

Weekly Commentary with Professor Jeremy J. Siegel

Does a Fiscal Stimulus Package Help Trump's Election Odds?

Monday, 12/10/2020



Jeremy Schwartz, Executive Vice President, Global Head of Research for WisdomTree, hosts a weekly discussion with Professor Siegel, typically on the Wharton Business Radio podcast. The notes below summarize their conversation along with further commentary and context.

Late Friday morning last week, Larry Kudlow announced there may be an agreed upon deal on a fiscal package between Trump and Pelosi—after negotiations seemed to fall apart and it looked like we would have to wait until after the election. The markets took comfort, with equities rallying and bond yields going higher.

A fiscal deal is good for the economy and for the stock market, but bad for the bond market, and the longer end of the yield curve should continue to move higher. Is this fiscal package enough to help Trump in the election? Professor Siegel thinks not.

The polls and prediction markets are dismal for the Republicans. Currently, they show over 2 to 1 odds for Biden winning—with some forecasters suggesting 4 to 1 odds in favour of Biden. The Senate is only slightly less in favour of Democrats taking over. Right now, those markets are suggesting 51 Senate seats for the Democrats. The closest races are North Carolina and Iowa, where Republican incumbents face challengers that the betting markets say are 60/40 favourites to take over their seats.

After doing nothing for months, bond yields have moved up about 10 basis points. A Democratic sweep means more fiscal spending—which should pressure rates even higher. This reinforces Professor Siegel's view that 2020 marks the end of the 40-year bull market in bonds—and that we will never see long rates as low as they were this year again.

We had a healthy correction in the stock market from the end of August—with technology shares correcting about 15% from top to bottom. But the persistent lead of the Nasdaq and technology appears to have shifted—with fiscal support supporting the re-opening of more “value” oriented stocks.

On the virus front, we, of course, have negative news on more cases but also positive developments with more therapeutics. Trump took Regeneron and that appeared to work for him very well. We are likely to see much more good news on vaccines and therapeutics in the coming weeks—all of which supports a stronger economy going into 2021.

If Trump finds a way to pull a surprise victory again, we would have the negative of higher corporate tax rates taken off the table. At the same time, the market does not like the trade related volatility that Trump produces, and a victory assumes Trump would ramp up even more pressure on China.

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We have a new feature—you can write in questions to Professor Siegel at AskSiegel@WisdomTree.com and we will try to address as many as possible each week.

This week's question focused on the long-term case for stocks over bonds.

Question: In *Stocks for the Long-Run*, Professor Siegel talks about the impact of the holding period on the best portfolio allocation. The conclusion seems to be, for a moderate or risk-taking investor with a 30-year investing horizon, the best portfolio allocation would be either 100% allocation to stocks, or even over 100% (through modest leverage). I have followed this advice for nearly 20 years. More recently, Professor Siegel talks a lot about bonds as a “hedge asset” and the “traditional” 60/40 portfolio (vs. a 70/30 portfolio). This could drive a lot of tax inefficient re-balancing and transaction costs. How should investors consider their holding period, in deciding between passive stock and bond investments?

Professor Siegel often emphasizes that long-term investors should be 100% stocks. However, there are many investors who would claim to be investors with 30-year horizons but care a lot about short-term volatility. Professor Siegel agrees that young people should have allocations that are more like 100% in stocks—as bonds are apt to be a ‘disaster’ over the long run from these levels. But for older people, who can afford taking less equity risk, Professor Siegel is trying to push towards stock/bond allocations of 60/40 towards 75/25. We have also been encouraging gold allocations to protect from inflation as part of this diversified mix.

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