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FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

The US election is taking place against a historic backdrop of a global pandemic, economic recession and nationwide civil unrest. The outcome will certainly have significant implications for fiscal and monetary policy, taxation, public and private investment, regulation, trade and foreign affairs. Before we dive in, we feel the need to disclose that we're not political pundits, and we often like to say that the economy impacts elections more than elections impact the economy. The two election outcomes most cited—a Democratic sweep of both the White House and Congress or a contested election—both bring about very different implications for markets and the economy.

In short, a Democratic sweep will likely pave the way for a new round of large-scale fiscal stimulus and boost spending on clean energy, transportation and housing—but also increase taxes for companies and the wealthy. From 1993-2017, the top corporate tax rate was 35%, until the 2017 Tax Cut and Jobs Act reduced it to 21%. Democratic nominee Joe Biden has proposed to partially reverse this cut by increasing the top corporate tax rate to 28%. However, most companies do not pay this top rate and although the tax hike would reduce company operating earnings, we do not view the tax plan as catastrophic for companies because they have proven the ability to be profitable in less-favorable tax environments in the past. Additionally, Biden has not laid out a firm timeline on his tax plan and, if elected, he would need to push it through Congress first. Moreover, Biden and Congress would commonsensically wait to push a tax hike until the pandemic has receded and the economy is on much more stable footing—which will certainly take time.

Throughout his administration, President Trump has been focused on trade and bringing back manufacturing jobs that had moved overseas. The trade war with China has been the centerpiece of Trump's trade policy during his first term, which added a level of economic uncertainty creating bouts of market volatility and a

slowdown in company spending. A Biden win would likely result in more predictable trade and foreign policy, but, to a lesser degree, we still see continued US-China tensions as it relates to technology, trade and investment. Thus, regardless of the election outcome, we see continued trade tensions moving forward as there is strong bipartisan support for a more competitive stance on China.

If there's one thing the market does not like, it is uncertainty. Most of us remember the contested election of 2000, which helped push the economy into a recession and further propelled the selloff in equities initiated by the dot com bubble. Now, twenty years later, there has been increased speculation that we may once again experience a contested election in which we do not have a clear winner on November 4th. Not only is the election forecasted to be close in nature, the pandemic has changed the way that Americans vote. It will naturally take longer to count the votes this year as many voters have requested mail-in ballots due to the pandemic. A contested election would weigh heavily on markets quite simply due to the uncertainty of policy direction for the next four years. Much more urgent, however, is the potential that a contested election could distract Washington from providing further fiscal support to people and small businesses that have been financially devastated by the COVID-19 pandemic.

Investing is a long-term endeavor. Trying to make investment decisions based upon the outcome of presidential elections is unlikely to result in reliable excess returns for investors. At best, any positive outcome based on such a strategy will likely be the result of random luck. At worst, it can lead to costly mistakes. Accordingly, there is a strong case for investors to rely on patience and portfolio structure, rather than trying to speculate, in order to pursue investment returns.

We thank you for your continued trust and confidence in us as we wish you a healthy and prosperous autumn season.

Sincerely,



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