

Hamilton-Bates

Market Update—Pre-Election View

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With just days until the election of the century (haven't they all been billed that of late?), it's a good time for an update on where things stand.

The Election

In terms of turnout— it could be the election of the century, with turnout anticipated to be the highest in 100 years. Participation is a good thing. If 'did not vote' had been a 'candidate' in most of the Presidential Elections in the past 50 years they would have won!

The polls and betting odds markets continue to point to a Democratic win next week, though things have tightened of late. The stock market is still higher than it was 3 months ago, though just barely. This key indicator, with a 100% success rate since 1980, had been favoring a GOP win. If stocks continue to weaken into next week it may suggest a Dem win, with investors selling in order to rotate into favored sectors in coming weeks.

Right now, the election is a toss-up. With many states counting mail-in votes a head of election day, we may know the outcome on election night, especially if it's a Dem win. A key state we are following is NC, a GOP win there might be needed to secure a win if its close in other battleground states. Keep an eye on NC.

The Market

The market has been all over the map the last two months, falling in September, only to rally back over the first half of October, only to fall gain this past week. In our opinion, this drop ahead of the Election is preferred, since the decline is actually lowering risk. We have not yet increased our equity allocations, that is CLOSE, but we have bought this week for accounts that were under-weighted (new accts or accts that had added new \$\$\$). We anticipate adding to equity holdings over the next week or two as the election passes. We could add to US stock

positions if we see further weakness in the next few days, but we'll take a gradual approach.

Market Outlook

We believe stocks will move higher in the wake of the election, regardless of winner. However, it might not be immediate, or a strait line.

Historically, if the incumbent party wins the market moves higher relatively quickly after the election, and into the next year. That's not surprising there isn't change for the market to consider. If the incumbent party loses, 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, regardless of whether an incumbent won or lost, there was a window where stocks rallied. We are looking at adding to stocks on weakness after the election, and holding to potentially sell into that potential peak, early in 2021. There is a good profit opportunity for an upcoming rally.

Winners and Losers

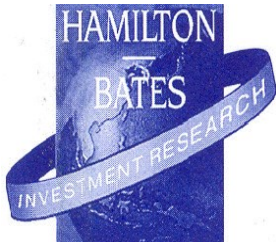
A Dem win probably creates the biggest disparity between winners and losers. Oil/Gas, Finance, and Healthcare look to be sectors that face taxes and regulation. Increased Fiscal stimulus, offset by higher taxes later on, points to materials, metals, and clean energy as winners.

A GOP win or a continuation of status quo (GOP Pres, Dem House, GOP Senate) would be more of the same, and favor big-cap stocks across the board. We are likely to see stimulus, but perhaps not a large.

We'll post another Update on Wednesday. Go Vote!

Disclosures:

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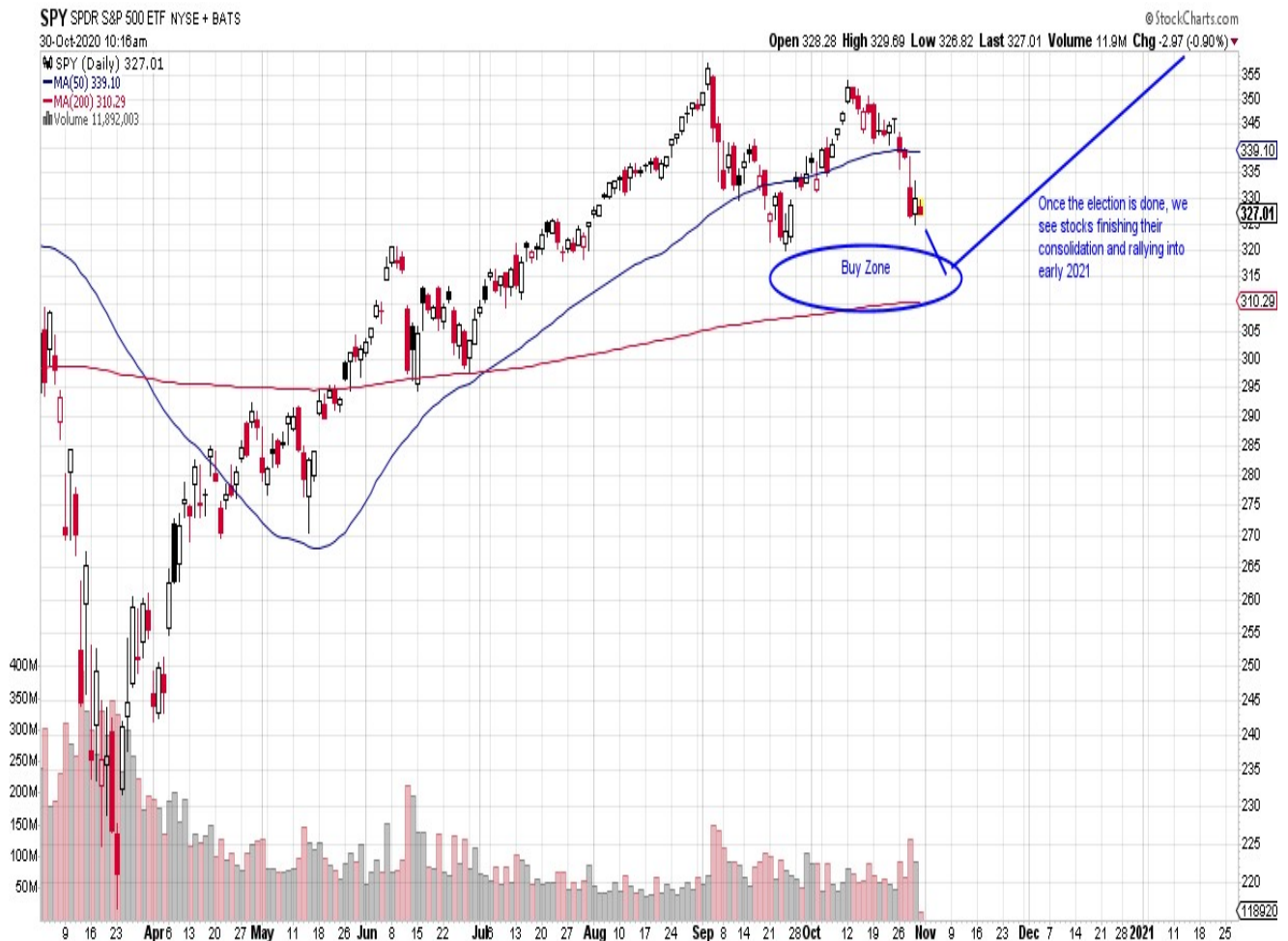


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S&P 500 Chart (below)

After peaking in early September, the major averages have consolidated into late October. We are looking to increase equity holdings in coming days and weeks, as the market gets past the election and looks toward 2021 and whatever the political landscape may be. 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.



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