

# STRATEGAS Insight

Brought to you by Investnet

## No Comparison

It almost has become a cliché to say ‘2020 is... (whatever horrible conjuring or other dismissive comment)’ comes to mind. Although unbelievable in a way, it is entirely understandable given the year we have had thus far. Frankly, we can think of few historical episodes—*outside the theatre of war*—that have been as universally and roundly negative as those brought on by COVID-19 (and the concomitant fallout from mandating the global economy to a near-subsistence crawl). As we approach the fourth quarter, it remains obvious, from reading and watching the news and from conversations with clients, that the gnawing persistence of the virus remains extant globally. Although it also may be true more broadly, here in the United States it would seem that after an initial phase of fear and uncertainty earlier this year, life with the virus has come to be experienced in one of two ways. One is a more dire and acutely painful experience defined by loss—the death of a loved one, one’s convalescence or precautionary separation from others, unemployment. A second, seemingly less consequential, experience

is better described as a series of interruptions or annoyances from which we are all eager to move past. It may be too pat to describe the human experience during COVID-19 in such binary terms, particularly given the certainty that many have known both sides of it. However, we believe it is fair to say that on the whole, society is learning to live with the virus. Our lives are not going about as they were or even as we hoped they would be, but we are getting on all the same. Those mature enough to acknowledge it is not all about them (which is most of us) are social distancing, wearing masks, taking our temperature, and washing our hands. These practices are allowing schools to reopen, folks to return to work, and a semblance of normalcy to creep back into our daily lives, providing hope and getting the economic engine moving again. Inasmuch, the economy is picking up steam. We have seen this in fits and starts since June, and we have been impressed with the resilience of the economy through the summer, despite a clear second wave of cases and the expiry of a number of emergency income-replacement policy provisions.

Now the question is: How will the recovery play out from here? And,

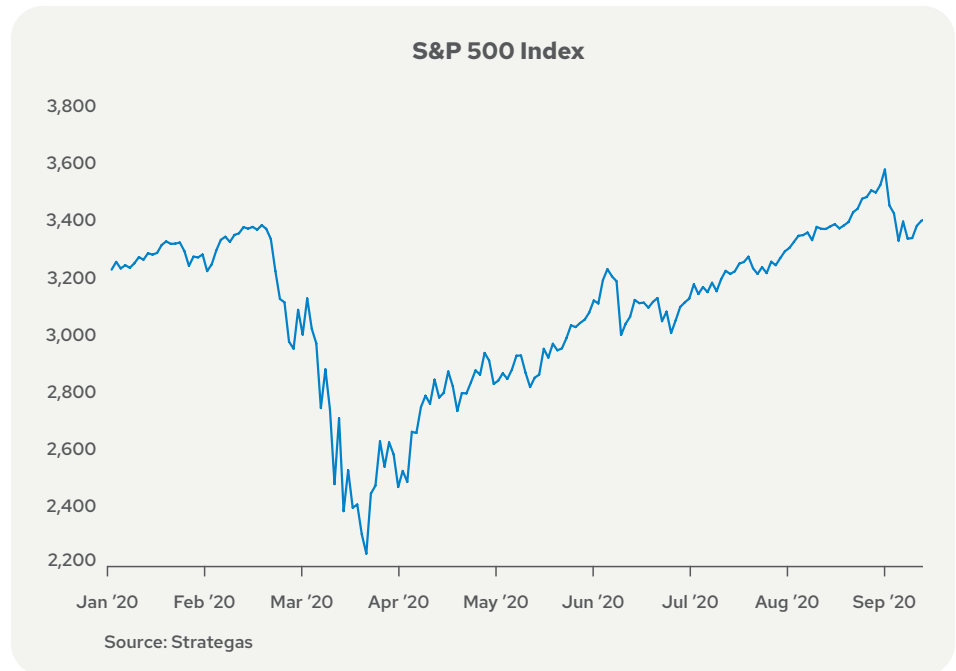
what should investors be focused on to best position their portfolios? With a good deal of assistance from policymakers, it appears we have managed to stave off a protracted Depression-comparable recession and quickly pick ourselves off the mat. The economy remains well below previous levels of activity, output, and profitability, and it is fair to say we have seen the emergence of notable green shoots, particularly in housing and the consumption of goods. Looking ahead, we see two issues to be mindful of:

1. It is possible, as our chief economist, Don Rissmiller, has suggested, that the easy part of the recovery has already played out. As comparably bad as data were at the low (in the second quarter), it should not have been a stretch to envision data rebounding strongly as the economy reopened (in the third quarter). However, now that the easy (mathematical) gains have been made—*GDP is expected to increase +25% quarter/quarter at an annual rate (Q/Q AR) in 3Q*—and in the absence of additional income-replacement provisions or durable drivers of organic growth,

we should expect the slope of economic recovery to soften. The consensus maintains economic growth and profitability will return to previous cycle highs by the second half of next year (CY'21). We are not as confident.

2. As comfortable as some have become with the behavioral accommodations necessary to live with the virus, we maintain that in the absence of universal point-of-care testing and an effective vaccine, it will be difficult for the whole of the economy to reopen. The headline unemployment rate, which surprised many by falling to ~8% last month, remains stubbornly high (and is likely higher still after accounting for inconsistencies in the survey). Again, our focus remains on levels. The US economy would need to add 1 million jobs per month, every month, well into next year just to get up to levels of unemployment seen during typical recessions. Though adding a million jobs per month is a stretch, most would agree that without a vaccine, it will be nearly impossible. To be sure, discernible progress has been made toward the development of a vaccine. Such universal problems engender universal responses. Questions likely will persist on both the short- and long-term effects of the initial vaccines that get to market. But their development and distribution will be critical steps in reopening the service economy, which remains weak.

On the other side of the equation, the stock market has—with some volatility



and questionable underpinning—showcased far greater optimism. After a rally led by the sharp rebound in bellwether growth names, market leadership has clearly broadened over the last month to include more traditionally cyclical sectors. If investors are concerned that valuations for the big tech names had gotten a little topy, they do not appear to be taking it out on all stocks. Indeed, the Federal Reserve acknowledged earlier this week what the market has been telegraphing for months: Monetary policy is likely to remain remarkably easy for years to come. Strategically, it is difficult not to interpret this as bullish for asset prices. Where concern exists about the economy's ability to meet the market expectations, our chief market technician, Chris Verrone, makes an interesting point: Rarely do investors like the way the economy looks five months off the low.

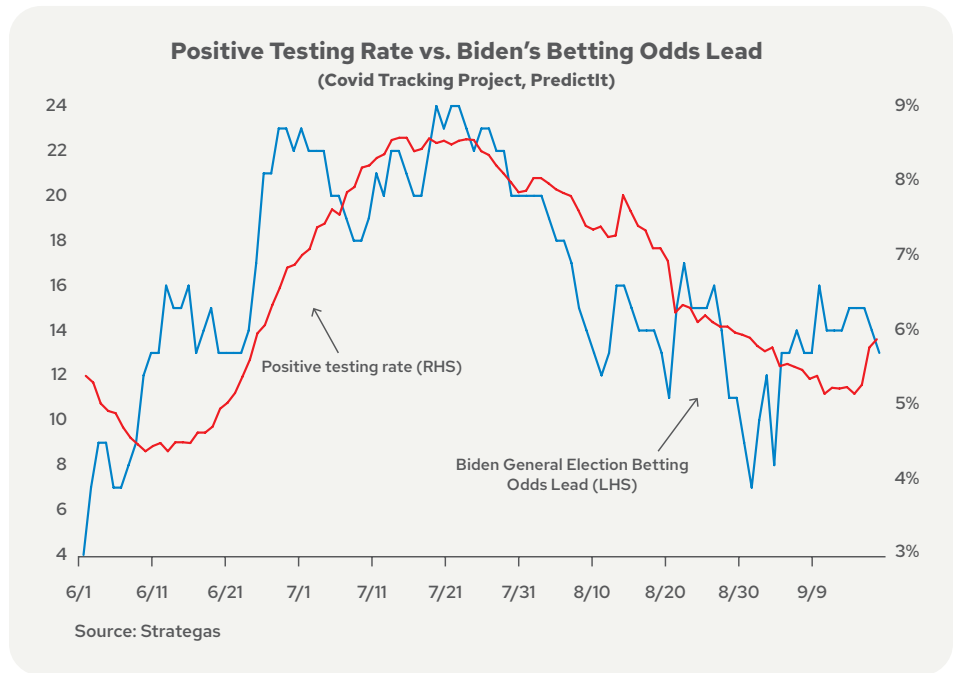
For the time being, we remain comfortable maintaining both an

above-benchmark allocation to equities (64% vs. 60%) and cash (9% to 2%). Although we have debated increasing our exposure to equities in recent months—and have chosen not to—we are resigned to funding such an increase from traditional bond exposure, as opposed to reducing cash. The equity market is giving a strong cyclical signal; the bond market is showing the opposite. Bond yields are stable (as opposed to falling), and if the economy is improving, we should get to a point where bond yields move higher. This may be adding fuel, at least in part, to the move-up in equities. Given the curve's relative flatness, an above-benchmark allocation to cash is protecting against a selloff in bonds as much as it is protecting against a move lower in equities.

# 50 Days to Go

With the political conventions well behind us and the intensity of focus on broader societal issues—public health, the economy, social justice—many of the traditional policy blocks (taxes, defense) that define the differences between parties and candidates have been minimized. With roughly 50 days to go before Election Day, we are watching three areas to handicap the race and the impact on client portfolios.

1. As stand-alone events, presidential debates historically have offered great theater but rarely moved the needle on the outcome (e.g., Secretary Clinton was widely considered to have *won* on the substance in her debates with Donald Trump in 2016). This cycle, however, given the atypical nature of the campaign, they are likely to matter more, and this will include the debate between Vice President Pence and California Senator Kamala Harris.
2. Democrats are still on offense in their bid to reclaim the Senate, but the gap clearly has narrowed. In early August, Democrats were on pace to pick up



as many as six seats. Today, polling suggests the lead has fallen to three, which would get the Senate to only 50/50. Many states are in play. As President Trump's poll numbers have improved, so too have the GOP's chances to retain a majority in the Senate. We are watching Arizona (where the GOP is slipping) and Michigan (where the GOP is gaining), but Colorado, Maine, North Carolina, Montana, Iowa, and Alaska are all in play.

3. The trend in COVID-19 cases has significant implications, as

the chart above highlights. An upward trend in the number of cases correlates positively with an increase in the odds Joe Biden will be elected president; conversely, the former vice president's odds decline with a fall in case counts.

Although 2020 may indeed be one for the history books, it is far from over. Stay healthy. Stay focused.

Strategas Recommended Asset Allocation (Sep '20)		
	Equities	Bonds
Overweight	US LC Growth US MC Growth	IG Corporates
Neutral	Dev AC Core US LC Value US LC Core US MC Value US MC Core US SC Core EM AC Core	Agencies ABS/CMBS US Dollar EMD TIPS High Yield Banks Loans
Underweight		US MBS U.S. Treasuries

## About Strategas

Strategas is a global institutional brokerage and advisory firm. The Firm provides macro research, capital market and corporate advisory services, and investment management solutions to institutional investors and corporate executives in more than twenty countries around the world.

Founded in 2006 by Jason DeSena Trennert, Nicholas Bohnsack, and Don Rissmiller, the Firm was acquired by Baird Financial Group in 2018. Strategas operates independently as a wholly-owned subsidiary of Baird and offers institutional securities services through Strategas Securities, LLC, a broker-dealer, and investment management solutions, including this commentary, through Strategas Asset Management, LLC, a registered investment advisor.

## About Investnet

Investnet, Inc. (NYSE: ENV) is transforming the way financial advice and wellness are delivered. Our mission is to empower advisors and financial service providers with innovative technology, solutions, and intelligence to make financial wellness a reality for everyone. Over 103,000 advisors across more than 4,900 companies including 16 of the 20 largest U.S. banks, 46 of the 50 largest wealth management and brokerage firms, over 500 of the largest RIAs, and hundreds of FinTech companies, leverage the Investnet platform to grow their businesses and client relationships.

For more information, please visit [www.investnet.com](http://www.investnet.com), subscribe to our blog, and follow us on Twitter (@ENVintel) and LinkedIn.

## Index Overview & Key Definitions

Fed, The Fed or FED refers to the Federal Reserve System, the central bank of the United States. Fed Funds Rate, the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The Gross Domestic Product (GDP) rate is a measurement of the output of goods and services produced by labor and property located in the United States. Real Gross Domestic Product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year. Nominal Gross Domestic Product is gross domestic product (GDP) evaluated at current market prices. The S&P 500 Index is an unmanaged index comprised of 500 widely held securities considered to be representative of the stock market in general. The Russell 1000 Index is a market capitalization weighted benchmark index made up of the 1000 largest U.S. companies in the Russell 3000 Index. The Russell 2000 Index is an unmanaged index considered representative of small-cap stocks. The PCE (Personal Consumption Expenditure) Index of Prices is a US-wide indicator of the average increase in prices for all domestic personal consumption. Using a variety of data including U.S. Consumer Price Index and Producer Price Index prices, it is derived from personal consumption expenditures; essentially a measure of goods and services targeted towards individuals and consumed by individuals. The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services. FAANG is an acronym for the five of the market's most popular tech stocks, namely Facebook, Apple, Amazon, Netflix and Alphabet's Google. The North American Free Trade Agreement (NAFTA) is an agreement signed by Canada, Mexico, and the United States, creating a trilateral trade bloc in North America. The Seasonally Adjusted Annual Rate (SAAR) is a rate that is adjusted to take into account typical seasonal fluctuations in data and is expressed as an annual total. SAARs are used for data affected by seasonality, when it could be misleading to directly compare different times of the year. The Atlanta Fed GDPNow forecasting model provides a "nowcast" of the official estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis. GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available data for the current measured quarter.

## Disclosures

Investnet and Strategas are non-affiliated entities. This commentary is provided for educational purposes only and does not necessarily reflect the views of Investnet. The information, analysis and opinions expressed herein reflect the judgment of the author as of the date of writing and are subject to change at any time without notice. They are not intended to constitute legal, tax, securities or investment advice or a recommended course of action in any given situation. All investments carry a certain risk and there is no assurance that an investment will provide positive performance over any period of time. Information obtained from third party resources are believed to be reliable but not guaranteed. **Past performance is not indicative of future results.**

Exchange Traded Funds (ETFs) are subject to risks similar to those of stocks, such as market risk. Investing in ETFs may bear indirect fees and expenses charged by ETFs in addition to its direct fees and expenses, as well as indirectly bearing the principal risks of those ETFs. ETFs may trade at a discount to their net asset value and are subject to the market fluctuations of their underlying investments. Income (bond) ETFs are subject to interest rate risk which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates.

Alternative Investments may have complex terms and features that are not easily understood and are not suitable for all investors. You should conduct your own due diligence to ensure you understand the features of the product before investing. Alternative investment strategies may employ a variety of hedging techniques and non-traditional instruments such as inverse and leveraged products. Certain hedging techniques include matched combinations that neutralize or offset individual risks such as merger arbitrage, long/short equity, convertible bond arbitrage and fixed-income arbitrage. Leveraged products are those that employ financial derivatives and debt to try to achieve a multiple (for example two or three times) of the return or inverse return of a stated index or benchmark over the course of a single day. Inverse products utilize short selling, derivatives trading, and other leveraged investment techniques, such as futures trading to achieve their objectives, mainly to track the inverse of their benchmarks. As with all investments, there is no assurance that any investment strategies will achieve their objectives or protect against losses.

Index Performance is presented for illustrative purposes only and does not represent the performance of any specific investment product or portfolio. An investment cannot be made directly into an index.

© 2020 Investnet, Inc. All rights reserved.

ENV-STRA-0920