PALUMBO WEALTH MANAGEMENT
PARTNERING TO DELIVER STRENGTH

Weekly Observations

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The Election is Almost Here. What Happens Next?

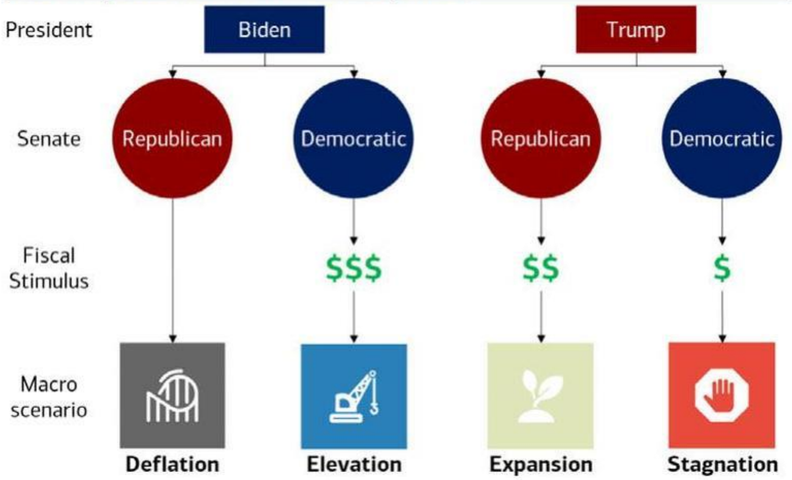
Historically, elections have mattered most to the market when they happen, and the long-term effects are much more muted. This is because the market is quick to adjust expectations based on the new reality that is created by an election. **Although most of the talk is about Trump vs. Biden, it is the whole election that really makes a difference to the market.**

In this case, we have a strong dichotomy of presidential candidates, but **the ability of either of candidate to implement their platform will largely depend on the Senate.** A split Congress will make implementing either candidates agenda substantially more difficult, as has been the case for the last two years.

There are essentially four primary permutations of results, each with significantly different likely outcomes – a Red Wave, a Blue Wave, and a split Congress with either a Blue or Red President. **The Presidential choice will set the agenda and the state of Congress will determine the ability to put that agenda into action.** BofA Research has put this into very simple terms for us, as shown in the table below. We are not handicapping the potential outcomes, but this is in our view, a great outline for what to expect under any scenario.

The clearly more productive outcomes from an economic perspective would be a Red or Blue Wave, while a Split between President and the Senate would produce more gridlock at a time that more action is required.

Chart 2: Likely US election scenarios and macro implications



Source: BofA Research Investment Committee

- **A Blue Wave** (Biden win and Democratic Senate majority to go along with a majority in the House) would likely produce a very large stimulus package, not only for COVID, but to prop up state and local government and an infrastructure plan. Logically, that would be very good for the stock market, all other things being equal, because it would push money into the economy at a level we have never experienced. We think the primary driver will be to push that money onto Main St. not Wall St., but that is good for Wall St. too.

- **A Biden win with a Republican Senate** would tend to produce a stale mate. With animosity running high already, expect the Republicans to attempt to block Biden policies from becoming reality wherever possible and the economic result could be very damaging to economic growth prospects.

- **A Trump win with a Democratic Senate** would produce a similar gridlock as Trump would be blocked wherever possible, however, the mood toward stimulus would be strong in Congress and Trump would be hard pressed to say no, so things could be marginally better under this scenario.

- **A Red Wave** would likely produce substantial stimulus, but not on the scale of a Biden win as the Republican Senate is not on board with the massive stimulus package endorsed by Democrats.

As we review these options, it is just another reason why Palumbo Wealth Management's approach focuses on the long-term. We seek to avoid any shorter-term emotional desires to alter the asset allocation in favor of a long-term plan.

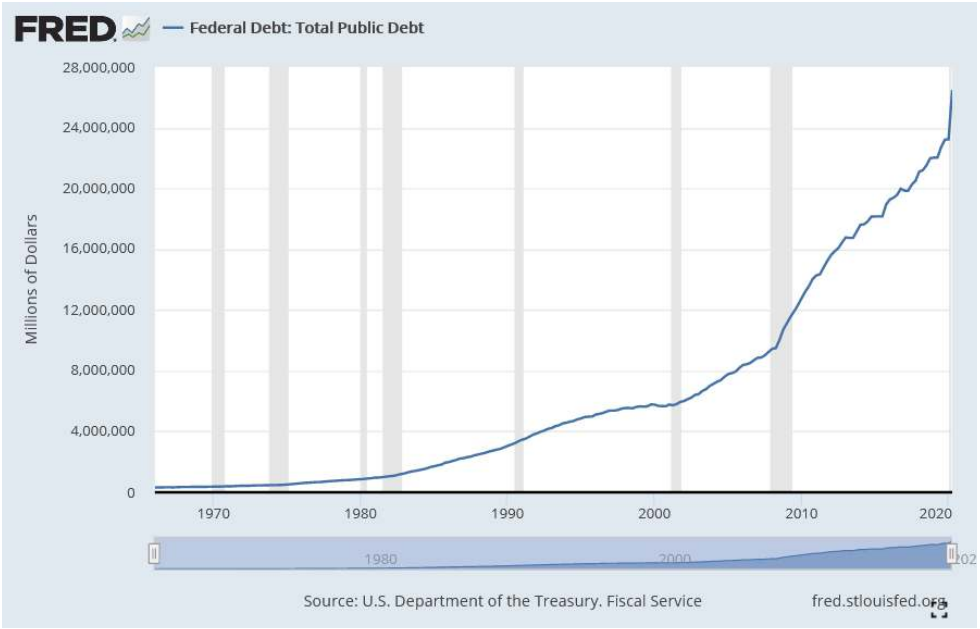
The Upside and Downside of Fiscal Stimulus

For now, the stock market trend remains accepting of a Biden win. However, the market needs to reconcile diverging impacts from Biden policies. Biden's proposal to raise the corporate tax from 21% to 28% would theoretically cut corporate earnings by about 9%, and that is clearly not a good thing for the stock market, all other things being equal. But all things are not equal.

- **The push to 'print and spend' appears to be taking on a life of its own.** It's no longer enough to attempt to offset the lost economic production from the pandemic, we continue to add more for infrastructure and other projects. The Biden plan is in the $7 trillion area. To put that in perspective, that is about 4 months of the entire economic output of the U.S.

- **The total $7 trillion would not be spent quickly.** Infrastructure is generally comprised of long-term projects. Nonetheless, the $7 trillion price tag, in addition to all 'normal' Federal spending, is staggering. Despite the plan to tax the rich to pay for this, much of this money will have to be borrowed. Tax increases are projected by the Biden campaign to provide about $4 trillion in revenue, still leaving a massive $3 trillion hole to fill.

As shown on the chart below, in 1966, the national debt was about $320 billion. By the fourth quarter of 2007, right before the Great Financial Crisis, that debt had grown to $9.2 trillion. The decade long effort to bring the economy back, took that total to $23.2 trillion in the first quarter of this year and the pandemic response, despite the stimulus stalemate, has increased that total to $26.5 trillion 90 days later. **The national debt has almost tripled in just 13 years!**



There is no question this country has large and legitimate infrastructure needs, but you still have to find a way to pay for it all. As Alicia Levine from BNY Mellon stated in the webinar last week, more debt is not a problem now because rates are so low. **But the implication of that comment is that if, and more likely when, rates rise, we are liable to have a serious problem.**

At some point rates need to normalize because near zero interest rates create many imbalances in the economy. If we are ever to regain our footing, we need a more normal rate structure and it appears that will require a reduction of debt. **It is frankly hard to envision a pleasant way out of this because this pandemic is compounding our deeply engrained economic problems.**

The market however is either blissfully ignorant of all this, or it is simply dancing while the music is still playing and assuming that more fiscal stimulus will mean higher and higher asset prices as it has since the GFC. **The new market math appears to be $7 trillion stimulus = buy stocks.**

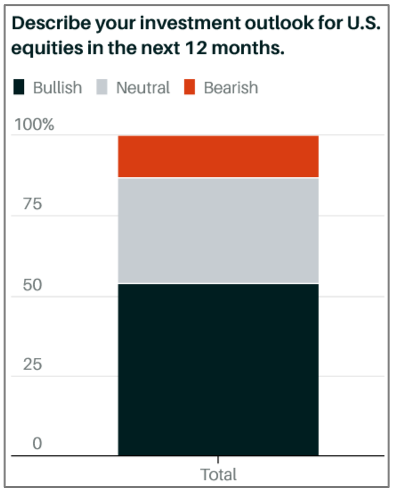
Conclusions:

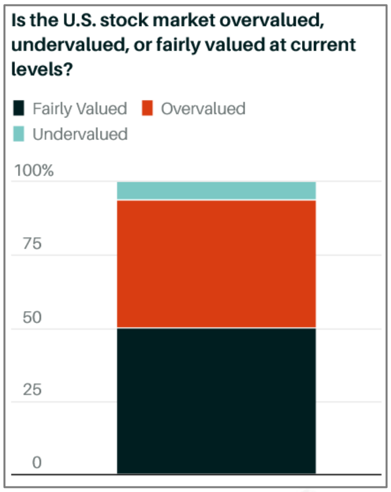
- **Any outcome other than a blue wave, could mean that the market will get less stimulus than is currently projected and could put some near-term pressure on the stock market.**
- **History suggests that the massive deficit spending can undermine the value of the dollar, which benefits the precious metals allocation in our portfolios**.

U.S. Money Managers Like the Outlook for Stocks – Barron's

Barron's regular conducts polls of large money managers and the most recent was released this week, with some interesting results. (All six charts below are from Barrons.com)

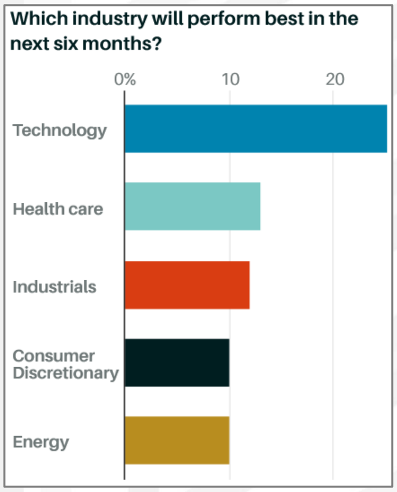
In the latest poll, 54% of respondents described themselves as bullish, with 33% neutral and only 13% bearish, while **at the same time 44% perceive the stock market as overvalued**, with 50% considered the market fairly valued and only 6% undervalued.

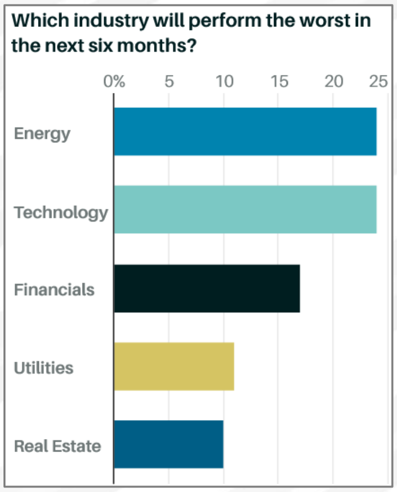




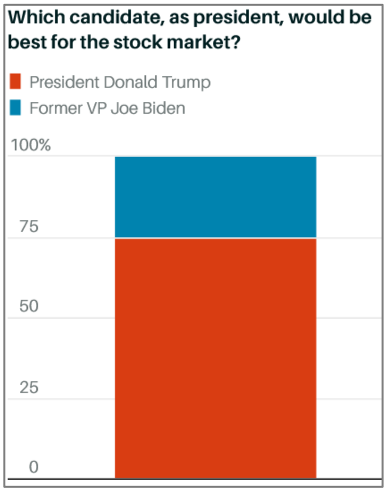
These results might sound a bit incongruous, but in reality, **valuation is not necessarily strong indicator of future performance.** This result also makes sense in the context of a market driven by Fed fueled liquidity (and soon to be fueled by trillions in additional COVID stimulus?). The market has been overlooking the sizable tax increases under a Biden regime and instead focusing on the massive stimulus that would follow a strong Biden-Senate win. If a large stimulus package does not come to pass, we suspect these poll results might change materially.

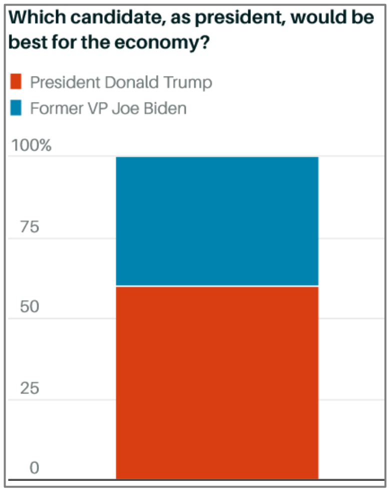
Interestingly, almost as many believe that Technology will be the best sector over the next 6 months as believe that Technology will be the worst sector. And Energy, which has badly lagged for the last three years, remains pegged as most likely to underperform over the next 6 months. However about 10% believe that Energy will be among the best performers. **We believe that the earnings growth of the tech sector will continue to be a magnet for investment dollars. The light at the end of the COVID tunnel and the expected massive fiscal stimulus will also put cyclical stocks back into the mix, especially energy, which has suffered mightily.**





With the election approaching, respondents were also asked which candidate would be best for the economy and for the stock market. **When it comes to the stock market, President Trump was favored by 75% of respondents, while on the economy, that number dropped down to 60% for Trump.**





What We are Reading:

MMT: The case against Modern Monetary Theory

Presidential debate: Key takeaways from the Trump-Biden showdown

Saba Capital's Boaz Weinstein Predicts Credit Chaos Around U.S. Election

Five Reasons Why Investors Should Now Consider Small-Caps

DOJ lawsuit unlikely to knock Google from pole position

Astra Cleared by U.S. Regulators to Resume Vaccine Trial

Covid-19 Vaccines Could Take a Critical Next Step in November

Paul Tudor Jones says he likes bitcoin even more now

Floods, Drought Are Destroying Crops and Sparking Food Inflation

GM Introduces the Hummer EV All-Electric SuperTruck – Stunning!

The articles in this section come from a variety of sources each week, including, but not limited to, Reuters, The Wall Street Journal, Bloomberg, Barron's, Financial Times and CNBC.

Markets This Week

A brief rally Monday gave way to lethargy the remainder of the week with major indexes down for the week. The relation trade continued to show some momentum as small cap and Mid cap stocks rallied and even value managed to eek out a small gain for the week. The losers were long term treasury bonds as the yield curve steepened with long rates rising in the face of FED purchases. Among the sectors, Communications Services, which is almost 50% comprised of Facebook and Alphabet (Google), led the way up 2% and Financials and Utilities rallied as rates rose. The losing sectors were technology and Homebuilders, both taking a breather this week.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	-0.43%	8.97%	20+ Yr. Treasuries (TLT)	-2.12%	17.99%	Consumer Disc. (XLY)	0.09%	23.12%
Dow (DIA)	-0.92%	1.12%	Barclays US Aggregate (AGG)	-0.36%	6.35%	Info. Technology (XLK)	-2.21%	30.53%
NASDAQ (QQQ)	-1.23%	34.44%	Intermediate Municipal (MUB)	-0.05%	2.87%	Financials (XLF)	1.04%	-16.28%
Russell 1000 Growth (IWF)	-1.06%	27.44%	US Corporate Bonds (LQD)	-0.53%	7.49%	Health Care (XLV)	-0.09%	7.24%
Russell 1000 Value (IWD)	0.14%	-7.71%	Barclays US High Yield (HYG)	0.28%	0.31%	Utilities (XLU)	1.17%	2.92%
Vanguard Mid-Cap (VO)	0.60%	6.33%				Industrials (XLI)	-0.53%	1.25%
Vanguard Small-Cap (VB)	0.62%	1.58%				Energy (XLE)	0.66%	-46.72%
						Materials (XLB)	-0.41%	9.29%
International Equities	1 week	YTD	Commodities	1 week	YTD	Consumer Staples (XLP)	-1.18%	5.86%
MSCI EAFE (EFA)	0.37%	-5.10%	Commodities (PDBC)	-0.29%	-16.67%	Comm. Services (XLC)	2.19%	16.62%
MSCI Emerging (EEM)	1.67%	3.83%	Gold (GLD)	0.19%	25.01%	REITS (VNQ)	-0.57%	-11.17%
						Homebuilders (XHB)	-2.62%	23.69%

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: IEX Trading & PWM Research.

Retirement Planning:

Seven Strategies To Generate Sufficient Cash Flow In Retirement

With current rates at historic lows, folks may need to rethink the question of high income and instead focus on cash flow.

Tax Planning:

Trump vs. Biden: Whose tax plan makes for good tax law?

A view of key components of the Trump and Biden tax positions from the perspective of whether their ideas meet the "good tax law" tests of being fair, neutral, simple and economically efficient.

Health:

Compromised Type I Interferon Response Common Among Severe COVID-19 Patients

This discovery has implications for how we diagnose and treat COVID-19 that could not just reduce suffering, but potentially save lives.

Entrepreneur:

CEO Secrets: Juggling kids and a new lockdown business

Managing a start-up despite the challenges of childcare during coronavirus restrictions.

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