Thoughts from Home

"*A house divided against itself cannot stand*."

- Abraham Lincoln

The U.S. election has once again reminded us how deeply divided the country is politically. The focus has been on the Presidential race and concerns about a contested election. We are now two days after without a declared winner and yet the market has begun to recover from its October slump. The reason behind this is because the key race for control of the Senate is currently a tie and the Democrats will not control all three legislative positions, as was feared by some.

Here are some key themes we are tracking:

1) The U.S. election final result for President could still be days away but it appears Mr. Biden will eventually win. The important news of this election was that the Republicans have managed to hold their relative strength in the Senate and this gridlock should block any sweeping legislation that would be bad for business, including proposed tax hikes.

2) Covid-19 remains the major problem. Cases continue to rise in the U.S. and Europe at too high a rate. The only good news is that so far, hospitalizations remain well below the level of the two previous waves. The U.S. is currently at 9.58 million active cases. The hope is that under a Biden presidency, wearing masks could become mandatory, which would help stop the spread. If even 1% of cases recovered daily, this would mean over 95,000 people recovering. The numbers could come down quickly if the U.S. takes stronger measures. However, barring a vaccine and stronger protocols, we are still some time before this pandemic is over.

3) On a brighter note, S&P 500 earnings beat analyst estimates 83% of the time in this latest quarter, with many companies posting record profits. While some areas of the market still need to be avoided, such as oil, airlines, travel and hospitality, the market as a whole continues to weather the pandemic nicely.

4) The U.S. Federal Reserve, at its monthly meeting today, restated their intention to keep interest rates at current levels until inflation exceeds their 2% target and unemployment is back down to pre-Covid levels. Considering that even at full employment pre-Covid they could not achieve 2% inflation, interest rates in the U.S. will remain low for the foreseeable future.

In response, here are our views:

1) With gridlock in place, we are maintaining our current equity weightings, emphasizing growth over value stocks. We will continue to use our call program to capitalize on market volatility.

2) As long as Covid remains with us, we will continue to focus on a few key investment themes such as technology, transportation and health care. In technology, work from home applications as well as cloud computing and payments remain our central investments. In transportation, railways and cargo freight are key themes as more goods need to be shipped due to online purchases. For health care, market leaders with little competition such as Abbvie and Stryker are focus areas.

3) As long as earnings remain strong, we will maintain our holdings. In the event of further U.S. shutdowns due to Covid, we will look to add to positions as opportunities present themselves.

4) At any other time in market history, today's Federal Reserve announcement would have resulted in a ticker tape parade on Wall Street. Monetary policy could not be more supportive but this could lead to some weakness in the US dollar, as we saw today. However, we believe the strength of our portfolio stocks will outperform any currency weakness. The U.S. dollar also remains the world's reserve currency in case of crisis and

provides a portfolio hedge against share price weakness. As such, we are maintaining our current U.S. portfolio weight at approximately 50%.

Lincoln was speaking about the country but a Senate divided is definitely a good sign for markets. Overall, we remain positive about the market moving forward, despite the overhang of Covid-19.

As always, questions, comments and concerns are welcome. We look forward to hearing from you. In the meantime, stay healthy!

Yours truly,

Trevor, Walter and the Cooper Wealth Management team