



Trifecta Weighing on Market Dip in Lead-up to U.S. Elections in November

October 2020 | Robert R. Fragnito, Chief Operating Officer and Financial Advisor

MARKET REVIEW

Stocks sold-off on Monday as markets weighed spikes in COVID cases, stimulus gridlock in Congress, and a tightening race one-week ahead of the U.S. Elections. Equities booked their worst day since September as the Dow fell 650 points, the S&P fell by 1.9% and the Nasdaq Composite closed down 1.6%.

Investors feared the possibility of more lockdowns on the domestic front as new restrictions were re-instated in Spain and Italy in response to rising European cases. Tensions on Capitol Hill over more fiscal stimulus reached a stalemate making it unlikely that an agreement will be reached before the November 3rd election. Finally, Wall Street's speculation on the outcome of a "Blue-Wave" in the upcoming elections seemed in doubt as investors considered the possibility of a contested election.

ELECTION PREVIEW

As the U.S. Elections are only one week away, we have analyzed a variety of different scenarios for what a Biden or Trump victory will mean for our portfolios and markets. In our view, Wall Street's notion of a "Blue-Wave" may not manifest into reality on election day. [Polling data](#) in the 2016 proved inconsistent with the results of that election, and we feel this may occur once again in 2020. Unfortunately, we can only validate this opinion after November 3rd.

The COVID pandemic has taken its toll on the economy and our political system, hence the tense situation we find ourselves in today. What concerns us at this point is not so much the results of who our next President will be, but rather how future policies will affect the economy. Furthermore, we believe Monday's drop may indicate that Wall Street is realizing it is misreading the future outcome of the election. Like the polls in 2016, investors also factored a [Hillary victory](#).

OUR ELECTION FOCUS

We have managed to focus on some key areas of concern for our portfolios going forward. The first key area continues to be the Federal Reserve. It is our view that no matter who wins the Presidency, Fed Chairman Jerome Powell will continue to remain in his seat as his term comes up for renewal in early 2022. This ensures that Fed policy moving forward in a second Trump term or a new Biden administration will remain consistent with the last four years.

International trade will be another key area of focus. Getting tough on China is now a national priority, and by our assessment, also a priority for the American people. A second Trump administration will be consistent with the past four years, although a Biden administration should be more accommodative in bilateral relations with China.

The COVID pandemic is still in the forefront as its economic impact has produced widespread unemployment, a massive expansion of government spending, and civil unrest. Rhetoric on the campaign trail suggests that Biden will consider further lockdowns while Trump will discourage States from pursuing additional shutdowns. Both approaches have been enacted over these past few months and should deliver respective outcomes already witnessed by the public.

Our main concern is a split government between the Congress and the White House, no matter who wins the Presidency. The American people dating back to President Clinton have consistently reelected the incumbent for two terms, whether Democrat or Republican. 2020 will confirm if this trend will continue. Moreover, since the 1980s, the electorate has consistently voted for a split between the Congress and White House offering only [five instances](#) where one party controlled both houses of Congress and the White House. In the case of a split government, we could expect further gridlock in the legislative process leaving many important policy decisions lingering in the background. This year [all 435 seats](#) in the House of Representatives are up for election while [35 of the 100 seats](#) are up in the Senate.

Despite all these factors, we continue to rely on our data driven approach to help us navigate through the impact of the election on markets and our portfolios. For additional reading, we have included a report from our research partners at the Wells Fargo Investment Institute outlining a scenario analysis of possible outcomes with policy implications for the 2020 Election.

IMPORTANT EVENTS FOR THE WEEK OF OCTOBER 26:

- **OCT 27 (T):** [US Durable Goods Orders for September](#)
- **OCT 29 (TH):** [US GDP](#), [Big Tech Earnings](#) – Apple, Alphabet, Amazon, Facebook
- **OCT 30 (F):** [EU GDP](#), [US Personal Income](#) and [Spending](#)

**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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