**Moving On. Moving Up?**

While we are only halfway through the month, we'd posit that, so far, November has been a little kinder than the months preceding it. Though it may seem scant solace for the more than 70 million Americans that voted for the President, we think it fair to say that investors have been buoyed by the presumptive result, i.e., that Joe Biden will assume the presidency with a Republican majority in the Senate and narrower Democratic majority in the House. It is likely to be several more weeks before each candidates' legal options are exhausted, and the results of the presidential Election are certified – the President, counting from behind, will go first – and not until early-Jan’21 before the results of two run-off elections in Georgia for seats in the U.S. Senate are known. But we view the investment takeaway as fairly straightforward. In one column, the election result appears to be more a repudiation of Trump, the President, than traditional Republican economic policies in general. Without making a normative sociopolitical judgment, we believe the sharp move in shares coming out of Election night reflects investors' belief that the recovery should continue unencumbered by the "uncertainty" provided by some of the Democratic party's more progressive economic initiatives. In another column, Biden's victory suggests a desire for greater administrative sobriety in combatting the pandemic. With that in mind, we found the announcement earlier this week of highly effective clinical trial results to be tremendously encouraging. While the logistical challenge of scaling the manufacture and distribution of the necessary doses sits on the other side of FDA approval, the timeline for reopening the economy, once ranging from late-2021 to unknown, appears to be both better qualified and advanced.

Before we get too far ahead of ourselves, however, we should consider the potential economic implications of these early scientific results. We see two as presenting notable offsets.

1) The potential of a vaccine being ready sooner than originally thought could compel some states and municipalities to take more dramatic steps to confront the recent surge in cases. If "guided by science," a reasonable conclusion could be drawn that the cost to freedom and income in the name of safety and
health is worthwhile in the short-term if it helps to limit the spread of the virus and strengthen the recovery in the longer-term. What is clear, as we currently see in the U.K., any move to limit mobility and lock down portions of the economy, however temporary, is likely to result in softer economic growth. Be on watch for a late-4Q'20/early-1Q'21 soft patch if states in the U.S. pursue this course.

2) Given the strength of 3Q'20 economic data (U.S. GDP increased +33.1% Q/Q AR for the quarter) and the strength in corporate profits (86% of the S&P 500 reported earnings results above estimates), it is unlikely a Republican-controlled senate will favor additional broad-based fiscal stimulus. Senate Majority Leader Mitch McConnell has signaled a willingness to pass a smaller, more targeted stimulus bill. While still massive, for those keeping track at home, we believe Senate Republicans are closer to supporting a $1 trillion package vs. the Speaker's $2.5 trillion bill.

One irony of the pre-election jockeying over the size and target of additional stimulus, which our Policy Research team has highlighted, is that the strength of 3Q'20 data now show state and municipal finances to be in far better shape than first thought. This will reduce the political cover and narrow support (even among Democrats) for outsized fiscal aid to states. So the Speaker is faced with a conundrum: continue to drag it out, perhaps in hope the two senate seats in Georgia will flip in Democrat's favor and tip the balance of power in the Senate; or, take what she can get now in
the waning days of the Trump Administration, knowing she heads into the next Congress with a slimmer majority in the House.

![Quarterly State Tax Revenues, $MM, 12-Month Rolling](image)

Therefore, in the short-term, we view the market's reaction to the Election and the good news on a vaccine for what it is, a rerating of political and health risks. Investors are wise to embrace their good fortune and should not, in our view, become overly concerned if the process proves moderately volatile over the next month. Rather, we believe investors should focus on the longer-term impact the Election outcome and brighter vaccine outlook will have on the economy – as a package – and whether investors should rerate their outlook for economic growth.

To the extent to which unemployment remains severely elevated and government assistance has become an important crutch in bridging part of the shortfall in real disposable income, we continue to view the economic recovery as fragile. This is not to suggest it is without its pockets of strength. In addition to positive results in 3Q GDP and corporate profits, consumer spending has continued to ratchet higher and a number of traditional barometers of improving macro cyclicality have remained firm or broken out – steeper yield curve, narrower High Yield spreads, copper vs. gold, Discretionary vs. Staples, etc. Some market watchers have likened this bifurcated result set to a "k-shaped" recovery, juxtaposing the general ease with which the wealthy and those with the ability to work from home have come through the Recession with the continued hardship experienced by the less affluent and those whose ability to work has been impeded by stay at home edicts. In
wide view, we see similar dispersion in the global economy as well. China and broader Asia, where the virus appears to be under far greater control, have exhibited notable signs of strength while in the U.K. and Europe struggle to find a toehold in against a sharp increase cases.

Against this backdrop, we believe the U.S. and global economy will stumble in the short-term – increase in cases, targeted lockdowns, less fiscal stimulus – and surge in the intermediate-term – containment & cure, reopening the economy, leveraged by the lagged effect of stimulus. In a textbook example of "pent-up demand," Strategas' chief economist Don Rissmiller believes, under these conditions, U.S. GDP growth could press upwards toward +10% by mid-CY’21. We recommend investors leverage market volatility to accelerate a portfolio positioning in favor of more traditionally cyclical exposures. In U.S. equity portfolios, we are overweight Industrials, Materials, and Technology (and Health Care). In our global allocation strategies, we have moved U.S. Mid & Large-Cap Value, U.S. Small-Caps, and Emerging Markets above benchmark. The post-Recession transition from Recovery to Expansion is never as smooth as we hope it to be. Identifying the inflection points can be equally tricky. We may just be approaching one.

Stay healthy. Stay focused. NB
IMPORTANT DISCLOSURES

This communication was prepared by Strategas Asset Management, LLC ("we" or "us"). Recipients of this communication may not distribute it to others without our express prior consent. This communication is provided for informational purposes only and is not an offer, recommendation or solicitation to buy or sell any security. This communication does not constitute, nor should it be regarded as, investment research or a research report or securities recommendation and it does not provide information reasonably sufficient upon which to base an investment decision. This is not a complete analysis of every material fact regarding any company, industry or security. Additional analysis would be required to make an investment decision. This communication is not based on the investment objectives, strategies, goals, financial circumstances, needs or risk tolerance of any particular client and is not presented as suitable to any other particular client.

For investors subject to MiFID II (European Directive 2014/65/EU and related Delegated Directives): We classify the intended recipients of this communication as "professional clients" or "eligible counterparties" with the meaning of MiFID II and the rules of the U.K. Financial Conduct Authority. The contents of this report are not provided on an independent basis and are not "investment advice" or "personal recommendations" within the meaning of MiFID II and the rules of the U.K. Financial Conduct Authority.

The information in this communication has been obtained from sources we consider to be reliable, but we cannot guarantee its accuracy. The information is current only as of the date of this communication and we do not undertake to update or revise such information following such date. To the extent that any securities or their issuers are included in this communication, we do not undertake to provide any information about such securities or their issuers in the future. We do not follow, cover or provide any fundamental or technical analyses, investment ratings, price targets, financial models or other guidance on any particular securities or companies. Further, to the extent that any securities or their issuers are included in this communication, each person responsible for the content included in this communication certifies that any views expressed with respect to such securities or their issuers accurately reflect his or her personal views about the same and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this communication. This communication is provided on a "where is, as is" basis, and we expressly disclaim any liability for any losses or other consequences of any person's use of or reliance on the information contained in this communication.

Strategas Asset Management, LLC and Strategas Securities, LLC are affiliated with Robert W. Baird & Co. Incorporated ("Baird"), a broker-dealer and FINRA member firm, although the firms conduct separate and distinct businesses. A complete listing of all applicable disclosures pertaining to Baird with respect to any individual companies mentioned in this communication can be accessed at http://www.rwbaird.com/research-insights/research/coverage/third-party-research-disclosures.aspx. You can also call 1-800-792-2473 or write: Robert W. Baird & Co., PWM Research & Analytics, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.