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Markets respond favorably to election outcome

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Counting the votes in this year's election took longer than usual. But markets didn't seem to mind the initial uncertainty. Inferring that divided government was the most likely outcome, investors sent yields lower and stocks higher. Bond prices rose in the days following the election as expectations for stimulus and additional government borrowing were reined in. Stocks soared as tax, regulatory and health care reform all became less likely. The market's reaction to the election was unexpected, but this illustrates an important truism about investing. It is typically unwise to make big changes to asset allocation ahead of significant events that are difficult to predict.

Going forward, markets should continue respond to the trends that are currently underway. This includes a moderating recovery and rising COVID cases that may necessitate greater containment efforts as we go through the winter months as investors look ahead to 2021 when a vaccine likely will be widely available. The biggest risk to markets in the interim could be new lockdowns and insufficient federal spending support that together slow the economy.

We continue to believe that the best opportunities for investors are in U.S. assets. Still, there are scenarios that could offer a better outlook for international equities, if the U.S. quickly re-engages with trading partners and if the U.S. dollar continues to weaken.

The days and weeks ahead are likely to hold additional twists and turns, so investors should not become complacent. Instead, we think this is a good time to make sure that investment target allocations are aligned with appropriate levels of risk and then to rebalance back to those targets as markets fluctuate.

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