

NOVEMBER 2020 CLIENT QUESTION: POST ELECTION

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In our piece last month on **The Presidential Election**, we stated that the market is not likely to crash after the election no matter the outcome. Now that we are over a week removed from the elections, the stock market is back near its all-time high. We will use this as another opportunity to point out that **market timing does not work**.

Although the dust has not settled in the Presidential or Senate elections, we can start to draw some conclusions based on the most likely outcomes. We understand that politics can be an emotional issue for many people. Furthermore, we appreciate that political views are personal, and that our client's value important issues other than simply the financial markets.

Our goal with this Client Question of the Month is to analyze what the current political landscape means from an investment perspective. As your trusted advisor our role is to examine the environment from both a risk and opportunity standpoint so that we can provide proactive financial planning and investment management solutions that are in your best interest. A key component to our process is to remove the emotional aspect from decision making. In this commentary, we will stick to the facts and use that as a framework for our market outlook.

Presidential Election

On Saturday November 7, 2020, several media outlets called the Presidential Election for former Vice President Joe Biden. The Associated Press has 290 electoral votes for Biden, putting him above the 270-vote threshold for victory, and 214 votes for President Trump. Georgia and North Carolina have not been called yet and several states will likely process recounts.

President Trump has contested the results of the election. In a statement, he said, "the simple fact is this election is far from over. Joe Biden has not been certified as the winner of any states, let alone any of the highly contested states headed for mandatory recounts, or states where our campaign has valid and legitimate legal challenges that could determine the ultimate victor." The Trump campaign plans to file legal challenges based on alleged barriers to the counting of mail-in ballots, votes by the deceased, and backdated ballots.

Under the Presidential Transition Act, the administrator of the General Services Administration (GSA) formally ascertains the apparent election winner. The GSA has over \$6 million set aside for a potential new administration and provides office space and access to government officials and detailed agency briefing books. As of the writing, the GSA has not ascertained a winner. The Biden transition team has called for the GSA to declare a winner and expects a determination soon.

While the legal battles will likely go on for the next several weeks, the most probable outcome is for Joe Biden to become President of the United States on January 20, 2021. We would expect the results to be finalized by the December 8th "Safe Harbor" deadline when states with contested races must file results. Note that the Supreme Court ruled in President Bush's favor on this deadline in 2000.

Upcoming Election Calendar

Date	Event
12/8/2020	"Safe harbor" deadline when states with contested elections must file results. (Note: The Supreme Court ruled in President Bush's favor on the safe harbor deadline in 2000.)
12/14/2020	Electors meet in state capitals to vote.
12/23/2020	States send electoral votes to Congress.
1/3/2021	New Congress sits at noon.
1/6/2020	Congress meets at 1pm to count electoral votes and declare the winner.
1/20/2021	Inaguration Day

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Senate Election

Going into the election, Republicans held a 53 to 47 (including two independents who caucus with the Democratic Party) majority in the Senate. After the election results so far, the makeup of the Senate is at 48-48. Republicans were incumbents in the four races that have not been called yet. In North Carolina and Alaska, the winner in each will likely be the Republican incumbent, pushing the Senate makeup to 50-48. The two other seats that will determine control of the Senate are both located in Georgia and both are headed for runoff elections on January 5, 2021. If Democrats win both seats, then the Senate would be in a 50-50 tie. In that case, Democrats would hold the majority (assuming Biden wins the Presidency) as the Vice President acts as the tiebreaker for voting purposes.

In Georgia, a Senate race moves to a runoff election if no candidate receives more than 50% of the vote. Both races will draw national attention and both parties will spend a substantial amount of money to try and get their candidate elected. Historically, Georgia had Senate runoff elections in 1992 and 2008, which also occurred in presidential election years. In both cases, voter turnout declined by over 40% for the runoff election with the Republican candidate winning. Given the stakes and the spotlight on these runoff elections, it remains to be seen if turnout will decline as far as prior years. As of this writing, polls and prediction markets suggest that at least one Republican will win a runoff election, making a slim Republican majority the most likely outcome.

Outlook Based on Most Likely Outcome – President Biden with a Republican Senate

Based on where things stand today, the most likely outcome is for a Biden presidency combined with a Republican Senate. Of course, this is subject to change based on President Trump's legal challenge and the results of the Georgia Senate runoff elections. However, we do want to point out that this most likely outcome is a positive backdrop for the stock market, especially considering current Federal Reserve policy and positive vaccine news. Assuming a Biden presidency and Republican Senate, we can broadly expect the following:

- **Additional fiscal stimulus is still likely.** Republican Senator Mitch McConnell recently stated that he would like to get a stimulus deal done by the end of the year that includes aid to state and local governments (this was previously a sticking point). Additionally, Biden and McConnell are thought to have a good relationship and are willing to work with each other.
- **A progressive tax agenda is unlikely.** Under a Republican controlled Senate, major tax increases would be unlikely. From an investment perspective, gridlock in Congress would be positive as both sides would need to work together to pass any major legislation, including tax policy.
 - Note that tax analysis and minimization strategies are a significant part of our Financial Planning process. We will monitor any tax changes closely and proactively introduce strategies that best fit your unique circumstances.
- **New tariffs on China are unlikely.** We would expect that a Biden administration would want to improve the relationship between the United States and China and therefore would be unlikely to implement new tariffs. Conversely, under a second Trump term we would have expected tariffs to increase quickly as a response to the coronavirus.
- **Monetary Policy remains accommodative.** The Fed is an independent government agency but is ultimately accountable to the public and Congress. Jerome Powell's four-year term as Fed Chair ends in February of 2022. If he is to serve a second term, he will need to be reappointed by the President. We can expect the Fed to remain accommodative under Powell's watch, but we may need to reassess the policies of a new Chair. Please see our [Client Question of the Month on The Federal Reserve](#), which details the importance of the Fed's policies and impact the FOMC has on the economy, interest rates, and stock prices.
- **Vaccines are likely.** On November 9, Pfizer announced that the vaccine they are developing with BioNTech was more than 90% effective in preventing covid-19 among people without evidence of prior infection. The CEO of Pfizer, Dr. Albert Bourla, said that, "I believe this is likely the most significant medical advance in the last 100 years, if you count the impact this will have in public health and the global economy." Pfizer stated it believes it can produce up to 50 million doses in 2020 and up to 1.3 billion doses in 2021. In addition to the Pfizer vaccine, there are four other phase III trials underway in the US. The Pfizer vaccine news helped push the stock market to a new all-time high on 11/9. Of course, a working vaccine that is widely available would provide a significant boost to the economy.

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Last month we wrote that, “the end of October feels a bit like we are finishing one chapter and are about to start a new one. Who will be the next president? What will be the makeup of Congress? Will covid vaccines be effective? What is the timeline for a vaccine? We will soon know the answers to some of the questions that we have been asking all year.” We expected more volatility through the election and now as we receive clarity on several major issues, we can move forward with a measured approach. We are not ready to signal an all-clear on the equity markets just yet; valuations remain high and the spread of the virus is accelerating, which may necessitate more shutdowns before a vaccine arrives. It is 2020 after all, we are prepared for anything and nothing would surprise us. On the equity side, we remain tilted toward high quality US large cap stocks (we allocate across regions, countries, market caps, factors, styles, sectors, and industries). On the fixed income side, we continue to focus on achieving ballast, stability, and income while accounting for short-term cash needs. As always, we will continue to utilize our time-tested investment process as we aim to take advantage of new opportunities.

At Winthrop Wealth, we apply a total net worth approach to both comprehensive financial planning and investment management. Financial planning drives the investment strategy and provides a road-map to each client’s unique goals and objectives. The comprehensive financial plan defines cash flow needs, is stress tested for various market environments, optimizes account structures, considers tax minimization strategies, and continuously evaluates financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection.

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The Standard & Poor’s 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.