

The Markets & the Economy - What We're Watching

Top Theme of the Week:

- › Preparing for an uncertain future

Uncertainty is a state of being that is not new to us. We all have experienced it in some way shape or form whether personally, or from a distance. 2020 however, has brought a new level of uncertainty most of us have never experienced in such a short time. From new health concerns and economic setbacks to job losses and social unrest, 2020 has been a year filled with unexpected fits and starts. Uncertainty does not fair well in the markets and we have certainly witnessed extreme market volatility as a result. Not only did we experience the fastest bear market (down 20%) from an all-time high, but also one of the fastest market recovery periods as well.

Undoubtedly, the upcoming election is an area that is on the minds of millions of Americans. We are a few weeks away from deciding our next President, as well as potential control of Congress. The market has always reacted when events such as an election takes place. In November 2016, S&P futures dropped over 5% around the unexpected US election results. Corporate America was being priced 5% less than the day before, more so around the uncertainty of future policies, not business fundamentals. It is human nature to search for historical patterns to try and predict the future. Many times these patterns are simply coincidental, but if the occurrence of certain events happen in a way that does not seem random, it can inspire the belief in a sense of order or control. Consider the multitude of stock market indicators which exist ("sell in May and go away"), not all make sense even if a pattern can be determined.

There are numerous election indicators as well. One is the focus on the 3-month stock performance leading up to the day of the election. Since 1928, if the market is up, the incumbent has won the last 20/23 times.¹ The thought is that if investors believe things will remain the same, that confidence is reflected in the stability three months prior. Currently, the market is flat since August, so the next few weeks is critical to those who watch this metric, though the connection may still be coincidental.

Instead of pondering the unknown, it is often more constructive to focus on what we do know about some of the main topics: the economy, the election, and future tax rates.

The Economy

The delay in economic stimulus extensions have led to reduced expectations for 4th quarter economic growth. Simply put, people can't spend what they don't have. Though much lower than in the spring, weekly jobless claims of 870,000 are still higher than the peak of the financial crisis of 2007-2009. The Fed has provided liquidity to the financial system, but cannot allocate resources. That is up to the rest of us.

¹ Strategas

The Election

There has been frequent discussion on the importance of mail-in ballots this year. As seen in the graphic², mail-in votes have become a greater percentage in the last few decades, from less than 8% in 1996, to over 20% in 2016. With social distancing still a concern, that number is likely to rise again this year. Because the mail-in votes have historically leaned Democratic, and 22 states and D.C. do not begin counting these until the day of the election, the outcome of close races may not be determined on that night. Both parties feel there is much at stake given how close the open Senate races appear to be. The Supreme Court vacancy becomes more relevant now if election controversy ensues.

The Future Tax Rates

Another topic on the minds of Americans is taxes. The Democratic camp has suggested that the corporate rates would go up from 21% to 28%, or halfway back to the previous 35%. Personal tax rates would only go higher (39.6%) for those with adjusted gross incomes higher than \$400,000. Though corporate profit growth would slow initially, this would help shrink the budget deficit. We recently discussed the proposals of both presidential candidates in our recent *Wealth of Insights* article, click below to learn more.

Click [HERE](#) for our recent *Wealth of Insights* article that provides a more detailed view of the Presidential candidate's proposed tax policies.

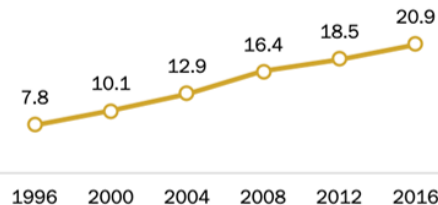
So what can be done about uncertainty? Prepare for it. At Rockland Trust Investment Management Group, our research team focuses on finding securities of companies that can thrive regardless of the political landscape. We do so by investing in diversified investments such as precious metals (to fight inflation), real estate (to provide income), and international holdings (not focused on US tax rates or political changes), which complement a client's core allocation. Time will tell what the remaining quarter will have in store for our country, and uncertainty is likely to remain a top theme for the remainder of 2020.

For questions or more information, please contact your local IMG professional. For additional insights from IMG experts, please visit our new website's [Stock Market Insights](#) page and follow us on [LinkedIn](#).

Commentary is reflective as of the close Thursday, September 24, 2020.

Share of voters casting ballots by mail has steadily risen since 1996

% of U.S. voters who cast a ballot by mail



² Source: Pew Research Center analysis of 1996-2016 Current Population Survey November Supplements (IPUMS and U.S. Census Bureau).