

The Elections and the Broken 40% Bond Allocation

It is nearly December and the results for most (not all) elections are known. Matters that impact the investment markets, though, are not, begging the question: will a passive 40% allocation to plain vanilla bonds work? We offer a different solution.

As background, we recently held a small conversation between some of our clients and a Washington D.C. insider. Here are some of the takeaways from that evening:

- **Divided mandate.** We all hate to lose, and President Trump is no exception, but he did win the votes of more than 73 million Americans. Highlighting further divisions, the January 5, 2021 Georgia runoffs will determine who controls the Senate. Regardless of the election results, there was no “blue wave.” A continued “divided” government means that the Biden tax agenda, including higher or new taxes for capital gains, individuals, corporation, estates, Social Security, Wall Street transactions and on and on, has little chance of passing.
- **Future fiscal stimulus unknowns.** In an extraordinary move, both sides of the aisle came together earlier this year with the \$3 trillion fiscal stimulus bill that triaged the American economy. However, if Nancy Pelosi and Steven Mnuchin are unable to get an additional stimulus bill passed this year, it will surely be a number one priority for the Biden administration in January 2021.
- **Spreading antipathy for China.** It is not just a Donald Trump view: there is growing antipathy between the U.S. and China. Globally, there is also a widespread and growing feeling that China has concealed the impact of the coronavirus and this needs to be dealt with harshly.



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- **Don't fight the Fed.** Jay Powell and the Federal Reserve are heroes in their commitment to keeping rates low and stabilizing the financial markets. Although the Fed has stated loudly that their ability to help in this crisis is limited without fiscal stimulus, one of the most important players for the U.S. economy is Mr. Powell.

We reiterate our view that predictions are often wrong. Case in point: the predictions of a month ago for elections and the markets were likely as wrong as they were at the start of 2020. With that in mind, we emphasize that bond investing has, and will likely always be, confusing.

Many investors default to a passive 40% bond allocation. We offer a different solution. We believe a tactical, rules-based process for buying and selling every flavor of fixed-income, from plain vanilla 10-year Treasury bonds to savory high yield corporate bonds, removes confusion and drives our buy and sell decisions. Our process seeks to take the guesswork out of the dilemma as to whether it is good or bad timing (no matter what the polls say).

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