—New Albany—
Investment Management

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Market Insight: The Blue Ripple

This edition of Market Insight brings perspective from JPMorgan's Global Market Strategist Jack Manley.

> "In the first week of January, two Democratic challengers defeated Republican incumbents in the state of Georgia's senatorial race, bringing an end to a hotly contested runoff election and solidifying the Democratic hold of both chambers of Congress and the White House.
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> However, it would be wise to recognize that this is not the "blue wave" that was predicted in the lead-up to the Presidential election in early November. Democrats lost seats in the House of Representatives, reducing their majority to just 10, and the Senate seats recently won in Georgia have resulted in a 50-50 split, with the narrowest possible majority coming from the Vice President's role as the tie-breaker. In other words, the "blue wave" that was anticipated has materialized as more of a "blue ripple."
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> As a result, investors will likely be wondering what the investment implications of this "blue ripple" are. To do this, it is worth considering what can be accomplished with this composition of government, and what likely cannot. Many of the Biden administration's most impactful legislative priorities – like sweeping tax reform or a comprehensive clean energy initiative – require a super-majority, rather than a simple majority, of 60 votes. In addition, even those legislative priorities that may require a simple majority could be difficult to enact, given the fairly moderate composition of the Senate and the potential for certain Democratic Senators to vote against their party on more controversial proposals. These two facts mean that compromise will be required in Washington, and bills that do pass will likely be watered down versions of their original forms.
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> This is not to say, however, that change is impossible under the new regime. Increased regulatory scrutiny on big technology names has emerged as a bipartisan issue in recent years, for example, suggesting that this sector will face policy-related headwinds in the years to come.
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> More significant, though, is the implication for the fiscal response to the ongoing pandemic – put simply, a Democrat-controlled Senate paves the way for additional stimulus in the months ahead, something sorely needed with existing supplemental unemployment benefits set to expire in March."

In sum, the importance of a new democratic controlled government should help accelerate the recovery near term, however significant changes in tax policies and other Fiscal spending will likely be muted.

Market Implications: Additional stimulus combined with the acceleration of the natural recovery (due to vaccine availability) should provide more momentum to this already strong market. Stock valuation is indeed on the high end and will present a risk if interest rates rise substantially. The Fed has pledged to keep short term rates exceptionally low through this year. However, longer term rates are likely to rise as the economy accelerates.

Investment Strategy: With a strong market, risk positions have risen slightly and will be trimmed to stay within their target range. Stock exposure is more balanced between Value and Growth areas as both sectors are expected to perform well as the recovery gains strength. Bond duration is kept moderate to avoid the negative impact of the eventual rise in longer term rates.

Please contact me with any questions or concerns.

Best Regards,

Barbara