending is expected as an early move after Biden takes office, one that comes with an environmental focus. Traditional projects like roads and bridges are expected to see support, while electric vehicles, wind, and solar infrastructure are positioned for financing barring any slowdown from a divided Congress.

Similar to green infrastructure initiatives, Biden's plan to tackle climate change signals coming changes for investors. With a pledge to rejoin the Paris Agreement, and with ambitions to reach a net-zero carbon emission by the year of 2050, solar companies and alternative energy industry leaders are set to benefit.

~~ESG companies~~—those focusing on environmental, social, and governance issues—have seen a measurable increase in the lead up to the election as investors anticipated a Biden victory. It's a wave that's added to the prior success of ESGs in the market, as ESG companies have been outperforming their industry peers at a reliable rate. These companies continue to offer portfolio returns in a more or less reliable manner.

More generally, many ~~investors~~ are adopting their strategies to prioritize value over growth. Analysts expect value sectors—health care especially—to benefit under Biden’s term. Consumer stocks are still offering solid dividends despite the recent economic downturn, and companies with high cash reserves, stable balance sheets and minimal debt are expected to bridge the COVID-19 gap and offer stable returns.

Last, the international stocks that were affected by the trade wars of the Trump administration might also be positioned for a sizable rebound. Under Biden’s more collaborative approach, regions that are sensitive to global economic growth might benefit, and more trade negotiations could decrease market volatility.

Where Investors Are Steering Clear

Of the sectors positioned for diminished returns under new administration, energy is at the top of many analyst’s list. Trailing a low-performance decade, energy stocks tied to fossil fuels are likely to continue underperforming. While natural gas will remain an important fuel powering the bridge to cleaner solutions, regulation of the oil and gas industry is set to increase. However, regulation takes time, and the effects of the Biden presidency may not play out in short term portfolio outcomes.

Another area of interest has been the financial sector. Financials have a similar history of underperformance, and notions of tax increases and heightened regulation threaten things like bank stocks, which are highly sensitive to interest rates changes. Again, a split Congress will change the roll out of stimulus packages and regulatory decisions, all of which will have varied downstream effects for the financial sector.

The 2020 election has seen high engagement from voters, investors, and business owners alike. But seasoned investors, those that have been active through many administration changes, know how many factors are at play. Presidential decisions have only so much impact on market activity, and industries are constantly influenced by factors beyond the decisions made in the White House. Still, a Biden-Harris presidency introduces new opportunities and downfalls in the markets. Smart investors will determine their position by balancing the allure of quick market gains with the age-old strategy of patience, knowing patience often wins.

Zain Jaffer

~~https://zain-ventures.com/~~

Zain Jaffer is the Founder and CEO of Zain Ventures (https://zain-ventures.com), a global investment firm with over $100 million in assets under management. Zain Ventures invests in start-ups, real estate, stocks, fixed income, hedge funds, and private equity.

No posts to display