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Weekly Commentary

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By Charles Marleau CIM® and William Mitchell CIM®

U.S. Election Postmortem

Over the weekend, we received news that barring unusual circumstances, Joe Biden will become the 46th President of the United States. Keeping in mind that our responsibilities lie in managing portfolio risk and investment returns, we will refrain from political commentary. However, the election results carry obvious implications for investors worldwide and we offer the following insights.

If there is one think that markets despise, it is ***uncertainty***. With divisive rhetoric dominating American politics, an election result that is likely to be challenged by Trump, and Covid cases heading in the wrong direction, investors continue to have plenty to worry about. However, with a strong likelihood that a Biden presidency will restore stability, combined with today's fabulous news of a vaccine, two of the biggest threats have been removed. In lockstep, global stocks markets have surged in what is best be described as a massive relief rally.

On the political front, Wall Street is framing the outcome as the best-case scenario. Leading up to the election, many pundits held the view that a Democrat sweep would be the less optimal outcome for investors. With Biden holding a lead in the polls, markets were rattled in late October by the notion of a Democratic sweep and the ensuing possibility of unincumbered policy changes in health care, green initiatives, greater regulation, and higher taxes. However, in the week leading up to the vote, Wall Street embraced the potential for Republicans retaining power in the Senate. With a Democratic sweep not in the cards, the potential for increases in corporate taxes and regulations is less likely; a win-win scenario for investors.

With greater clarity, our focus turns to what sectors of the economy are likely thrive under a Biden White House and a Republican Senate? Some areas of the economy will likely fare better than others. For example, recreational cannabis stocks have performed exceptionally well given the fact that Arizona, Montana, New Jersey, and South Dakota have approved legal cannabis. Approximately one third of states have now legalized cannabis and the consensus is that more states will follow. The ***Horizons Marijuana Life Sciences ETF*** (HMMJ: TSX), which is a good proxy for the cannabis industry, is up 28% in November alone.

Another sector that should benefit is health care. With a Republican Senate, the debate over public vs. private health care, and drug pricing legislation, will likely be moved to the back burner. This is positive news for companies that operate in pharma, medical devices, and managed health. The ***iShares Health Care ETF*** (IYH: NYSE), which is broadly representative of the health sector, has moved higher by approximately 20% since the end of October. In similar fashion, the ***iShares U.S. Technology ETF*** (IYW: NYSE), which counts Apple, Microsoft,

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Facebook, and Google amongst its top holdings, is higher on the belief that legislation to break up the large "tech stocks" may not occur. Other sectors that have seen a "Biden boost" include renewable energy and infrastructure, with the latter benefitting from bipartisan support.

With the election now in the rear-view mirror, it remains likely that the much-anticipated stimulus package will be back on the table. While there is some speculation that a "lame duck" session and an uncooperative incumbent may delay this until early 2021, both parties have recognized that a relief package must be a priority and is in the best interests of the country. With two of the major headwinds removed, and a Fed policy that clearly remains clearly accommodative, we believe the tailwind behind equities is constructive. Further bolstering stocks, is the fact that many money managers who chose to overweight portfolios to cash and treasuries, may feel compelled to increase their equity allocations as we move into the final months of the year. This offers another argument that excessive cash on the sidelines supports a bullish view.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) [1]	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	$7.91	1.54%
Palos Equity Income Fund - RRSP	PAL101	$5.76	2.31%
Palos Merchant Fund L.P. (Dec 31, 2019) [2]	PAL500	$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	$11.12	45.19%
Palos-Mitchell Alpha Fund [3]	PAL300	$9.76	-5.87%
S&P TSX Composite (Total Return with dividends reinvested)			-1.88%
S&P 500 (Total Return with dividends reinvested)			10.32%
S&P TSX Venture (Total Return with dividends reinvested)			28.84%
Chart 2: Market Data [1]			**Value**
US Government 10-Year			0.82%
Canadian Government 10-Year			0.65%
Crude Oil Spot			US $37.14
Gold Spot			US $1951.70
US Gov't10-Year/Moody BAA Corp. Spread			255 bps
USD/CAD Exchange Rate Spot			US $0.7662

[1] *Period ending November 6, 2020. Data extracted from Bloomberg*

[2] *Fund is priced annually*

[3] *Fund is priced weekly on Tuesdays*

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