

Markets Update: Investors Feel "Relief" as Clarity Begins to Form Around US Election

JAKE SIEWERT: Welcome to our Exchanges at Goldman Sachs markets update for Friday November 6th. Each week we check in with a leader across the firm to get a quick take on what they're watching in the markets. It's been a particularly busy week here as we've spent the week awaiting the final outcome of the US election. I'm Jake Siewert, Global Head of Corporate Communications here at the firm. And my guest to discuss all this today is Ashok Varadhan, Global Co-Head of our Global Markets division. Ashok, welcome. Thanks for joining us.

ASHOK VARADHAN: Thanks Jake. Feels like the last time we did this was at the onset of COVID. And even though it was six months ago, it felt like it was four years ago. So, you know, 2020 has been that type of year.

JAKE SIEWERT: Has been that type of year. How have markets reacted this week from election day to where we are today, right now, Friday morning?

ASHOK VARADHAN: Yeah. So, I would say that, you know, the best way that I could characterize the reaction from markets has been relief. Really. I would say leading up into the election,

you know, October was not a great month for markets. The last week in October was the worst week that global equity markets put in in the prior seven months. And I think there was some real sort of apprehension around the election. I think people wanted to take the risk down ahead of the election, really because there were sort of two bimodal outcomes. I would say, sort of aside from the presidency for a second, I think there was questioning whether or not there would be a blue wave and all that would be entailed with a blue wave, specifically around fiscal spending and the impact that that would have on the US economy, coupled with expected revisions in tax policy and how that would affect the private sector as, maybe, a more progressive plan would allocate more resources from the private sector to the public sector.

And so, I think investors wanted to sort of take their risk down ahead of the event. And then sort of subsequent to the event, now that we kind of have a sense of what the regime will look like with a Biden presidency, but much more checks and balances with respect to what the makeup of Congress looks like, I think

investors now feel like while you have the resolution of the presidency behind you, there's nothing really major on the horizon with respect to expected future tax policy changes. And so, what you're seeing is people are sort of entering back into the market with a high degree of confidence.

JAKE SIEWERT: So, if that scenario unfolds, and you know, there's still a little bit of uncertainty around exactly what the Senate looks like and even the presidency, but let's assume a Biden presidency, Republican Senate, how bullish or bearish are investors about the economy in that scenario?

ASHOK VARADHAN: Yeah. I would say I think what it does is it gets the political hurdle behind you. And now, I think, investors start to focus a lot on the pace of the economic recovery, which continues to be extraordinarily robust. I would say, like, before this recording we got the jobs number for October. And the unemployment rate has basically come down to 6.9 percent after peaking out at around 18 percent last time we did one of these podcasts. And so, we're getting recovery in the labor market probably a lot more formidable way than maybe what we had anticipated. And I would say broadly speaking, very different than the recovery of an economy subsequent to an asset bubble bursting. And we have a very optimistic forecast for 2021 growth, somewhere between 5 and 6 percent for the US economy. And that has baked in it not a huge fiscal stimulus package attached to it. I think there's talk even with the makeup of this presidency and this Congress as we can forecast about a trillion dollar injection in fiscal aid to essentially help us get through the other side of the looking glass of this virus.

And then also we haven't really talked a lot about it, but how we sort of advance on creation and adoption of a vaccine is a very important thing too, which will help turbo charge the economy. And so, I think investors are very focused on that, which is the recovery of the economy and progression against the vaccine. And now that investors can be focused on that and aren't really focused on the election, or you basically know kind of what you're going to be dealing with from a political regime, I think that's emboldening people to get back into the markets.

JAKE SIEWERT: You see a lot of different kinds of markets, obviously. But broadly speaking, what kind of action have you seen in trading as clients think about positioning themselves for that scenario in the months ahead from interest rates to equities?

ASHOK VARADHAN: So, I would say, again, if you were to get a formidable blue wave, so I mean, you know, you're talking, say, 54/46, you know, if that's where it had ended up with respect to the Senate, I think that there was a real expectation that you would get a lot more fiscal and, you know, more progressive taxes, however you want to-- you know, we can characterize what that would look like. And so, therefore while that would have been pro-growth, the funding variables for that growth perhaps would have been bonds and it would have been stocks. That obviously did not transpire. And so now, all of the sudden, and so you had had people basically, I don't want to say setting up for that, but basically immunizing themselves from that.

Now where you move back to a regime that is still kind of pro-growth, the way that I articulated it, but now not as much funding comes from bonds and not as much funding comes from stocks to help catalyze that growth, now all of the sudden you see people basically going back into those asset classes. And the way that I would characterize it sort of in our vernacular, Jake, is people are looking to get back into what I'll call carry. And I would characterize carry as you think the world's not going to change a whole hell of a lot. You think things will progressively get better. You don't think there will be a lot by way of economic volatility going forward. And so, therefore, I want to engage in strategies where if the world six months from now looks not too different from its forecast, I will generate returns. And that's the real rotation that's taking place now.

JAKE SIEWERT: It's been so long we've been watching political developments in the markets, maybe we can go back to looking at how the businesses are performing. But you've experienced a lot of presidential elections from the trading floor. What's similar and what's different this year with regards to how markets absorbed this information and reacted?

ASHOK VARADHAN: Yeah. So, I mean, as you know I've been doing this a long time. What comes to mind immediately for me is when I was running our interest rate products business when you had the Bush/Gore unresolved presidential election. And what I would say is, you know, the markets swooned a lot in that. I think it was sort of a two to three-week reconciliation period subsequent to the election where ultimately Bush was awarded the election. And in that scenario, you had markets trade pretty poorly. In that lack of resolution you saw bond yields fall and you saw equity markets fall. But the problem with analyzing that is that happened concurrent at a time in which the economy was

rolling over. That was a time in which, if people remember, that was when sort of the first tech bubble was bursting. And so, the price action was far more deleterious than what we saw today. But that being said, I think part of the reason why the market is trading better is for some of the reasons that I articulated, but also I think the thing that's very different is while the market obviously Trump is coming out and saying that he will contest, basically, the election results and what has transpired, the market doesn't see got contestation as being very credible. Whereas I think the market was much more nervous about that 20 years ago.

JAKE SIEWERT: Yeah, I remember it well. I was with President Clinton at the time when the Supreme Court decision came down. December 14th. So it was actually about four or five weeks. But it was a very turbulent period. So, what are you watching in the days and weeks ahead to help clients navigate through all the noise here?

ASHOK VARADHAN: So, I think you have to shift your focus to things like this morning, payroll report this morning, which has, you know, moved the market a fair bit, you know? It's a very strong payroll and jobs report. So I think you need to look at the pace of the recovery. I think we're going to get a lot of incoming information around the pace of the recovery, both coming here in the fourth quarter and as well as in the first quarter. And also, how we progress against the virus. Obviously, there's been an uptick with respect to incidents of cases, hospitalizations, that's been taking place globally. Obviously, lockdowns that have taken place in Europe and a lot of apprehension about whether we'll see corresponding lockdowns take place in the US in the coming weeks. You know?

But I would say the following which is part of the reason why the US economy has performed so well, you know, GDP was up 33 percent in the third quarter. Obviously, Americans are getting back to work here, is we haven't engaged in sort of broad spread lockdowns. We have allowed certain segments of the economy to reopen, which has put Americans back to work and given them the dignity of work. And so, I think the US economy has performed very well on that front.

JAKE SIEWERT: Well, Ashok, thanks for joining us today. Hopefully, the next time the world will be a little quieter, little less noisy when we get together. But it's always good to talk to you at a time like this.

ASHOK VARADHAN: It's fantastic. And you know, really appreciate you doing this, as well as the other podcasts and communications from other firm leaders. So, thank you.

JAKE SIEWERT: All right. That's all for this week's markets update on Exchanges at Goldman Sachs. Tune in again next week and we'll update you on how the election outcome is having an impact on the outlook for the US stock market. Thanks for listening. Hope everyone has a great and safe weekend.

The podcast was recorded on Friday, November 6th, in the year 2020. Thanks for listening.

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