



U.S. POLITICAL INSIGHTS

# 2020 Election May Lead to Increased Volatility

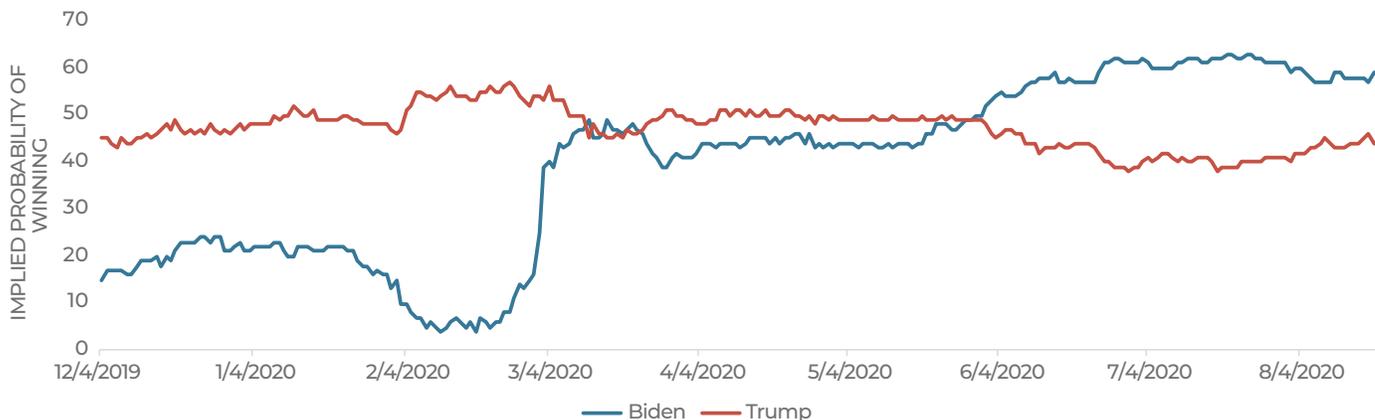
BY ABE SHEIKH, CO-CIO, JOE BELL, PORTFOLIO MANAGER,  
AND JAMES MILLETICS, FIXED INCOME ANALYST · AUGUST 2020

## KEY TAKEAWAYS:

- » Odds from PredictIt.org show former V.P. Joe Biden slightly ahead of President Donald Trump in the race to win the White House. Democrats are also slight favorites to win control of Congress, which may have even greater implications for financial markets than the Presidency.
- » The two presidential candidates differ significantly on their policies towards the economy, trade, and big tech. President Trump supports lower taxes, domestic manufacturing and has initiated an anti-trust probe against large U.S. tech companies. Former V.P. Biden supports reversing Trump's 2017 tax cuts, a "made in America" manufacturing plan and has proposed a minimum federal tax aimed at companies like Amazon.com.
- » Financial market volatility may increase as we head into the November election. Historically, six out of the last seven elections have seen rising volatility in the three months prior to election day. With a historically high number of mail-in voters, the results of the election may potentially be delayed a week or more—until all votes have been counted. The delayed result of the Bush-Gore election of 2000 provides us with a potential historical precedent.

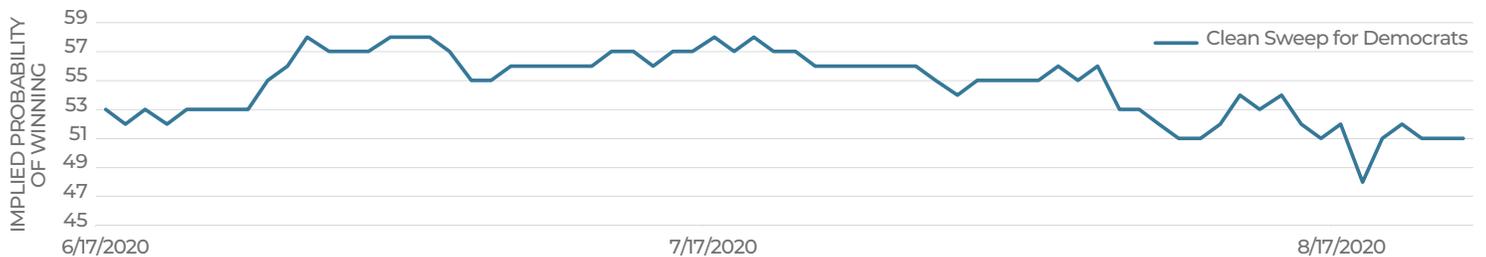
## 1. JOE BIDEN AHEAD OF PRESIDENT TRUMP TO WIN WHITE HOUSE IN 2020

EXHIBIT 1: "WHO WILL WIN THE WHITE HOUSE?" JOE BIDEN SLIGHTLY AHEAD OF PRESIDENT TRUMP



Source: Bloomberg

EXHIBIT 2: "WHO WILL CONTROL CONGRESS?" DEMOCRATS LEAD REPUBLICANS WITH A 54% CHANCE



Source: PredictIt.org

As Exhibit 1 shows, according to PredictIt.org—a prediction market for political and financial events—the odds of a Joe Biden victory in the 2020 presidential elections have increased gradually over the last few months. In part, this may be attributed to the coronavirus pandemic, and its short-term negative impact on the U.S. economy and unemployment rates. While control of the White House is significant, the even bigger prize lies in controlling Congress (both the House and the Senate), as well as the presidency. This allows the winning party to draft and sign legislation into law with a simple majority, thereby significantly changing the direction of government policy. Recall that Republicans won the White House and control of Congress in November 2016, which allowed the passage of significant tax reform. As Exhibit 2 shows, PredictIt.org is showing a greater than 50% probability of Democrats winning control of Congress.

## 2. CANDIDATES DIFFER ON APPROACH TO ECONOMY, TRADE AND TECH

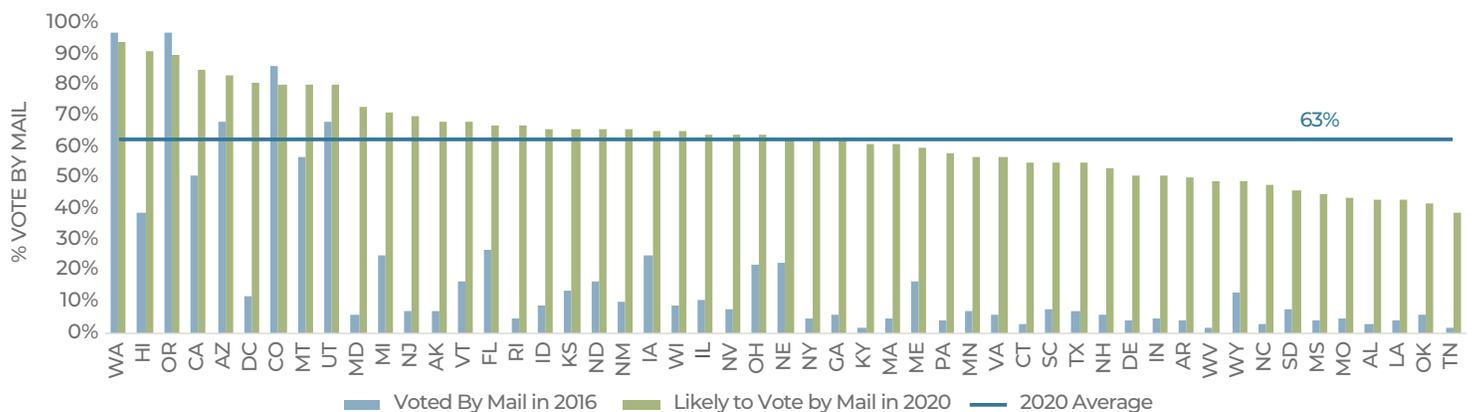
EXHIBIT 3: CANDIDATES DIFFER SIGNIFICANTLY ON KEY POLICY ISSUES

	PRESIDENT TRUMP	FORMER V.P. BIDEN
ECONOMY	<p>Encourages states to reopen as soon as possible and has signed legislation for significant aid since the COVID-19 outbreak.</p> <p>Supports additional government spending, stimulus, and lower taxes to spur growth.</p>	<p>Cautious about reopening of U.S. economy.</p> <p>Has proposed increased spending to create new jobs in certain industries and increase unemployment benefits.</p> <p>Pledges to reverse some of Trump's 2017 tax cuts by raising the marginal tax rate on highest income earners and supports raising national minimum wage.</p>
TRADE	<p>Encourages domestic manufacturing and cites America's difficulties in procuring medical supplies during the pandemic as a reason to encourage U.S. companies to avoid offshoring.</p> <p>Believes past trade deals have been unfair to U.S. and has mandated higher tariffs against China and other countries to combat this.</p>	<p>Proposed a "made-in-America manufacturing plan" in July, which would spend \$700 billion on American-made products and research.</p> <p>Criticizes Trump's tariff war with China as bad for U.S. consumers and farmers and voted for NAFTA as a senator. Believes international coalition against China could be used.</p>
TECH REGULATION	<p>The Trump administration is conducting a wide-range antitrust probe into major tech companies but has not called for firms to be broken up yet.</p> <p>Has accused social media companies of censorship and signed an executive order that seeks new regulatory oversight of tech firm's content moderation decisions.</p> <p>Has criticized tech firms over encryption issues, including Apple for refusing to unlock phones during criminal investigations.</p>	<p>Has criticized some big tech companies and proposed a minimum federal tax aimed at companies like Amazon.com.</p> <p>Only Democratic candidate who called for revoking Section 230 of the Communications Decency Act, a key internet law that largely exempts online platforms from legal liability for users' posts.</p> <p>Believes the U.S. should have stricter privacy standards.</p>

Source: Reuters

## 3. FINANCIAL MARKET VOLATILITY IS LIKELY TO INCREASE GOING INTO ELECTION

EXHIBIT 4: 2020 ELECTION WILL EXPERIENCE LARGE INCREASE IN MAIL-IN BALLOTS ACROSS STATES

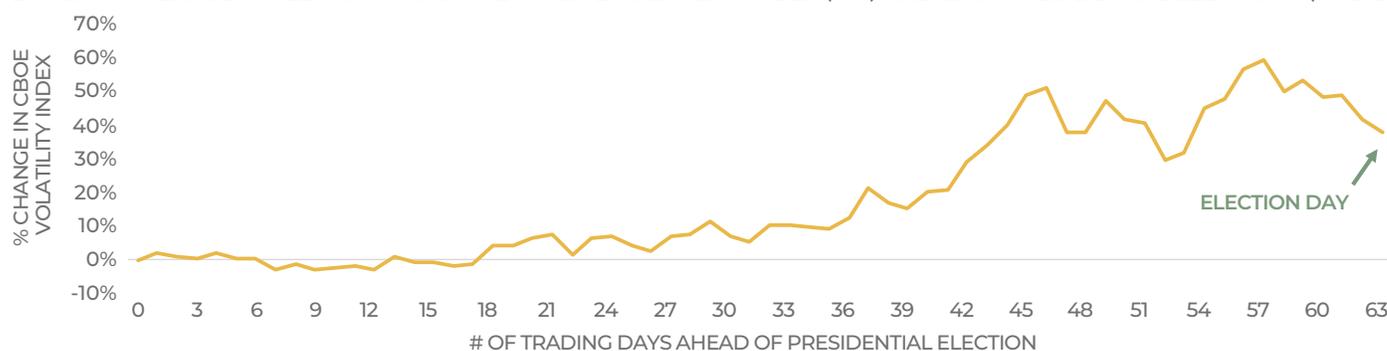


Source: covidstates.org

Based on a July survey by covidstates.org, the percentage of voters that are likely to vote by mail will be nearly 63% this year, up from just 19% in 2016. In addition to the extra time it may take to count mail-in votes, 18 states accept mail-in votes up to 10 days after election day if they are postmarked by the day of the election. Absentee ballots also have a historically higher rate of rejection than machine-voting, usually from a missing signature or being received after the deadline.

The 2000 election between George W. Bush and Al Gore provides an interesting example of increased uncertainty because of unanticipated delays. Due to the close vote count in Florida, and the close electoral college count from the other States, it took 36 days for the Supreme Court to declare George W. Bush the winner. The stock market fell about 5% during this period, in response to increased uncertainty around future outcomes.

EXHIBIT 5: AVERAGE THREE MONTH CHANGE IN CBOE VOLATILITY INDEX (VIX) AHEAD OF PRESIDENTIAL ELECTIONS (1992-2016)



Source: Bloomberg

EXHIBIT 6: SIX OF LAST SEVEN ELECTIONS SAW AN INCREASE IN VOLATILITY DURING THE THREE-MONTH PERIOD AHEAD OF THE ELECTION

ELECTION DAY	PRESIDENT ELECT	WINNING PARTY	3-MONTH CHANGE IN VIX BEFORE ELECTION
11/3/1992	Bill Clinton	Democratic	25.40%
11/5/1996	Bill Clinton	Democratic	8.68%
11/7/2000	George W. Bush	Republican	29.87%
11/2/2004	George W. Bush	Republican	-0.19%
11/4/2008	Barack Obama	Democratic	135.94%
11/6/2012	Barack Obama	Democratic	10.22%
11/8/2016	Donald Trump	Republican	55.52%
<b>Average:</b>			<b>37.92%</b>

Note: The CBOE Volatility Index (VIX) is a real-time market index that represents the market's expectation of volatility for the U.S. stock market.

Source: Bloomberg

As shown in Exhibit 5, historically, six out of the last seven elections have seen rising volatility in the three months prior to election day. U.S. stock market volatility, as represented by the CBOE Volatility Index (VIX), has on average increased 38% during the 3-month period ahead of the election. Given the unique circumstances surrounding this year's election, we believe financial market volatility may increase as we head into the November election.



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