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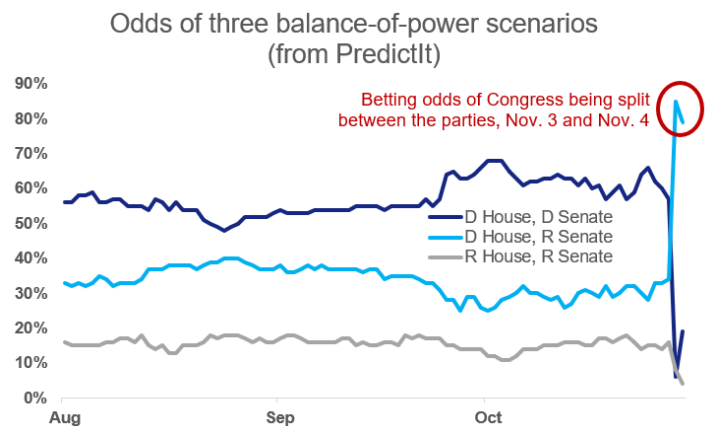
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WITH PRESIDENTIAL ELECTION STILL IN FLUX, SENATE CONTROL BEARS WATCHING

One of the key takeaways from our post-Election Day coverage was that initial results pointed to Republicans keeping control of the Senate, but with a caveat that votes still need to be counted. Georgia in particular bore watching because they have special rules if no one garners 50% of the vote. As of this writing, Senator Perdue in Georgia is very close to falling below 50%—if this happens, it will trigger a January runoff election. Incidentally, Georgia is already scheduled to have a January 5th runoff election for their *other* Senate seat. If this scenario comes to fruition, control of the Senate will not be decided until January. Based on the math, this also keeps the possibility of a Democratic sweep (Presidency, Senate, and House of Representatives) alive.



For investors, this will create two months of uncertainty, particularly since the elections are in Georgia, which has been moving toward Democrats in recent elections. **Still, we maintain our initial view that Republicans will keep the Senate.**

As we've discussed many times, Senate control is key—a Republican Senate takes tax increases off the table, limits more progressive nominees from running the agencies, and hampers the major restructuring of industries like health care and energy. The drawback is that there is likely less fiscal stimulus in 2021. That entire equation could reverse if the market believes Democrats have a chance to take the Senate.

In that vein, many have attributed recent (i.e. post-Election Day) market strength to the idea that a split Congress translates to a continuation of the market-friendly tax and regulatory environment. If Biden wins, there could be additional support from less hawkish trade policy and the likelihood of still-meaningful fiscal stimulus (maybe in the ~\$1T range). In addition to all of these factors, large growth stocks have particularly benefited from this gridlock theme, in part because the \$4-5T wave of fiscal stimulus and infrastructure spending under a unified Democratic Congress would have likely favored more cyclical sectors. If the Senate math swings from current consensus, the recent winners/losers dynamic may shift.

In the end, there is much left to be decided, including the headline presidential race. But control of the Senate may be just as critical for policy-making over the coming years, and the battle for control is tightening by the hour. Relying on January runoffs for control will also affect the negotiating over much-needed stimulus in the coming weeks. We'll be keeping a close on this dynamic over the coming hours and days.

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