Four years since the 2016 US election? Time goes so fast!

2020 has been quite the extraordinary year. Many things that were difficult to predict happened. But one thing we could have predicted with relative certainty was that there would be a US election in November. We also obviously knew the weather would be getting colder in the fall, but we were all hoping there would not be a second wave of COVID-19.

It is difficult not to pay attention to what is going on around us, and the current news cycle is definitely skewed to what is happening south of the border. As of this writing, in addition to the second wave, the greatest points of uncertainty relate to what will be happening after the November 3rd US election and what will happen with a new US stimulus bill.

1) Re: US Election
   Although the US election is to occur on November 3rd, vote counting will go on for a few extra days. The Electoral College does not cast its votes until December 14th.
   I do think the outcome of the election should be known before Dec 14th though. My personal opinion is that Biden will win the presidential election, this opinion stemming from a very simplistic viewpoint that Trump will probably not be able to win the small number of ‘swing’ (i.e. neither hard core Democrat or Republican) states that he did back in 2016 – states that he won by small margins. A contested election, if it was to occur, would presumably be a <u>net short-term negative</u> for the stock market. As for the US Senate elections, while current polls indicate that Democrats have good chance of regaining control of the Senate, I think that is not necessarily a foregone conclusion.
2) Re: New US Stimulus Bill
   As of this writing, there is no agreement on a new stimulus bill between the top Democrat and Republican negotiators. If such an agreement was to be reached (quite probable, in my opinion) then such a bill would need to be approved from Congress. The last I heard was that approval from Congress on a stimulus bill was unlikely prior to the election.
   Lack of a quick passage of a stimulus bill would be viewed as a <u>net short-term negative</u> by many (and vice-versa, most probably). It is interesting to note however that the markets have been relatively resilient in spite of this possibility, which is a good sign.
   As a side note, in my personal opinion, upcoming elections have a funny way of interfering with doing what would seemingly be obvious and expeditious (see Wolf Blitzer mention in next section). Pointless finger pointing seem to be coming from both US political parties, but in the meantime, many individuals and small businesses suffer. Minorities, women, and the poor seem to be disproportionally impacted.

So what is likely to command our attention once the results of the election are known?

If we go by the current poll results, Biden will be the new President once Trump’s term in office comes to an end in January.

Under a Biden Presidency, one should likely expect higher taxes, more spending, and more regulation.

We might also see a toning down of the trade wars we witnessed under the Trump administration, and possibly a more coordinated effective response to the pandemic. Democrats gaining control of the

Senate (a likely scenario but not a sure thing, as previously mentioned) would simply accelerate the timing and amplify the extent of those likely events.

What is very interesting to note though is that the combination of these events may be a net positive for the markets. My background in economics leads me to believe that stimulative impact of increased spending (e.g. infrastructure, green energy, etc.) would more than offset the contractionary impact of increased taxes. Increased government spending in these very difficult times would also counteract the increased individual savings rate.

In saying the above, there will be a time when the government will need to tackle its ever increasing deficit problem. Some experts also claim that increased government spending will also create an inflation problem in the next year or two.

MY PERSONAL OUTLOOK

I am an optimist when looking one year out from today. In addition to added government stimulus and low interest rates, 2021 should witness the wide distribution of vaccines along with a broadening out of the stock market. By ‘broadening out’, I mean that industries that are dependent on an economic recovery should start to do better, e.g. financials, tourism, energy, etc.

Finally, in one year from now, the markets will be looking ahead to expected 2022 corporate profits. Companies dependent on an economic recovery should witness, on average, significant profit increases over the next two years.

I also anticipate more focus on China and Brexit once the US election results become official.

As always, we remain vigilant as to what is happening in the markets, and we greatly appreciate your support.

Should you have any questions or concerns, please feel free to reach out.

Wade Brown, MA, MBA
Portfolio Manager and Wealth Advisor
October 21st, 2020

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In this section, I would like to offer a few interesting quotes/comments from experts that I believe are particularly timely and relevant during this time period.

“*Goldman Sachs: A Democratic sweep would mean faster economic recovery*
Goldman economists pointed out that polls ‘suggest a 'blue wave' in which Democrats gain unified control of Washington is becoming more likely’-- and they're not suggesting investors dump stocks (my underlining). In fact, ‘all else equal, such a blue wave would likely prompt us to upgrade our forecasts’, Goldman Sachs chief economist Jan Hatzius wrote in a Monday report…Joe Biden is also promising a bonanza of government spending that, coupled with extremely low interest rates, would likely speed up

the economy. Goldman Sachs wrote that a blue wave would 'sharply raise the probability' of a fiscal stimulus package of at least $2 trillion shortly after the January 20 inauguration. The bank also cited Biden's longer-term spending plans on infrastructure, climate, health care and education."
Source: CNN Business, October 6, 2020

"BOTTOM LINE: We're still at only 55% that the Democrats take the Senate, lower than most analysts. If Biden wins easily, the Democrats will take the Senate, perhaps picking up a couple more seats — Iowa, Montana, Georgia and South Carolina would be in play….But we don't think Biden will win easily, which means a Blue Wave is far from certain."
Source: Greg Valliere, Chief US Policy Strategist, AGF Investments, October 20, 2020

"*The results of the 2016 election were clear on election night, but the 2020 election is not setting up to be as clear…. Markets hate uncertainty, and the potential of a delayed election outcome has weighed on investors' minds.* "
Source: Jim MacDonald, Chief Investment Strategist, Northern Trust, October 19, 2020

"It's a cliché that 'markets hate uncertainty', but this is both redundant and incomplete. Uncertainty is the essential state of the world, whether it's obvious or not. When many important uncertainties are on the surface and are being debated and fretted over constantly, they have a lower capacity to shock and drive a major market repricing."
Source: Michael Santoli, Senior Markets Commentator, CNBC, October 5, 2020

"*Key Takeaways:*
-The Republican Party has largely been perceived to be business-friendly, but when you look back historically, the stock market has done better on average under Democrats. The bottom line is, existing economic trends are more powerful than election results.
-Even though taxes tend to go up more during Democratic regimes than Republican regimes, investors might be surprised to learn that ***there is a historic positive correlation between taxes and growth****. This could be due to the fact that there is usually a significant level of fiscal stimulus that helps the market look through tax increases."*
Source: Summary points from an Expert Panel Discussion hosted by Fidelity Investments – distributed on October 1st
My comment: **<u>These takeaways from Fidelity, along with the Jeremy Siegel comments immediately below, are my favorite market-related quotes in this newsletter</u>**

"(Jeremy Siegel) believes that the stock market 'is looking forward to a really good' run next year (2021), regardless of who takes the White House. Siegel explained that the 'tremendous burst of liquidity' from the Federal Reserve and Congress will continue to provide a huge tailwind for stocks. But, the immediate future, he warned, remains precarious. 'It's hard for me to see, without a stimulus package and with that election uncertainty, for there to be a lot of progress between now and the first week of November,' Siegel said. 'I think that uncertainty is going to continue to weigh onto the markets.' "
Source: Jeremy Siegel, Professor of Finance at Wharton School of Finance and market commentator, CNBC, Sept 28, 2020

"Don't Let The Perfect Be The Enemy Of The Good."
Source: This is an observation/aphorism attributed to Voltaire in 1770. I looked it up when I recently heard CNN Journalist Wolf Blitzer use it in a recent interview with Nancy Pelosi (October 14, 2020).

"In some situations, the happier course is to know when good enough is good enough, and not to worry about perfection or making the perfect choice."

Source: This is just an extension of the previous observation, and was drawn from an article Gretchen Rubin wrote a while back (Huff post, Feb 18, 2009 – near the peak of the Great Financial Crisis)