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## SUMMARY

- With the election results almost tallied, the stock market seems to have voted in favor of balance (a divided government).
- Between a likely stimulus package in Q1 and a viable vaccine in the first half of the year, we expect the global economy to reaccelerate in 2021.
- Our balanced portfolios are now overweight stocks.

11.16.2020

## Election Outcome Likely Better for Stocks than Bonds

### A Rotation to More Cyclical/Value Stocks Now More Likely, in Our View

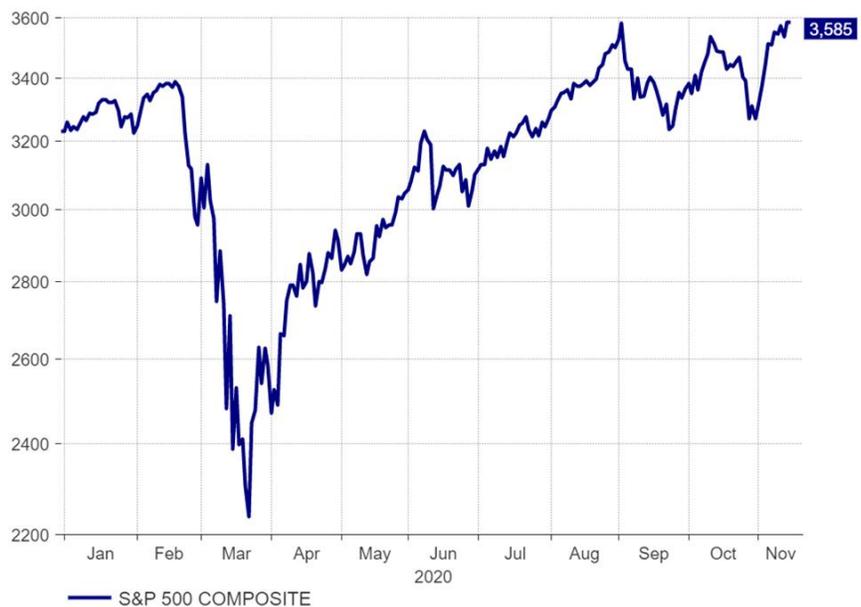
The 2020 election results are not yet finalized, but we believe a number of conclusions can be drawn.

1. Joe Biden and Kamala Harris are likely to be our next president and vice president.
2. Republicans are likely to retain their Senate majority. *(There are two runoff elections in Georgia, but we believe Republicans are still likely to retain majority.)*
3. Democrats will retain their House of Representatives majority albeit by a narrower margin than the previous congressional term.

### No 'Blue Wave'

A government with no party holding both Congress and the presidency (aka a divided government) can result in one of two outcomes: gridlock or compromise. As we have noted in our [Weekly View: 2020 Election FAQ on 10/19/20](#), stocks tend to do well even in gridlock, and we think will do better with some compromise since reasonable checks and balances will be in place. Indeed, based on recent performance, we believe investors seem to have voted in favor of the divided government: The S&P 500 is now back to all-time highs following the recent post-election rally (see chart below).

### S&P 500 Index Composite Jan 2020- Present



Source: Refinitiv Datastream, RiverFront; as of 11/16/20

Past performance is no guarantee of future results. Shown for illustrative purposes. Not indicative of RiverFront portfolio performance. Index definitions are available in the disclosures.

While it remains to be seen whether gridlock or compromise will become the model for governance over the next two years, we are hopeful for the latter. The United States faces a number of challenges entering 2021 with the most important being the global battle against COVID-19 and the re-opening of the global economy. Compromise, not gridlock, represents the best outcome, in our view, and we think bipartisan cooperation is possible on some issues. President-elect Joe Biden and Senate Majority Leader Mitch McConnell have a history of working together and putting their differences aside. The extension of the Bush-era tax cuts in 2010, the raising of the debt ceiling in 2011, and the avoidance of the 'fiscal cliff' in 2013; are three examples of the two finding a path on important legislation when others could not.

Whether a new spirit of bipartisanship can blossom or not, we do believe that a divided government takes some of the most controversial legislative proposals 'off the table' while encouraging lawmakers to embrace more moderate reform. A few of the 'likely' and 'unlikely' agenda items we see from the incoming administration include:

### 'Likely'

- A balanced, moderate cabinet in aggregate due to the requirement for Senate confirmation.
- Additional COVID-19 relief including enhanced unemployment benefits, stimulus checks, earmarks for healthcare and travel-related industries, and small-business loans.
- Improved relationships with traditional US allies.
- Greater clarity on trade policy; less use of tariffs, and a more globally coordinated approach.
- A bipartisan Infrastructure Bill.
- A tougher regulatory stance on carbon emissions and a reversal of Trump era executive orders regarding public health, immigration, and the environment.
- Re-entry into multi-lateral agreements: such as the Paris climate accord and the World Health Organization (WHO)

### 'Unlikely'

- Financial support for state and local governments.
- Public healthcare option (ACA will remain).
- Major tax hikes for corporations or individuals.
- Major legislation regarding greenhouse gas emissions economic inequality and racial injustice referred to as the Green New Deal.
- Additional Supreme Court Justices aka 'packing the court'.
- Removal of the Senate filibuster.
- Addition of new states to the Union.

## Investment Implications and how we are playing 'the hand we are dealt'

### Stocks should beat bonds:

A divided government means better checks and balances on government spending. In our view, this should please inflation 'hawks', keeping interest rates low for the foreseeable future. Low interest rates create a low hurdle for stocks, making them one of the few assets that offer investors the opportunity for inflation-adjusted growth. We also see stocks benefitting from the dissipation of uncertainty regarding the election and worries regarding significantly higher corporate tax rates.

- **What we are doing:** RiverFront continues to favor stocks over bonds in its balanced portfolios and has increased its equity allocation since the election.

### Growth stocks should still win over the long run, but Value stocks will rebound as economic uncertainty eases:

Stimulus raises our national debt, essentially borrowing from the future and tends to result in slower economic growth. As a result, companies that can deliver growth in a low growth environment will likely remain in short supply, and thus be afforded ever increasing valuations. However, we would expect a bounce in more cyclical Value-oriented stocks at some point over the next year if an effective vaccine is widely distributed.

- **What we are doing:** RiverFront portfolios have been and remain biased to growth companies, but we have recently been adding exposure to Value stocks.

### A vaccine may deliver what a gridlocked government can't:

A COVID-19 vaccine should deliver the sustainable economic growth that stimulus packages cannot do on their own, in our opinion. An effective vaccine would enable a faster re-opening of the global economy and lead to the pent-up spending that many expect. On November 9th, Pfizer and its partner BioNTech released the preliminary analysis of their Stage-3 trials noting that the vaccine was showing greater than 90% effectiveness with little to no side-effects, and this Monday Stage-3 results from Moderna's vaccine candidate showed similar efficacy. Pfizer and Moderna are just two of more than a dozen companies/research cooperatives working on COVID-19 vaccines and many experts expect additional positive news on potential vaccines in the coming weeks and months.

- **What we are doing:** RiverFront recently increased our weighting to stocks in our balanced portfolios.

### International: Better foreign relations and less use of economic tariffs is positive for international stocks:

Foreign companies and countries have faced a stiff headwind over the past four years as the Trump administration toughened US trade-policy including tariffs, withdrew from several international alliances and created uncertainty regarding future foreign relations. President-elect Biden has stated that 'improving foreign relations' is high on his administrative agenda in his initial days in the White House. Friendlier and more predictable foreign policy should be a positive for the valuation of international stocks, in our view.

- **What we are doing:** We recently increased our holdings of non-US markets but retain a long-term preference for the US.

#### **Important Disclosure Information**

*The comments above refer generally to financial markets and not RiverFront portfolios or any related performance. Opinions expressed are current as of the date shown and are subject to change. Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.*

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*In a rising interest rate environment, the value of fixed-income securities generally declines.*

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*Index Definitions:*

*Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.*

## WEEKLY VIEW

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