
Stay prepared for a volatile autumn

Weekly Market Compass: Markets could be faced with a contested presidential election, rising COVID-19 rates, and a stalled fiscal stimulus deal

Oct 26, 2020 | Kristina Hooper, Chief Global Market Strategist

I am lucky enough to have developed a network of friends despite being a working mom. Some of these friends go back to childhood and high school, some are moms I have met through my children's schools, and some are friends I have met in the workplace. They have provided a wonderful web of support throughout the chaos that can be child-rearing and everyday life. I have joked with them about particularly bad days - like a parent-teacher conference that we expected to go awry - as being "Pepto-Bismol" days, referring to the medicine used to combat upset stomach (an unfortunate symptom of many a crazy day).

Well, I feel some serious Pepto-Bismol days coming on, given the impending US presidential election, the declining possibility of another US fiscal stimulus package in 2020, and rising COVID-19 infection rates around the world.

Is a contested election in the cards?

Let's start with the US presidential election. The final debate took place last week, and Americans are already voting in record numbers. According to Professor Michael McDonald of the University of Florida, about 59 million people have already voted in the presidential election as of Oct. 25. Of those, about 39.8 million have been mail-in ballots while about 19.2 million have been early in-person voting.¹ The breakdown in terms of voter registration of those who have voted thus far is 49.1% Democrats, 27.9% Republicans, 0.6% other party (such as the Green Party) and 22.4% Independents.¹

Those 59 million votes represent 42.8% of the total votes cast in the 2016 presidential election, which suggests that, when all is said and done, 2020 should be one for the record books in terms of high voter participation.¹ While national polling indicates a solid, consistent lead by Joe Biden, state polling - which is what really matters, given that the electoral college, not the popular vote, determines the president - indicates a much tighter race. I am increasingly convinced that the winner may not be known on election night given that so many are voting by mail, and a number of swing states don't start counting those ballots until election day. What's far more troubling is that I believe there is a growing likelihood that the election will be contested. That's enough to give investors a little dyspepsia.

Will COVID-19 infections continue to rise?

Then there are the rising COVID-19 infection rates in a number of Western countries. The second wave in Europe is much bigger than the first, with France reaching over 52,000 confirmed infections on Sunday - a new record.² Italy and the UK are also struggling to contain the virus, imposing targeted lockdowns. Other countries, such as Spain, are also seeing a rampant spread of the virus.² In the US, it was reported that there were 78,702 new cases and at least 871 coronavirus deaths on Oct. 24.³ Over the last week, there has been an average of 68,127 cases per day, which is an increase of 32% from the average number of cases just two weeks earlier.³

The US seems to be following Europe's trajectory, which means November and December could be increasingly worse for America and might include some targeted lockdowns, as we have already seen in Europe. To add to the anxiety, over the weekend, President Trump's chief of staff Mark Meadows

stated that “we are not going to control the pandemic” and said that the Trump administration would instead focus on therapies and a vaccine.⁴ But I believe the medical experts who expect an effective vaccine to be widely distributed by next summer, which means some difficult months ahead for the US. That could create more than a little indigestion for investors.

Is a 2020 fiscal stimulus deal doomed?

Finally, there is the waning possibility of another US fiscal stimulus package in 2020. I am an eternal optimist who has steadfastly believed that politicians’ desire to be re-elected meant there was a good chance that they would reach a fiscal stimulus deal before the Nov. 3 election. Now, even I believe that is becoming very unlikely – even though it is needed now more than ever, in my view, given this new wave of infections.

In the last several weeks, Federal Reserve officials have exhorted Congress to pass a stimulus package. Minneapolis Federal Reserve President Neel Kashkari recently voiced his concern that the economic recovery in the US may decelerate if unemployed Americans and struggling businesses do not receive more assistance, and that thousands more businesses could fail without additional stimulus. He fretted that unemployed consumers who are struggling to pay their bills could have negative repercussions for other parts of the economy. And he reminded Congress that monetary stimulus is no substitute for fiscal stimulus: “If you can’t pay your bills, more quantitative easing is a poor substitute for extended unemployment insurance. ... Only Congress has the ability to get that direct fiscal aid to the small businesses and to the Americans who have lost their jobs and who are facing real hardship.”⁵ This comes after his sounding the alarm bells the previous week, warning that a lack of another fiscal stimulus package would bring “enormous consequences.”⁶ Fed Chairman Jerome Powell also earlier this month warned again about the need for additional government aid, saying the consequences of inaction could be “tragic.”⁷

No fiscal stimulus for the next several months has the potential to not only negatively impact the economy – exacerbating the recovery’s ‘k shape’ – but also create a few ulcers for investors.

Six tips for weathering market anxiety

Given all of the above, this autumn could cause some “Pepto Bismol days” for investors – and possibly lead them to make hasty, fear-driven investment decisions. And so I present to you some tips to help weather market-driven anxiety in the upcoming days and weeks:

- 1. Expect volatility.** We have multiple potential sources of uncertainty, which can lead to significant volatility and stock market sell-offs. If you expect this kind of market environment, you are less likely to be rattled by it.
- 2. Keep in mind there is always some positive news under the scary headlines.** We may not know who our next president is on the night of Nov. 3, but we will likely know within a week or a few weeks – and we will certainly know by Inauguration Day in January, which is a relatively short period of time in the grand scheme of things. And fiscal stimulus is not a question of “if” but “when.” We might not get it in 2020, but I believe we are likely to get a significant stimulus package in early 2021. Finally, while COVID-19 infections are on the rise, serious illnesses and deaths are much lower than they were this spring. Last week Dr. Scott Gottlieb, former commissioner of the US Food & Drug Administration, tweeted about two new peer-reviewed studies showing a sharp drop in mortality among hospitalized COVID patients. The drop is seen in all groups, including older patients and those with underlying conditions, suggesting providers are getting better at treating the illness.⁸

3. **Don't make major portfolio changes due to fear.** In my view, this volatility likely won't have a lasting impact on asset classes. It's critical to stay focused on your long-term goals – and to talk to your financial professional before making major changes to your financial plan, to make sure your decisions align with your goals.
4. **Look for opportunities.** Uncertainty and hardship have a funny way of creating opportunities. For example, while many Western countries have had difficulty controlling the pandemic, countries such as South Korea, China, and Japan have been very adept at controlling the virus. We could see these countries benefit by attracting more foreign investment and expanding supply chains in their countries. After all, COVID-19 will likely not be the last pandemic we see in our lifetimes, and so the ability to control this virus may confer an advantage for handling future crises.
5. **Remember what matters.** In my view, monetary policy matters more when it comes to capital markets. In a recent presentation I made to institutional clients, I informally polled them about which factor they thought would have the biggest impact on markets in the near future. The options were fiscal policy, monetary policy, the presidential election, and COVID-19 infections. I was surprised to see that the top answer was COVID-19 infections, as I strenuously disagree. Yes, stocks fell substantially last February and March as COVID-19 spread. However, soon after the Fed began its very accommodative monetary policy response in March, stocks began to rise. The Fed has been a powerful force moving stocks higher. And so while we could see short-term sell-offs related to disappointing news about COVID-19 infections, I believe the very accommodative monetary policy environment we are in will matter more. In my opinion, who runs the Fed is far more important than who sits in the White House.
6. **Try to relax.** Maybe have some wine instead of that Pepto-Bismol. Pandemics, consequential elections and poor fiscal policy choices have all occurred before, and yet the stock market has survived and risen over time.

I learned a long time ago that there are many things we can't control – all we can do is manage our reaction to them. The "Pepto-Bismol" days of parenting couldn't be avoided – skipping that dreaded parent-teacher conference would have only made things worse in the long run – so I leaned on my network of friends to help me get through. Similarly, if the next few weeks end up inducing a bout of investor indigestion, your trusted financial professional can help you stay focused on your long-term goals, make sure that your portfolio decisions are aligned with your goals (and not your fears), and find opportunities that may present themselves.

Source

¹Source: S.U.S. Elections Project, "2020 General Election Early Vote Statistics," Oct. 25, 2020

²Source: The Wall Street Journal, "Europe Imposes New Covid-19 Restrictions as Second Wave Accelerates," Oct. 25, 2020

³Source: The New York Times, "Covid in the U.S.: Latest Map and Case Count," Oct. 25, 2020

⁴Source: CNN, "White House chief of staff: 'We are not going to control the pandemic,'" Oct. 25, 2020

⁵Source: Reuters, "Fed's Kashkari: Recovery will be grinding and slow without more stimulus," Oct. 15, 2020

⁶Source: Business Insider, "Fed's Kashkari warns of 'enormous consequences' if fiscal stimulus is not approved – and says there are no 'moral hazards' to supporting more aid," Oct. 7, 2020

⁷Source: The New York Times, "Trump Abruptly Ends Stimulus Talks After Fed Chair Urges Economic Support," Oct. 6, 2020

⁸Source: Twitter

Important information

All investing involves risk, including the risk of loss.

The opinions referenced above are those of the authors as of **Oct. 26, 2020**. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.