

THE STOCK MARKET WALL OF WORRY

Recent political developments have raised investor anxiety ahead of the elections next month. Whether it be political deadlock in negotiations around an agreement for a second round of fiscal stimulus, or Tuesday's chaotic presidential debate -investors are growing concerned about the increasing odds of a contested election. Looking back to the month-long contested election between Bush and Gore, the market fell 7% between election day and the final election result.

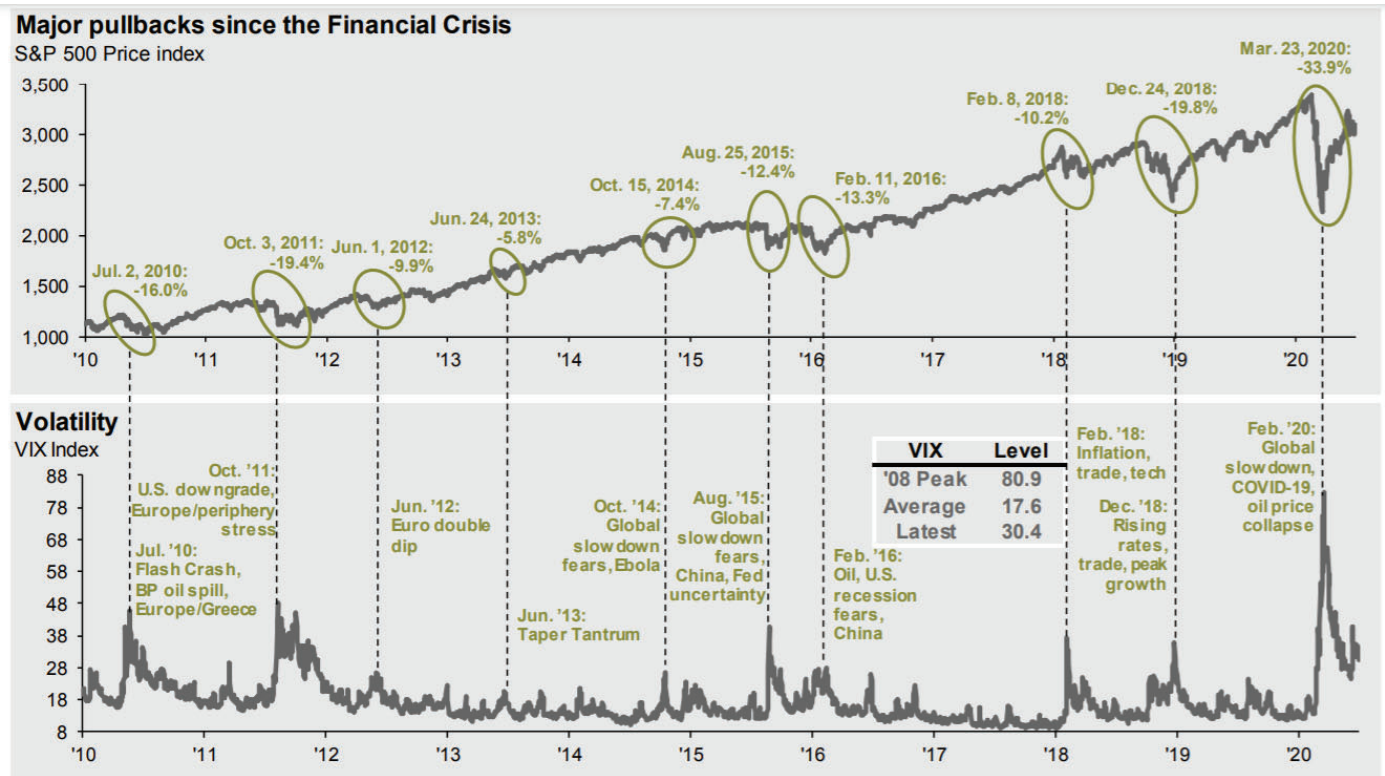
Online bookmakers and prediction markets currently have Biden showing a slight edge (55% chance) of winning. Political analysts guesstimate that the election will be close, so there is a good chance that nothing much will change regardless of who is in the White House. Analysts in one political camp fear that if Biden wins healthcare costs and taxes will rise. Analysts in the opposite political camp are concerned that a second Trump term will embolden Trump to escalate trade wars with China, impairing global trade and corporate profits. Add to the political anxiety headlines of a new wave of Coronavirus cases in Europe and New York, announcements of 28,000 layoffs at Disney alone and airlines furloughing 32,000 employees, and it is understandable that investors are tempted to take some chips off the investment table and wait for the dust to settle.

However, the chart below, courtesy of J.P. Morgan, illustrates that despite an almost continual barrage of negative headlines, the market continues to scale the wall of worry and make new highs. As an example, even at the Coronavirus lows in March this year, the market was still roughly 250% higher than where it traded 10 years ago.

On average, over the last 70 years, the market has suffered a 5% pullback once every quarter, a 10% correction once every year, and a 20% pullback once every six years – regardless of which political party is in office. Since the beginning of the 20th century the world has endured two world wars, financial crises in 1929, 1987 and 2008 and several pandemic scares and yet stocks have moved higher and are trading near all-time highs.

TCM INSIGHTS

There is always something in the world to worry about – but it is this very anxiety which drives humans to find better ways of doing things. Many of those humans work for the great companies listed on the stock market which we have an opportunity to invest in.



Source: CBOE, FactSet, Standard & Poor's, J.P. Morgan Asset Management.



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