Richard Bernstein Advisors

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RBA Special Report - Post-election Bulletin #1: The morning after

November 4th, 2020

The Presidential election remains up in the air this morning and we typically avoid giving political commentary. However, there are already several developments investors need to dispassionately assess:

- **Watch NASDAQ vs. Russell 2000:** We've pointed out many times the performance between NASDAQ and the Russell 2000 was a good gauge of future profits growth. If NASDAQ outperforms and leadership narrows, then it implies waning profits. Broad markets are typically the sign of profits and economic rebounds. NASDAQ was rallying on a relative basis this morning.
- **Watch the slope of the yield curve:** Steeper yield curves typically forecast stronger nominal growth, and it was encouraging the yield curve has been steepening over the past several weeks. The curve is flattening this morning.
- **Watch the US dollar**: With US debt and deficits at WWII-type levels, a stable/strong USD is critical to the US's funding efforts. The USD was down a bit this morning.
- **Watch Munis:** If the President is re-elected, then it is a good bet taxes will not be increased. Tax-preferred investments, like munis, could come under pressure as a result. Also, state and local aid could be less likely or less generous, which could hurt the credit worthiness of municipalities.
- **Watch gold:** We've said many times, "the only certainty is continued uncertainty". The election isn't exactly yielding any clarity. Gold has historically been a good ballast against uncertainty. It was relatively stable this morning.
- **Watch commodity prices and energy:** If the President is re-elected, investors could see regulation helping the energy industry. In addition, the recent DOL rulings suggest potential for further push back on ESG investing. Oil was rallying this morning.
- **Watch relative US vs non-US equity performance:** The US could continue with divided government. Which chamber of Congress will stand in the way of a President's agenda depends on who wins the Presidency. However, with partisanship growing exponentially, investors need to consider whether the US will start to mimic sclerotic Europe and whether governing grinds to a halt. US investors should not be myopic and should consider non-US equities as a source of better growth opportunities. Some non-US markets were rallying this morning.

The election remains very fluid. We'll update these thoughts as the politics alters our views of future corporate profits, liquidity, and sentiment.

If you have any additional questions on our thinking, please reach out to your regional RBA Portfolio Specialist.

