Thoughts from the Holy City – November 2020

"In the end, it's not the years in your life that count. ***It's the life in your years****."*

- *Abraham Lincoln*

As October concluded with the equity markets continuing the theme of uncertainty and volatility, we enter November with a continuation of just that, albeit with the addition of the Presidential and Congressional elections. As of this writing, both the Presidential and Congressional elections are ongoing and undecided. Neither President Trump nor VP Joe Biden have yet to secure the 270 electoral votes, and there are a few undecided Senate elections still up in the air. Additionally, President Trump and The White House have contested the results threatening legal action. However, in Congress, Republican candidates have outperformed estimates and appear likely to maintain majority in the Senate. On the other hand, Democrats are set to maintain control in the House.

At this time the highest odds are for a divided Congress, regardless of who is ultimately in the White House. As we continue to wait on the outcomes, and the headlines regarding contested results remain frequent and conflicting, this could result in volatility in the equity markets. Despite what may come of the Presidential election, the potential split Congress is positive long term as the potential for higher taxes is drastically reduced. This is ultimately positive for the domestic equity markets.

Economic activity and corporate earnings continue to improve, but the market climb was met with headwinds due to concerning reports of a third wave of Covid outbreaks in. As of the end of October the DJIA is down 7.14%, the S&P 500 positive 1.21% and the NASDAQ positive on the year by 21.61% as technology companies have sent the index back into record territory. Meanwhile, international markets continue to lag the domestic markets with the MSCI EAFE index down 12.61% year to date. European markets have taken a hit due to new restrictions being implemented and fears of the potential implications on the economy.

As we look ahead and await the election results, we maintain the importance of not making dramatic portfolio adjustments based on the election alone. While the elections may have a significant impact on the country, they will not, based on history, have a dramatic effect of on investing. Politics and investing have often been associated, but over the last 120 years the market has almost no correlation with government policies. The drivers of stock market performance have been earnings and economic growth. Further, decisions made by the Federal Reserve have had a more significant impact on market sentiment.

No matter who ultimately wins the Presidential election, there are number of things to keep in mind as investors. Historically, markets have performed well under both parties with the S&P 500 delivering an annual return of approximately 11% over the past 75 years. There have only been two administrations which have had a negative return; one was during the Great Financial Crisis (Bush) and the other was during a period of stagflation (1973 under Nixon). The best performing portfolio over the past 120 years is one that remained fully invested thorough both Democratic and Republican Administrations This is due, in part, by the fact that the US stock market has consistently risen despite two world wars and two major financial crises. In the end, monetary policy matters more. The Fed is providing support to the economy and markets and does not intend to cut rates. This also most likely means a continued favorable environment for stocks.

We continue to focus on the more important current issues of the likelihood of additional stimulus, the recent surge in Covid cases, and a continuation of an earnings recovery. The pandemic has given many of us the opportunity to reevaluate what is truly important; our health, family, friends, and general well-being. It is easy to lose focus on the importance of these with today's constant news narrative, but historically, sticking to the plan that is in place has proven to be the correct course of action. As we move past the Covid crisis and end the election, I expect the markets to focus more closely on the fundamentals, which I believe will continue to improve into 2021. Ultimately, we are here to help you see the forest through the trees so that you can focus on what is most important to you and your family.

Be Well.