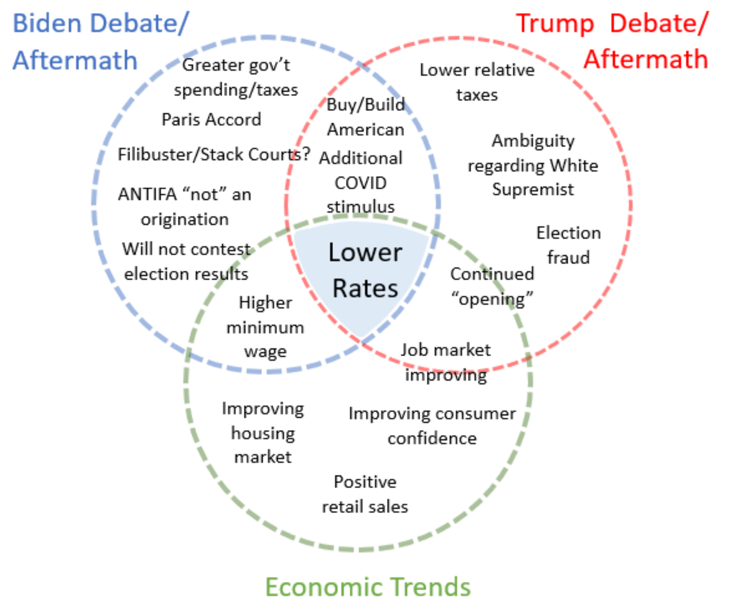
NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

Debate Debacles and Debauchery

The recent Presidential debate provided for a fair amount of theatre, embarrassment, and relief – or perhaps a combination of all three, depending on what side of the aisle you sit. But regardless of your political affinity or bias, we found the initial reaction by the capital markets (higher stock and bond prices) somewhat counter-intuitive. However, after reviewing a few Venn intersections associated with the debate aftermath and then overlaying recent economic trends, **we concluded that the direction for interest rates is lower, which, in turn, may also support equity prices in the near-term (and we stress near-term).** We note that much of this ***note was written before*** President Trump tested positive for COVID and a ~200,000 miss to the September job number. But these occurrences simply reinforce our **near-term** thesis regarding the trajectory of equities.

From our perch, President Trump drove home his intention to keep taxes relatively low, limit regulation and maintain forward momentum toward opening up the economy. But we think his persistent and brash interruptions turned off many undecided voters, a vital constituency needed to win a second term. Also, the inability to unequivocally denounce White Supremacy more directly turned even some of his supporters off. Trump also suggested that voter fraud may result in a contested election, a scenario last witnessed during the 2000 Bush v. Gore race. The ensuing court battle and delay caused over an 8% decline for the S&P 500 between election day and the time former Vice President Gore conceded (mid-December). And despite the more restrained, but at times, the discourteous demeanor of former Vice President Biden, we concluded that Trump gave away any-and-all high ground to the former Vice President, and in doing so, handed him a 20% positive spread in prediction markets. Thus, we believe that capital markets began pricing-in that former Vice President Biden will win the Presidential race with such a margin that it will eliminate the specter of a contested election.

Post-Debate Venn | Trump, Biden And The Economy



Source: NEPCG

From the Biden perspective, prospects for higher corporate taxes, increased government spending, and a bump to the minimum wage suggest to us that the Treasury and Congress will ensure that the economic effects from the initial or potential second COVID wave will be met with undaunting fiscal stimulus, which may help depress rates in the near-term. While both Trump and Biden share the desire to push forward with a fourth COVID relief measure, in our opinion, the less contentious meeting between Treasury Secretary Mnuchin and Speaker Pelosi the day after the debate was more than coincidental. Still, former Vice President Biden's responses were not always on point. The inability to recognize ANTIFA as an organization, failure to state a position on the Filibuster, or opining on stacking the Supreme Court were notable question marks, in our view.

Finally, from an economic perspective, the U.S. economy continues to recover from the deepest recession on record. **But while data continues to improve, we'd categorize it as "less bad" rather than good.** As a result, there is a silver

lining for both equity and bond investors. On the one hand, the economy is clearly healing, but as to not stoke inflation or drive real rates materially higher. On the other hand, investors are still looking at U.S. Notes and Treasuries as less risky positions, with only 32 days before a U.S. Presidential Election. **So as we illustrate in Exhibit 1, all three scenarios have one thing in common, the tendency for lower rates.** And as we suggested in our August 14, 2020 note entitled, "Will Stocks Ever Go Down?" as long as nominal interest rates remain low, and real interest rates hover in negative territory, other financial assets (equities) may benefit.

Still, we caution our readers and clients that what we have unpacked today should be, if anything, a very short-term thesis. **Further, we believe that "trading" into equities at this point in an economic cycle/recovery so close to a monumental geopolitical event is for "traders" and not investors.** Market timing is tricky; even institutional investors with much more vast resources often bet wrong. So for many of you, we continue to preach broad diversification and a more conservative bias to portfolio positioning. Finally, the "big mistake/little mistake" argument is never more evident than it is today. **We'd love to hear your thoughts !**