LAWSON KROEKER

As we see it

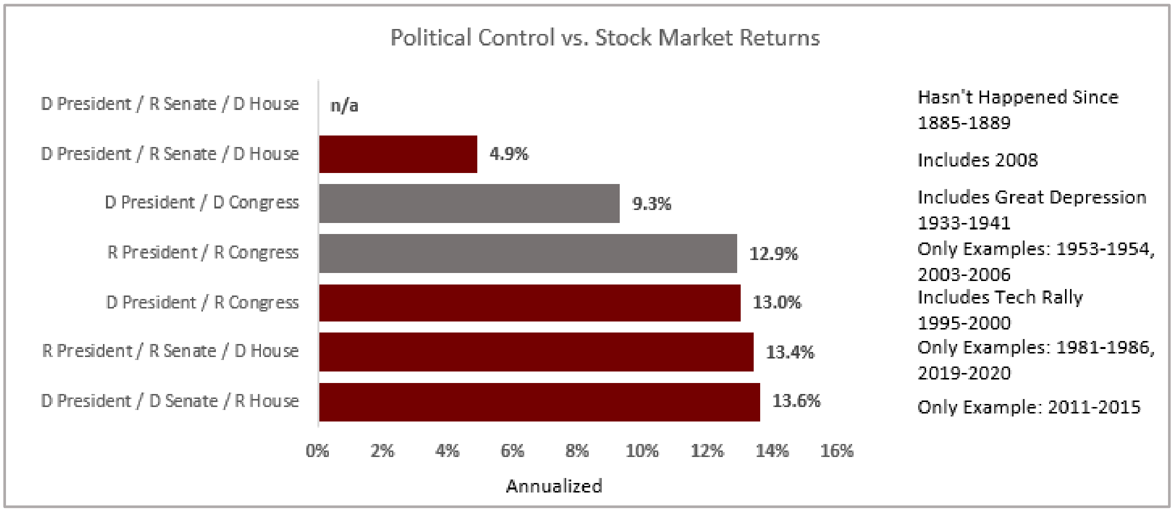
November 2020

"Politics is the ability to foretell what is going to happen tomorrow, next week, next month and next year. And to have the ability afterwards to explain why it didn't happen."
– Winston Churchill

As a volatile 2020 enters its final quarter, we are just beginning to move past the year's second large unknown after the coronavirus pandemic – the election. Americans have cast their votes and the balance of power shaping up between political parties has had interesting implications for the stock market in the past. Congress appears to have remained split with Republicans looking likely to hold the Senate and Democrats retaining a majority in the House of Representatives, thus ensuring the President will have a counterbalance on their power. Once again, America settled in the familiar territory of a bipartisan divide.

While each political party may now fear gridlock and diminished mandates, the stock market has often had a cheerier response to governments balanced between the parties. In all possible combinations, instances of a unified government have seen the lowest stock market returns – 1933-1941, 1953-1954 and 2003-2006. The market performed better, on average, in divided government scenarios, whether Democrats or Republicans controlled the Executive branch, House or Senate.

Some may argue that the sample set is not sufficiently large, and the correlation is undermined by other factors in each of the



periods. For instance, unified governments were in place during the Great Depression and through the end of the Korean War in 1953. Additionally, Biden's potential win will be the first time that an incoming Democratic president did not have Democrats in control of both chambers of Congress as they enter office for the first time since 1884. So perhaps this time it really is different? However, one certainty is that the financial markets hate uncertainty and the stronger historical returns during periods of divided government may suggest markets find some comfort in knowing large swings in mandates may be curbed.

Year	1st Term Democratic Presidents	Senate Majority Party	House Majority Party
2020	Biden	GOP	DEM
2008	Obama	DEM	DEM
1992	Clinton	DEM	DEM
1976	Carter	DEM	DEM
1964	Johnson	DEM	DEM
1960	Kennedy	DEM	DEM
1948	Truman	DEM	DEM
1932	FDR	DEM	DEM
1912	Wilson	DEM	DEM
1884	Cleveland	GOP	DEM
1856	Buchanan	DEM	DEM
1852	Pierce	DEM	DEM

After the election, another development that appears increasingly likely is the push for more federal stimulus given the ongoing coronavirus pandemic. In addition to direct coronavirus stimulus (small business grants, stimulus checks to households, etcetera), proposals have ranged from renewable energy to infrastructure to even forgiveness of student loans. Wherever government spending is initiated, the goal of any stimulus plan is that money ultimately lands in consumers' pockets and emboldens businesses and consumers to spend.

In addition to potential Congressional plans to support the economy, the Federal Reserve has clearly delivered their message that they intend to keep short-term interest rates low given their newfound tolerance for higher inflation. Even during a pandemic, an investor could be forgiven for growing hopeful longer-term when facing the markets' historical performance in divided governments combined with possible stimulus plans and an accommodating Fed. It has been enough to return equity markets to pre-coronavirus levels as we enter the fourth quarter despite a climbing COVID-19 case count nationwide.

As investors, we continue to observe the government developments, but our focus remains on how businesses adapt to an ever-changing world. Undoubtedly, there will be businesses that may see their field goals move under a new government mandate, but we are confident in how well-run businesses' operations will adjust. Similar to a balloon full of air being squeezed at one end and the air traveling to reshape the other end, many businesses quickly identify and capture opportunities in the new environment. Our objective remains finding the businesses that do.