

Q: How important are the Georgia Senate run-off elections to the markets?

Brian Lockhart: They are extremely important in my opinion. Markets perform much better when government is divided and a single party does not hold all legislative and executive power. Democrats in the House of Representatives hold a razor thin margin after losing a double-digit number of seats in 2020. Even this could change as potentially a dozen or more House members leave their seats to work in the Biden Administration. Republicans would only need to pick up a couple of those open seats to gain control of the lower house.

If Democrats were to control the House, Senate, and White House by sweeping the Georgia Senate runoffs, it is almost a certainty that policies the markets would view as negative would be pursued. There would likely be a dramatic rise in costly regulations that would impact earnings. Taxes would go higher as Biden has stated he would reverse the 2017 tax cuts. Possibly most damaging would be the ability of Congress to do away with Capital Gain treatment and eliminate the step up in basis. These policies would cause an investor revolt that could take the markets back to levels seen in 2016.

Everyone knows the stakes are incredibly high and record amounts of money are being poured into Georgia to try and influence the election. Elections have consequences, and the Georgia contests will demonstrate this as well as any election.

Clint Pekrul, CFA: Considering that the balance of power in the Senate hangs in the balance, I would say the Senate seats in Georgia are important. Neither the Republican nominee David Perdue, nor his opponent Jon Ossoff, a Democrat, achieved 50% of the overall vote. A victory for the Democrats would swing the Senate to the majority, with vice president Kamala Harris casting the deciding vote in the event of a tie. This scenario would obviously allow President Biden to push through his agenda. The GOP would be unable to block his major policy initiatives.

However, it does not appear, at least for now, that the market is giving much weight to the Georgia senate runoff election. President Biden has already appointed Janet Yellen, the former Federal Reserve chair, as Treasury secretary. Yellen seems to be well received on Wall Street, given her accommodative views on monetary and fiscal policy. Meanwhile, there are hints that Biden might retain Jerome Powell as Federal Reserve chairman. As far as the market is concerned, both the appointment of Yellen and potentially Powell seem to have paved the way for a smooth transition from the Trump administration and have put the Georgia runoff election in the rearview mirror.