November 04, 2020

Keith Lerner, CFA, CMT
Managing Director, Chief Market Strategist
SunTrust Advisory Services, Inc.

MARKET PERSPECTIVE *from the Investment Advisory Group*

Waiting to Exhale – But See Upside in Potential Split Government

What Happened

Election night proved true to form for such an unusual year. The accuracy of the pre-election polls is once again under scrutiny. Uncertainty around the final outcome persists.

What is clear is that the blue wave that was somewhat expected did not materialize. The early results showed a tight race. However, as of midday Wednesday, betting markets showed an increasing advantage for former Vice President Joe Biden to win the election, though we caution that indications have been far from stable. President Trump appears to have done better than expected in battle ground states such as Florida and Ohio, while Mr. Biden appears to have outperformed in Arizona. Michigan, Pennsylvania, Wisconsin, Nevada and Georgia remain too close to call as votes continue to be counted.

Prediction markets in the early morning were pricing in over a 90% probability of Republicans maintaining control of the Senate. Republican candidates for Senate in tossup states, such as South Carolina, Montana and Iowa, appear to have done better than widely anticipated. Democrats, though, appear poised to maintain control of the House. With all this said, the situation remains very fluid. The final results may not be known for days or even longer. The possibility of legal challenges also looms large.

Initial Market Reaction

Similar to the tug of war of recent weeks, markets swung in a volatile fashion throughout the night and early morning. The knee-jerk investor reaction has been to unwind positions in areas of the market that had started to price in a blue wave and a significant fiscal stimulus package. The 10-year US Treasury yield pulled back sharply. Also, after lagging recently, the technology-heavy NASDAQ Composite led the market on Wednesday morning as investors rotated back from economically-sensitive areas that would have been the primary beneficiaries of a large stimulus package.

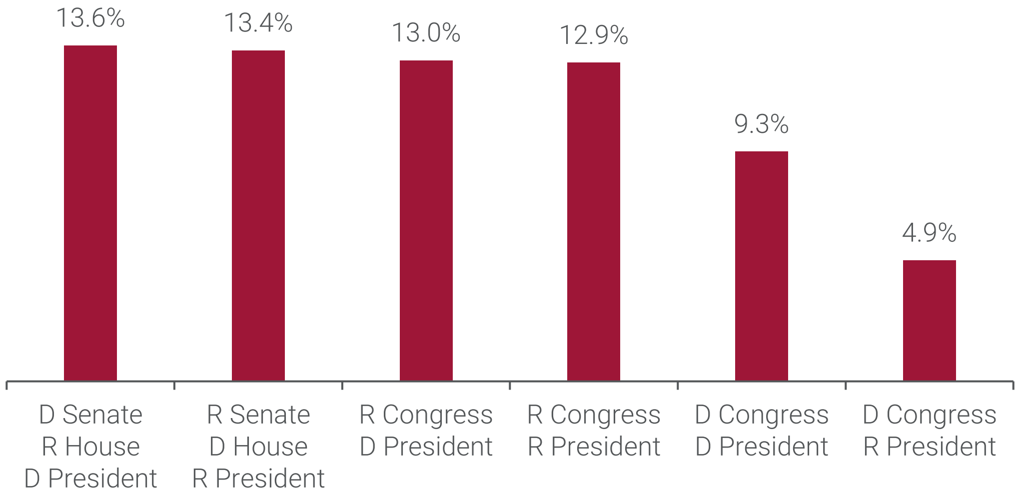
Our Take

As we have been writing over recent months: Elections matter, but other factors matter more. Markets are likely to trade in a volatile fashion based on near-term headlines, but the weight of the evidence in our work suggests the primary market trend is higher. While the final outcome in Washington remains unknown, history shows that stocks have produced positive returns under various partisan control scenarios.

It is notable that while we have seen a configuration of a Republican President with a Republican Senate and a Democratic House several times in recent history, we have not seen a Democratic President with a Republican Senate and a Democratic House since the late 19th century. Both scenarios are still currently in play. Markets would likely react positively over the intermediate term in either outcome, even if the near term is less certain. More stimulus is likely in either scenario. Any near-term disappointment of a potentially smaller fiscal stimulus package will likely be offset by a lack of tax increases.

...history shows that stocks have produced positive returns under various partisan control scenarios.

Average Annual S&P 500 Performance
By Political Control Scenarios (1933-2019)*



Source: Strategas, SunTrust IAG; *Excludes 2001-2002 due to Sen. Jeffords changing party and no other instances of R WH, R House, D Senate
Past performance does not guarantee future results.

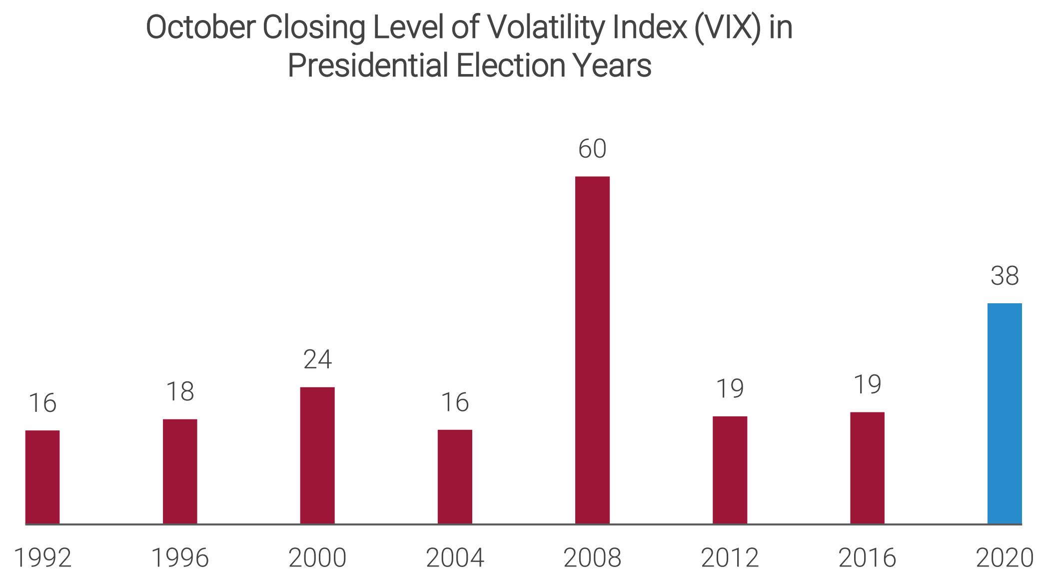
Contested, Delayed or Disputed Election

The possibility of a contested, delayed, or disputed election, such as in 2000, remains. During that period, the S&P 500 fell about 4% (largest intra-period pullback was 8%) between the election date and the Supreme Court ruling in mid-December that settled a recount dispute in Florida, finalizing the results. However, the macro backdrop then was less accommodative than it is today, as that election occurred in the aftermath of the technology bubble, in the late stage of what had been the longest economic expansion in history, and a Federal Reserve tightening cycle.

Today, the Federal Reserve is set to remain very accommodative for the foreseeable future, and we appear to be in the early stages of a multi-year economic expansion. Also, developments toward the availability of a COVID-19 vaccine and/or therapeutic treatment have made the containment and treatment of the virus more likely in the near future.

Importantly, the elevated Volatility Index (VIX) level also suggests that investors were already braced for uncertainty, so this is not a shock to markets. Indeed, the VIX closed the final month before the election at double its level relative to the last two elections; only the 2008 election saw a higher VIX, which occurred in the midst of the financial crisis.

Investors were already braced for uncertainty... The VIX closed the final month before the election at double its level relative to the last two elections.



Data Source: SunTrust IAG, FactSet
Past performance does not guarantee future results.

BB&T WEALTH

Bottom Line & Positioning

Even though some unknowns around the election and future policy scenarios remain, our positive intermediate stance remains intact. Therefore, we would stick with the primary market uptrend. For investors who are underweight equities, we would continue to average into the market and use pullbacks as opportunities to become more aggressive.

Even though some unknowns around the election and future policy scenarios remain, our positive intermediate stance remains intact.

Election uncertainty should ease in the not too distant future. Monetary policy is set to stay very accommodative. Fiscal stimulus is likely forthcoming, even if delayed. The economy should continue to move forward, albeit with fits and starts. Stocks remain attractive on a relative basis as the equity risk premium (ERP) is in a zone that has corresponded with double-digit gains over 10-year Treasuries, on average, over the next 12 months.

We also reiterate our positioning: Within equities, we maintain a US bias. Although there has been better price action recently, it still appears premature to fully endorse a value tilt given the uneven economic trends and potential of a delayed and smaller fiscal stimulus package.

At the sector level, we maintain our barbell approach. Currently we see consumer discretionary and technology as having the best growth prospects, which should help during some of the economic unevenness, and materials and industrials as having the best opportunity for recovery as the economy improves. Although we advise an underweight position in fixed income, high quality bonds should provide portfolio ballast, and we continue to see relative value in credit. We also still see the diversifying benefits of holding a modest position in gold as a partial hedge against COVID-19 and election uncertainty as well as US dollar weakness and growing debt levels.

Disclosures

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure which includes program details, including risks, fees and expenses.

This material was provided by SunTrust Advisory Services, Inc. for use by BB&T Securities.

BB&T Investments, BB&T Scott & Stringfellow, and Sterling Advisors are divisions of BB&T Securities, LLC, member FINRA/SIPC. BB&T Securities, LLC is a wholly owned nonbank subsidiary of Truist Financial Corporation. Securities and insurance products or annuities sold, offered or recommended by BB&T Securities are not a deposit, not FDIC insured, not guaranteed by a bank, not insured by any federal government agency and may lose value. BB&T Wealth offers trust and investment management services through Truist Bank and other investment solutions through BB&T Securities, LLC.

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure, which includes program details, including risks, fees and expenses.

Services are provided by the following affiliates of Truist Financial Corporation: Banking products and services, including loans and deposit accounts, are provided by SunTrust Bank and Branch Banking and Trust Company, both now Truist Bank, Member FDIC. Trust and investment management services are provided by SunTrust Bank and Branch Banking and Trust Company, both now Truist Bank and SunTrust Delaware Trust Company. Securities, brokerage accounts and /or insurance (including annuities) are offered by SunTrust Investment Services, Inc., BB&T Securities, LLC, and P.J. Robb Variable Corp., which are SEC registered broker-dealers, members FINRA, SIPC, and a licensed insurance agency where applicable. Investment advisory services are offered by SunTrust Advisory Services, Inc., GFO Advisory Services, LLC, BB&T Securities, LLC, Sterling Capital Management, LLC, Precept Advisory Group, LLC, and BB&T Institutional Investment Advisors, Inc., each SEC registered investment advisers. Mutual fund products are advised by Sterling Capital Management, LLC.

While this information is believed to be accurate, Truist Financial Corporation, including its affiliates, does not guarantee the accuracy, completeness or timeliness of, or otherwise endorse these analyses or market data.

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Truist Financial Corporation makes no representation or guarantee as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. The information contained herein does not purport to be a complete analysis of any security, company, or industry involved. This material is not to be construed as an offer to sell or a solicitation of an offer to buy any security.

The opinions expressed are solely those of SunTrust Advisory Services, Inc. and do not represent the opinion of BB&T Securities. This material is presented for general information only and is not intended to provide specific advice or recommendations for any individual. To determine what investments may be appropriate for you, consult with your financial advisor.

Comments regarding tax implications are informational only. Truist and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences.

Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

BB&T Securities shall accept no liability for any loss arising from the use of this material, nor shall BB&T Securities treat any recipient of this material as a customer or client simply by virtue of the receipt of this material.

The information herein is for persons residing in the United States of America only and is not intended for any person in any other jurisdiction.

Investors may be prohibited in certain states from purchasing some over-the-counter securities mentioned herein.

The information contained in this material is produced and copyrighted by Truist Financial Corporation and any unauthorized use, duplication, redistribution or disclosure is prohibited by law.

BB&T Securities officers, employees, agents and/or affiliates may have positions in securities, options, rights, or warrants mentioned or discussed in this material.

Asset classes are represented by indexes. An investment cannot be made directly into an index.

S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

CN2020-2349 EXP12-2020

BB&T WEALTH