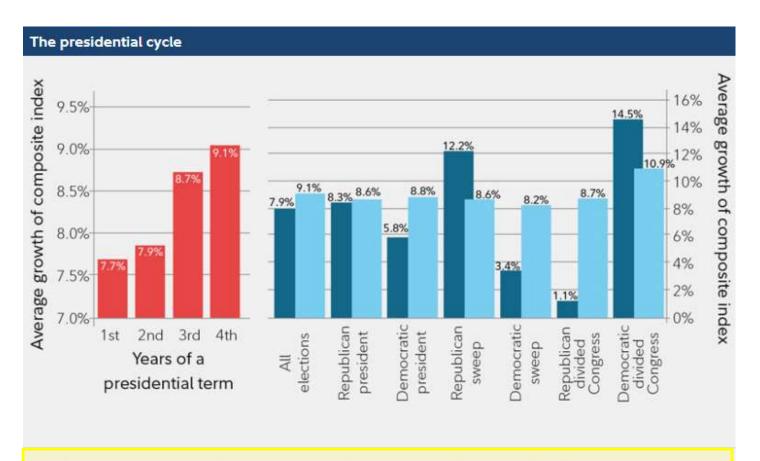
Barak Obama made "elections have consequences" quote famous and no truer statement could have been made. We are in the final days leading to one of the most consequential elections in modern history so it is no surprise we have been receiving lots of calls about our thoughts on what might happen. This note is intended to share our views on three possible scenarios.

Outcome	Presidency	House/Senate	Expectation
Current	Trump	Divided	
Scenario 1	Biden	Democrats	Higher Taxes/Stimulus
Scenario 2	Biden	Divided	Taxes Unchanged/Stimulus
Scenario 3	Trump	Republicans	Taxes Unchanged/Stimulus

In preparing our thoughts, we spoke with a Fidelity portfolio manager last week and we have concluded that regardless of who wins, the market should perform well. Republicans favor lower taxes while Democrats favor higher ones. However, Democrats historically offset tax increases with massive spending. This recipe has served Democrats well delivering a very good record of stock market performance.



Dark blue bars in the right panel indicate returns during the first 2 years of a president's term. The light blue bars show the 4-year return. Monthly data since 1789 (mix of S&P 500, Dow Jones Industrial Average, & Cowles Commission). Source: FMRCo.



Whether we have lower taxes or higher taxes coupled with spending, growth should resume allowing us to rebound from the massive hit we took at the onset of the pandemic.

Further, a synchronized global economy, which has not occurred in many years, is another potential catalyst supporting growth. Indeed, China recently announced better than expected growth while the Atlanta Fed GDPNow® is forecasting 35% growth for the third quarter.

Last week, the New York Times ran an article predicting that the pandemic will end sooner than expected and our Fidelity PM shares a similar sentiment. We acknowledge that the pandemic, while very serious, has been politicized. We believe when the election is over, the obsession will subside, therapies will continue to improve, and vaccines will be developed.

This sets the stage for the "anti"-social distancing trade – think travel, hotels, airlines, etc. Many companies have gone into survival mode and have taken a chainsaw to their cost structures. As a result, profit expectations have improved dramatically from the cataclysmic second quarter. These expanding profits underpin the strong stock market performance which is further buttressed by low interest rates. We believe when the virus attenuates, the pent-up demand will lead to strong economic results.

With that in mind, we prefer growth over value. Growth companies are focused on innovation and growing the top-line while value companies are mature and slow growing yet deliver income. Banks and energy companies comprise much of the value space. Neither sector has a meaningful catalyst at the moment for much profit growth. However, selective companies remain good plays for income.

In closing, this has been a brutal election season. People are more polarized than ever. Social media has made public executions possible and people have lost all sense of respect and restraint. We yearn for a more normal period. As we move through the final phase of the election, we expect turbulence. However, we are focused on the long-term and believe the stock market should enjoy a favorable backdrop.

