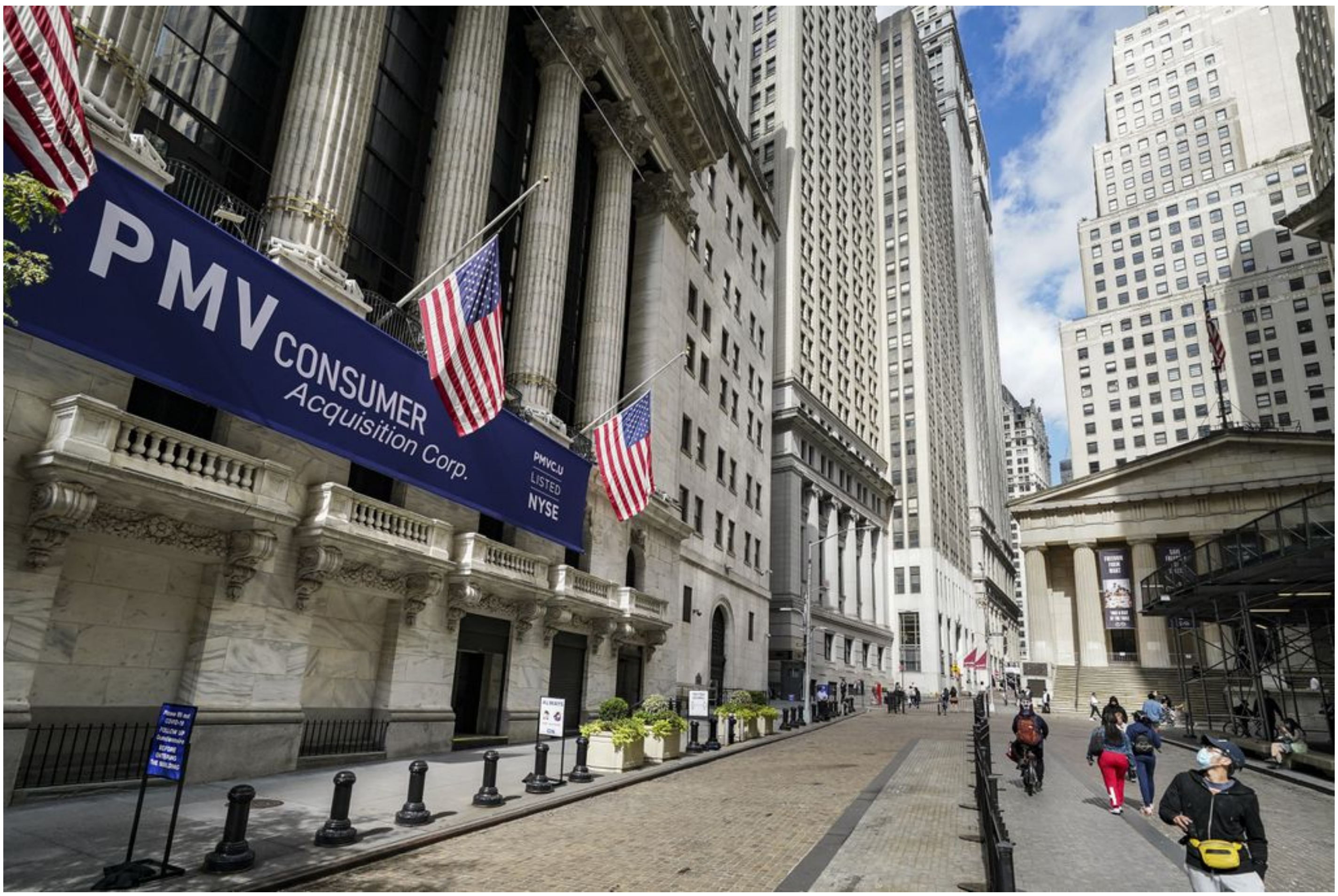
Here's what the Election Day stock rally means

By **Larry Edelman** Globe Columnist, Updated November 3, 2020, 49 minutes ago



Pedestrians pass the New York Stock Exchange, Friday, Oct. 2, 2020, in New York. Stocks are opening broadly higher on Wall Street, following global markets higher on Election Day in the U.S. The S&P 500 rose 1% in the early going Tuesday, Nov. 3. (AP Photo/John Minchillo) JOHN MINCHILLO/ASSOCIATED PRESS

Stock prices are rising Tuesday for the second day in a row. Does Wall Street know something about the election we don't?

Doubtful.

But stock prices do reflect investors' expectations for the economy and corporate earnings over the next six months or so. The Standard & Poor’s 500 was up 1.9 percent at about 1 p.m. Tuesday, after gaining 1.2 percent on Monday.

This week’s mini-rally, which followed the market’s decline in September, its first since March, offers some clues to how investors are thinking.

We’ll know who the next president will be sooner rather than later.

Fears that vote counting will drag on for weeks have eased. That doesn’t mean the Associated Press and the broadcast networks will call the contest for President Trump or former vice president Joe Biden before we go to bed Tuesday night. But the market is betting a clear winner will emerge relatively quickly and a contested outcome — possibly accompanied by social unrest — can be avoided.

“Investors are hoping for a clear, decisive election outcome,” said Dan Kern, chief investment officer at TFC Financial in Boston. “I think today’s market rally reflects optimism that we’ll have a definitive presidential election result this week and will avoid the ugly litigation that would accompany a contested election result.”

Biden remains favored to win.

There is an overwhelming consensus on Wall Street that the most important thing the economy needs right now is massive fiscal spending to offset the impact of the coronavirus pandemic. That means the return of beefed-up unemployment benefits, more grants or loans for small business and struggling industries such as airlines, aid for cash-strapped state and local governments, and increased spending on health care and virus testing.

The stock market has been on a roller-coaster ride for months as Democrats and Republicans tried — and ultimately failed — to strike a deal on a new rescue package.

A blue wave — a Biden victory coupled with Democrats retaking the Senate — would almost certainly guarantee $3 trillion or more in stimulus fairly quickly. The market was being led higher Tuesday by financial and industrial stocks, two sectors that usually do better when prospects for a stronger economy brighten.

A split decision — with Biden taking the White House but the GOP holding on to the Senate — would mean continued political gridlock. While the certainty that comes with the status quo of divided government is usually better for stocks, at this moment it is seen as negative for the economy.

Trump can still prevail.

While stocks may be pointing to a Biden presidency, stock options may be signaling a come-from-behind win for Trump.

Analysts at fund company Janus Henderson identified separate baskets of stocks that would likely perform better under Democrats and Republicans, and analyzed the performance of stock options tied to those companies.

Their findings: “The options market views the race as having tightened in President Trump’s favor over the last couple of weeks and having done so at a pace quite faster than what we’ve seen in polling data,” Ashwin Alankar, head of global asset allocation at the firm, wrote in a note to clients.

The rally may be non-partisan.

The markets may be anticipating more global stimulus regardless of who wins election, according to Matthew Miskin, co-chief investment strategist at John Hancock Investment Management, as surges in COVID-19 cases force shutdowns across Europe and tighter restrictions in parts of the United States.

“A feedback loop is developing where COVID-19 cases rise, the stock market sees volatility, this results in greater hope of policy makers supplying more stimulus, and stocks rebound,” Miskin said.

But Miskin cautions against trying to navigate these short-term market swings.

"We continue to advocate staying the course in a balanced portfolio and to keep a longer-term perspective," he said.

Correction: An earlier version of this story misspelled the name of TFC Financial.

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