

Hamilton-Bates

Market Update—Post-Election View

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People everywhere celebrated this morning—not because their candidate won, but because election ads will finally go away for a good while. While the exact outcome of the election isn't known yet, we can make some observations about the future from what we see.

The Election

The outcome was much closer than the 'polls' suggested, once again showing a pretty even split among the US voting population. Based on what we see and expect, it looks as though there was no Blue Wave, and the end result is a divided government. The GOP picked up seats in the House and held the Senate, but a Biden win in NEV, WI, and MI look to potentially deliver the Presidency to the Dems.

The Market

The market has breathed a huge sigh of relief, as split govt has been very favorable in the past for the financial markets. Without a Blue Wave, tax policy is not likely to change dramatically (neither income or capital gains), a plus for investors. Neither is the regulatory environment likely to change significantly.

We are likely to get Fiscal stimulus, and **we should see it, though we are not sure of the timing.**

NOTE: Just as we are writing this Senate Leader McConnell expects a stimulus deal before year-end. It may not be as big as could have been under a blue wave, but this news has boosted stocks significantly.

We'd prefer to see stimulus come through the form of payments to individuals, as our experience with PPP suggested a good deal of it went to phony companies and employees of the banks themselves through fraud. Direct payment to individuals is preferred in our opinion. We did not take PPP funds, we toughed it out, tightened our belts, and left funds to firms we felt needed it more.

Market Outlook

Just as we wrote in the 10/30 pre-election Update, the

market has indeed moved higher as election 'uncertainty' diminished. The market is happy to have the election in the rear view mirror.

We believe stocks will continue to move higher in the wake of the election, regardless of winner. Current ebullience may be a bit overdone, but we'd expect stocks HIGHER into our anticipated time window of early 2021 (we will keep the exact window for this up move for direct conversations with clients).

If the incumbent party loses the White House, as it appears to us right now is possible, the market has historically chopped around for several weeks after, digesting the news and the potential changes in policy.

The year after the election is where we have to worry. After an incumbent win the average gain is 10%. The year after and incumbent loss has seen an average decline of -6.5%.

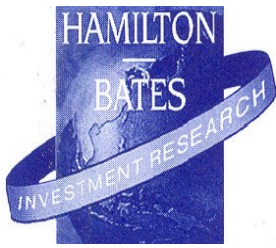
However, as we mentioned above, regardless of whether an incumbent won or lost, there was a window where stocks rallied. We added to equity positions into the teeth of the decline last week, and we are looking at adding to stocks on weakness in coming weeks, holding for a sale into a potential peak, early in 2021. There is a good profit opportunity for an upcoming rally, and we could see a gain of 10-15% or more in stocks.

Seasonal and historic trends strongly favor stocks the next few months. Technology and large-cap stocks look to be the winners, and healthcare could rebound since the GOP hold of the Senate prevents a massive overhaul of that sector.

Whatever the outcome is, we'll have a plan and be ready to handle the investing environment. We'll share more of our thoughts in coming days as things clarify.

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S&P 500 Chart (below)

After peaking in early September, the major averages have consolidated into late October. We are (and have) looked to increase equity holdings in coming days and weeks. Historically, market declines toward the 200-day average (red line in chart) have been excellent places to add to holdings, we do not expect this time to be different, especially once the Election is in the rear-view window. The long-term trend remains bullish.



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