

Q: How should portfolios be positioned leading up to the election?

Brian Lockhart: The challenge in attempting to answer this question is whether “conventional wisdom” will prevail with whomever wins the election. Most of the “expert” commentators suggested that if Donald Trump won the Presidency in 2016 the stock market would correct. That forecast was accurate for about 4 hours after Trump had won and then the stock market went almost straight up for a couple of years. Markets are typically most comfortable with what is known and that would be a second term for Trump. The unknown if Biden were to beat Trump is whether his moderate views and positions would be pursued or if the Progressives in the Democratic party will prevail. If Biden does not move far enough to the left fast enough, he will likely lose his party’s support and calls for his removal from office could begin.

With the level of uncertainty over what will happen politically I believe it makes sense to slightly reduce equity exposure and increase hedges against a spike in volatility. The worst-case scenario for investors is not knowing the winner of the election on November 2nd. Some states, including battleground states, may utilize mail in voting causing the state not to know who prevailed election night. Keep a close watch on the House and Senate as well. If Biden were to prevail, it is likely that will mean Democrats succeeded on turnout and the Senate could flip. If Dems control the White House and both houses of Congress, I expect an immediate double-digit drop in stock prices.

Clint Pekrul, CFA: I wouldn’t necessarily make large-scale changes to your asset allocation based on what might happen in the November election. It’s basically impossible to know which way the markets might move based on the results ahead of time. The narrative historically has been that Republicans (i.e. a Trump administration) would be better for business and markets overall. Conversely, democrats (i.e. a Biden administration) would be more pro-regulation and big government, and less friendly to business. Reality doesn’t really match the narrative though. Markets have done well (and poorly) under both Democrat and Republican administrations.

In the short- to intermediate-term, I don’t see much changing in terms of the underlying economy, regardless of who is in the White House. Switching to a Biden administration won’t change our frightening debt-to-GDP ratio, or necessarily stop the run up in technology stocks. Maintaining a Trump administration won’t bring small businesses back, or necessarily prevent a vaccine for Covid-19. I’m not saying elections don’t have consequences, but their outcomes typically aren’t game changers for asset allocation decisions. I think the best you can do is to have a plan in place to maintain your risk profile, which might require only modest adjustments to the stock-bond mix and a marginal use of hedges.