Brinker Capital

WEEKLY WIRE | JULY 27, 2020

99 days until Election Day

In 99 days, Americans will choose the next President of the United States. Presidential elections are weighty affairs, heavy with history and allegory, and they serve as a mirror to America – where we think we are, where we think we should be headed, and how we think we should get there. While it is easy to fall into hyperbole when discussing Presidential elections, the 2020 vote will likely prove more significant than most. The US is more culturally and politically divided than at any point since the 1960s. We are coming out of the deepest economic downturn since the Great Depression while facing a spreading virus as well as months of mass peaceful protests – and civil unrest – in our biggest cities, all while being confronted with a rising and increasingly assertive China. Given all of that, it isn't surprising investors are shifting their attention from the market and economic implications of COVID-19 to the Presidential election and what it might mean for the economy and the market.

While we are investors and not political scientists, we have some thoughts about the election. At a high level, our 2c fall along the following lines:

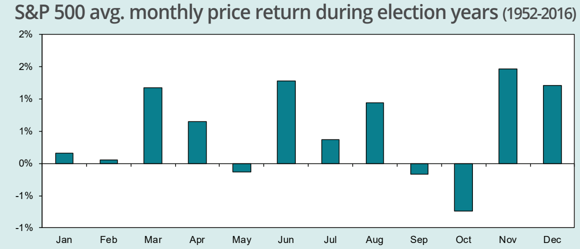
- 99 days is an eternity in politics. So, investing too heavily today in any polling data or pundit prognostications is time poorly spent.
- The election is likely closer than polls indicate and national polls are meaningless, as this election – like 2016 – will be decided in a handful of states.
- We are suspicious that any change in control in Washington, D.C. will lead to a meaningful change in fiscal policy. Said differently, it is unlikely taxes will rise and spending will fall in 2021.
- Markets will probably be volatile through October before rallying into year-end.
- The most likely outcome is some form of a divided government - a result Wall Street will welcome.

Finally, if you want a pretty good idea of who will come out on top on November 3, you can do worse than to consult the market. Since1928, when the Dow Jones Industrial Average is up in August through October in an election year, the party that holds the White House tends to win the Presidential election; when it is down, the party tends to lose.

DJIA - 3 months prior to Presidential Election

Year	DJIA Price Return %	Incumbent Party	
1928	16.27	Won	✓
1932	20.07	Lost	✗
1936	7.35	Won	✓
1940	6.57	Won	✓
1944	0.29	Won	✓
1948	3.93	Won	✓
1952	-3.74	Lost	✓
1956	-7.41	Won	✗
1960	-5.79	Lost	✓
1964	3.83	Won	✓
1968	7.69	Lost	✗
1972	3.37	Won	✓
1976	-1.97	Lost	✓
1980	-1.16	Lost	✓
1984	8.39	Won	✓
1988	1.13	Won	✓
1992	-4.97	Lost	✓
1996	8.82	Won	✓
2000	4.56	Lost	✗
2004	-1.11	Won	✗
2008	-18.61	Lost	✓
2012	0.74	Won	✓
2016	-1.58	Lost	✓

S&P 500 avg. monthly price return during election years (1952-2016)



Stocks, bonds, and commodities (7/24/2020)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3215.63	3.72%	-0.47%	6.27%
MSCI AC World ex USA	278.44	5.07%	-7.70%	-1.91%
MSCI EAFE	1859.81	4.45%	-8.70%	-2.87%
MSCI EM	1060.47	6.57%	-4.86%	1.13%
Bloomberg Barclays US Agg	111.51	0.97%	5.58%	6.76%
Crude Oil WTI	41.34	5.27%	-32.30%	-26.44%
Natural Gas	1.86	6.11%	-15.12%	-13.58%

Treasury rates (7/24/2020)

	Price	Yield
2Y	99.30 / 99.3	0.141
3Y	99.27 / 99.2	0.170
5Y	99.28 / 99.2	0.274
7Y	100.1 / 100.0	0.445
10Y	100.1 / 100.0	0.590
30Y	100.1 / 100.0	1.231

Weekly reports

This week
- Consumer Confidence
- Q2 GDP SAAR Q/Q

Last week
- MBA 30-Year Mortgage Rate 3.2%
- Markit PMI Manufacturing 51.3

Brinker Capital Market Barometer

JULY 2020

The COVID-19 pandemic remains the key driver for the economy, financial markets, and confidence over the near term. Fiscal and monetary policy continue to be supportive, and the economic data has improved off the bottom as we continue the slow process of reopening. We expect the equity market to remain range-bound in the near term as we await measured improvement in the COVID-19 data, and we expect a slow, uneven economic recovery.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Momentum remains strong
Trend			●		Expect continued trading range until more clarity on economy reopening
Investor sentiment			●		Sentiment still bearish but not extreme; equity outflows continue
Seasonality	←	●			Seasonality a headwind but not the key driver

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Very strong fiscal response; more debate expected on next round
Monetary policy				●	Fed all in to support markets and economy; Global central banks taking action
Inflation				●	Global inflation low and inflation expectations continue to fall
Interest rate environment				●	Treasury yields remain at low levels but stable; yield curve has normalized
Macroeconomic	→		●		Macroeconomic data has bottomed; slow improvement following reopenings
Business sentiment		●			CEO confidence still weak but expectations for the economy have improved
Consumer sentiment	→		●		Consumer confidence increased in June, but remains below pre-pandemic levels
Corporate earnings		●			Global revenues and earnings will be negatively impacted by COVID-19 in 2020
Credit environment				●	Credit environment continues to improve and Fed remains supportive

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation		●			Equity valuations above long-term averages but not a near-term driver
Business cycle	→		●		US exited recession that began in February; recovery will be uneven
Demographics			●		Mixed - US and emerging markets positive but developed international negative

Source: Brinker Capital. Information is accurate as of July 8, 2020. Themes and specific funds utilized to implement themes are discussed within the context of Brinker Capital's managed asset allocations and are based on current market conditions and constitute Brinker Capital's judgment and opinions, which are subject to change without notice. Past performance does not guarantee future results. Statements referring to future actions or events, such as the future financial performance of certain asset classes or market segments, are based on the current expectations and projections about future events provided by various sources, including Brinker Capital's Investment Management Group. These statements are not guarantees of future performance and actual events may differ materially from those discussed. Brinker Capital Inc., a registered investment advisor. MSCI AC World ex US Growth: An index made up of approximately the top 50% of the MSCI AC World ex US Index as composite ranked by five growth rates. This is a common proxy used to represent the growth segment of the developed international market. MSCI EAFE Index: A market-capitalized weighted index representing developed international equity markets located in Europe, Australia, Asia and Far East (EAFE). S&P 500 Index: An index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe. Companies included in the Index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. Barclays US Aggregate Index: A market capitalization-weighed index, maintained by Barclays Capital, and is often used to represent investment grade bonds being traded in the US. MSCI Emerging Markets: a float-adjusted market capitalization index representing 13% of global market capitalization. Captures mid and large cap across more than two dozen emerging market countries.