

With so much focus (understandably) on Covid-19, it's easy to forget that there are a myriad of factors that influence the direction of the economy and stock markets accordingly. These include who is in power politically, as politics and economics are two sides of the same coin. The article <[here](#)> from Fox Business highlights this reality, and as summarized, the expectation is that equity markets will sell-off in the eventuality of a Biden Presidency. The Democrats are (generally) the Party of high taxes and government spending, and regulations that impede the private sector's ability to generate wealth. The combination of any of these would hurt corporate earnings and stock prices in turn. This would be in sharp contrast to the (unexpected) election of Donald Trump in 2016, where US markets took off and rallied right up to the moment the Coronavirus required the shutdown of the global economy.


 Shanhua
CN
 COLLECTION

Politics matters. Leadership matters, and for all the slings and arrows fired at Trump, his administration can rightfully take credit for a booming (pre-Covid) economy and soaring stock markets. Even now, with the virus still negatively affecting global growth, the NASDAQ is at an all time high. So we are watching the polls closely and will be making changes to our asset allocation models if it looks like the Democrats will win in November. A more defensive position will be required and we have a game plan for that.

Another political factor is China and their increasingly belligerent behaviour on the world stage. China is a communist dictatorship which operates a parallel system to Liberal Democracies, and outside of World Trade Organization rules. However, with 1.4 billion people, its domestic market and its manufacturing capability is an integral part of the global economy. Re-orientating global supply chains to move production from China to other countries would require concerted action that would likely span a period covering four to five US Presidencies. Whether the Democrats could be expected to adopt a similarly hardline vs China remains to be seen, but is unlikely. Further the West is divided and does not act with a single voice, emboldening China's further. Their unilateral decision to break the Treaty signed with Great Britain 20 years ago, which guaranteed Hong Kong's independence and Democracy, invites the question as to whether they will do that with the recently signed US-China Trade Agreement. CV-19 originated in China and the government downplayed the pandemic for months, allowing the virus to spread to virtually every country on Earth. This is the behaviour of a government that unchecked, represents an existential threat to the Liberal Economic Order. This situation is being looked at closely as well and we will be making changes where needed here as well.

But to finish on a more positive note, the Great Re-Start is underway and economic numbers are improving. Keep in mind that the expectation is that the recovery will be characterized by starts and stops, advances as well as retreats. But it is our position that we are back on track, just running behind schedule. Oh, and heading in the right direction too, only the end destination will take a little longer to get there.

Look forward to speaking and Zooming with all of you over the summer. Great weather we're having! Wear lots of sunscreen and stay hydrated.

Be safe, be well!

Martin

519-546-5088