LAKE ST

Gearing Up for Election Season

As the leaves change and Fall approaches, so too does one of the most important presidential elections in United States history. But it's not just the presidential election that matters. If both the Democrats with the Senate and Joe Biden is elected, there could be drastic changes to the nation's tax code. Yet, even if Biden comes out on top and the Republicans control the Senate, much of the new president's to-do list will be hard to accomplish. It is important to analyze both outcomes, and this week, we focus on taxation due to its importance on capital markets and financial planning. Trump's camp should continue current policy which focuses on lower taxation for corporations and individuals. Biden's camp will present more change from the current legislation. Some key areas of proposed change would be to raise corporate tax rates, adjust long-term capital gains rates and federal tax rates for top earners, cap itemized deductions, remove the step rule in cost basis for inherited assets, and impose a 15% book tax on corporations with upwards of $100 million in income. Both policies come with pros and cons to personal finances and the health of the overall economy.

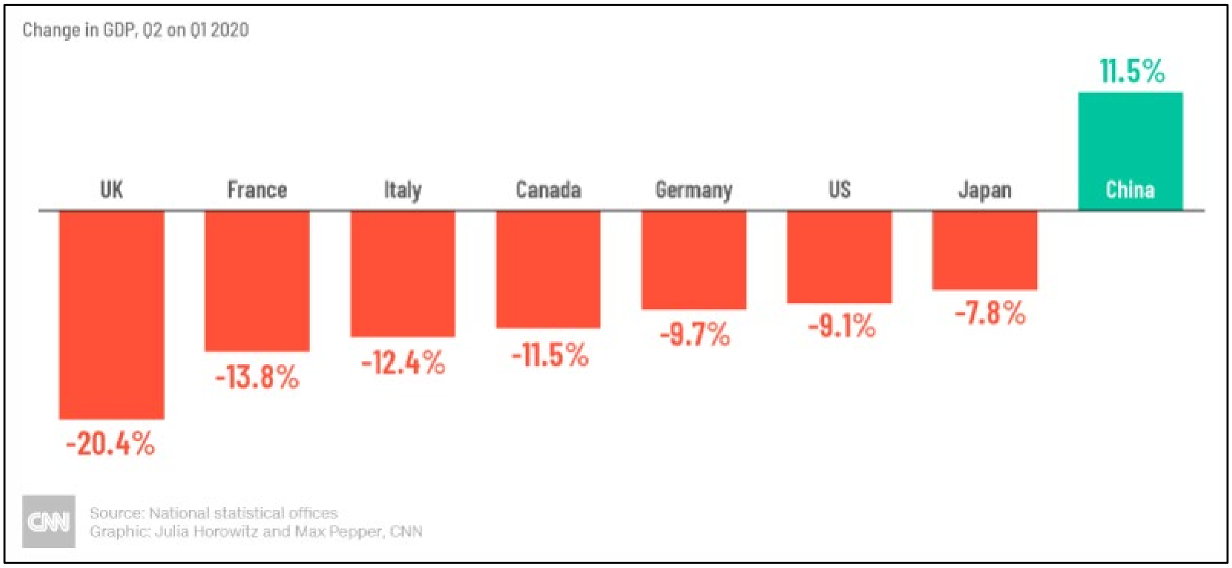
With a few months left until election day, it should be noted that in general, markets grow at a slower pace than normal leading up to a presidential election. For the 6-month period leading up to the previous six presidential elections (excluding the 2008 outlier), the S&P 500 managed 3.99% gains while the Dow Jones grew 2.64%. Investors generally do not make significant changes on moving targets such as the outcome of an election, and this year is no different. It is likely that investors will remain patient and objective until the results and implications of the election are more certain.

S&P, DOW 6 MONTHS BEFORE U.S. PRESIDENTIAL ELECTION (SINCE 1990)

ELECTION YEAR	S&P	DOW
2016	3.64%	3.51%
2012	4.29%	1.82%
2008	-27.78%	-24.89%
2004	0.98%	-2.73%
2000	3.53%	5.64%
1996	10.76%	11.09%
1992	0.75%	-3.47%
AVG. RETURN EX-2008	3.99%	2.64%

Source: https://www.cnbc.com/2020/05/07/heres-how-dow-sp-do-in-six-months-before-presidential-election.html

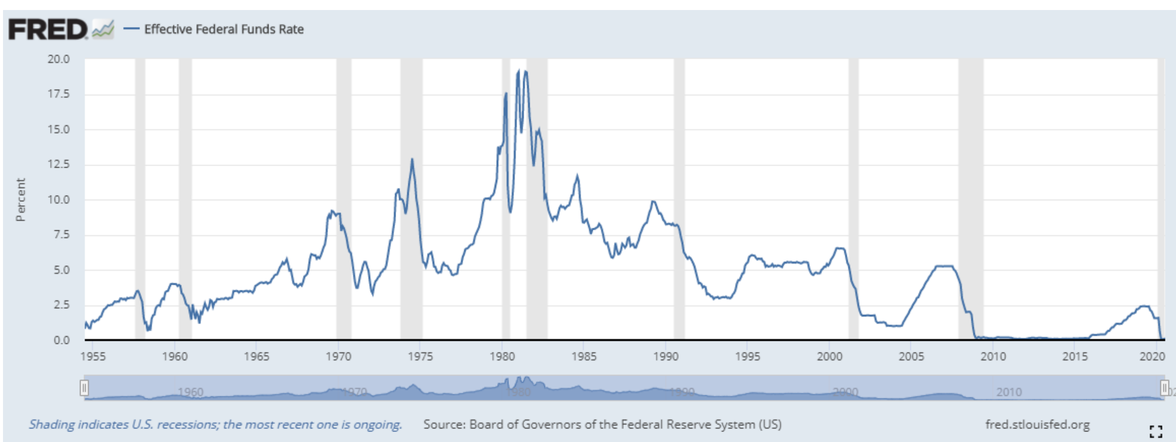
China’s economy recovers while the rest of the world continues to struggle



Source: https://www.cnn.com/2020/08/28/economy/global-recession-g7-countries/index.html

It only makes sense that the nation with the initial outbreak of the coronavirus is the nation that recovers first as well. China’s GDP shot up by 11.5% in Q2 as compared to Q1, showing that a quick economic recovery from the pandemic is possible. Meanwhile, economic despair in the US might seem to be the norm, but the reality is the country’s economy has not been hurt nearly as bad as its peers. The UK has had the hardest time recovering from the pandemic, while France, Italy, and Canada all have seen double-digit contraction in their local economies between the first and second quarter.

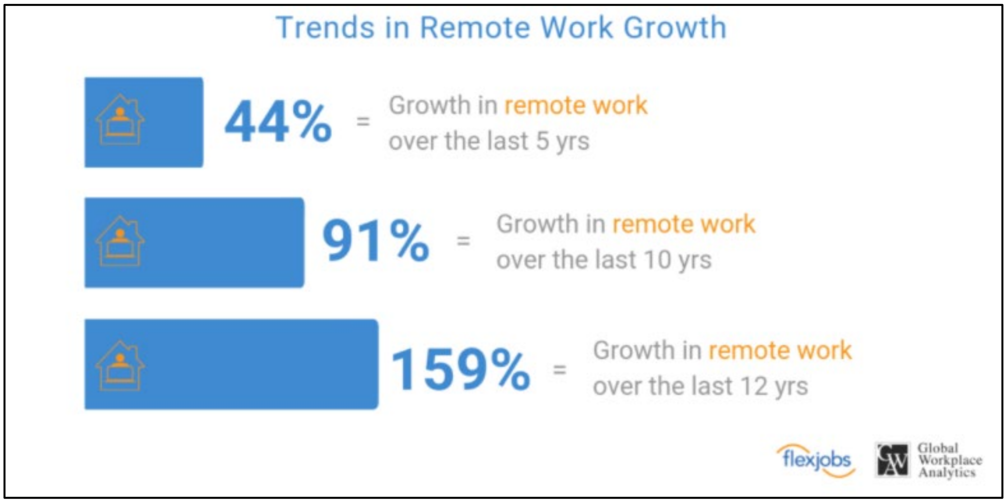
Fed will keep rates low, ok with higher inflation



Source: https://fred.stlouisfed.org/series/FEDFUNDS

The Federal Reserve is stuck between a rock and a hard place. Fed chair Jerome Powell needs to ensure that the US economy does not slip into a long-term recession, but at the same time has an obligation to keep inflation at bay. Because of a troubling labor market, Powell has decided to accept higher inflation than normal and likely keep interest rates at low levels. Low inflation can be a catalyst to economic and job growth, with businesses able to expand with cheap capital and bring on more employees as a result. Therefore, while interest rates can’t go much lower than they already have, we could see interest rates near 0% for an extended period of time, similar to the economic recovery from 2010-2015.

Remote working was already a growing trend, but now it might become the norm



Source: https://www.flexjobs.com/blog/post/remote-work-statistics/

It was already becoming clear over the past decade that remote working was a growing trend. Remote work has grown 159% in the past 12-years, as companies are better understanding why remote workers provide even more productivity than their office-based counterparts. Remote working makes for happier employees who, on-average, stay at their jobs for longer, increases their productivity and willingness to work diligently, reduces office-related costs, and saves oil and gas used in commuting, making it a better choice across the board.

Now, with the coronavirus pandemic forcing office closures across the board, remote work is increasing rapidly, and it appears workers have no problem with this trend. A survey from the research firm Global Workplace Analytics found that 76% of office workers around the globe who were pushed into remote work want to continue to work at home after the pandemic is over. Furthermore, the firm estimates that by the end of 2021, 25-30% of the entire country's workforce will be working from home multiple days a week. This trend is likely to have a strong impact on the direction of technology companies who will be tasked at improving already existing services for remote work. Companies like Microsoft, Zoom, Slack, Google, and others will have to build on remote working tools in this growing market.

Articles We're Reading

Economic damage from Hurricane Laura is far less than initially feared … (link)

UAE scraps Israel economic boycott after US-brokered deal … (link)

MicroStrategy Adopts Bitcoin as Primary Treasury Reserve Asset … (link)

Market Snapshot

For the Month Ending 8/31/2020 (Cumulative Returns)[1]

United States Markets	1-Month	3-Month	YTD	1-Year
Dow Jones Industrial Average	7.57%↑	12.00%↑	0.38%↓	7.68%↑
S&P 500	7.01%↑	14.98%↑	8.34%↑	19.61%↑
The NASDAQ Composite	9.59%↑	24.08%↑	31.24%↑	47.88%↑
U.S. Mid Cap	3.49%↑	11.92%↑	0.13%↑	8.53%↑
U.S. Small Cap	4.33%↑	10.16%↑	8.28%↓	0.69%↑

Global Markets	1-Month	3-Month	YTD	1-Year
Nikkei 225	6.59%↑	5.77%↑	2.18%↓	11.76%↑
Hang Seng	2.37%↑	9.65%↑	10.69%↓	2.13%↓
Shanghai Comp	3.04%↑	16.98%↑	11.82%↑	18.17%↑
FTSE 100	1.12%↑	1.86%↓	20.93%↓	17.26%↓
DAX	5.13%↑	11.72%↑	2.29%↓	8.43%↑

Fixed Income	1-Month	3-Month	YTD	1-Year
Corporate Bonds	1.78%↓	3.42%↑	7.80%↑	8.54%↑
Muncipal Bonds	0.59%↓	1.22%↑	3.16%↑	3.00%↑
High Yield Bonds	0.02%↓	4.42%↑	0.32%↓	2.60%↑

Market Indicators	Rate	Market Indicators	Value
10 Year Treasury	0.72%	WTI Crude Oil	42.61
Fed Funds Target	0 to 0.25%	Gold - Spot Price	1,969.75
Inflation Rate	1.0%	U.S. Dollar	92.31
Unemployment Rate	10.2%	CBOE Volaility Index	26.41

Did You Know?

Hurricanes on the rise

If you thought tropical storms and hurricanes have gotten worse over the years, you were right. On average, a typical year will bring 3 major hurricanes, 3 non-major hurricanes, and 12 total named storms. The three previous years, from 2017-2019, all exceeded the average for named storms, with 2019 generating 18 named storms, the most of any year in recent memory. …(link)

Disclosures

Presented by the Investment Committee of Lake Street, an SEC Registered Investment Adviser

[1]Source – Morningstar, Inc. Corporate Bonds is presented as the iShares iBoxx $ Investment Grade Corporate Bond ETF. Municipal Bonds is presented as the iShares National Municipal Bond ETF. High Yield Bonds is presented as the iShares iBoxx $ High Yield Corporate Bond ETF. 10 Year Treasury refers to the valuation of a 10 Year Treasury Note, a debt obligation issued by the U.S. Department of the Treasury. Fed Funds Target represents upper limit of the federal funds target range established by the Federal Open Market Committee. Inflation Rate provided for the purposes of this report by the U.S. Bureau of Labor Statistics. Unemployment Rate calculated by the U.S. Bureau of Labor Statistics. WTI Crude Oil refers to the price of a barrel of West Texas Intermediate NYMEX) Crude Oil. Gold – Spot Price relates to the valuation of an ounce of gold, as traded on the NYSE Arca Exchange. U.S. Dollar refers to the U.S. Dollar Index (DXY). All Returns are denominated in USD (United States Dollar), unless otherwise explicitly noted.

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