

# Hamilton-Bates

## Market Update

*November 20, 2020*

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### **The Elections are Over—What’s Next?**

We are two weeks out from the election, and the election fog has mostly lifted, at least as far as investors are concerned. Since the Election stock markets celebrated split government and no clear one-party domination of Washington. Relief from the uncertainty, and realization that massive tax increases from a ‘blue wave’ were unlikely—triggered a big market move since Election day.

However, while markets are influenced by elections in the short term, it’s important to reiterate that policies and not politics impact the state of the economy and thus markets in the long run. Once we get clarity on policies from Washington next year, the market will likely react at that point.

Markets are likely to shift its attention towards more conventional issues like the impact of rising COVID cases on the economy. At this point COVID seems to be making a comeback as the winter season unfolds. Lock-downs and restrictions are now coming back into focus. This could create some pause in the market’s enthusiasm. So a pullback between now and mid-December would not be a too much of a shock.

### **The Election – But Wait There is More**

While the market appears to have priced in a divided government, there remain two outstanding items. First, President Donald Trump has not yet conceded the election. Second, the balance of power in the Senate remains to be determined because Georgia’s two Senate races will go to runoff elections in January. Regardless, the election results to date have helped remove a sizable amount of uncertainty in the market. Investors seem to be ignoring the Trump legal challenges, but if they gain traction there could be uncertainty added back into stocks.

The market likes the idea of split government, but the polls in the two January Senate races are tight. If the Dems win both and current legal challenges to the Presidential Race don’t proceed, the Democrats will have control of the Presidency and Capital Hill. We’d think at that point the prospects of higher taxes and regulations could be very unsettling to stocks.

### **Market Outlook**

Our outlook for higher stock prices into the first half of 2021 remains, however, the recent rally is ripe for a pullback and the market now has some Election loose-ends that are far from sewn-up. A pullback from the post-Thanksgiving period until mid-December would be fairly normal given the quick rise we have had, and in keeping with seasonal patterns. December strength doesn’t usually kick-in until the 15th through year-end.

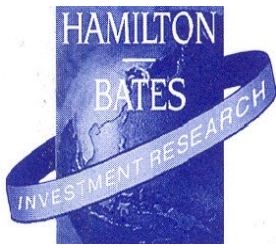
The year after the election is where we have to worry. After an incumbent win the average gain is 10%. The year after and incumbent loss has seen an average decline of -6.5%. If ultimately President Biden is confirmed, we’d expect the market to rally in the first quarter of 2021, especially if the GOP wins at least 1 of the two Senate races locking in a split government. A late breaking ‘blue wave’ should the Dems win both seats we think would cause some uncertainty and potentially undo a budding rally over fears over taxes and regulations.

Seasonal and historic trends strongly favor stocks the next few months. Technology and large-cap stocks look to be the winners, and if COVID concerns grow the large-cap tech stocks were shutdown winners and they could fare well again until we know when the vaccines will be distributed.

[Lets hope the vaccines get approved and circulated quickly.](#)

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### S&P 500 Chart (below)

The stock market spiked higher after the Election briefly nearing 3700 on the S&P 500. We have since settled back into a small side-ways move since then. Some pullback between now and mid-December is likely, but its tough to tell just how much we'll see. We'd buy weakness yet, as we believe there will be an eventual market breakout above 3600 (the area of the two sideways blue lines). That breakout could see stocks rally about 10% in early 2021 if things break right. For now, the biggest caveat is those run-off elections on January 6th. For now the bulls are in charge and the long-term trend remains bullish. We'll keep a close eye on those run-off elections as they could be market moving.



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