Market Strategy
by STRATEGAS A BAIRD COMPANY

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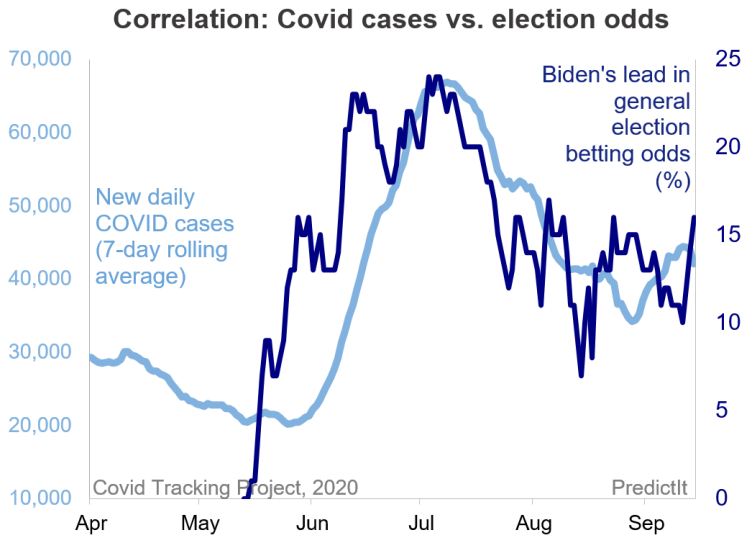
A DEBATE FRAMEWORK | STIMULUS STILL NEEDED | BULLISH FOR NOW

As the third quarter drew to a close, two stories dominated the headlines. First, some welcome strength in the stock market to close the month after a sharp selloff across September, and second, this year's first presidential debate.

Looking through the noise of this first scuffle, much of our pre-debate thinking holds true. We frame the debate in three ways: **1)** on the broader, often more-divisive issues with longer-term implications; **2)** on the shorter-term effects on the economy and recovery (the items in our immediate investment window); and **3)** on the idea that the qualitative outcome is in the eye of the beholder. Remember that Nixon looked unappealing during his 1960 debate with Kennedy, but radio listeners thought he had Kennedy beat.



Incumbent presidents typically perform poorly in their first re-election debate, perhaps due to under-preparation. Add to that the easily beatable low expectations for Vice President Biden and we're not surprised to see Biden-Harris getting a bump in the polls. Historically, sitting presidents drop two points after the first debate.

And then there are the ongoing fiscal stimulus negotiations. We continue to believe that allowing this spring's stimulus measures to expire is the single biggest risk, besides the virus itself, to the health of the economic recovery. Despite positive comments from key players, we have doubts as to whether a deal will get done pre-election. Both parties' drive to get to a deal will probably intensify, however, if we see more announcements of big company layoffs.

Even with increased market volatility expected between now and the election, September's selloff did not prompt a retest of our conviction. In fact, the general trend appears to be improving as society learns to live with the virus, and we view this as (at least) moderately bullish for markets. Near-term, we believe that testing prevalence, vaccine development, the success of re-openings, and the ebb and flow of the virus itself will continue to dictate returns.

All things considered, we remain comfortable with an above-benchmark allocation to stocks and look to gradually add cyclicality within that allocation as a durable recovery develops. As always, we remind you that you should work with your Baird Advisor on what's right for you and your portfolio, because everyone's needs are different. Let's leave it there for now and pick it back up next week. Have a wonderful weekend.

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