Morgan Stanley

Monthly Musings

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The Election Edition

Despite the polls indicating that we will likely have a new U.S. Administration in 2021, I still think it's a 50/50 proposition. As we saw in 2016, the margin of error in our polling system is underestimated. Whether it's a reluctance for some people to admit that they will vote for the incumbent or that these potential incumbent voters are simply not being found by the pollsters, I just don't think the polls are that predictive in this instance.

<u>Key Dates:</u>

9/29 – 1st Presidential Debate

10/7 – Vice Presidential Debate

10/15 – 2nd Presidential Debate

10/22 – 3rd Presidential Debate

11/3 – Election Day

12/14 – Electoral College Meets to Vote

And, while statistics show that the economic cycle is more important than election results in determining future stock market performance overall, certain sectors may very well be affected differently depending on who wins the White House, Senate and House. Here is a summary grid from Morgan Stanley Strategists:

Blue Wave (DDD)	Blue Tide (DRD)	Thin Red Line (RRD)	Red Redux (RRR)	
(+) US GDP (+) USD (-) UST	(+) EM (-) USD	(-) USD	(+) US GDP (-) UST, EM (+) USD	**Macro In**
(+) Large MCOs (+) Transportation (+) Energy (Non-US Oil & Gas) (+) Renewables (+) Large Cap Banks (+) Consumer Finance (-) Pharma (-) IT Hardware (-) Internet (-) Telecom (-) Energy (US-focused Oil & Gas) (-) Asset Managers (-) Tobacco	(+) Energy (Non-US) (+) Renewables (-) Energy (US) (-) IT Hardware (-) Internet (-) Telecom (-) Pharma (-) Tobacco	(+) Telecom (+) Energy (US) (+) Asset Managers (-) Renewables	(+) Telecom (+) Energy (US) (+) Asset Managers (-) Renewables	**Sector Fundame Impacts**

Source: Morgan Stanley Research 9/8/20.

For a more detailed analysis, here are links to two Morgan Stanley reports you might find interesting:

[US Election: The Waiting Is the Hardest Part]

[US Policy Pulse: A History of General Election Performance, Part 1]

Regardless of the outcome, I continue to believe the significant opportunities going forward are the value and cyclical stocks in the U.S. and, indeed, globally. Even a modest and relatively slow re-opening/recovery should provide meaningful relative earnings growth for this sector of the market for the foreseeable future. As always, my allocation tilts are summarized below…

***Tactical Allocation Tilts in my Global Growth and Global High Income Model Portfolios (as of 9/21/20):**

Overweight

Long/Short Equity, Quality Dividend Paying Global Equities, Early Cycle Value stocks, Emerging Market Consumer Equities, Short-Term High Yield Fixed Income, Total Return Strategies

Underweight

U.S. Treasuries, "High Quality" Corporate and Municipal Bonds, Long-Term Fixed Income

* These weightings do not consider each client's unique profile, preferences and/or constraints and therefore may not be applicable to you.

The Benedict-McLoughlin Group always strives to use sound judgment…at every decision point.

We bring experience, credentials and tenacity which we expect to continue to enable us to help achieve our clients' goals over time.

Regards,
Chris

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