STRATEGAS
insight
Brought to you by Envestnet

Moving On. Moving Up?

Although we are only halfway through the month, we would posit that, so far, November has been a little kinder than the months preceding it. It may seem scant solace for the more than 70 million Americans who voted for President Trump, but we think it fair to say that investors have been buoyed by the presumptive result, i.e., Joe Biden assumes the presidency with a Republican majority in the Senate and a narrower Democratic majority in the House. It is likely to be several more weeks before each candidate's legal options are exhausted and the results of the presidential election are certified. *The President, counting from behind, will go first,* and it will not be until early January 2021 before the results are known of two run-off elections in Georgia for seats in the U.S. Senate, but we view the investment takeaway as fairly straightforward. In one column, the election result appears to be more a repudiation of President Trump than a judgment of traditional Republican economic policies in general. Without making a normative, sociopolitical judgment, we believe the sharp move in shares coming out of election night reflects investors' belief that the recovery should continue unencumbered by the "uncertainty" that some of the Democratic Party's more progressive economic initiatives provides. In another column, Biden's victory suggests a desire for greater administrative sobriety in combating the pandemic. With that in mind, we found the announcement earlier this week of highly effective clinical trial results to be tremendously encouraging. Although the logistical challenge of scaling the manufacture and distribution of the necessary doses sits on the other side of FDA approval, the timeline for reopening the economy, once ranging from late-2021 to unknown, appears to be both better qualified and advanced.

Before we get too far ahead of ourselves, however, we should consider potential economic implications of these early scientific results. We see two as presenting notable offsets.

1. The potential of a vaccine being ready sooner than originally thought could compel some states and municipalities to take more dramatic steps to confront the recent surge in cases. If "guided by science," a reasonable conclusion could be drawn that the cost to *freedom* and *income* in the name of *safety* and *health* is worthwhile in the short term, if it helps to limit the spread of the virus and strengthen the recovery in the longer term. What is clear, as we currently see in the UK, is that any move to limit mobility and lockdown portions of the economy, however temporary, is likely to result in softer economic growth. Watch for a late Q42020/ early Q12021 soft patch if states in the US pursue this course.

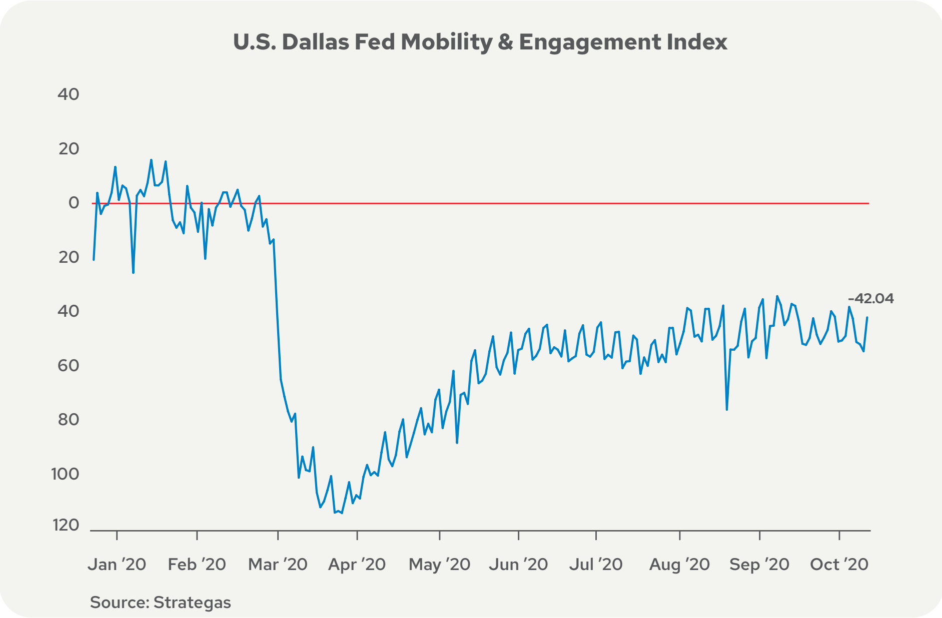
2. Given the strength of Q32020 economic data (US GDP increased 33.1% quarter/quarter at an annual rate), and the strength in corporate profits (86% of the S&P 500 Index's reported earnings results above estimates), a Republican-controlled Senate is unlikely to favor additional broad-based fiscal stimulus. Senate Majority Leader Mitch McConnell has signaled a willingness to pass a smaller, more targeted stimulus bill. Although still massive for those keeping track at home, we believe Senate Republicans are

closer to supporting a $1 trillion package versus the Speaker's $2.5 trillion bill.

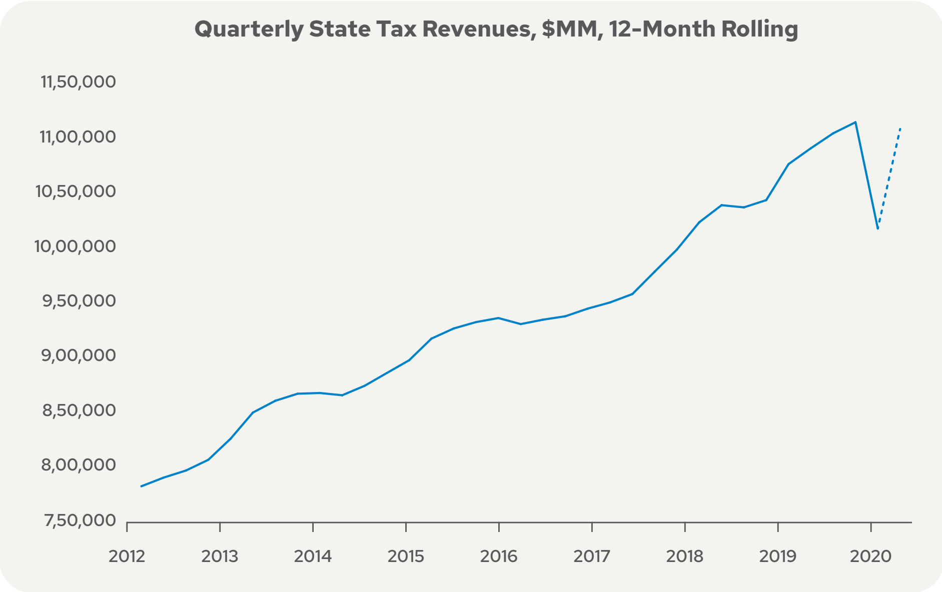
One irony of the pre-election jockeying over the size and target of additional stimulus, which our Policy Research team has highlighted, is that the strength of Q32020 data now shows state and municipal finances to be in far better shape than we first thought. This will reduce the political cover and narrow support (even among Democrats) for outsized fiscal aid to states. Thus, the Speaker is faced with a conundrum: continue to drag it out, perhaps in the hope that Georgia's two Senate seats will flip in Democrats' favor and tip the balance of power in the Senate; or, take what she can get now, knowing her caucus will head into the next Congress with a slimmer majority in the House.

In the short term, we view the market's reaction to the election and the good news on a vaccine for what it is—a rerating of political and health risks. Investors are wise to embrace their good fortune and should not, in our view, become overly concerned if the process proves moderately volatile over the next month. Rather, we believe investors should focus on the longer-term impact that the election outcome and brighter vaccine outlook will have on the economy as a whole, and whether they should rerate their outlook for economic growth.

We continue to view the economic recovery as fragile, based on the extent to which unemployment remains severely elevated and government assistance has become an important crutch in bridging part of the shortfall in real disposable income. This is not to suggest it is without its pockets of strength. In addition to positive results in Q3 GDP



and corporate profits noted above, consumer spending has continued to ratchet higher. And a number of traditional barometers of improving macro cyclicality have remained firm or broken out (steeper yield curve; narrower high yield spreads; copper versus gold; Consumer Discretionary versus Consumer Staples; etc.). Some market watchers have likened this bifurcated result set to a "k-shaped" recovery. It juxtaposes the general ease with which the wealthy and those with higher incomes have come through the recession with the continued hardship experienced by the less affluent, those at the lower-end of the wage spectrum, and the millions who have lost their jobs and remain unemployed. An extended view shows similar dispersion in the global economy as well. China and broader Asia, where the virus appears to be under far greater control, have exhibited notable signs of strength, whereas the UK and Europe struggle to find a toehold against a sharp increase in cases.



Against this backdrop, we believe both the US and the global economy will stumble in the short term—*increase in cases, targeted lockdowns, less fiscal stimulus*—and surge in the intermediate term—*containment and cure, reopening the economy, leveraged by the lagged effect of stimulus.* In a textbook example of "pent-up demand," Strategas's chief economist, Don Rissmiller, believes that under these conditions, US GDP growth could press upward toward 10% by midyear 2021. **We recommend that investors accelerate a rotation in favor of more traditionally cyclical exposures in both US equity portfolios—*Industrials, Materials, and Information Technology*—and global allocation strategies—*US mid and large cap value, US small caps, and emerging markets*.** The post-recession transition from recovery to expansion is never as smooth as we hope it will be. Identifying the inflection points can be equally tricky. We just may be approaching one.

Strategas Recommended Asset Allocation (Nov '20)		
	Equities	Bonds
Overweight	US MC Value EM AC Core	IG Corporates
Neutral	Dev AC Core US LC Value US LC Growth US MC Core US MC Growth US SC Core	Agencies ABS/CMBS US Dollar EMD TIPS High Yield Bank Loans
Underweight	US LC Core	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 Envestnet

Envestnet, 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 105,000 advisors and more than 5,100 companies including: 17 of the 20 largest U.S. banks, 47 of the 50 largest wealth management and brokerage firms, over 500 of the largest RIAs and hundreds of FinTech companies, leverage the Envestnet platform to grow their business and client relationships.

For more information, please visit www.envestnet.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

 ENV-STRA-1120