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Elections: Don't Let Emotions Make Investment Decisions

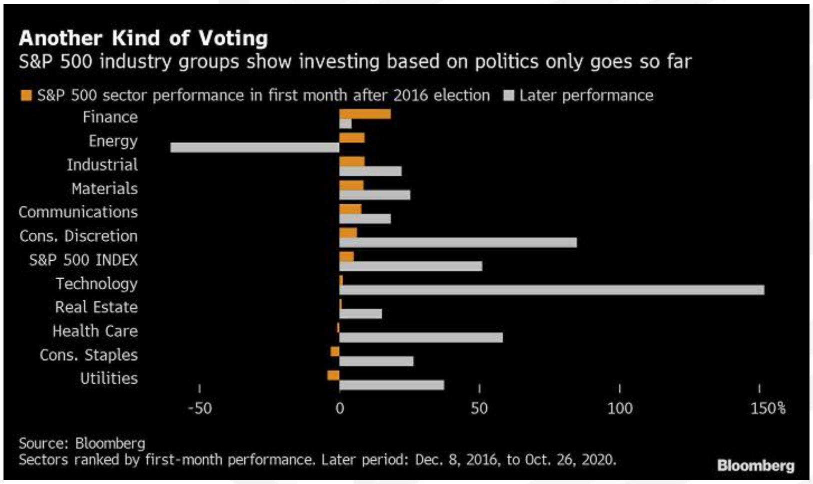
Election season has always motivated prognosticators to forecast the stock markets future based on the election results. The dichotomy of the candidates the last two cycles has made those prognostications that much more extreme. Sometimes it is wishful thinking, sometimes it is just scare tactics, but it is almost always wrong. **Politics can influence markets, but ultimately markets respond to economic growth and profits** and those have generally been strong in both blue and red administrations.

While the focus is on the Presidency, often the more important focus is on Congress. Without Congressional backing, it can be difficult for any President to follow through on policy changes. **History suggests that even if you knew election results ahead of time, it would be unlikely to produce investment success.** Four years ago, as the election approached, there was general agreement that a Trump victory would be bad for markets. On election night, at just about midnight, MarketWatch carried this headline:

"Dow futures plunge 750 points as Trump takes key battleground states"

From the market close on November 8, that would be about a 4% decline in the Dow. **By the end of the day on November 9, the Dow was up about 257 points, or 1.4%, resulting in a 5.4% swing in the Dow within hours!** From there the stock market went on a tear with nary a blip until early 2018. Go figure!

In 2016, Donald Trump ran on a platform which included promoting deregulation. It isn't surprising that two heavily regulated industries **Finance and Energy, were very hot out of the gate after the election and although President Trump clearly attempted to fulfill his deregulation promises, these two sectors quickly ran out of steam and have been among the worst performing sectors since then.** (See chart below – past performance does not assure future results.)



How have markets and the economy performed under various iterations of governmental leadership? The chart below shows how the stock market, bond market and inflation have performed under various scenarios.

Gains for Stocks, Bonds, Inflation & Industrial Production by Party of President and Congressional Majority (>50%); 1901 - 2020					
Governmental Structure	**Stocks (DJIA)**	**LT Gov't Bonds (from 1925)**	**CPI**	**Real (after Inflation) Stock Returns**	**Ind'l Prod.**
Democratic President	7.89%	3.58%	4.18%	3.56%	4.85%
Republican President	3.42%	8.00%	1.80%	1.59%	1.68%
Democratic Congress	6.01%	5.51%	4.33%	1.61%	4.26%
Republican Congress	4.58%	6.23%	0.82%	3.73%	1.52%
Dem. Pres., Dem. Congress	7.23%	2.00%	4.67%	2.44%	6.38%
Dem. Pres., Rep. Congress	9.52%	7.48%	2.98%	6.35%	1.15%
Rep. Pres., Rep. Congress	2.26%	5.21%	-2.03%	2.50%	1.70%
Rep. Pres., Dem Congress	4.71%	9.65%	3.89%	0.78%	1.67%
All Periods Buy/Hold	5.42%	5.75%	2.91%	2.44%	3.15%
Source: Ned Davis Research; past performance does not assure future results.					

Historically, Democratic Presidents and Congress have produced the best stock market returns, the highest inflation rates, and industrial production growth, while **Republican Presidents and Congress have produced the best bond returns and the lowest inflation.** Real (inflation adjusted) stock returns are a mixed bag. Looking at the past is always interesting, but not necessarily predictive. Over the last four years, stocks were very strong in a Republican administration, which would not have been expected based on this data.

The message here is clear. **Knee-jerk reactions to elections are often faulty.** Don't allow your political leanings, which are often highly emotional, to affect your investments. We have had bad Presidents and political gridlock, and we will again. But each time, we came through it and moved forward. There is no reason to think we will not do it again. **Politics can influence markets, but in the long run, it is economic growth and profits that rule the day, which is why we talk about elections, but we stick to our investment plan.**

This analysis just further reinforces why Palumbo Wealth Management "stays the course" with a longer-term, time-tested allocation, seeking to grow wealth steadily.

The Election Tightens; COVID Accelerates

It is a complicated formula as the election approaches. The market optimism for a Blue Wave on election day, to be followed by massive stimulus spending, dissipated this week. Several major investment firms, including Goldman Sachs and Morgan Stanley pulled back from their previous 'blue wave' prognostications.

The most obvious reason for this change in sentiment is that the presidential race appears to be tightening in the swing states. The news often touts national polls, but due to the electoral college, one does not have to win the popular vote to win the presidency, so those swing states, which could go either way, are the ones that matter and therefore, are the ones to watch.

From our perspective, the greatest unknown is how those states respond to the recent resurgence of COVID.

- **The Democrats believe this is in their favor as they are presenting themselves as better able to deal with the pandemic.**
- **The Republicans, on the other hand, also feel this is in their favor, because there is widespread 'COVID fatigue' and little support for more lockdowns.**

We will find out who is correct shortly (we hope).

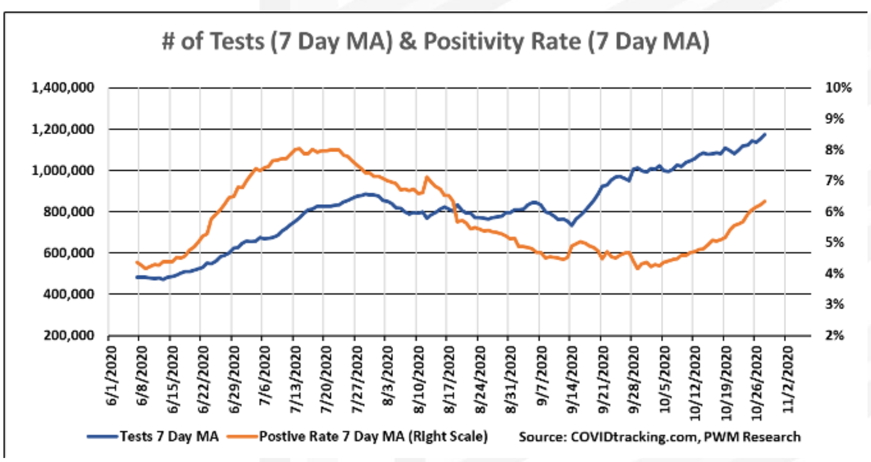
A tightening race also makes the prospects for quick stimulus after the election less certain. Recalling our comments last week, the worst scenario was for a Biden win and a Republican Senate, which appears likely to produce gridlock and dwindling hope for massive stimulus. **We can only hope that once the election results are settled, Congress can put aside politics for at least a short while and do the right thing, but if recent experience is any guide, we can't be very sure of that and as a result, the market was clearly concerned this week.**

COVID Update -Positivity Rates Continue to Rise

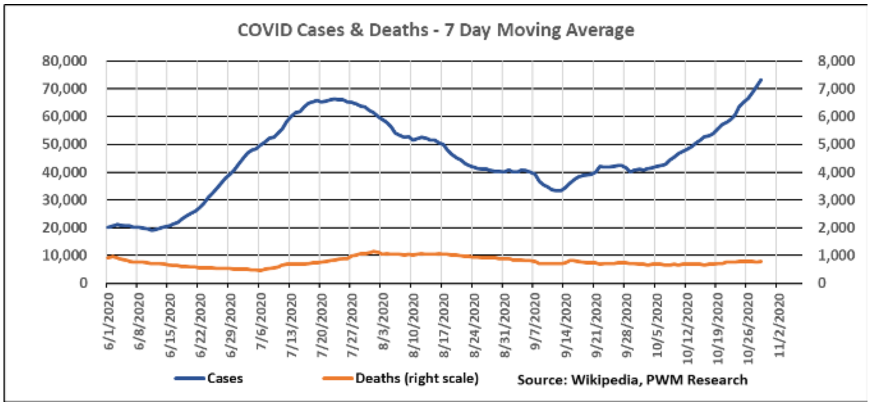
It has been two weeks since we last updated these statistics and the news has only gotten worse since then. We have seen several outlets discussing second waves and even third waves. **Our perspective is that much of the acceleration of infections is actually a first wave**. The east and West Coasts were hit first, The South and southwest hit next, and now the Midwest and northern plains are getting hit hard for the first time. There are some pockets of second waves, such as Rhode Island, but for the most part, this is a continuation of the first wave.

We would surely prefer to see greater control, but in a free country, you simply can't legislate that control. You need cooperation and that cooperation has been spotty to say the least.

As the chart below shows, as testing first began to rise in August, the positivity rate remained on the downslope, implying that increases in the number of cases was driven primarily by additional testing. That has now clearly reversed as **the national positivity rate has shot back up to over 6%, implying that the virus spread is accelerating.**



The number of cases on a seven-day moving average are now above the prior peak back in July and are over 70,000. **Thankfully, the mortality rate appears to continue to decline as the number of deaths has risen slightly but remains fairly stable**. **We attribute this to the availability of improved treatments, including antibodies, Remdesivir, and steroids, among others.** The more we learn, the better able the medical community is to treat this disease.



We are also sanguine on the prospects for a vaccine, or even two, before year-end. Although there have been headlines about pauses in clinical studies, those are a normal part of the safety and efficacy testing. The better news is that these vaccines are already in production and tens of millions of doses should be available shortly after FDA approval.

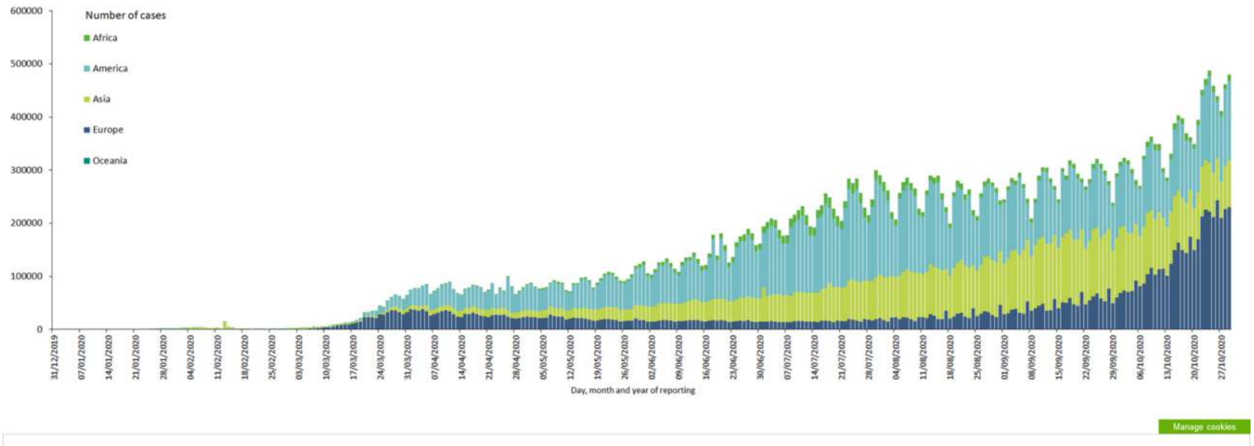
Of course, **we need hundreds of millions of doses just in the U.S. and billions worldwide, so it will take time to ramp up, but those most in harm's way will likely begin to get vaccinated in the coming months**. While it is a little dark at the moment, there is every reason to be optimistic.

We took an informal poll in the office asking this question. Six months ago (late April) you had a vision of where we would be in six months. Is your actual view today better or worse than your view in April? **The response was unanimous. We are in better shape today than we expected to be back in April. It's important to keep perspective**.

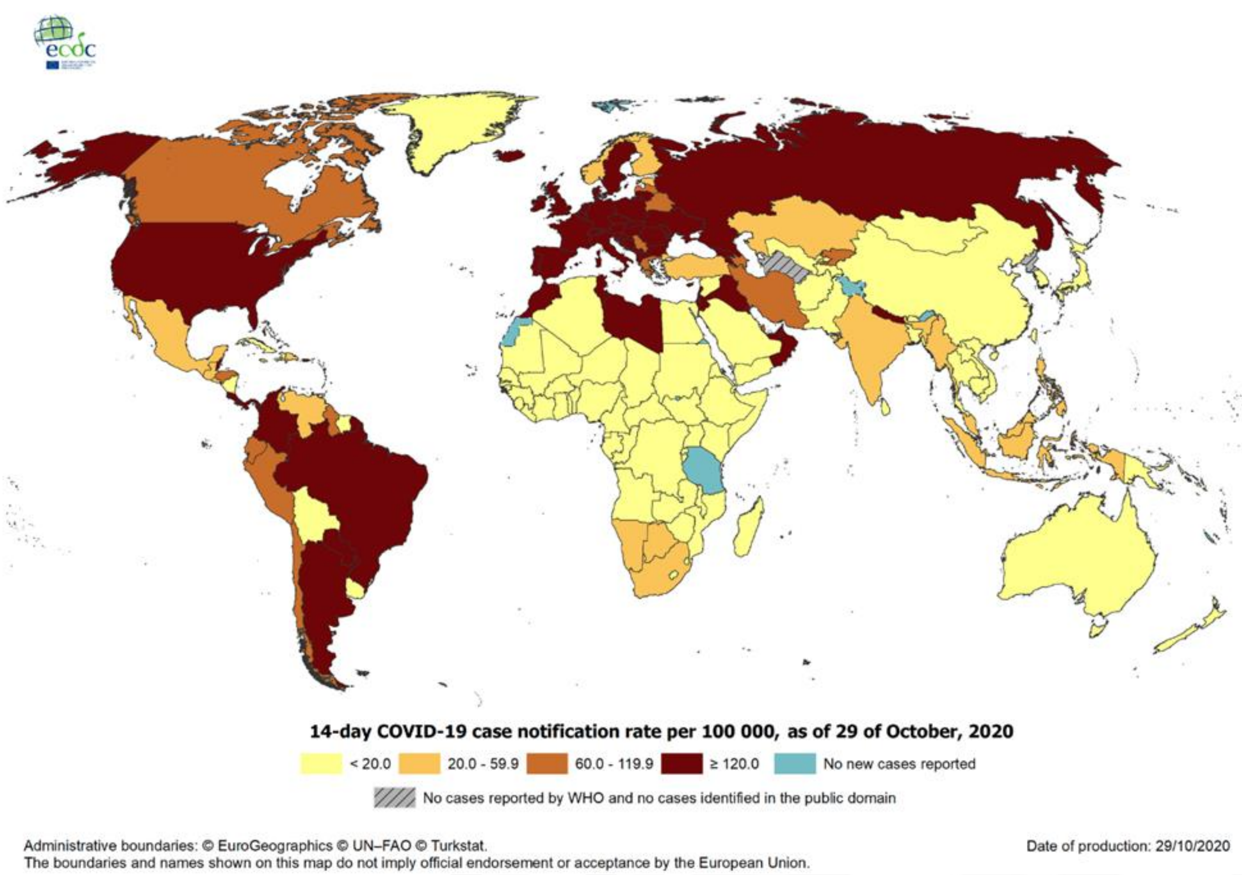
Europe is a Different Story.

We apologize for the chart on the following page, which is bit difficult to read, but it was one of the few we could find that had the data by continent and was from a reliable source. The light blue area is America, the green area is Asia, and the dark blue area is Europe. Clearly **the situation in Europe, which is clearly experiencing a second wave, is more severe than the U.S.** currently. The map, also on the following page, shows where the trouble is brewing in a more detailed way.

The economic implications of this next wave will depend on how each country chooses to react. France and Germany have already begun shutdowns, while other countries, such as Sweden, have shunned shutdowns. **The more shutdowns occur, whether here or in Europe, the greater the pressure on the 'old economy', especially energy, and the greater the lift for those tech related companies that have benefited from the coronavirus.** This would likely push back on the recent rotation to cyclical stocks and provide some additional energy to technology and growth stocks. Eventually, we believe that cyclical stocks will rebound, especially if and when vaccines are approved as at that point, the light at the end of tunnel comes more into focus and the fear of an oncoming train recedes.



Source: European Centre for Disease Prevention and Control



Source: European Centre for Disease Prevention and Control

What We are Reading:

[Megacap Tech Stocks Disappoint the Market]

[Are Large-Cap Stocks Really Less Risky?] - **Bill Nygren, Oakmark Funds**

[Why Americans Fear They're Playing Vaccine Roulette]

[The Psychology of Fact-Checking]

[RCP Poll Summary: Top Battlegrounds: WI, MI, PA, NC, FL and AZ]

[Why Was the Electoral College Created?]

[New retirement bill has perks for seniors, student loan borrowers]

[The Fed Is Really Running Out of Firepower]

[The Pandora's Box of Central Bank Digital Currencies]

[Treasury Yield curve steepens as Wall Street recoups some losses]

[The World Population in 2100, by Country]

[Some 'Biden Republicans' just keep talking about a third party]

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

The stock market got clubbed this week as the Blue Wave scenario faded and the prospect of a split decision on election day and the potential for a drawn-out legal battle appeared more real. Big tech earnings late in the week were generally less than stellar and the COVID acceleration in the U.S. and Europe just added to the pressure on stocks. In short, the stock market offered no place to hide, and even the fixed income market provided precious little relief with modest declines for investment grade debt.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	-5.56%	2.91%	20+ Yr. Treasuries (TLT)	-0.28%	17.66%	Consumer Disc. (XLY)	-6.55%	15.06%
Dow (DIA)	-6.45%	-5.40%	Barclays US Aggregate (AGG)	-0.23%	6.10%	Info. Technology (XLK)	-6.40%	22.17%
NASDAQ (QQQ)	-5.39%	27.19%	Intermediate Municipal (MUB)	-0.11%	2.75%	Financials (XLF)	-5.50%	-20.89%
Russell 1000 Growth (IWF)	-5.87%	19.97%	US Corporate Bonds (LQD)	-0.66%	6.78%	Health Care (XLV)	-5.71%	1.11%
Russell 1000 Value (IWD)	-5.38%	-12.68%	Barclays US High Yield (HYG)	-1.17%	-0.86%	Utilities (XLU)	-3.66%	-0.84%
Vanguard Mid-Cap (VO)	-5.81%	0.15%				Industrials (XLI)	-6.53%	-5.36%
Vanguard Small-Cap (VB)	-5.74%	-4.25%				Energy (XLE)	-5.50%	-49.65%
						Materials (XLB)	-4.27%	4.62%
International Equities	**1 week**	**YTD**	**Commodities**	**1 week**	**YTD**	Consumer Staples (XLP)	-4.79%	0.79%
MSCI EAFE (EFA)	-5.52%	-10.34%	Commodities (PDBC)	-4.13%	-20.11%	Comm. Services (XLC)	-4.69%	11.15%
MSCI Emerging (EEM)	-3.48%	0.22%	Gold (GLD)	-1.37%	23.30%	REITS (VNQ)	-4.69%	-15.34%
						Homebuilders (XHB)	-6.88%	15.18%

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:
[Four Reasons You Shouldn't Max Out Your 401(k)]
In certain scenarios, making those maximum contributions can cost you. Here are four of them.

Tax Planning:
[IRS Releases 2021 Tax Rates, Standard Deduction Amounts]
The IRS has announced the annual inflation adjustments for the tax year 2021, including tax rate schedules, tax tables and cost-of-living adjustments.

Health:
[First and Second Waves of Coronavirus]
A specialist in infectious disease at Johns Hopkins Medicine, sheds light on what we know now.

Entrepreneur:
[World Reimagined: The State of Small Business]
Small business has experienced seismic shifts in 2020, as the coronavirus has fundamentally altered the daily lives of people across the United States and thrown the economy into turmoil, profoundly impacting the small business sector.