MANAGED ASSET PORTFOLIOS

MAP VIEWS
Fourth Quarter 2020:
Countdown to the Elections

As this piece is being written, we are coming into the homestretch of the 2020 U.S. elections. It seems that this election has stirred more emotions and captivated more voter interest than any other election in recent memory. We have certainly received a fair amount of clients' questions about the election and what impact it may have on the financial markets and the broader economy. We attempt to address these issues in the thoughts below.

When addressing the various scenarios, we do so as the markets may perceive them, not from a personal viewpoint. Obviously, markets generally prefer lower taxes and less regulation, which favor the GOP. Given the economic weakness caused by COVID-19, investors have been rooting for more monetary stimulus. On this front, the Democrats probably have the inside track. During recent testimonies, Fed Chairman Jay Powell has stressed to Congress the importance of passing additional fiscal stimulus. Recently, daily stock market activity seems to be focused on that matter as well. Stocks tend to rise on days where it appears that both sides are nearing an agreement on more stimulus spending while falling on days where it seems odds of a deal getting done are diminished.

We believe that the outcome of the Senate elections will be as important – if not more so - than who ultimately wins the presidential vote. Assuming the GOP maintains control of the Senate, we will likely experience a fair amount of gridlock on Capitol Hill, which may not necessarily be a bad thing from an investor's perspective. If the GOP does not maintain control of the Senate and there is a "Blue Sweep," we would not be surprised to see an initial market sell-off. However, we believe such a sell-off could be short-term in nature as we suspect the Democrats will be hard-pressed to raise taxes aggressively at the onset of the transfer of power, given the sluggishness of the economy.

We view the worst outcome as one where the result is drawn out for numerous weeks, and an absence of a clear winner leads both parties to contest the result and is eventually settled in the courts. The uncertainty could open the door for further civil unrest and create an unfriendly environment for the markets. Remember the old Wall Street adage: "The markets can accept good news, and the markets can handle bad news, but the markets despise uncertainty."

With that said, we caution investors against knee-jerk reactions. We all recall watching the election returns four years ago. As the returns showed Donald Trump piling up the electoral college votes, the stock futures were melting downward. At one point, they indicated an opening of nearly nine hundred points in the red. Less than twenty-four hours later, the losses were erased, and the markets finished with substantial gains. The sharp one-day reversal proved to be a steppingstone for a Bull Market for stocks that, for the most part, carried through until the COVID-19 Pandemic upended stocks and the economy during the first quarter of this year.

Aside from the elections, we would be remiss if we did not address the Fed's power related to the financial markets. Let's be frank. The markets would not have enjoyed the rebound that they have if not for the unprecedented and aggressive actions of the Fed. In recent comments, the Fed has indicated that they intend to keep interest rates near zero percent for the next three years. Such an environment should be viewed as constructive for equities. We do, however, caution against becoming overly euphoric, as we believe the road will be bumpy, with plenty of issues leading to heightened volatility. Instead, we view the Fed's soothing comments as somewhat of a "floor" should matters show marked signs of deterioration.

As you know, we have maintained a somewhat defensive posture this year. We view this action as prudent, given the vast amount of uncertainties in the macro-environment. We have carried elevated cash levels and maintained/built overweight positions in consumer staples, technology, and healthcare. We have also increased our exposure to utilities. We believe they offer attractive risk/reward characteristics given the sluggish economy and likelihood that interest rates will remain depressed for the foreseeable future. Additionally, we have purchased an infrastructure play in our balanced and global equity accounts, with the thought process that an infrastructure bill can probably be a common ground for both sides of the aisle. We are underweight or absent from most other sectors.

On the other side of the equation, investors who have owned the large tech companies have been rewarded tremendously. However, we caution that what has worked in the past is no guarantee of what will work in the future. We know that 2020 has been a challenging year for many individuals. We thank you for your confidence in us and for allowing us to serve as your investment advisor. As a reminder, we caution against acting on emotions. At MAP, we attempt to filter out emotions and base decisions on objective data and unbiased viewpoints. We believe that a thoughtful, long-term value-based investment approach makes the most sense for investors rather than chasing that latest fad being hyped by the media.

As we put the wraps on a very chaotic year, we wish all of you and your family health, safety, and peace.

Managed Asset Portfolios' Investment Team:
Michael Dzialo, Karen Culver, Peter Swan, John Dalton, and Zack Fellows

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