

## ***Uncertainty Creating a Negative Overhang for the Markets*** **Monday, 28/9/2020**



*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.*

There are two things weighing on the markets in September.

First, the lack of a stimulus bill has been disappointing and the death of Ruth Bader Ginsburg has contributed to even more partisanship, which makes the prospects for additional stimulus ahead of the election look very dim. With the PPP fiscal support money and the bonus for unemployment insurance running out, economic growth in this quarter will slow.

There is also election related uncertainty—and uncertainty always creates a negative overhang for the markets. Professor Siegel commented that once we get past the election—just because the veil of uncertainty is removed—we could have a very nice December and January pop—as long as there is no protracted struggle over the outcome.

But given these two factors, it is hard to see a large rally in the markets without the stimulus package or another positive development, such as the development of a successful vaccine.

Concerning the election—if the Senate seats fell where the current betting markets are indicating, we'd have an exact 50/50 tie in the Senate, with the Presidency controlling the split votes. There are two races leaning slightly towards incumbent Republicans (Colorado and Iowa)—and currently, in North Carolina, the Republican incumbent is behind about 2 to 1. If there is a mild wave, that makes the Senate 52-48 Democrat.

A few important events coming up this week. There is an unemployment report on Friday—with expectations that unemployment rate will fall from 8.4% to 8.2%. Professor Siegel is not as confident this rate will continue to drift downwards—he thinks the lack of a stimulus bill and PPPs will have more people looking for work and cause a tick higher in unemployment. This might not show up in the September data but could impact unemployment claims going forward. This weakness might spur efforts to get stimulus, but this is by no means certain.

Another negative last week were more fears about the virus spreading in Europe. The positive news was that while infection rates are rising, hospitalizations and serious cases are not rising as much. A few of the countries where cases have jumped are Israel and Iceland. Israel had stamped out the virus and then opened up, but now is seeing a large increase in cases. Iceland is in a similar situation. Again, deaths have not risen as fast as during the first wave. In the US, cases and deaths are trending downward, but only slightly. There is much fear of another wave, although this is by no means certain.

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We have a new feature—you can email in questions to Professor Siegel at [AskSiegel@WisdomTree.com](mailto:AskSiegel@WisdomTree.com) and we will try to address as many as possible each week.

Here are this week's questions:

Question 1: What is your current expectation for the real estate market and allocations there?

Real estate investment trusts used to be a segment within the financial sector, but REITs themselves are very heterogeneous. There are Industrial REITs, many of which are performing well with warehouses or data centres that are serving the digital economy and warehouses that are benefiting from the surge in online shopping at the expense of traditional retail. Professor Siegel expects troubles for traditional Commercial REITs and office space to be challenged in the future as demand for space is likely to decline.

Question 2: With all the volatility now, is it a time to think about more tactical hedging strategies?

Professor Siegel thinks much of this uncertainty is already depressing prices. And unless we get total disruption after the election—even if we get a Democrat sweep that is not something like 60-40 in the Senate, the resolution of uncertainty may spark a really strong November and December rally that will surprise people.

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