

US election primer

Nov. 2, 2020

The U.S. election is taking place against a historic backdrop of a pandemic, recession and domestic strife – and will likely have significant policy and market implications. In this election primer, we explain how the U.S. electoral system works; why states such as Pennsylvania and Florida are critical to the outcome; what the timeline of a contested election looks like; and which U.S. Senate races to watch. We then outline our views in three scenarios: a re-elected President Donald Trump with a divided Congress; a divided government under former Vice President Joe Biden; and a Democratic sweep, in which Democrats win both the White House and Senate. The latter may have the most impact across fiscal policy, investment, taxation, regulation and trade.

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Biden has had a material lead in national polls – one that has been relatively stable. Yet Trump has been running closer in key states, keeping open a narrow path to re-election. There is a chance of a contested election, partly due to record numbers of Americans voting early amid the pandemic, but we believe there are mechanisms for resolving this. **We prefer to look through any market volatility that a delayed result may bring and favor taking advantage of any selloffs in risk assets** during this period of uncertainty to add to high-conviction positions.

Fiscal policy is crucial, as it has been helping support the economy through the Covid shock. We believe a Democratic sweep would likely lead to large-scale fiscal stimulus and spending on public investment such as green infrastructure. A Biden win with a divided Congress would severely constrain Democrats' ability to implement this, leaving regulation as a way to achieve policy goals. The difference in fiscal spending between the two scenarios could be several percentage points of GDP annually for several years. A re-elected Trump would likely deliver fiscal stimulus somewhere in between, double down on the "America First" approach in foreign affairs and usher in more deregulation.

A Democratic sweep would tip us to a more pro-risk investment stance. Investors would balance higher taxes and tighter regulation with greater fiscal support and more predictable trade policy. We believe this electoral outcome would modestly increase nominal yields and bring forward the market pricing of the higher inflation regime that we were already reflecting in our strategic asset views. We also see it benefiting global cyclicals on improved trade sentiment, U.S. small caps on fiscal stimulus, and sustainable assets on climate policies. Any rises in long-term yields and inflation expectations would likely be more muted under a Biden divided government or Trump re-election. Big tech companies may be challenged by regulation and anti-trust measures regardless of the outcome.

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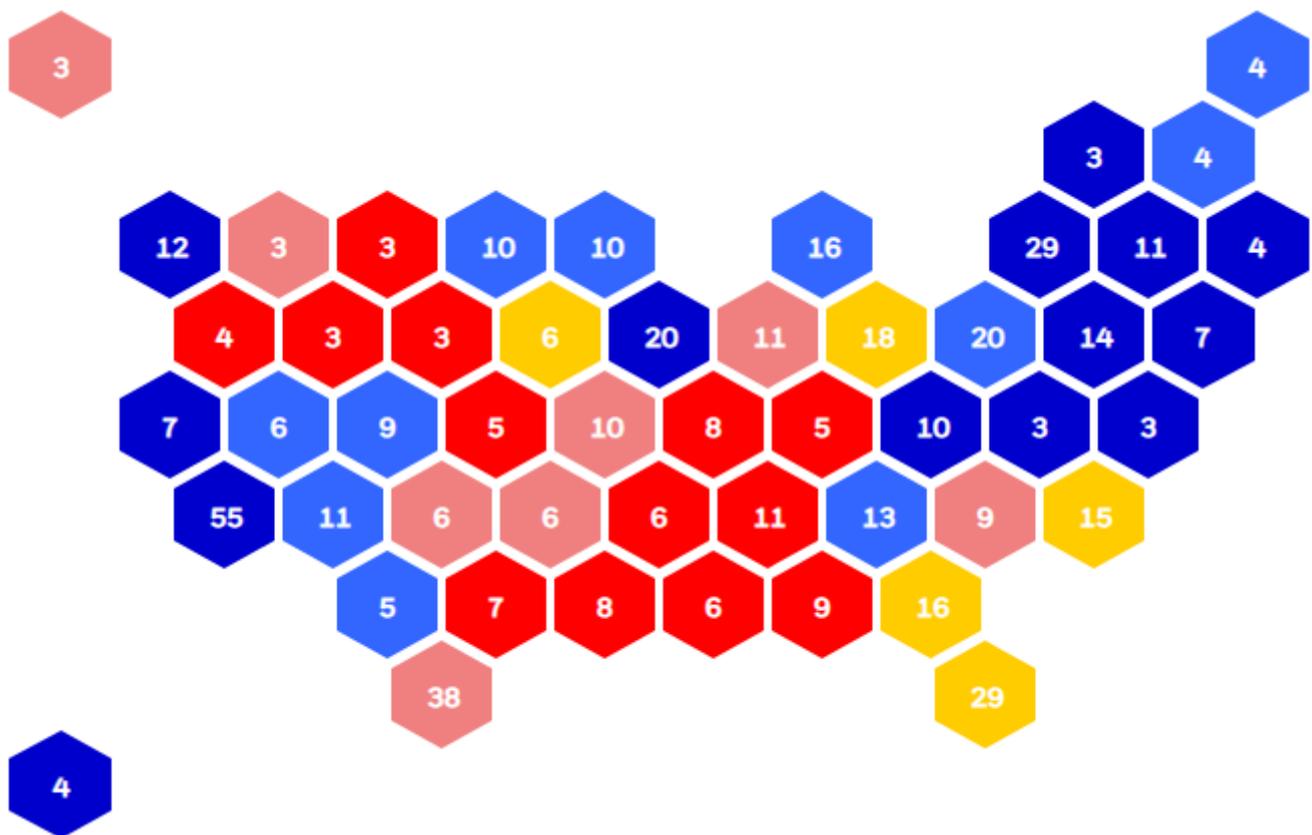
Presidential race

The U.S. president is not chosen by national popular vote, but rather by state electors through the Electoral College process, as set forth by the U.S. Constitution. When citizens cast their vote in the general election for the president, they are determining their state's electors. The states use the general election results to appoint their electors, and state laws determine how electors must cast their votes. Many, but not all, require the electors to vote for the winner of the state's popular vote. Each state has as many electors as it has members of Congress (House and Senate), relating the number of electors to the size of the state's population. There is a total of 538 electors in the Electoral College, including Washington, D.C.'s three electors.

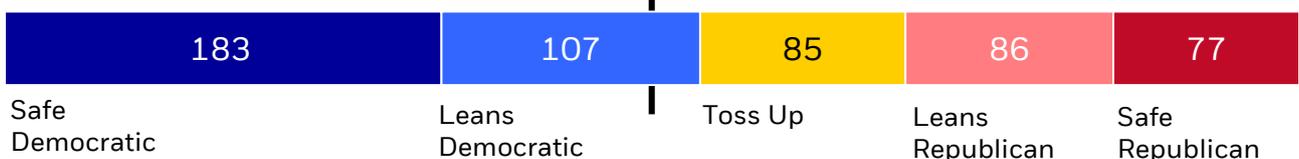
A presidential candidate needs 270 electoral votes to win the presidency. Recent polls suggest Biden is ahead in the race for the White House, given leads in several battleground states that will likely determine the outcome. See the chart below. Trump still has a path to victory if he captures Florida, North Carolina, Pennsylvania and Arizona, in our view. He has been polling stronger in these key states than in the nation as a whole. See the next page for details.

Mapping it out

U.S. states and their respective number of Electoral College votes



270 to win



Sources: BlackRock Investment Institute, with data from 270twin.com, October 2020. Notes: The map shows how different states' electoral votes are leaning in the U.S. presidential election based on aggregates of current state-wide polling as of Oct. 30, Maine and Nebraska have split votes. The underlying map can be seen at <https://www.270twin.com/>

States to watch

The pandemic has spurred a record volume of early voting, making this presidential election unique. Some 86 million votes had already been cast as of Oct. 30, according to the [United States Elections Project](#), more than 60% of the total turnout of the 2016 election, including Election Day. The same data show that in Texas, more people had already voted than the entire 2016 turnout. Registered Democrats have banked higher numbers in 16 out of 19 states that provide early voting data, but more Republicans are expected to vote on Election Day. Several states won't count any early votes until after polls close – and the process for counting those votes might take days longer than for day-of votes. This sets up a dynamic where we could see considerable shifts in vote counts as mail-in ballots are counted. The dynamic could be most intense in **Pennsylvania**, where results may not be certified for several days – raising the potential for disputes if the result is close (see page 4). We expect to know the results of three key states – **Florida, North Carolina and Arizona** – on election night, making them prime early indicators of the presidential outcome.

| 2020 poll margin | 2016 result | |
|------------------|--------------|--|
| D + 2.0 | R + 1 | Florida – 29 electoral votes |
| | | We will likely have an idea of the winner of the popular vote on election night. Results of ballots cast early in-person and by mail are expected by 8 p.m. EST, with a relatively quick count of the in-person vote on Election day over the evening. The count will likely be comprehensive as early vote counting can begin 22 days before Election Day. Absentee and mail-in ballots must be received by Election Day. |

| | | |
|----------------|----------------|--|
| D + 5.2 | R + 0.8 | Pennsylvania – 20 votes |
| | | We will not know the outcome on Election Day as mail-in ballots may not be processed until 7 a.m. EST on Election Day – and can be received as late as Nov. 6 if postmarked by Election Day. Secretary of State Kathy Boockvar has predicted the vast majority of ballots will be counted “in a matter of days” or “by the weekend after the election.” There may be no preliminary winner for several days – and no official winner for several weeks, based on Pennsylvania’s experience in the June primary, when counting took more than six days. |

| | | |
|----------------|----------------|--|
| D + 8.7 | R + 0.2 | Michigan – 16 votes |
| | | Michigan expects initial state-wide results to be available on Nov. 6 or earlier. Absentee and mail-in ballots must be received by Nov. 3. In jurisdictions with more than 25,000 people, these ballots can start being counted on Nov. 2. |

| | | |
|----------------|--------------|---|
| D + 1.9 | R + 4 | North Carolina – 15 votes |
| | | We will likely know the unofficial winner on election night as the lion’s share of votes is expected to be reported then, according to media. Results from early ballots are set to be reported after polls close at 7:30 p.m. EST. North Carolina will count all ballots received by Nov. 12 if postmarked by Nov. 3. As a result, the winner may not be official until Nov. 12. |

| | | |
|----------------|----------------|---|
| D + 8.6 | R + 0.8 | Wisconsin – 10 votes |
| | | Wisconsin does not count mail-in ballots until Election Day and does not accept them after Election Day. Election officials have predicted they will finish counting on election night or the day after. Results took roughly six days to be released during the primaries. |

| | | |
|----------------|--------------|--|
| D + 3.1 | R + 4 | Arizona – 11 votes |
| | | We will likely have an idea of the winner of the popular vote on election night. Arizona plans to release the results of all ballots cast before Election Day by 8 p.m. local time (10 p.m. EST). The state does not accept any ballots received after Election Day. |

Sources: BlackRock Investment Institute, Washington Post and state election authorities, with data from FiveThirtyEight.com, Oct. 2020. Notes: Polling margins are as of Oct. 30.

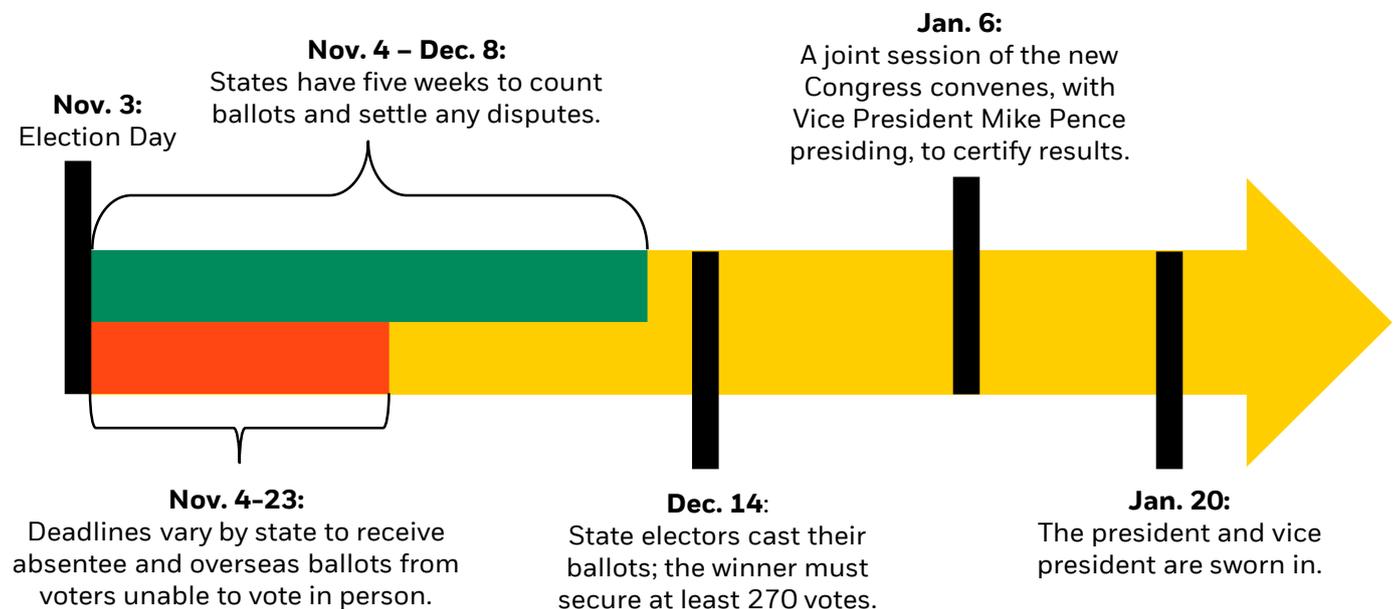
A contested election

Unprecedented early voting has helped increase the risk of a contested election. We believe there are mechanisms for resolving this, although a conclusive result could take a few days or more. As a result, we prefer to look through the market volatility that a delayed result may bring and favor adding to high-conviction positions in case of any sell-offs of risk assets. Below is a timeline of the electoral process.

- 1** After election day, states have until Dec. 8 to count ballots, conduct recounts and settle any disputes in accordance with the “safe harbor” provision of the Electoral Count Act; state laws govern the recount rules.
- 2** Each state’s electors meet in their respective capitols on Dec. 14 to cast their ballots. The newly elected Congress must validate the results in a joint session on Jan. 6. The presidential candidate must secure at least 270 of the 538 electoral votes to win.
- 3** If no candidate wins 270 electoral votes, the newly elected House of Representatives – one vote per state delegation – elects the president by simple majority. The Senate chooses the vice president.
- 4** If a president or vice president is not chosen by Jan. 20, the Presidential Succession Act states that the Speaker of the House would act as president until there is a president or vice president.

Timeline of the election process

The different steps from election day to finalizing a president and vice president



Source: BlackRock Investment Institute and AP News, “Vision 2020: What happens if the US election is contested?” as of Oct. 16, 2020. Available at <https://apnews.com/article/election-2020-inaugurations-archive-election-recounts-elections-fa1f88c9ff0681bd78b147137c09b3d9>

Senate races to watch

There are 35 of the 100 U.S. Senate seats up for election on Nov. 3. Unlike the presidential election, candidates are elected directly by the popular vote in the relevant state. Republicans currently hold a 53–47 majority in the U.S. Senate. Democrats are defending 12 seats; and Republicans are defending 23 seats. To gain control of the Senate, Democrats need to gain three seats if Biden wins the presidency and four seats if Trump is re-elected as a result of the vice president's tie-breaking role.

As of Oct. 30, Democrats looked likely to capture the **Arizona** and **Colorado** Senate seats while Republicans were poised to gain **Alabama**, according to polling aggregation website FiveThirtyEight. This would give the Democrats a predicted net gain of one seat. As a result, Democrats would need an additional two seats for a Democratic sweep. We believe the eventual outcome may be determined by the five races in the four states below. We show our expectations for when we will know the results. Democratic candidates were slight favorites in three of these races as of Oct. 30, according to FiveThirtyEight, giving them an overall edge in the race to win the Senate. See the chart below.

Iowa

The race was a toss up in this traditionally Republican-leaning state. Absentee and mail-in ballots must be postmarked by Nov. 2 and received by noon on Nov. 9. Iowa allows counting of these ballots before Election Day. As a result, we will likely know the winner on or shortly after Election Day, but it will not be official until after Nov. 9.

Georgia

Two Senate seats are at stake in this traditionally Republican state that has become increasingly competitive. Democrats were slightly favored in one race; Republicans in the other. One or both could go into a run-off as each has more than two candidates vying to gain more than 50% of the vote on Nov. 3. If it comes to run-offs, results won't be in for weeks.

Maine

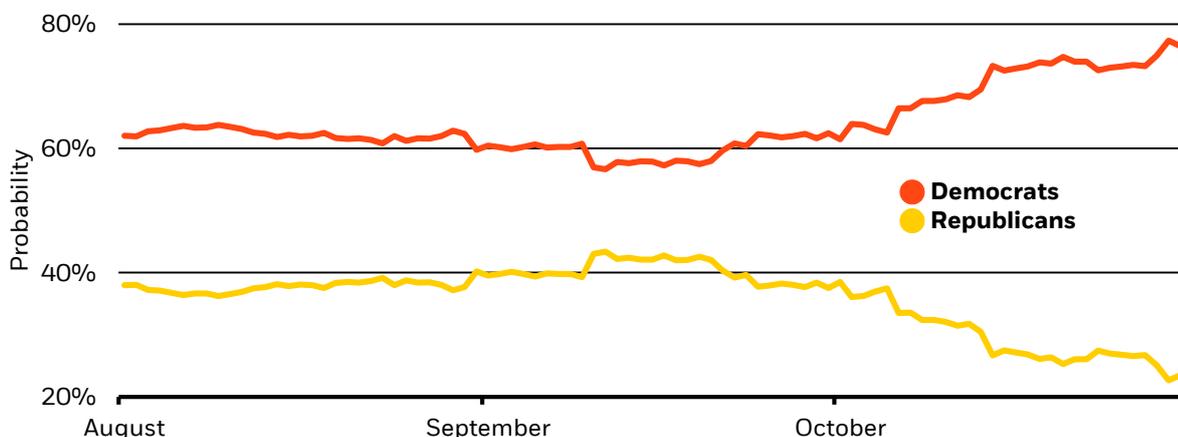
Democrats were slight favorites in this traditionally Democratic state. Absentee and mail-in ballots must be received by Election Day. Maine this year is allowing absentee and mail-in ballots to be counted for seven days.

North Carolina

Democrats were slight favorites to win a traditionally Republican Senate seat in this increasingly competitive state. We will likely know the unofficial winner on election night. See page 3 for details.

Polling shows Democrats favored to take the Senate

Probability of taking control of the Senate according to FiveThirtyEight, August–October 2020



Sources: BlackRock Investment Institute, with data from FiveThirtyEight. Data as of Oct. 30 2020. Notes: The chart shows the likelihood over time of each party controlling the Senate. See [here](#) for more.

Policy and market impact

A consequential election

We see fiscal policy as the most critical area to watch, as it has been helping to sustain the economy through the Covid shock. The two Biden victory scenarios look very different through this fiscal lens, in our view. We believe a Democratic sweep could pave the way for a new round of large-scale fiscal stimulus and boost spending on clean energy, transport and housing. It may also bring higher taxes for companies and the wealthy. A Biden win with a Republican-controlled Senate would likely lead to much less fiscal stimulus, little public investment and no major tax changes. The net difference in spending between the two scenarios could be several percentage points of GDP annually over several years, we estimate. Fiscal stimulus under a second Trump term may lie somewhere between these two scenarios, we believe, while public investment could be similarly small as under a Biden divided government.

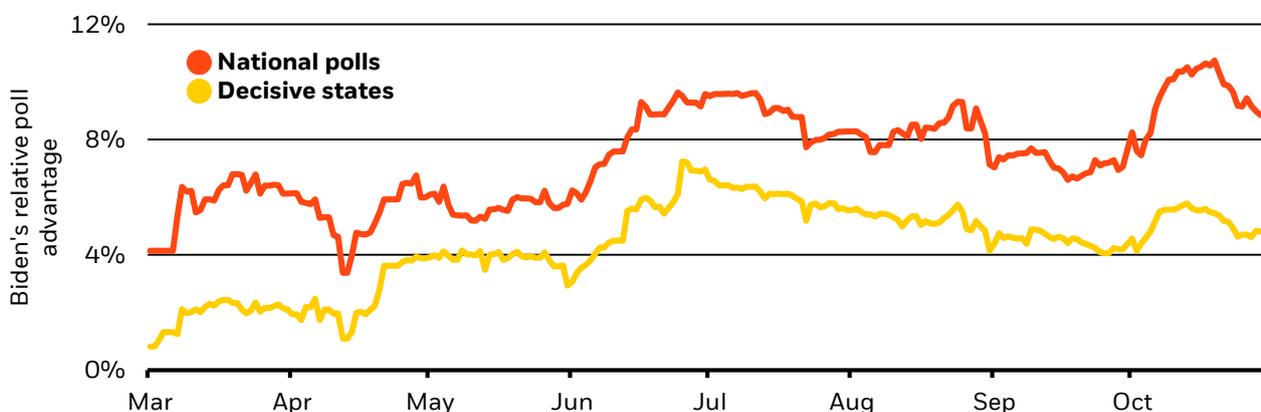
The election result will have implications for the key geopolitical risks we track. A Biden win – under either scenario – would likely signify a return to more predictable trade and foreign policy, supporting emerging market (EM) assets and broader risk sentiment in the short term. Yet we see U.S.-China rivalry staying structurally elevated across dimensions such as technology, trade and investment under Biden, due to bipartisan support for a more competitive stance on China. Climate policy would also be a major focus. The U.S. would likely immediately rejoin the Paris Agreement and increase its emissions reduction goals. Its fiscal plans could help supercharge a globally coordinated green stimulus effort, adding to recent efforts by the European Union. A Trump win, by contrast, would likely lead to a doubling-down of the “America First” stance on trade and immigration.

A Democratic sweep could accelerate a tectonic shift to sustainable investing that is already under way. Biden’s climate policy would focus on four areas: electric power, transport, buildings and research and development (R&D) spending. It could also accelerate the decarbonization of the power sector, by extending and expanding tax credits for renewable power sources and other zero-carbon industrial sources such as carbon sequestration. The Biden campaign has also proposed significant investment to reduce emissions in the transport sector, and to retrofit commercial and municipal buildings to increase their energy efficiency. Industries such as solar may already have largely priced in the transition to clean energy, yet we see other opportunities, such as energy-efficient technologies and offshore wind power.

We believe a “tax-centric” election analysis – with a Democratic sweep seen as a market negative, and divided government a positive – is too simplistic. Investors would have to balance higher taxes and tighter regulation of a Democratic sweep with greater fiscal support and more predictable foreign policy. We see the main implications of this scenario in fixed income and leadership in equity markets. It could push long-term rates modestly higher and bring forward the market pricing of the higher inflation regime that we were already reflecting in our strategic asset views. This is why, tactically, we recently downgraded nominal U.S. Treasuries and upgraded their inflation-linked peers. We see the scenario boosting global cyclicals, led by EM equities, on improved trade sentiment and a likely weaker dollar, and benefiting domestically oriented U.S. small caps on fiscal stimulus. As a result, we have upgraded EM equities and like the U.S. size factor on a tactical basis. Lastly, we see it supercharging a shift to sustainable assets on climate policy.

Biden’s polling advantage

National and decisive state polls, March–October 2020



Sources: BlackRock Investment Institute, with data from FiveThirtyEight. Data as of Oct. 30, 2020. Notes: chart shows the advantage of former Vice President Joe Biden over President Donald Trump in national polls (orange line). The yellow line shows Biden’s average advantage in six decisive states: Arizona, Florida, Michigan, North Carolina, Pennsylvania and Wisconsin.

Sector implications

Focus on energy, tech and healthcare

A Democratic sweep would likely lead to a large boost to public investment in clean energy, in our view. Fiscal spending would be significantly more constrained under a Biden win with divided government. Much could still happen on the regulatory front, such as tightening rules on oil and gas exploration, production and transmission. A crackdown on drilling and pipeline permits could constrain U.S. shale supply and push oil prices up. Yet any spike in oil prices may not be sustained given the prospect of an accelerating shift to clean energy. We see opportunities across renewables, digital infrastructure and transport regardless of the election result, given the structural shift to sustainability.

The tech sector – which has led the market in 2020 – is also in the spotlight. A Biden administration would likely bring more strenuous antitrust reviews. Tax reforms in a Democratic sweep scenario could also weigh in particular on global tech giants. We view the regulatory risks faced by mega-cap tech companies as manageable. We see potential for leadership within the sector to broaden to a wider set of beneficiaries across different themes, including 5G connectivity. Software and semiconductors could lead the charge, as they face fewer regulatory risks and enjoy long-term growth trends. Some tech companies could also benefit from a shift toward clean energy and greater energy efficiency.

We see healthcare policy as stable in the first year of any Biden administration – unlike early in the first terms of President Barack Obama and Trump, when it was a principal focus. The Covid-19 response, economic recovery and climate policy would take priority in 2021, in our view. This could change, however, in the case of a Supreme Court decision against the Affordable Care Act. Measures to curb drug prices are a potential focus, regardless of the election outcome. Yet we expect only modest action as drug makers are playing a key role in developing vaccines for Covid-19. We generally favor medical devices, life sciences, diagnostics and large European diversified pharmaceuticals.

A Democratic sweep likely to spur biggest policy changes

U.S. election scenarios and potential market implications, October 2020

| | Fiscal stimulus | Public investment | Taxation | Regulation | Foreign & trade policy | Potential market implications |
|------------------------------------|-----------------|-------------------|-----------|------------|------------------------|---|
| Biden (unified Democratic control) | ++ | ++ | -- | - | + | Global cyclicals and domestic small-caps could benefit from U.S. stimulus plans. Sustainable assets may get a boost. The yield curve could steepen and breakeven rates rise as inflation expectations ratchet higher. |
| Biden (divided government) | - | - | No change | - | + | Quality may perform strongly; tech may face regulation and anti-trust measures. More predictable trade policy could help EMs. More modest fiscal stimulus may cap gains in yields and inflation expectations. |
| Trump (divided government) | + | No change | No change | No change | - | Tech and quality may keep performing strongly; EM and Europe likely underperform. Lack of a reflationary impulse may cap breakevens and any steepening of the yield curve. |

Sources: BlackRock Investment Institute, October 2020. Notes: The table shows potential market implications of likely policy changes under three U.S. election outcomes. The "+" and "-" sign indicate whether the policy impact is a potential boost or drag to risk assets. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. It should not be relied upon by the reader as research or investment advice regarding any funds, strategy or security.

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