Palumbo Wealth Management
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Reasons for Optimism

- The campaign nonsense is over
- The virus spreads, as viruses do, but vaccines are not far away
- We will begin to feel safer soon

The election is over. As of this writing, results are not official, but the odds appear overwhelming that Joe Biden has won the Presidency. The Republican hold on the Senate is tenuous and looks like it could depend on two Georgia run-off elections in January. (See the link in What We're Reading for details.) But other than Georgia, where the campaign will continue, the snarky commercials have been removed, the voter scare tactics from both sides are gone, and we are left with reality. The problem now is eliminating all the campaign nonsense of the last several months and the recount nonsense of today and focusing on the reality around us so we can direct our attention there. This is what we see going forward.

The Virus is Being a Virus: Unfortunate but Not Unexpected

The virus is taking a course that is typical for viruses, which makes the recent acceleration of cases consistent with past pandemics. We have the ability to limit the spread, but frankly, the personal freedom allowed in democracies make them ill-equipped for this. From that perspective, this wave was predictable. A better response from us would have lessened the impact and that is depressing, but there has always been an inevitability of a second wave (or a spread of the first wave). It's what viruses do.

Nonetheless, a vaccine, actually several vaccines, are coming. Both Moderna and Pfizer are expecting to file an NDA (New Drug Application) with the FDA for approval around the end of November, barring some unforeseen setback. Once the NDA is filed, the FDA has 60 days to respond to the request, which can be an Approval, a Rejection, or Letter of Completion (requiring additional information). With the election over, there should be little concern that politics is influencing the FDA and we would expect a quick review that is well within the 60-day time frame. Other vaccine candidates are close behind and should be expected to follow in the first quarter of 2021. That should be very good news for sentiment as well as the stock market.

The goals of the NDA are to provide enough statistically significant data to permit FDA reviewers to reach the following key decisions:

- Whether the drug is safe and effective and whether the benefits of the drug outweigh the risks.
- Whether the drug's proposed labeling is appropriate, and what it should contain.
- Whether the methods used in manufacturing the drug and the controls used to maintain the drug's quality are adequate to preserve the drug's identity, strength, quality, and purity.

FDA approval will allow tens of millions of doses procured under Operation Warp Speed to become available within months. Obviously, tens of millions of doses are not nearly enough, so it will take us into mid 2021 before we have enough vaccine for all that desire it in the U.S. However, getting health care workers and emergency responders protected in early 2021 would be a huge win and would be followed by vaccinations becoming available for those most at risk, including seniors and those with immune system deficiencies, etc. Each successful vaccine gets us that much closer to herd immunity.

We think the upcoming period will be one of rising optimism.

- More infections are not a good thing but they do get us closer to herd immunity.
- Improvements in treatment have made COVID significantly less deadly for all and especially for those age 50 and below.
- Vaccines accelerate the pace to herd immunity.
- Additional vaccines in 2021 accelerate that pace to herd immunity even more.
- Vaccines should be available fairly quickly as vaccine production began months ago.

There is no assurance that things will progress precisely as we outline, but we view this as the most likely scenario and because of this, we believe that there is plenty of reason for optimism, despite a current feeling of growing dread. We still need to remain diligent, and avoid those that are not diligent, but in our view, there is clearly a brightening light at the end of the tunnel.

> "Things turn out best for the people who make the best of the way things turn out." —John Wooden

The Certainty of Uncertainty

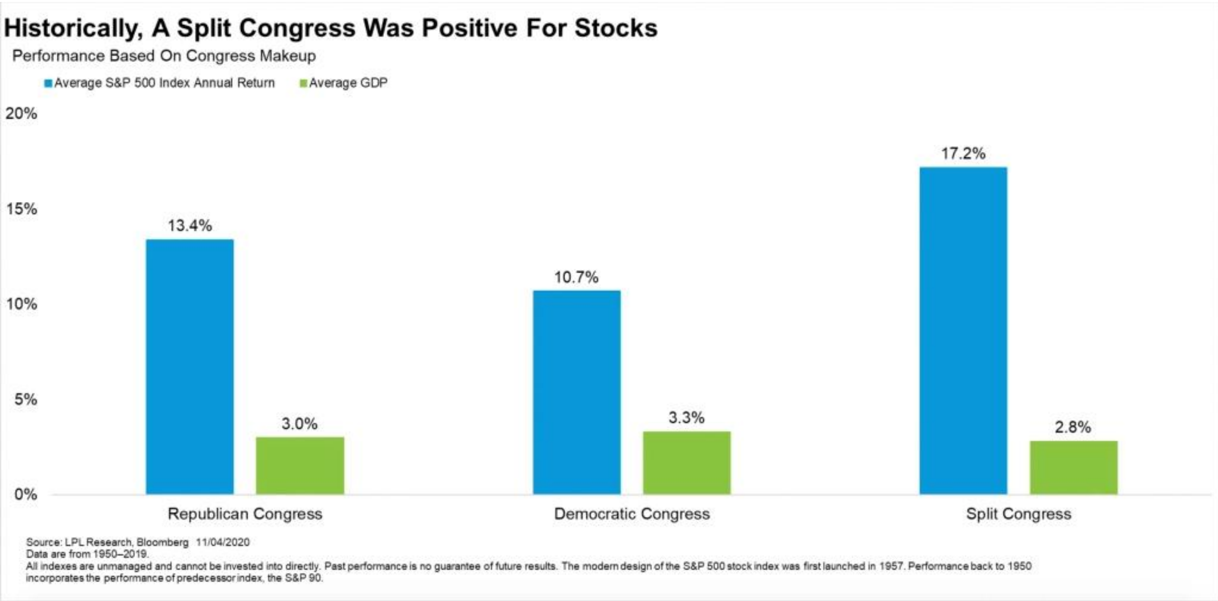
One of our pet peeves is the comment that 'markets love certainty'. We take exception to that view. When is the future ever certain? Uncertainty is everywhere. When one big uncertainty, like the Presidential election, becomes a certainty, we move on the next uncertainty, like the size of the fiscal stimulus, or how a Biden administration will change taxes, or whatever. The stock market moves on a conveyor belt from one uncertainty to the next. When anything becomes certain, it is quickly discounted by the market (if it had not been discounted already) and that's the end of it. It no longer has any effect. The only thing that matters is the next set of uncertainties!

For traders, uncertainties are full of potential – potential profits and potential trouble. For us, we wade through the uncertainty with an investment plan for all seasons. A plan where design and purposeful diversification allows us to manage those uncertainties and allow long term compounding of returns to do their thing. I wonder who will be running for President in 2024?

The Election - Initial Market Reactions

The stock market historically likes a divided Congress (see the chart below) as it tends to negate the extreme ideas of either side and limits progress to places where agreement can be negotiated. After the last four years, let's hope we can return to place where those negotiations are fruitful. The initial market reaction to the election of a blue president and expectation of a purple Congress appears to expresses confidence that we will be able to do just that. The downside of a Congressional split appears to be that economic growth has historically been a bit lower under a split Congress than at other times.

However, we won’t learn if the Congress is split until January and the mini-correction on Friday coincided with this new uncertainty about control of the Senate. In the event of a 50-50 Senate split, the Vice President becomes the tie breaker, which would give effective control to the Democrats. That would change the whole dynamic.



The stock market was already running up in the days before the election, and that accelerated after the vote, producing gains for the week that would be satisfactory in most years. We presume this reflects the expectation that political roadblocks to additional stimulus are now much lower, if not removed. If the Senate sticks with a Republican majority, the magnitude of that stimulus is likely to be more subdued than what President-elect Biden desires, but we would be hard pressed to envision the Senate being unwilling to compromise a bit on this topic.

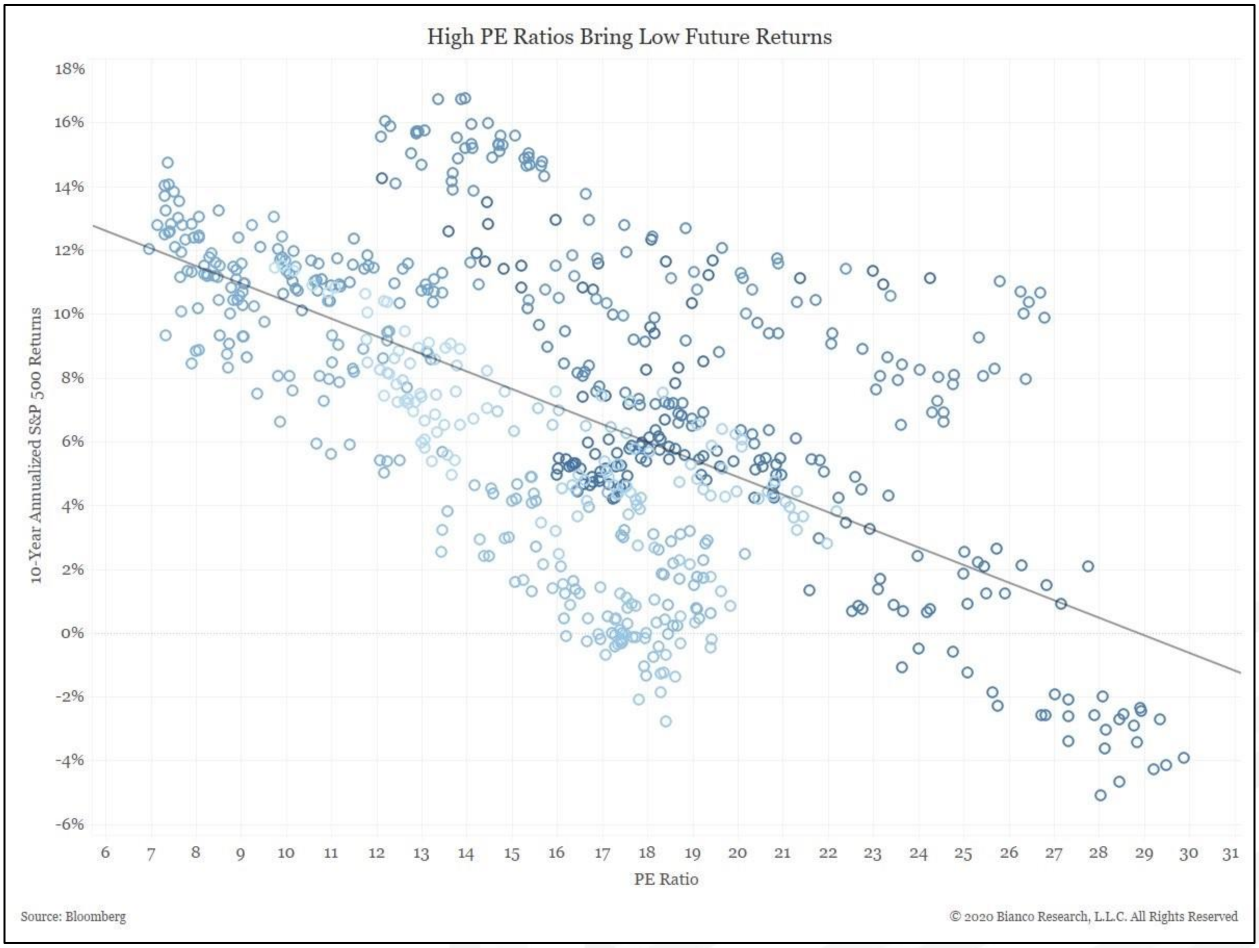
The Biden tax plan, however, is probably a different story and we would expect a much tougher negotiation to ensue when this is encountered. Of course, if the Democrats win control of the Senate, that tax plan is back on the table.

Interest rates also reacted very quickly to the likely election result. Prior to the election, there was clear upward pressure on interest rates under the theory that the Democrats would achieve a clean sweep. That completely dissipated on Wednesday morning as rates dropped again, recognizing that a lesser stimulus bill means less money needs to be raised in the Treasury market, and that relieves some upward pressure on rates. Like the stock market, bonds reversed course on Friday as Republican control of the Senate came into question and rates headed back north. We view this as a very clear message the markets are concerned about the level of debt issuance and a Biden administration would be wise to take notice.

High Stock Prices Lead to Reduced Expectations

Stocks have had a huge run up and one of the cardinal rules of the market is that when prices rise, expected returns fall. That may sound incongruous, but look at it in a single stock model. A stock is deemed to be worth \$25, but is selling at \$20. The expected return is 25% (\$5 divided by \$20). However, if the stock moves up to \$22 the next day, the expected return is reduced to 13.6% gain (\$3 divided by \$22).

The chart below puts this concept into a broader perspective, plotting the P/E ratio on the horizontal axis and 10-year average returns on the vertical axis. The regression line shows that when P/E ratios are higher, future returns tend to be lower. What will happen this time? Well, that, of course, is uncertain.



What We are Reading:

Second Georgia Senate Race Could be Headed for Runoff Putting Control of the Senate Up In The Air

Walmart Ends Contract with Robotics Company; Opts for Humans Instead

Tellurian Executive Chair on the Future of Energy Markets (Video, 8 Minutes)

Has 'Moral Hazard' Been Fueling the Corporate Bond Market?

Charting America's Debt: $27 Trillion and Counting

Visualizing How the Pandemic is Impacting American Wallets

Why the Stock Market Can Thrive Without More Stimulus (Subscription req'd.)

The 2000 Election Was Contested–Here's What Happened to The Stock Market

The Market is Higher Despite the Contested Election–Why It Can Go Higher

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

Happy days are here again! Well, at least for this week. Even after giving a little back on Friday, markets rocketed higher both before and after the election. Even energy, the one consistent loser, eked out a small gain for the week. The way was led by all the usual suspects, Technology and Homebuilders. Health Care was added to the mix based on the Biden win, but it was hard to go wrong in the stock market this week. The stock rally was joined by bonds and commodities too, particularly Gold.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	7.23%	10.35%	20+ Yr. Treasuries (TLT)	1.17%	19.03%	Consumer Disc. (XLY)	6.85%	22.94%
Dow (DIA)	6.85%	1.08%	Barclays US Aggregate (AGG)	0.51%	6.64%	Info. Technology (XLK)	9.67%	33.99%
NASDAQ (QQQ)	9.37%	39.10%	Intermediate Municipal (MUB)	0.76%	3.53%	Financials (XLF)	4.61%	-17.24%
Russell 1000 Growth (IWF)	9.37%	31.20%	US Corporate Bonds (LQD)	1.84%	8.74%	Health Care (XLV)	8.13%	9.33%
Russell 1000 Value (IWD)	5.40%	-7.97%	Barclays US High Yield (HYG)	1.61%	0.73%	Utilities (XLU)	2.81%	1.94%
Vanguard Mid-Cap (VO)	7.38%	7.55%				Industrials (XLI)	7.21%	1.46%
Vanguard Small-Cap (VB)	6.66%	2.13%				Energy (XLE)	0.73%	-49.28%
						Materials (XLB)	7.63%	12.60%
International Equities	1 week	YTD	Commodities	1 week	YTD	Consumer Staples (XLP)	4.55%	5.37%
MSCI EAFE (EFA)	7.85%	-3.30%	Commodities (PDBC)	3.25%	-17.51%	Comm. Services (XLC)	7.60%	19.60%
MSCI Emerging (EEM)	7.20%	7.44%	Gold (GLD)	3.97%	28.19%	REITS (VNQ)	4.32%	-11.68%
						Homebuilders (XHB)	9.10%	25.66%

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:

[Retirement saving is hard even for those who can afford it]

Even for those with the means to save, employers shifting from defined benefit plans to defined contribution plans (where employees contribute, participation is voluntary and there are no guarantees) made putting money away more complicated.

Estate Planning:

[Estate Planning: More Than a Bunch of Documents]

Getting the formal documents finalized was important, but communicating your plans and values around money is equally important.

Tax Planning:

[IRS warns taxpayers of new COVID-related text scam]

The IRS warned of a new text scam created by thieves that trick people into disclosing bank account information under the guise of receiving the $1,200 Economic Impact Payment.

Health:

[Talking About Mental Health with Your Employees — Without Overstepping]

You may have checked in with your employees back in April when the crisis was acute, but you need to keep doing it.

Entrepreneur:

[Why The Next President Must Elevate The Entrepreneur To Spark A Recovery]

Data from the U.S. Census Bureau shows that young, high-growth businesses were responsible for the majority of net job creation in the U.S. from 1980-2009.