



Update

Navigating Through the Fog of Election Uncertainty

This week, earnings season kicks off in earnest as more than 400 companies report third quarter results. As expected, many of the best-performing companies were those whose stocks are among this year's market leaders. Results have been generally positive and this has imparted a mildly bullish bent to the averages amidst the ongoing rotation into Cyclical issues and the building uncertainty surrounding the future of US fiscal policy. In the background, the noise related to a second stimulus package drones on with the likelihood of a compromise before the election fading despite comments from the House leader and the Treasury Secretary to the contrary. These are merely the opening acts for the headline event that will take the stage in less than two weeks.

All eyes will focus on the election. While we see the polls pointing to the outcome of the presidential contest on paper, 2016 reminds us that the game has to be played and the actual vote determines the winner. Regardless, we've emphasized throughout the year that our focus is on the potential policy outcome of the election. We've cautioned that a fragile global economy, impaired by the pandemic response, is not the optimal environment for imparting dramatic change to a fiscal policy that, by traditional measures, has proven to be largely successful.

There will come a time when tax revenues will have to increase with an assist from tax increases. This is not the time. Speculation is building over a "Blue Wave", an election outcome that would leave Congress and the White House in the hands of one party. A quick glance back to those times when *either* party had such a legislative advantage yields mixed results at best and the eventual swinging of the ideological pendulum to an excess that raises the prospect for a policy misstep. As George Will said in the late 90's, "Gridlock is good". He went on to remark that such a state of stasis in Washington requires compromise to accomplish anything positive and that serious policy mistakes are *usually* avoided. An exception to that would be the housing debacle and Crash of 2008 that stands as a *bipartisan* bungle of epic proportions.

It's distressing to admit we're clueless on the matter of a Blue Wave and whether the actions of *either* party will match the promise, or threats, of their campaign rhetoric. We're simply hopeful cooler heads will prevail in formulating policy and seeking compromise regardless of the outcome in November. That leads us to follow a "Do no harm" strategy in allocating portfolios ahead of the election. We've preached about foregoing rapid, big changes in asset allocations. That's why, over the course of the past twelve months, we've positioned clients with an excess of cash and with portfolios invested across sectors and in issues that we believe will preserve value now and hold the potential to add value following the election.