



In this month's Insight, Nicholas Bohnsack discusses how he believes investors should focus on the longer-term impact of the Election outcome and the brighter outlook a vaccine will have on the economy.



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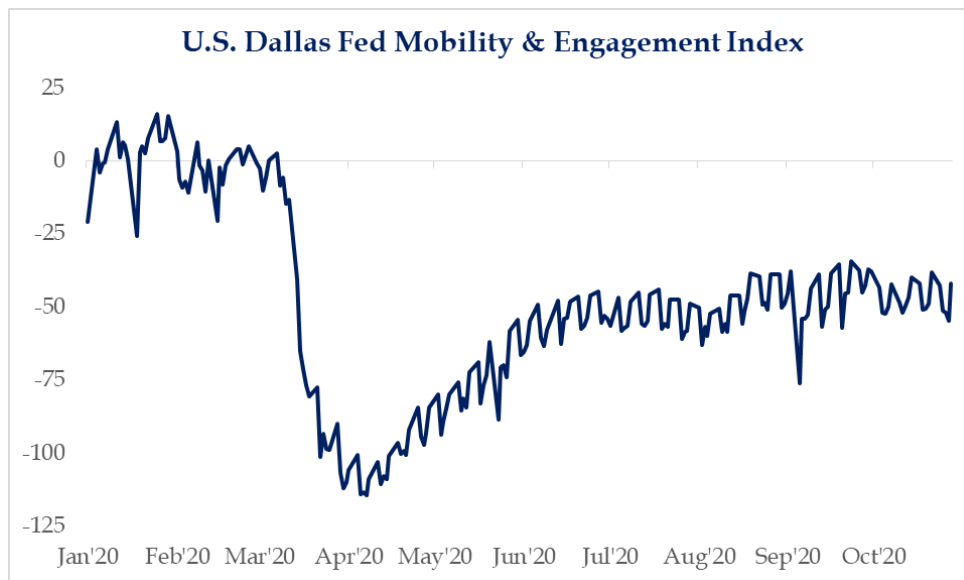
## *Moving On. Moving Up?*

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

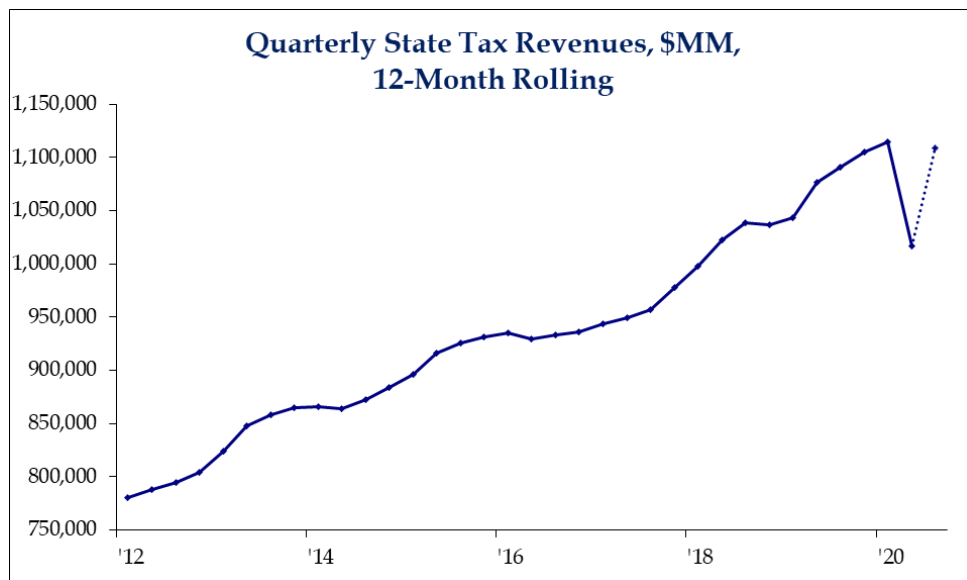
health is worthwhile in the short-term if it helps to limit the spread of the virus and strengthen the recovery in the longer-term. What is clear, as we currently see in the U.K., any move to limit mobility and lock down portions of the economy, however temporary, is likely to result in softer economic 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.



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 cyclicity 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

<b>Strategas Recommended Asset Allocation (Nov'20)</b>		
	<b>Equities</b>	<b>Bonds</b>
<b>Overweight</b>	US LC Value EM AC Core US MC Value US SC Core	IG Corporates
<b>Neutral</b>	Dev AC Core US LC Growth US MC Growth	ABS/CMBS Agencies TIPS Bank Loans* US Dollar EMD* High Yield*
<b>Underweight</b>	US LC Core US MC Core	US MBS U.S. Treasuries

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