Monthly Market Commentary

MCF CAPITAL MANAGEMENT

Market Outlook following the 2020 Elections

November 2020 | Marco Fragnito, Managing Principal | Robert R. Fragnito, Chief Operating Officer & Financial Advisor

KEY POINTS:

- Results from the 2020 Election are pointing towards a divided government reducing the risk of significant policy changes and impact on market trajectory while advancements in COVID-19 vaccines and prospects of an accommodative Federal Reserve maintain a positive outlook for markets.

EQUITY MARKET

We entered October with equity markets on the defensive as markets attempted to rise, but ultimately continued their downtrend resulting from the uncertainty of the 2020 elections combined with rising COVID-19 infections. Better than expected corporate earnings did provide some reason for optimism, yet it was not enough to lift sentiment with the talk of the Democrats sweeping the election and delivering on the "Blue Wave" forecasted by the polls. The S&P 500 fell 2.8% for the month, while the Dow Jones Industrial Average and the Nasdaq Composite fell 4.6% and 2.3% respectively.

While stimulus negotiations for another aid package between Congress and the White House offered some hope for continued economic support for the recovery, it ultimately failed to materialize leading to further negative sentiment. The options market continued to price in a high level of uncertainty surrounding the elections which confirmed their election expectations. With the pollsters once again proving to be highly inaccurate, it appears at the time of this report, Joe Biden has been declared the President-elect by the media by a slim margin.

President Trump has refused to concede as the final tabulation of votes remains unclear in numerous battleground states. Equity markets focused on a result which showed a high degree probability of divided government and the prospect of nothing significant being achieved on the policy front. Following the election, equity markets received some incredibly positive news concerning one of the COVID-19 vaccine candidates rallying the Dow more than 800 points on November 9.

FIXED INCOME

The economic data continued to deliver better than expected results across numerous indicators throughout October, building on previous months and providing a much-needed lift to investor sentiment. The first reading for the third quarter GDP came in at 33.1% on an annualized basis, exceeding expectations, laying the foundation for a V-shaped recovery post a 31.4% annualized decline in the 2nd quarter. While the growth in new monthly non-farm payrolls slowed in September, the unemployment rate did fall to 7.9% and continued to drop to 6.9% in October. Treasury yields rose to the highest levels since June as expectations for continued economic growth were strengthened, a strong indication we may have seen the lows for long term yields for the foreseeable future. This raises the risk of capital loss in the bond market significantly in coming months.

MARKET OUTLOOK

With the likelihood of a change in administration, we have begun the process of re-evaluating portfolio holdings both for the short and long-term (more on that to come in our 2021 outlook). At this moment we believe Joe Biden appears to be President-elect and we will mostly likely have divided government. The Democrats will hold onto the House of Representatives with a very small majority while the Republicans will likely remain in control of the Senate following Georgia's post run-off elections in January.

Considering the scenario above, we believe that certain adjustments will be required to our portfolio holdings. However, we do expect the equity markets to continue to rise due to low interest rates, continued quantitative easing (Federal Reserve money printing, QE), COVID-19 vaccines in the very near future and finally an economic stimulus package out of Congress. We also expect muted economic growth into 2021 due to a smaller stimulus package and higher taxes if not at the Federal level, but in states like California, New York, and Illinois to offset large budget deficits due COVID-19. Should President Trump somehow retain the Presidency, we feel that our portfolio holdings will not require much in the way of adjustments. The main reason is that we had positioned for a strong economic recovery into 2021 and while that remains to be seen, we will hold our positions for the near future.

We continue to remain positive on equity markets and expect the recovery in the economy to continue. Regardless of which party wins the Presidency, markets have had a tendency to rise once the dust has settled from elections—since 1988, the S&P 500 index has risen 13% on average over the next twelve months following an election in comparison to its long term average of 8%. There is always uncertainty and risk in financial markets, this is why we at MCF continue to let the data drive our decisions and not our personal biases.

If you have any questions, please contact us directly at 949.472.4579.
Feel free to forward this article to anyone who might be interested in our insight.

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