



Chief Investment Office PWM

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PWM Education Series: Key highlights from our call with BNY Mellon's Chief Strategist, Alicia Levine

The Economy

- While there are pockets of extreme weakness (such as travel and leisure), **overall economic activity and earnings are looking pretty good.** Economic activity has generally surprised to the upside thus far in the recovery. The Atlanta Fed GDP now estimate is now at 35% of the third quarter. US GDP estimates for 3Q have moved from 11 percent to 35 percent in 2.5 months' time.
- **The stock market is not the real economy.** Five large tech stocks are 25% of the S&P. Those are cloud/hardware, software, goods. That is not representative of the real economy but these sectors drive the market and these types of businesses are expanding, accelerated by the pandemic.
- **A Democratic win, especially a sweep would drive growth in alternative energy, infrastructure, healthcare.** Financials and energy could be pressured because we can expect additional or re-regulation, probably via Executive Order, not Congress.
- **US manufacturing has completely recovered.** Anything related to housing and manufacturing goods are doing great.
- Seven hundred thousand more businesses were incorporated in the last 7 months. This is a 'green shoot' demonstrating the resiliency of the economy.

Stimulus

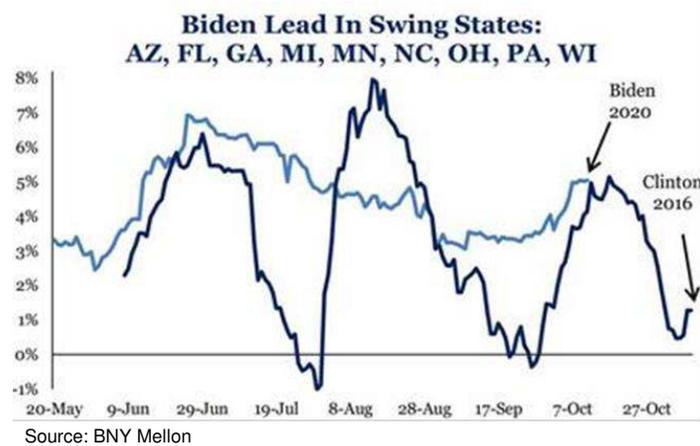
- **A Democratic sweep implies a huge fiscal stimulus bill in the first quarter,** no matter what might be passed in the interim. Biden has called for a broadly based \$4 trillion of spending for COVID relief and infrastructure as well as other areas. Biden is proposing \$7 trillion of new spending and \$4 trillion of tax increases.

COVID

- **The most likely scenario is a vaccine available in the 1st half of 2021.** (Note that Pfizer announced on Friday that it expects to file an EUA for their vaccine in late November. See the COVID section below for detail.)
- Therapeutics comes first. **The media has made news of recent pauses in trials. It is important to note that this is not unusual in clinical trials.** It happens all the time, it just has never made the news before.

The Election

- **As of this date in 2016 Biden is polling exactly where Clinton was in the swing states.** Oct 28, 2016 is when Comey came out and made the statement about investigating Clinton's computers. That killed it for Clinton.



- **If we stay where we are, and nothing unusual happens, Biden is set to win swing states and win clearly, and decisively.** The market is rallying because investors were afraid of a close election and uncertainly about the voting outcome – that would be the worst outcome as the market hates uncertainty. The betting markets were more accurate than the polls in 2016 and they are projecting a decisive Biden victory and a Blue wave in 2020 – that leads to the large stimulus package in first quarter.
- In 2016, 70% of the undecided voted for Trump. She sees this as less likely to happen this time.

Stock Market

- **The biggest thing affecting the market in the near term is the anticipated stimulus, which swings on the election results.** Markets have been buoyant recently because the stimulus coming from a unified Congress should be much larger than from a split Congress. Rather than looking at the polls, BNY looks at the betting market when they are trying to get a good understanding of who is ahead in the various elections.
- Despite some very weak sectors, like travel and entertainment, economic activity and **earnings are generally looking pretty good, which is supportive for stocks.**
- **We had a pullback because the thought of a contested election bothered the markets.** Now that betting markets are strongly for a Biden win and a Democrat takeover of the Senate there is more confidence. Markets always desire clarity, and if it's a blowout, we will know quickly and that will be better for everyone.

Interest Rates

- **Concerns about debt level is are not a factor because rates are so low.** What happens when 10 Year Treasury Note goes above 1%? That's a tricky question. BNY does not believe rates are going much higher in the next 3-4 years.

- **Zero risk of US losing reserve currency status. There is no other viable alternative.** It may be a bad neighborhood but we are the best house in a bad neighborhood. If the incumbent party loses, 3 months after the election the dollar typically weakens. Since 1988 the dollar has been a good predictor of presidential elections with a declining dollar in the 3 months ahead of the election being good for the incumbent party. There has not been one instance when stocks were up and the dollar fell that the incumbent party lost.
- **It's good time to buy municipal bonds. With tax rates on the wealthy likely to rise, they become more attractive.** Also, a Democratic Congress will funnel money to the states shoring up finances

Potential 'Blue Wave' win and Taxes

Although we perceive the election outcome as still in doubt, **there is a rising tide of opinion that Joe Biden not only wins, but that there is a 'blue wave' that puts the Democrats in control of Congress and the White House.** Under those conditions, the Biden tax plan would appear to have smooth sailing to passage and we therefore need to consider the tax consequences to portfolios.

Typically, the mantra of the tax advisor is to defer taxes, however, this situation potentially calls for the opposite – a desire to accelerate taxes. **The Biden proposal is not 100% clear, but the implication is that capital gains would be taxed at the marginal tax rate of the taxpayer. Those in higher tax brackets (above 20 to 23.8%) would pay more under the Biden tax plan than they would now – the higher the bracket, the greater the differential.** The table below is a simple representation of how significant this could be. In reality, this is a complex analysis that depends on income, deductions marital status, etc. Of course, **this would only apply to taxable accounts, not retirement accounts**, which are taxed as ordinary income when withdrawn.

Potential Capital Gain Tax Implications Under Biden					
Current Unrealized Long Term Gain	\$1,000,000	\$750,000	\$600,000	\$400,000	\$200,000
Current Max Cap Gain Rate for High Earners	23.8%	23.8%	23.8%	23.8%	23.8%
Potential Rate under Biden	39.6%	39.6%	39.6%	39.6%	39.6%
Estimated Tax on Gain in 2020	\$238,000	\$178,500	\$142,800	\$95,200	\$47,600
Potential Tax under Biden	\$396,000	\$297,000	\$237,600	\$158,400	\$79,200
Potential Add'l Tax in 2021+	\$158,000	\$118,500	\$94,800	\$63,200	\$31,600

Source: PWM Research

Likewise, although offsetting gains with tax losses is typically done as much as possible, it may make sense to delay tax loss harvesting until next year as those losses could be more valuable next year, if there were to be a blue wave Biden win.

COVID Update

On Friday, **Pfizer announced that it hoped it would be in a position to apply for an Emergency Use Authorization for its COVID vaccine by late November.** That would indeed be welcome news as it would allow our front-line healthcare workers the opportunity to get the vaccine fairly quickly after FDA approval. Under Operation Warp Speed millions of doses should be quickly available upon an FDA approval.

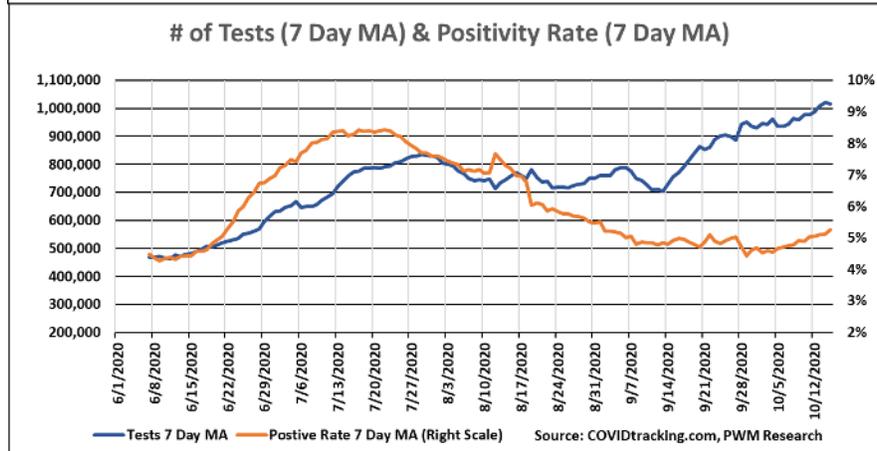
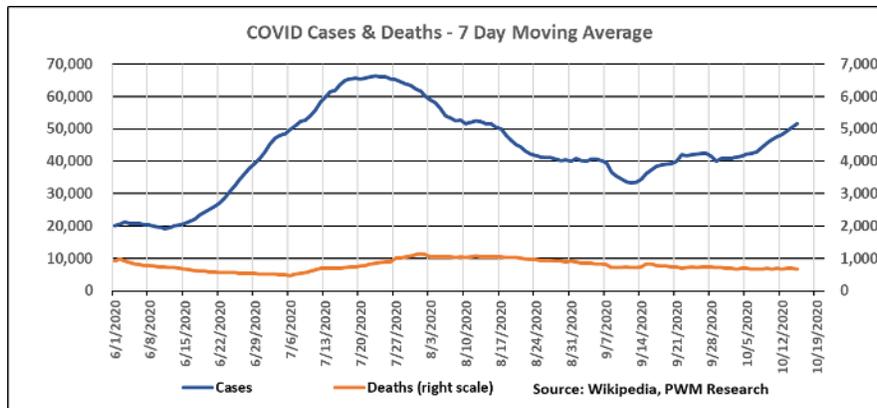
There has been **plenty of talk about the FDA and vaccine developers taking short cuts to push the vaccine out early**, so we thought we might be able to add to your understanding of this process. When a company has a Phase 3 trial:

- A group of volunteers are administered the vaccine or a placebo. All of them are tracked to gather data on the safety of the vaccine.
- Those volunteers then go out and live their normal life and a certain percentage of them will become infected with the coronavirus. It is these individuals that are documented for the efficacy of the vaccine.
- How fast or slow this happens depends entirely on how fast or slow these volunteers are infected with COVID. By expanding the size of the volunteer group, one could conceivably reach the required number for a proper statistical analysis faster than with a smaller group.

Another time saver is that the Federal Government has made the multi-billion dollar investment in production in anticipation of approval. Normally, a drug company would not investment in vaccine production until after a vaccine is fully approved. In this case, if the vaccine doesn't work, that will be wasted money, but if it is approved, millions of doses can be ready very quickly upon approval. **This [open letter](#) from Pfizer CEO Albert Bourla provides more detail.**

COVID Testing and Infection Trends

The recent COVID numbers continue to push up. Testing continues to grow, which will produce more identified cases (top chart, next page), but more important, the **positivity rate is also now trending upward**, albeit, slowly (bottom chart, next page) and on October 15 the positivity rate was over 6%. **The 7 day average rate of 5.25% is the highest it has been since early September. A 'second wave' is still not clear, but the current trend is not encouraging.**



What We're Reading

[Every Company In and Out of the Dow Jones Industrial Average Since 1928](#)

[Our iPhone 12 takeaways: Everything we're excited and confused about so far](#)

[Why our financial decision-makers need 'skin in the game'](#)

[Latest Memo from Howard Marks: Coming Into Focus](#)

[Industrial Stocks Are Getting Ready for 10 Years of Outperformance](#)

[Border agents seize 3,100 pounds of meth – the second-largest bust ever](#)

[Row breaks out over WHO trial casting doubt on Remdesivir as COVID-19 drug](#)

[Robinhood Internal Probe Finds Hackers Hit Almost 2,000 Accounts](#)

The above headlines are from multiple sources, including, Reuters, The Wall Street Journal, The NY Times, Bloomberg, Barron's, and CNBC.

Markets This Week

The tug of war between growth and value continues and this week was a mixed bag. Technology continued to do well, but Industrials led the way. Homebuilders and utilities also had a good week. Credit markets calmed down and bonds acted better. The big losers were REITs and the Energy sector. International markets and commodities, including gold, also had a down week.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	0.13%	9.01%	20+ Yr. Treasuries (TLT)	0.81%	20.12%	Consumer Disc. (XLY)	-0.35%	22.75%
Dow (DIA)	0.01%	1.56%	Barclays US Aggregate (AGG)	0.14%	6.19%	Info. Technology (XLK)	0.78%	33.19%
NASDAQ (QQQ)	0.98%	36.22%	Intermediate Municipal (MUB)	0.04%	2.39%	Financials (XLF)	-0.95%	-17.61%
Russell 1000 Growth (IWF)	0.37%	28.54%	US Corporate Bonds (LQD)	0.30%	7.36%	Health Care (XLV)	-0.41%	6.91%
Russell 1000 Value (IWD)	-0.06%	-8.40%	Barclays US High Yield (HYG)	-0.38%	-1.19%	Utilities (XLU)	0.82%	0.87%
Vanguard Mid-Cap (VO)	0.17%	5.28%			Industrials (XLI)	1.10%	1.38%	
Vanguard Small-Cap (VB)	-0.08%	0.58%			Energy (XLE)	-1.95%	-47.93%	
					Materials (XLB)	-0.36%	9.21%	
International Equities	1 week	YTD	Commodities	1 week	YTD	Consumer Staples (XLP)	0.65%	6.49%
MSCI EAFE (EFA)	-1.43%	-5.45%	Commodities (PDBC)	-0.50%	-16.18%	Comm. Services (XLC)	0.75%	13.88%
MSCI Emerging (EEM)	-0.59%	2.13%	Gold (GLD)	-1.54%	24.77%	REITs (VNQ)	-2.65%	-11.35%
						Homebuilders (XHB)	0.67%	26.79%

The table above is an analysis of the weekly and year to date returns of various markets/sectors that we follow (More RED = worse performing markets/sectors; More GREEN = best performing markets/sectors). Source: PWM Research

Retirement Planning:

[How Financial Transactions Tax Might Affect You](#)

As this would be a tax on all transactions, it would increase taxes on accounts traditionally shielded from taxes.

Tax & Estate Planning:

[Accelerating Gain Recognition into 2020](#)

Democratic Presidential nominee Joe Biden has released a tax plan which may significantly increase the capital gain tax.

Health:

[Do disinfecting Wipes Kill the Coronavirus?](#)

Many wipes do, but just because they say “disinfecting” don’t assume they will kill the coronavirus.

Entrepreneur:

[The Importance Of Immigration On Entrepreneurship](#)

Immigration has been at the forefront of conversation these days. What is often lost in this discussion is how immigrant-owned businesses benefit the U.S. economy.

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