



Philequity Corner (January 11, 2021)
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Georgia on my Mind

The title of this article is a song popularized by Ray Charles which was selected by Rolling Stone magazine as the 44th greatest song of all time. However, what we will be discussing is the historic Senate runoff election in the US state of Georgia last January 5 and its impact on financial markets. While all eyes were on the presidential elections last November, we flagged the importance of the Georgia elections more than 2 months ago (see *Blue Red Blue*, 9 November 2020).

Beating the odds

Just as the world went on a rollercoaster ride in 2020, Georgia had its own twists and turns as well. A few months ago, analysts and strategists expected Republicans to win the Georgia runoffs because it is a historically Republican state. However, with Joe Biden's victory as well as Trump's repeated claims of election fraud, the lead of the Republican party narrowed. By January 4, the day before elections, pollsters said the race was too close to call. Eventually, Raphael Warnock and Jon Ossoff prevailed over their respective opponents on the back of a record turnout for Democrat voters. This marked the first time a Democrat was elected as Senator of Georgia in 20 years.

Blue wave washes over the US

During the Trump administration, Democrats had control only of the House of Representatives. Republicans held the majority in the Senate. With twin victories in Georgia, Democrats suddenly had 50 out of the 100 Senate votes. Working in their favor is a rule that states in case of a tied vote, the Vice President will cast the deciding vote. Along with Biden and a Democrat majority in Congress, a Blue Wave washed over the US for the first time since 2011.

Blue policies

The implication of this Blue Wave is that Democrats will have a less difficult time passing preferred legislation. With only 2 years before the next midterm elections, political experts expect Democrats to work very hard to pass their top policy priorities, such as:

1. A comprehensive COVID-19 stimulus package amounting to more than \$1 trillion
2. Tax cut rollbacks and higher capital gains taxes for wealthy Americans
3. Significantly increased infrastructure spending
4. More government support for green energy initiatives at the expense of fossil fuel projects
5. More regulation for various sectors, such as big tech, banks and pharmaceutical companies
6. Expansion of Obamacare

Kneejerk reaction

The specter of increased regulations, tax hikes and the populist stance of Democrats led most strategists to expect a correction if Democrats swept the Georgia Senate runoff elections. In fact,

US stock futures tanked as it became clear that this was indeed the result. This kneejerk reaction of investors was clearly seen on the first trading day after elections:

1. Bonds were hammered, with the US 10-year yield exceeding 1% for the first time since the COVID-19 pandemic started
2. Investors shifted from tech stocks into several other sectors such as bank stocks as the yield curve steepened. Infrastructure, materials and renewable energy companies were also bought up because they are likely beneficiaries of Democrat policies. As a result, the Dow Jones index rose 437 points or 1.4%
3. European, Asian and EM stock markets spiked as fears of rising taxes in the US sent traders flocking to investments outside the US
4. The US dollar fell as the passage of a massive stimulus package will result in a huge budget deficit
5. Bitcoin hit a new high and broke the \$40,000 level, with total bitcoin market cap exceeding \$1 trillion for the first time
6. Crude oil prices broke the psychological \$50/barrel level. Industrial metals, such as copper and nickel, also spiked as hopes for more infrastructure spending stoked inflation and growth expectations

Assault on Capitol Hill

Amidst all these, Trump supporters were busy protesting in front of Capitol Hill, trumpeting unfounded claims of election fraud and demanding a stop to the certification of Biden's victory. In a sudden turn of events at around 1PM US Eastern Time, rioters were able to break through barricades and occupy Capitol Hill. This assault interrupted the certification proceedings for many hours before police were finally able to put the situation under control.

Biden victory upheld, US hits record highs

Jittery investors calmed down when US legislators eventually reconvened to finally certify Biden as the next President of the US. Analysts also said that fears of significantly higher taxes are unfounded as the Democrats only have a slim majority, making "middle ground, centrist" legislation more likely to be passed. A broad market rally ensued, lifting all markets and sectors, with major US indices hitting fresh record highs.

2021: Year of healing, reflation and recovery

Despite the Georgia runoff, political upheavals and record COVID-19 cases, the global bull market continues. Biden's recent victory and the Blue Wave led to broadening of the market breadth. It is not only tech stocks that are rising, but other sectors as well. Strength in the US stock market has also sparked similar bull runs in other regions such as Europe and Asia. All these factors indicate that 2021 may be the year that other stock markets catch up with the US. 2021 may be the year of healing, the year of reflation and the year of recovery.

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