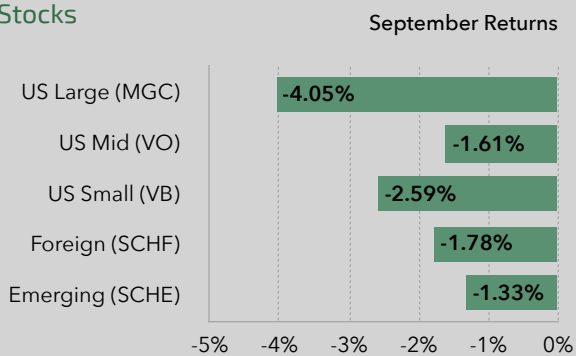


## September 2020

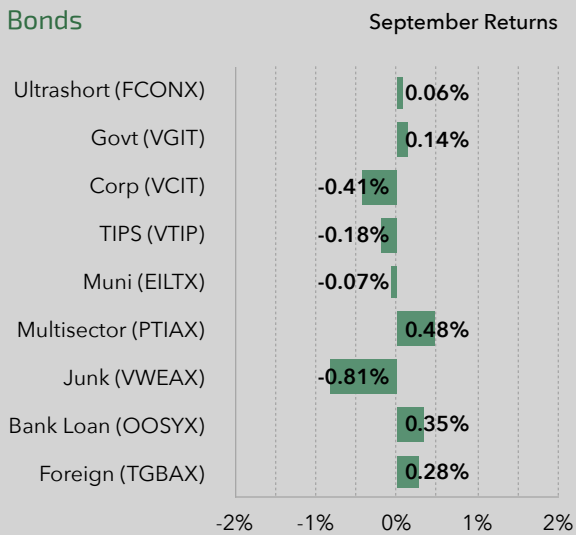
### Economic Data

- US payroll growth dramatically slowed to 661,000 in September and the unemployment rate fell to 7.9%, according to the BLS
- Retail sales growth slowed to 0.6% in August
- Y/y inflation (CPI) rose to 1.3% in August
- Existing home sales rose for the third month in a row in August, up 2.4%
- The Conference Board's Leading Economic Indicators (LEI) rose 1.2% in August

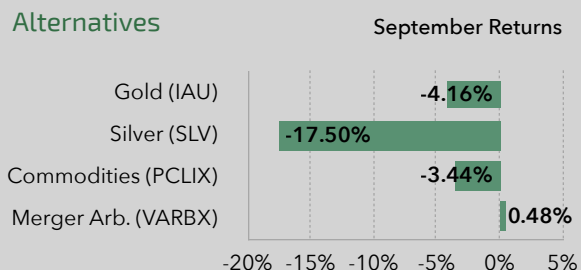
### Stocks



### Bonds



### Alternatives



Performance data provided by Morningstar.

The brain uses two systems to process information. The first type is intuitive but lazy, rapidly forming judgements with no conscious input. The second system is slow, reflective, and is not guided by emotions. It is that second system — type 2 — that we want in control of our investment portfolios.

### I'm an Electoral Mathlete, not an Athlete

We're all feeling a bit emotionally fatigued by this election, so I apologize for bringing it up. But this is the last newsletter before the big night, so I kind of have to. There are a lot of really, really good opportunities for jokes here, but I feel the extremely divisive state of politics has stripped much of this country of its sense of humor, so unfortunately I will be keeping them to myself.

#### 270 to Win

On November 3rd, people from 50 states and the District of Columbia will go to the polls to strongly suggest to electoral college members who the next president of the United States should be. If I'm being honest—from a statistical standpoint, not one of some sense of civic duty—folks in 42 of those state might as well not bother. Another vote cast for Biden in Hawaii or Illinois isn't needed to push him over the line any more than an extra ballot cast for Trump in Wyoming or West Virginia would. We're probably just going to be talking about Arizona, Wisconsin, Michigan, Ohio, Pennsylvania, North Carolina, Georgia, and Florida. These are all the so-called swing states that went Trump in 2016, but this go around could presumably go either way.

I'm no Nate Silver, but I did correctly predict the last election and he didn't, so I might as well give it another go. I think Florida, Georgia, North Carolina, Ohio, and Arizona stay red states. Pennsylvania probably flips blue and votes for its Scranton native and so-called "third senator", Biden. That leaves Wisconsin and Michigan, two states that helped put Trump in office four years ago but where polls show Biden with a 6+ point advantage, according to recent USA Today's poll averages. If both flip blue as expected, that'll be the election. But if Michigan stays red, it'll be four more years of Trump. So I think my home state of Michigan will be one to watch closely on November 3.

The above mentioned polling numbers were prior to the September 29 debate, however; the first debate I can recall where everyone, including the American people, lost. So I'm not sure if it really changed anything, except maybe to divest a number of potential voters of the inspiration to vote at all. Still, it looks like a Biden victory and that's what my base-case is.

The betting market is another place we can look for some insight. Oddsmakers see Trump as the underdog, giving him anywhere from 6/4 to 17/10 odds, while Biden is the clear favorite with the bookies paying out as little as 1/2.

However, I still see a number of reasons this isn't a lock. As 2016 taught us, polls can be laughably wrong. And there does seem to be reticence from Trump supporters in saying they are in fact Trump supporters, even to a polling agency. Interestingly, when asked who voters expect will win—rather than who they plan to vote for—a Gallup poll showed that 56% believe Trump will be reelected.

The stock market has also shown to be a seemingly good predictor of the election outcome. Or perhaps it's that the stock market does better when investors are predicting an incumbent victory? Either way, when the S&P 500 is up in the three months leading up to the election, the incumbent has won 87% of the time going back to 1928. As of today's close, it was up about 2.32% since August 3. That would currently give the edge to Trump, but there is still a month to go and the trend for stocks over the most recent month has been a downward one.

States like Wisconsin, that have seen their cities marred by “fiery but mostly peaceful protests,” may lean more than expected towards Trump, as he has positioned himself as the law and order candidate. States like Nevada and Florida that rely heavily on tourism may be less inclined to vote for Biden, who—despite the president not actually having the legal authority to do it—has come out in favor of a national lockdown and mask mandate.

So I think Joe Biden is going to win, but I am not very confident. I think it will very likely be closer than the polls let on, and I will not be shocked if it is four more years of Trump. I am also expecting it to be a contested election. An interesting and possible scenario would be a Trump victory on election night, as his supporters are more likely to vote in person, followed later by Biden declaring victory once mail-in ballots are counted, as his supporters seem more likely to vote through that avenue. A contested election means uncertainty, and markets don't like that. Buckle-up, buckaroos.

### What Does It Mean for Your Investments?

Is a democrat or a republican better for stocks? In the last century the office of the president has only changed from one party to another eleven times. And, perhaps surprisingly, the stock market has done better under democrats than republicans. But I am hesitant to view this as gospel, as I do not consider this to be a large enough sample size to draw any statistically significant conclusions from. There are many other factors that come into play, like where we already were in the business cycle. And even though politicians like to take credit for rising stock markets and job creation, they actually have far less influence on those things than they would like you to believe. Still, I think we can try to look at the potential impact the election could have on certain investments.

#### US Stocks

To me, the most important difference between the candidates is their tax policies. Trump lowered corporate tax rates, stemming the loss of US companies to lower-tax countries like Ireland and giving the US stock market a major boost. Biden hasn't shied away from wanting to raise corporate taxes, and if he is able to do it expect a major hit to stock earnings. However, one could also make a case for Biden being good for stocks through increased stimulus spending. Still, if I have to give an edge here I'm giving it to Trump.

#### Tech Stocks

One might assume a Biden victory would be good for tech stocks, as the Democratic Party has a cozy relationship with Big Tech and their PACs and employees, who are among some of the largest donors to his

Tactical Asset Allocation					
Asset Class	Heavy Under-weight	Under-weight	Neutral	Over-weight	Heavy Over-weight
<b>Fixed Income</b>					
Ultrashort					●
US Govt.		●			
TIPS			●		
Multisector			●		
Bank Loans	●				
Foreign Bonds				●	
<b>Equities</b>					
Large Cap	●				
Mid Cap		●			
Small Cap	●				
Developed Intl.		●			
Emerging		●			
<b>Alternatives</b>					
Commodities					●
Hedging					●

campaign. But perhaps this relationship isn't so buddy-buddy, as a recently leaked draft report from democrats on the House anti-trust subcommittee revealed a variety of proposals to break up Big Tech. The Trump administration is also likely to continue its pursuit of antitrust actions, and is reportedly close to filing a lawsuit against Google. Both Biden and Trump have called for a repeal of Section 230, which provides immunity to online platforms for third-party content. However, Trump's ire stems from the anti-conservative bias in the use of censorship on these platforms, while Biden criticizes them for not removing more of Trump's posts. There seems to be a strong bipartisan push for antitrust action with Big Tech firmly in the crosshairs of both parties, so I don't see either candidate improving their situation. The one area of tech that may fair better under Trump is gig-economy stocks like Lyft, as the democrats have pushed to reclassify the independent contractors of these companies as employees.

#### Emerging Markets Stocks

The view is much clearer, in my opinion, when it comes to emerging markets stocks. I expect a weaker dollar and softer touch in trade negotiations—particularly with China—under a Biden presidency. And those are both wins for emerging markets stocks.

#### Municipal Bonds

I think municipal bonds will be a safer investment if the democrats get a clean sweep of the house, senate, and presidency. They are keen on sending money to state and local governments, while the republicans are opposed to the idea seeing it as nothing more than a bailout for blue states that were financially mismanaged long before COVID-19.

#### Interest Rates

While I think Biden is good for municipal bonds specifically, I think he is bad for government bonds in general. Bond vigilantes are likely to dump bonds in protest of fiscal policies viewed as inflationary, thus driving up interest rates and driving down bond prices.

### Binge Box

#### Upload (Amazon Prime)

*Upload* is the brainchild of Greg Daniels, whose comedic resume includes creator of the American version of the *Office* and co-creator of *Parks and Recreation*. The show follows Nathan, who gets injured in a suspect car accident and is pressured by his vapid but wealthy girlfriend to forego surgery and instead upload his consciousness to Lakeview, a luxurious virtual afterlife. As you might imagine, it turns out Lakeview is not as great as advertised. I definitely found it binge-worthy. You get a comedic take on the afterlife similar to *The Good Place*, with a dash of the beloved “San Junipero” episode of *Black Mirror*.

## Gold & Silver

Despite today's breakdown in talks, I have little doubt that further stimulus is coming, which is bearish for the dollar and bullish for gold. I think the fiscal package will be much larger if the democrats had their druthers, so that would be even more bullish for gold. Meanwhile, I expect this demand for precious metal to also benefit silver. The industrial demand for silver—a key ingredient in solar panels—would also likely get a boost from a Biden victory as he implements pieces of the Green New Deal.

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## About EmeraldSpark

EmeraldSpark Investments, LLC is a Registered Investment Adviser based in Chicago, IL. We were founded by Ryan P. Layton, CFA in 2015 to provide personalized financial planning and fiduciary investment management services to select clients. Our investment process blends the foundations of Modern Portfolio Theory with the latest research in the field of behavioral finance. We specialize in asset allocation and investment due diligence to help provide our clients with investment strategies personalized to match their specific goals and risk comfort zone.

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