

# The Pandemic Election....

## Month Update from September 30, 2020

Since March, we've experienced a bear market, a recession, historically high unemployment, unprecedented

"October: This is one of the particularly dangerous months to invest in stocks. Other dangerous months are July, January, September, April, November, May, March, June, December, August and February."

Mark Twain

monetary and fiscal stimulus, and a remarkably resilient equity market.

Around this seasonally weaker part of the calendar, it is expected we see more volatility with the additional uncertainty surrounding the U.S. election—which will likely continue to weigh on the markets.

Never in U.S. presidential election history has ever played out against the backdrop of a pandemic, a major recession and racial injustice. If the very contentious First Presidential Debate is any sign, the US certainly will have the ugliest battle in election history—where the main issue is the incumbent.

September did not disappoint for being known as one of more volatile months for equities. Equities stumbled in the month as the S&P 500 was on its way to a possible 10% correction before rallying in the final week of the quarter. Volatility rose across most global markets. Although, the quick reversal of the trend in Q2 and Q3 saw investors returning to risk (stocks) and out of safety (bonds). In spite of a weaker September month, equity markets produced a rather respectable 3rd quarter performance

### Sector Movement Last Five Days



\*S&P 500 Closing market data as of Sept 30, 2020

Despite September's performance in the loss column for the TSX (-2.9%), Canadian equities gained in Q3, with the S&P/TSX Composite up 5%. Industrials was the top performing sector, while Health Care was the laggard.

The S&P 500 was down 3.92% in September with the quarter winning out with an 8.47% gain—while bringing its YTD return to 4.09%. The Dow Jones Industrial Average lost 2.28% for the month and was down 2.65% YTD.

As measured by the S&P Global BMI, Global equities also stumbled in September with a decline of 3.1%; but also managed to finish the Q3 higher—up 8.1% and stayed within positive territory YTD. Similarly, Emerging Markets lost 2.2% in September as measured by the S&P Emerging BMI, while quarterly figures edged up 9.0%.

Happy Thanksgiving. So far into October...

S&P 500 Sector	9/30/20	1 mo.	3 mos.	YTD
Consumer Disc.	1,207.69	-3.62	15.06	23.38
Consumer Staples	659.14	-1.48	10.38	4.13
Energy	227.49	-14.51	-19.72	-48.09
Financials	400.28	-3.48	4.44	-20.25
Health Care	1,231.02	-2.15	5.87	5.01
Industrials	650.68	-0.76	12.47	-3.99
Information Tech.	2,054.56	-5.37	11.95	28.69
Materials	400.01	1.34	13.31	5.47
Real Estate	218.95	-2.04	1.92	-6.77
Comm. Services <sup>2</sup>	195.49	-6.47	8.94	8.60
Utilities	301.86	1.13	6.14	-5.68

\*market data as of Oct 14, 2020 close

Technical Picture: "The typical playbook coming out of bear markets and/or recessions is "less defense, more offense" as historically investors tend to focus on the companies and sectors which benefit the most from an improving economy. There were no real surprises this time around as pro-cyclical areas such as Consumer Discretionary, Materials, Technology, Industrials, and Energy were the top five performing sectors in the S&P 500 from late March to mid-September.

On an equal weight basis, Industrials stocks in particular have been outperforming the S&P 500 throughout most of the recovery since March with transportation stocks doing much of the heavy lifting. (The equal weight is a better representation of how the sector is doing since Boeing continues to act like a lead weight.) The S&P 500 Equal Weight Industrials index is now poised to break to a new all-time high above resistance at 4420. Such a break would open a new upside target of 6240 which would

represent a 42% gain from the current level. This is a sector investors should continue to focus on as the recovery process continues to unfold.” Russ Visch, Technical Analyst, BMO Private Wealth

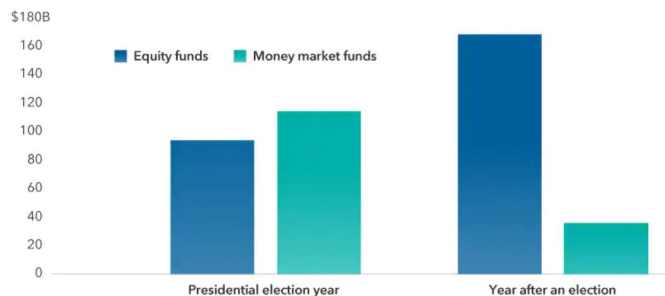
## Presidential Elections = Non-event

Regardless of who wins the November 3rd US election, the continued growth of the economy will be front and centre into their term mandate—eventually, more stimulus should be forthcoming.

Key takeaways:

- The average annual returns of the S&P 500 after a four-year presidential term throughout history are roughly the same for Republicans and Democrats.
- The market always looks forward 6 to 9 months and not at the current economic or political issues.
- Of the last 23 presidential elections dating from 1928, the market had only four returns that were negative. The market, on average, rose 11.28 percent.
- The average market advance in the 1st year is 6.5 percent
- Since 1928, when the Democrat controlled the White House, the Dow averaged 9 percent annually. When Republicans controlled the White House, the Dow rose nearly 6 percent per year.

Investors have tended to be more cautious leading up to elections  
Average net fund flows by year of presidential term (1992-2019)



Source: Morningstar. Values based on USD. Equity funds include U.S. and international equity funds.

If you believe the polls, there is a potential for a Democratic sweep, which could bring bigger government spending in 2021, a less contentious trade policy and a focus on infrastructure and clean energy.

**Yield Curve:** Steepening—expectations of higher inflation due to further stimulus—which in turn may push the Federal Reserve to move their schedule earlier on raising interest rates.

**US Dollar:** Weakening—Biden is seen as being less confrontational on trade (a more multi-lateral approach)

than Trump's contentious approach. Due to expected increases in fiscal stimulus, the US trade and budget deficit will widen.

**Equity Markets:** Supportive—the expected increase in fiscal stimulus should have a supportive effect on stocks. The VIX had been declining due to expectations of reduced volatility from a Biden win.

**Credit:** Spreads Narrowing—expectation of further stimulus had caused a decline in risk premiums—resulting in outperformance of lower grade corporate credit: High Yield.

Investors should be positioning for a strong Q4 where seasonal trends become a strong tailwind for equities once again in November.

I recently read an article where it commented on the change in what investors are looking for with their advisors—as a result of the pandemic. It stated that due to the immense uncertainty brought on by the pandemic, investors had been turning to professional advice to keep their finances on track.

Navigating through such an unprecedented event has created unparalleled challenges for investors—creating opportunities for the daring and greater risk measures for the cautious. Change had always been a constant; but this pandemic has pushed it to a heightened level. Prudent guidance has never been more important. It may well be a opportune time to check in with your list of prospects—see how they are doing and perhaps move the conversation along to the next level. Building a business during bad times certainly has its challenges; but just imagine, you can reap what you sow when the good times return.

## Stay safe, stay vigilant and stay healthy.

Your Success is Our Success....

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# 11 Cognitive Biases That Influence Political Outcomes

## Cognitive Biases in the Political Arena

**Politicians and the media often use cognitive biases to sway public opinion and election outcomes.**

**Some of the most common cognitive biases that can distort our political perspectives are the three "Big Cs":**

### Confirmation bias

Favoring or seeking information that affirms your pre-existing beliefs.

**Politically related topics:**

Polarization      Filter bubbles

### Coverage bias

The extent to which different issues are reported on and discussed.

**Politically related topics:**

"Horse Race" style coverage      Appeal to emotion

### Concision bias

Selectively focusing on information, losing nuance.

**Politically related topics:**

Talking points      Sound bites

**Authority bias**  
We're more likely to trust and be influenced by ideas that come from authority figures.



*"Our CEO says the state might tax disposable cups!" "Hey, I told you that last week and you said it would never happen."*

**Availability cascade**  
An idea accumulates more credibility as it spreads.



*"I've heard from a bunch of people that he's going to raise taxes, there must be some truth to it."*

**Declinism**  
We romanticize the past and believe that society and institutions are in decline.



*"That latest Supreme Court decision is just another example of how our country is falling apart these days."*

### Other biases to be aware of:



**Dunning-Kruger effect**  
The less you know, the more confident you are.



*Example: I don't see why we can't just print more money to pay the debt down."*

**Halo effect**  
Our overall impression of a person influences how we feel and think about his or her character.



*"I think she's too nice to be a good commander in chief."*

**Framing effect**  
We draw different conclusions based on how an idea is presented to us.



*Anchor A: "Government increases military spending in renewed commitment to veterans."  
Anchor B: "Amid record levels of debt, military spending balloons yet again."*

**Groupthink**  
Conforming to a widely held world view in order to fit in and minimize conflict.



*"I don't like the person running for Congress, but I can't really vote for the other party. My family would disown me."*

**False consensus**  
Overestimating the proportion of people who agree with an idea.



*"I think the majority of people agree that this policy makes sense. Everyone I know thinks so."*

**Pay close attention to these hidden biases and prevent yourself from being influenced by these flawed patterns of thinking.**

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