The Election and Volatility

October 26, 2020

We are just about a week away from the national elections. Market observers have identified the outcome as a game changer especially if one party not only wins the presidency but also the Congress. In all our experience, we have never seen the animosity that has arisen over the policies of candidates and the outright hatred of the parties. The challenge for investors will be how to navigate the current or new policies of the next administration to maintain or increase the value of their portfolio.

In the face of potential major government policy shifts in managing the economy, equity markets seem to have ignored the impact that one set of policies could have on stock prices. For 2020, we continue to see a market that is near-record highs even though the economy is experiencing a divergence. The large, information technology companies remain at the top powered by strong earnings and large cash position demonstrating their "survival of the fittest" skins. On the other side are those companies that are bearing the brunt of the negative impact of the shutdown. The resurgence of the virus is aggravating businesses already suffering from the forced shutdown as more people cancel cruises, vacations and going out for dinner. The stock market reflects this pain as many of the airline, cruise line and hotel companies are at the brink of disaster. Not far behind are the more basic industries such as your local restaurants and theaters that are becoming unable to function—even with temporary aid from the government. The virus is having a permanent impact on the structure of how Americans live together. Even though a solution to the virus may be near, many of the changes we are experiencing will be permanent.

No matter who wins in November, there is a new mantra: both monetary and fiscal policy at the federal level has changed and is now a safety net under which an economic decline is unlikely. Fiscal policy, i.e. government spending, will be higher not lower in the face of the impact of the resurgent virus. In the past, fears of government deficits and the level of government debt drew criticism that future economic growth would be stunted. Today, these are no longer the nemesis of future growth. Both candidates are committed to expanding government spending in the face of the virus. The challenge has been who could spend more? For investors, the decision is to follow that money.

Of greater importance is the dramatic change in monetary policy. Prior to the onset of the virus, the Federal Reserve was moving toward higher rates as the economy continued to recover. When the virus became front and center early this year, the Fed opened the Central Bank's lending facilities by buying enormous amounts of government and corporate debt resulting in a safeguard for the economy as this action added trillions of dollars to the economy. The Fed has also promised to keep interest rates near record lows for months, if not years to come. They have this power because they have an unlimited amount of money to keep the economy afloat. They can write the checks for as long as necessary. These changes in policy are monumental and the outcome of the election is unlikely to undermine the government's power to keep the economy stable. Obviously, there will be different winners and losers in terms of the stock market dependent upon who the winner is for both the presidency and the Congress but there will be investment opportunities no matter what the outcome.

Over the next few weeks, financial markets will likely be more volatile than might be expected. Investors should not be influenced by the price swings of individual equities in the short-term and investment decisions should not be based on politics. Staying on the train is paramount during turbulent times!

211 King Street • Suite 106 • Charleston, SC 29401 • 843-342-3044 • www.vcm.us.com