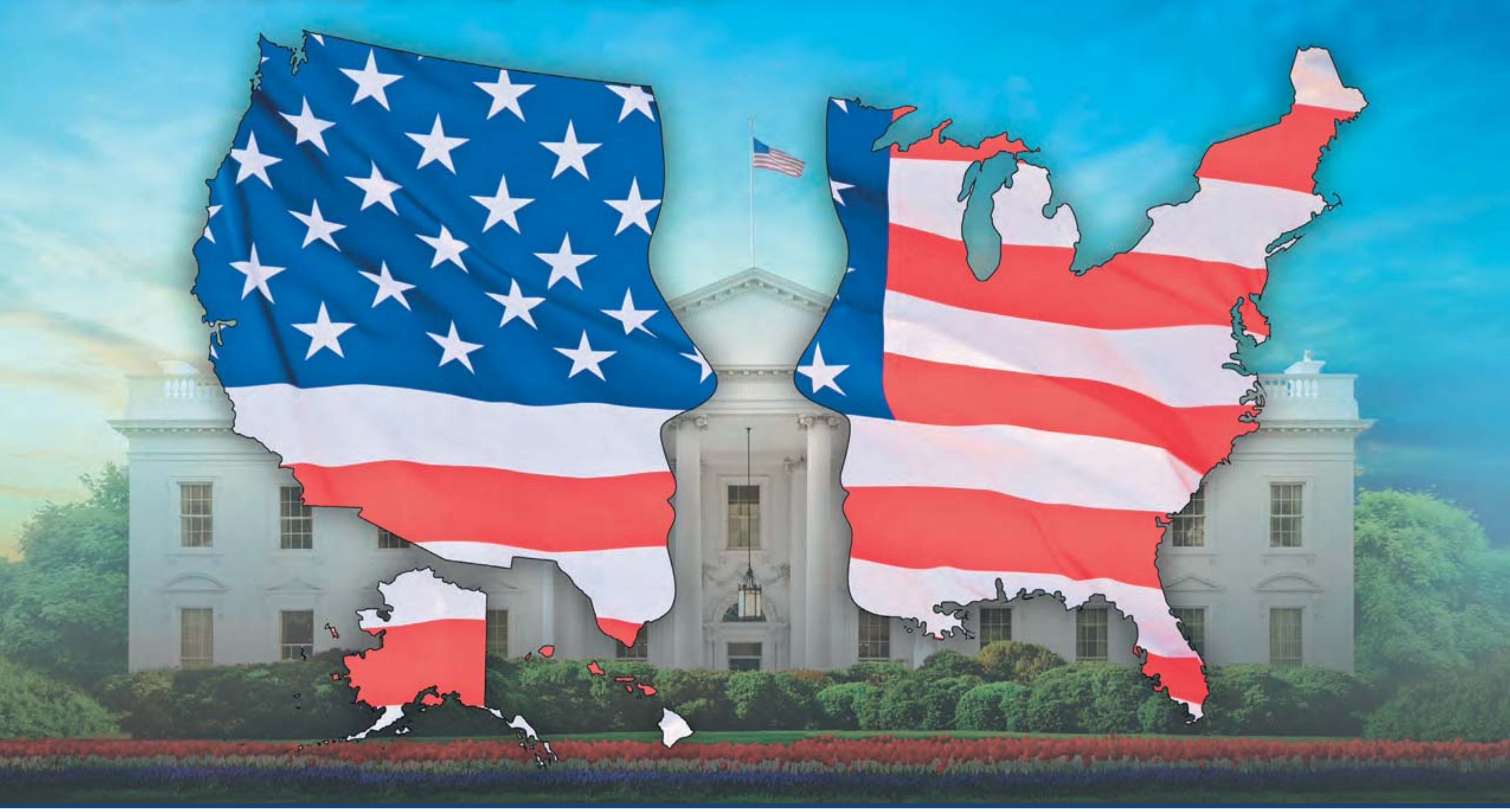
RAYMOND JAMES

VOLUME 12 | ISSUE 4 | OCTOBER 2020

INVESTMENT STRATEGY QUARTERLY

RACE FOR THE WHITE HOUSE: THE HOME STRETCH

page 4



Letter from the Chief Investment Officer

On the Road to Recovery

This October marks 80 years since the opening of the Pennsylvania Turnpike, our country's first highway. Highways have been a critical driver of economic growth due to the connectivity, speed, and efficiency they provide. As Confucius so appropriately stated, "*roads were made for journeys, not destinations.*"

The last six months have undoubtedly been a challenging journey as our nation grapples with the COVID-19 outbreak. While we wish we could have **bypassed** the pandemic and its accompanying twists and turns, investors have learned that it is critical to focus on the road ahead rather than the rearview mirror. The virus understandably caused us to **reroute** our original 2020 outlook, but we are confident there is light at the end of this unwelcome COVID-19 tunnel. We may not have hit the last bump in the road just yet, so adhering to a disciplined investment strategy will be of the utmost importance if you wish to arrive at your destination, achieving all your goals and objectives.

The road to recovery has been **under construction** since our real-time activity metrics bottomed in April, and the US economy has improved from the severely depressed levels experienced during the shutdowns. Now, with the fastest and most economically destructive recession in modern history behind us, third quarter GDP is **revving up** to grow 25-30%—the best quarter of growth on record. Despite this, there are still many miles to go before the size of the economy returns to pre-COVID GDP levels (forecast of approximately -3% GDP for 2020, accelerating to about 2.7% in 2021). The recovery is unfolding in a 'K-shaped' pattern, where different parts of the economy recover at dissimilar paces and magnitudes. This expectation is cemented by our assessment that the pandemic inherently favors certain sectors and industries more so than others, allowing certain companies (e.g., e-commerce, medicine, air freight) to enter the **express lanes** while forcing others (e.g., airlines, hospitality, leisure) to wait until the COVID-19 **gridlock** clears. Ultimately, a vaccine could alleviate this **congestion** and the lingering psychological impact of the virus, but even if a safe, effective candidate is approved by year end (80% - 90% probability) it would likely only be available for certain subsets of the population (e.g., medical professionals), with widespread distribution not occurring until mid-2021.

The pandemic's prolonged impact makes it increasingly important for Congress to pass a Phase 4 fiscal stimulus deal that **bridges** our economy to more normal times. Jobless claims remain elevated, with much of the lost wages occurring in the lower income brackets. However, the recent bounce in economic data combined with Congressional leaders' continuing resolution to fund the government through December 11 has resulted in a **roadblock** in negotiations, likely postponing a deal until after the election. In contrast, the Federal Reserve has performed ongoing **maintenance** to its already accommodative monetary policy in order to support **Main Street**, which includes holding short-term interest rates at zero through at least 2023.

The economic recovery may help the 10-year Treasury yield drift higher to ~1% by year end and 1.40% over the next 12 months, but upside movement will likely be constrained. With low inflation, central bank buying, and strong foreign demand, Treasury yields have no **license** to move significantly higher. In this low yield environment, we see a **caution sign** on the high-yield bond sector due to rising default risk and sector exposure, and instead encourage investors to follow the Fed's path of purchasing investment-grade debt and municipal bonds. Emerging market bonds are becoming increasingly attractive as well, and our bias toward this sector is complemented by our expectation of further weakness in the dollar.

For equity investors, elevated valuations and a bifurcated market have led to questions regarding the vitality of the second strongest bull market in US stock market history. However, valuations are attractive on a relative basis, and the equity market is supported by the ongoing economic recovery, low interest rates, optimism about the development of a vaccine and additional therapeutics, and a rebound in earnings growth in 2021. As such, our year end and 12-month price targets for the S&P 500 are 3,459 and 3,530 respectively. We favor US equities over international equities, especially given our expectation for **reduced speed ahead** for Europe's economic growth trajectory. In addition, despite their stark outperformance year-to-date, we prefer large-cap, growth-oriented sectors such as Technology, Consumer Discretionary,

Investment Strategy Quarterly is intended to communicate current economic and capital market information along with the informed perspectives of our investment professionals. You may contact your financial advisor to discuss the content of this publication in the context of your own unique circumstances. Published 10/1/2020. Material prepared by Raymond James as a resource for its financial advisors.

Communication Services, and Health Care. In fact, the (value-oriented sectors) **road less traveled** may be for a reason, as our preferred sectors have superior visibility for earnings growth. Case in point, Technology sector earnings will benefit from the building of the 5G **highway**, artificial intelligence, driverless cars, and a continuation of the work-from-home trend.

Other, more traditional value sectors such as Energy, have a cloudier outlook. Oil market fundamentals remain rather **pedestrian**, as the rebound in economic growth has not boosted demand for transportation fuels back to pre-pandemic levels. Numerous countries and US states are still engaged in modified lockdowns, and the oil market needs to avoid a second-wave induced **detour** during the upcoming winter season as it would surely lead to intensified restrictions. OPEC discipline and a decline in US production have offset a large portion of the reduction in demand, thus allowing oil dynamics to reach equilibrium. Accordingly, our price target for West Texas Intermediate (WTI) at year end is $40 per barrel (bbl) with potential to rise above $50/bbl over the next 12 months, contingent on stronger fuel demand globally.

While there are COVID-19 related risks to the market (vaccine setbacks, potential second wave), the outcome of the presidential race is at the forefront of investors' minds. The polarized political environment was exacerbated by the COVID-19 outbreak, and with the election quickly approaching, voters are truly at a **crossroads**. For incumbent President Trump, a unique, virus-induced recession as well as high levels of unemployment have threatened his reelection efforts. However, a strong third quarter GDP report released just five days ahead of the election may provide him with the boost he needs. Former Vice President Biden currently has the edge, but this election cycle is likely to be unprecedented—from the debates to the final counting of results. Regardless of the outcome, we encourage investors to view the winner of the White House as only one factor in determining your asset allocation and sector positioning. The economy, earnings growth, Fed policy, and underlying secular trends combined create a more robust outlook. In fact, many generally accepted doctrines have proven to be inaccurate, such as Democrats being best for the economy (not always), the Energy sector performing best under Republicans (not recently), and tax hikes causing negative equity performance (not in the post-World War II era).

This year has taught us a number of lessons, and expecting the unexpected is certainly one of them. While we are aware of where the potential aforementioned **potholes** may lie, investors must take **safety precautions** as they advance toward their financial goals. Disciplined strategy and asset allocation parameters should serve as **rumble strips**, keeping a portfolio from drastically going off-course. In addition, an uncomfortable level of portfolio risk may be an opportune time to **pull over** and reassess the route ahead. Having your advisor serve as a co-pilot to help with directions is beneficial, but it is especially prudent when navigating the uncharted territory we find ourselves in today.

This upcoming quarter will move quickly—from the hopeful further reopening of the economy to Election Day and the holiday season that follows. Above all, we wish you and your family health and prosperity in the final months of 2020.

Lawrence V. Adam, III, CFA, CIMA®, CFP®
Chief Investment Officer, Private Client Group

All expressions of opinion reflect the judgment of the Chief Investment Office and are subject to change. Investing involves risk including the possible loss of principal. Past performance may not be indicative of future results.

Investment Strategy Committee Members

Lawrence V. Adam, III, CFA, CIMA®, CFP® – Committee President, Chief Investment Officer, Private Client Group

Chris Bailey European Strategist, Raymond James Investment Services Ltd.*

Scott J. Brown, PhD Chief Economist, Raymond James

James C. Camp, CFA Managing Director, Strategic Income, Eagle Asset Management*

Doug Drabik Managing Director, Fixed Income Research

J. Michael Gibbs Managing Director, Equity Portfolio & Technical Strategy

Kevin Giddis, Managing Director, Chief Fixed Income Strategist, Investment Strategy

Nick Goetze Managing Director, Fixed Income Solutions

Nicholas Lacy, CFA Chief Portfolio Strategist, Asset Management Services

Joey Madere, CFA Senior Portfolio Analyst, Equity Portfolio & Technical Strategy

Ed Mills Managing Director, Washington Policy Analyst, Equity Research

Pavel Molchanov Director, Energy Analyst, Equity Research

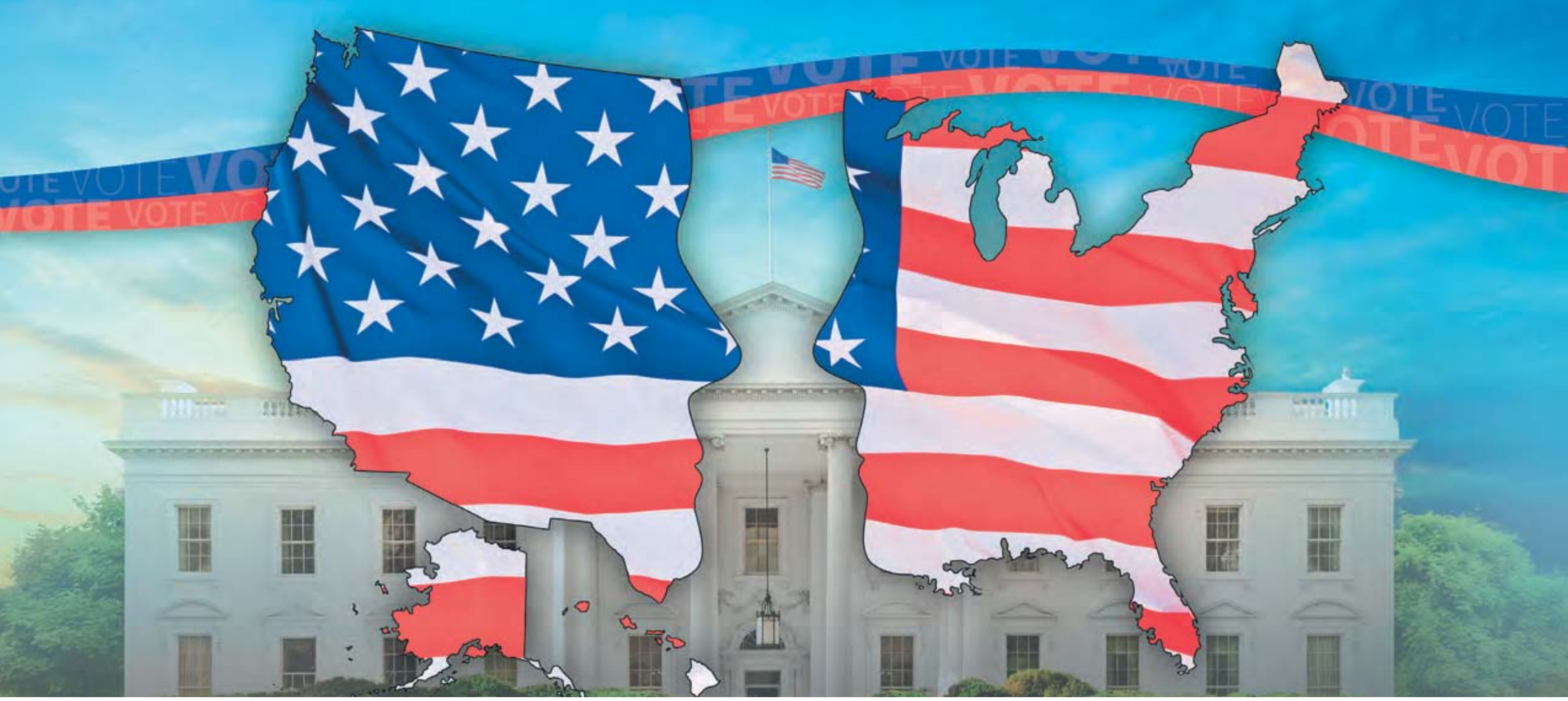
Chief Investment Office

Anne B. Platt, AWMA®, AIF®, RICP® – Committee Chair, Vice President, Investment Strategy & Product Positioning, Investment Strategy

Giampiero Fuentes Investment Strategy Analyst, Investment Strategy

Kailey Bodine Investment Strategy Analyst, Investment Strategy

*An affiliate of Raymond James & Associates, Inc., and Raymond James Financial Services, Inc.



Race for the White House: The Home Stretch

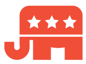
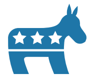
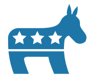
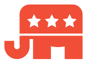
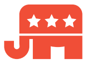
Ed Mills, *Managing Director,* Washington Policy Analyst, Equity Research

We often receive questions about the impact of elections on the stock market. In reviewing the historical analysis, we have seen periods where election outcomes have caused short-term volatility, but more importantly, we see that this volatility generally quickly corrects itself. We track what is going on in Washington because it can have extremely important market implications, from both a macro and sector-specific outcome, but above all, we always remind investors to not overreact to near-term swings in the market created by Washington activity.

As it relates to electoral outcomes, I know this can be an intensely debated topic, so we will leave that for voters to decide. However, we will address what each of the most likely post-election scenarios mean from a policy agenda and what impact they may have on the market. Additionally, we want to cover some of our bases with some potential 'curveball' scenarios (remember this is 2020 after all).

> The ability to enact a legislative agenda is correlated to who holds a majority in the House and Senate.

We view the following outcomes as the most likely composition of government post-election:

	Democratic Sweep	Status Quo	Divided Government
White House			
House of Representatives			
Senate			

As we think about the potential impact on the markets, we believe it is extremely important to avoid overly broad or sweeping conclusions and have a discussion of what might be different this year versus previous elections. Any discussion of the election has to recognize how important DC has been to the markets since the outbreak of COVID-19. We are in the middle of the largest fiscal and monetary experiment in the history of the world. The economic recovery and market reaction will be tied to the health aspects of the pandemic, and also to how much additional support is provided by Congress (fiscal) and the Federal Reserve (monetary). Finally, we will be paying close attention to the makeup of Con-

> “...election outcomes have caused short-term volatility, but more importantly, we see that this volatility generally quickly corrects itself.”

gress, as the ability to enact a legislative agenda is correlated to who holds a majority in the House and Senate.

RISK FACTORS TO WATCH

As 2020 has proven to be an extremely unusual year, we see some potential ‘curveball’ scenarios that are worth keeping an eye on as we get closer to Election Day. The ‘curveball’ outcomes we are most focused on include:

1. A delay in determining the winner of the presidential or key congressional races
2. The impact of third party candidates, and
3. A potential ‘contingent election’ if the Electoral College fails to determine a winner.

IMPACT OF THIRD PARTY CANDIDATES

In 2016, the margin of third party votes outpaced the difference between Donald Trump and Hillary Clinton in key swing states. In fact, almost 30% of the Electoral College vote went to a candidate who did not reach a majority in a state. Arizona, Florida, Michigan, North Carolina, Pennsylvania, and Wisconsin all make our list as ‘toss-up’ states. One underappreciated trait all six of these states have in common is that they were all won by President Trump in 2016, but all with less than 50% of the vote. Will the lack of a viable third party candidate in these states create a ceiling for Donald Trump as he seeks reelection? The same can be said for Minnesota, which is rated as lean Democrat, but was a state won by Hillary Clinton in 2016 with less than 50% of the vote. President Trump has been investing heavily in the state to see if he can move it into his column in November.

VOTING DELAYS AND IMPACT ON OUTCOMES

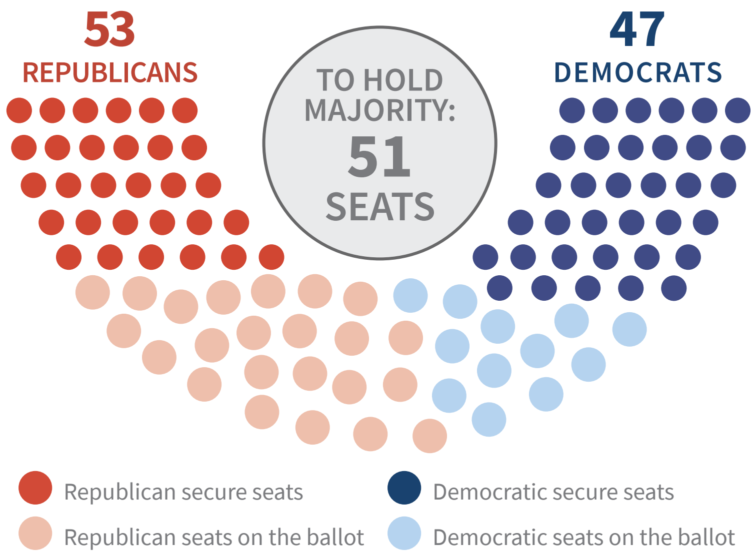
Five states are conducting elections entirely by mail-in ballot and 28 states and DC are offering no-excuse absentee voting. Polls suggest a substantially larger portion of Democratic voters intend to vote by mail in the 2020 election relative to Republican voters. One recent poll found that 80% of Republican voters planned to vote in person, with Democrats about evenly split between voting in person at 50% and voting by mail at 50%. There is also anticipation that turnout could be significantly higher this year, potentially overwhelming some precincts. Vote counting rules vary by jurisdiction, but for those who count and report day-of vote totals before mail-in votes, we could see significant swings between initial vote totals and the final vote. This could lead to confusion and increase the chance that some voters (and candidates) may not accept the final outcomes as valid, potentially triggering legal challenges or delays. After higher-than-normal rejection rates of mail-in ballots during the NY primary this year, we will be watching to see if the number of rejected ballots exceeds the margin in any state or Congressional race. The bottom line is that it could be well past election night before a winner is declared. In this scenario, we expect investors to adopt a risk-off approach to the market, i.e., tend to engage in lower-risk investments.

CONTINGENT ELECTION

An Electoral College tie (a realistic, although low-likelihood scenario) or the inability of the Electoral College to determine a winner triggers constitutional procedures and elevates the importance of the House election results. In a contingent election, the newly-elected House votes to select the president and the newly-elected Senate votes to select the vice president. The twist is each

A Swing in the Senate?

With more than one-third of Senate seats on the ballot, will the Democrats swing party control or will Republicans maintain the majority?



Most Competitive Races

Alabama
Arizona
Colorado
Georgia (2)
Iowa
Kansas
Maine
Michigan
Montana
North Carolina
South Carolina

state delegation in the House casts a single vote, with a 26 vote majority (out of 50 state delegations) required to elect the president. Republicans are the majority in 26 state delegations in the current Congress, but Democrats flipping just seven key Republican seats could win them back the majority (among state delegations). If the House cannot select a president, the Senate-selected vice president will serve as acting president until a president is chosen. If neither chamber is able to select their choice, the presidency is transferred by the constitutional order of succession. This scenario could produce surprise outcomes such as a split party president/vp; or an acting president Mike Pence, Nancy Pelosi (D-CA), Chuck Grassley (R-IA), or Patrick Leahy (D-VT). Again, this is a very remote possibility – but it is important to know procedures in a year that's shown volatility and uncertainty can quickly become the dominant theme.

THE BATTLE FOR THE SENATE

Policy in the next presidential term will run through the Senate. As such, markets will be closely watching the outcome of key Senate races for their potential to swing party control of the Senate to Democrats for the first time since 2014. In a Democratic sweep, we will be debating the market impact of the anticipated additional fiscal support for the economy vs. the increased probability of tax changes. Discussion on the potential elimination of the filibuster (lowering the threshold from 60 votes to a simple majority to pass legislation) would have a significant impact on what type of legislative agenda could occur in a Democratic sweep. Confirmations of key cabinet positions, judges, and regulatory agencies will also be closely examined to determine the direction of policymaking.

There are 35 Senate seats on the ballot this fall, with Republicans defending 23 seats and Democrats 12. Republicans currently hold a three seat majority, 53-47. In tracking Senate races over the last two years, race ratings since the beginning of the election cycle show that Democrats have expanded the playing field and are viewed as being competitive in more states than initially anticipated. We will have to wait and see if that translates into victories, and potentially a Senate majority on November 3.

A key factor to keep in mind is the impact of the national presidential race on individual Senate races. In the current politically polarized environment, 'ticket splitting' in which voters make different party choices down-ballot is largely dead. In the 2016 election, state Senate races matched the state's presidential preference in all cases for the first time in history – a trend likely to continue in 2020. If this trend continues, a Biden presidency has a decent likelihood of producing a Democratic majority in the Senate. A second term for President Trump, however, would likely retain a Republican majority and preserve the current makeup of government.

CONTROL OF THE SENATE: THE PATH TO A DEMOCRATIC MAJORITY

Democrats currently hold 47 seats in the Senate, and 12 of these seats are up for election in the current cycle. We consider two of the 12 as the most likely to switch parties, with Democratic incumbent Doug Jones (D-AL) as the most vulnerable Democrat (President Trump won AL in 2016 by almost 28 points). Republicans are defending 23 seats, with seven seats currently rated as most likely to switch parties. If Democrats lose the Senate seat in Alabama, the path for Democrats to retake control of the Senate runs through four main states to hit the 50 seat threshold (the vice president would cast the tie-breaking 51st vote in a Democratic administration): Arizona, Colorado, Maine, and North Carolina. The next most competitive races include Georgia (two seats), Iowa, Kansas, Montana, and South Carolina. Other seats in both parties are competitive and could switch parties in November, but for this article we are focused on the 'most likely' path for either party to win, or retain, a majority.

DEMOCRATS FAVORED TO RETAIN HOUSE MAJORITY

Race-by-race analysis and polling data favors Democrats to retain the majority in the House of Representatives this fall. Democrats built a sizable majority in the 2018 midterm elections, and current political trends support a continuation of the dynamics that boosted Democrats in the midterms. Democrats are currently favored by a notable margin in the 'generic ballot' test, traditionally the best indicator for the overall House result. An approximate seven point lead in the generic ballot produced a 40 seat Democratic gain in 2018, and Democrats are favored by a similar margin in this cycle. Democrats go into the 2020 cycle with a 207 seat base projection compared to 172 for Republicans. There are 56 seats rated as competitive, and 28 rated as too close to call (toss-up seats). In order for Republicans to win back the majority, they would have to win all 28 toss up seats, and gain three upset victories in Democrat-favored seats – a significant uphill battle.

IN SHORT, EXPECT UNCERTAINTY

To conclude, we expect volatility around the election to continue the historical trend of a cautious market approach leading up to November. The nature of our election process this year, from start to finish, will be unlike any in recent memory. Razor thin margin swings could produce widely divergent outcomes, while vote count delays could stretch Election Night into Election Weeks/Months. Historically, this volatility quickly corrects itself as the result settles. A presidential race in an uncertain and unpredictable year is proving to be no exception to the trend, but as we frequently say about DC market impacts: the ultimate outcome is never as good as you hope, or as bad as you fear.

KEY TAKEAWAYS:

- Election outcomes typically cause short-term volatility, but we see that this volatility generally quickly corrects itself.
- We believe it is extremely important to avoid overly broad or sweeping conclusions and have a discussion of what might be different this year versus previous elections.
- The 'curveball' outcomes we are most focused on include: a delay in determining the winner of the presidential or key congressional races, the impact of third party candidates, and a potential 'contingent election' if the Electoral College fails to determine a winner.
- We expect volatility around the election to continue the historical trend of a cautious market approach leading up to November. The nature of our election process this year, from start to finish, will be unlike any in recent memory.

Economic Outlook: Through the Pandemic and Beyond November

Scott J. Brown, PhD, *Chief Economist,* Raymond James

Many factors feed into the relative strength or weakness of the US economy, but the president traditionally receives the credit or blame. Fiscal policy – taxes and government spending – have an important role in economic activity, and confidence can drive consumer spending and business investment decisions. However, Congress controls the purse strings. The president does not have the ability to fine tune the economy, but whoever wins the White House will face a number of challenges in dealing with an ongoing pandemic and record levels of government borrowing and spending.

THE FEDERAL BUDGET DEFICIT

The cornerstone of the Trump administration's economic program was the Tax Cuts and Jobs Act of 2017 (TCJA), which lowered the capital gains tax rate and reduced federal tax rates for most households and businesses, but also restricted deductions. The drop in the capital gains tax rate was meant to spur capital spending, but business borrowing costs were already low and firms were already generally flush with cash before it was signed into law. While some households paid less in taxes, the reduction in deductions meant that others paid more. GDP growth in the first three years under Trump was not much different than in the final four years under Obama. TCJA added substantially to the federal budget deficit, which exceeded $1 trillion in the 12 months prior to the pandemic.

Fiscal support to address the impact of extreme social distancing added further to the deficit, bringing the 12-month total to nearly $3 trillion in August. In any downturn, fiscal policy can play an important role in reducing the damage. Without it, temporary impacts can lead to more permanent damage. Businesses fail. Workers lose job skills. However, in applying fiscal support, there are always questions of how big it should be and how long it should last. Ideally, the degree and timing of support should depend on measures of job distress, such as the unemployment rate. However, lawmakers have not been able to agree on that.

While the increase in government borrowing is worrisome to many, the real danger is not doing enough to support the economy in the near term and ending support too soon. The government is nothing like a household. The federal debt does not need to be paid off. The government has no problem borrowing. However, the federal budget was on an unsustainable track before the pandemic. The national debt was rising faster than nominal GDP. To get back on a sustainable trajectory, with debt rising no faster than GDP, we'll need more tax revenue or less spending. These will be difficult choices. Prior to the COVID-19 pandemic, non-defense discretionary spending (which excludes Social Security, Medicare, defense, and interest rates) was just 2.8% of GDP.

> What happens in 2021 depends on more than who wins the White House.

FACTORS OF THE RECOVERY

What happens in 2021 depends on more than who wins the White House. During the Clinton years, a divided government led to a budget surplus. Republicans didn't get big tax cuts. Democrats didn't get big spending increases. In contrast, in the current situation, a divided government makes it harder to get things done. One party rule (the same party controlling the White House and both chambers of Congress) will most likely lead to higher taxes or cuts to entitlement programs, depending on the outcome.

The Federal Reserve will continue to do its part beyond November, keeping short-term interest rates low, through 2023. The Fed's recent changes to its stated policy objectives had already been underway in practice over the last couple of years. Specifically, the adoption of a flexible average inflation targeting framework means that policymakers will allow inflation to exceed the 2% goal following a period of inflation below 2%, but this will not be done in a mechanical way. Judgement will drive policy decisions.

The Fed's employment goal has been made broad-based and inclusive. In a break from the past, the Fed will no longer raise short-term interest rates preemptively to fight inflation when the unemployment rate is low. There is no specific target for the unemployment rate, as officials recognize that low unemployment substantially benefits low- and medium-income communities.

The pandemic now appears likely to be a more long-lasting economic event, requiring a restructuring of significant parts of the economy over the quarters ahead – and elevated job losses remain a key risk. While the Fed has been critical in providing liquidity, it can't offset the economic impact of an ongoing pandemic. Further fiscal support will be needed, regardless of the November outcome.

> "While the increase in government borrowing is worrisome to many, the real danger is not doing enough to support the economy in the near term and ending support too soon."

Federal Debt Held by the Public, 1900 to 2050

Source: Raymond James Investment Strategy
All expressions of opinion reflect the judgment of the author and are subject to change. Past performance may not be indicative of future results.

Europe and November's Election

Chris Bailey, *European Strategist,* Raymond James Investment Services Ltd.*

Before the pandemic hit, November's US presidential election was set to be this year's biggest geopolitical event on the minds of European investors. This deep interest in the outcome of the US democratic process is both realistic and pragmatic. Realism is centered on the continuing deep economic, trade and diplomatic ties built up over many generations. Pragmatism is focused on which way the result swings.

Given the relatively open nature of the European economies, the question of trade disputes does not sit well with an audience in London, Paris or Berlin. Whilst Europe is currently struggling with its own internal Brexit challenges, as a region, it is acutely aware of the threat to its own economic prospects from a distinct falling out.

However, it is not as simple as Europe preferring the candidate offering greater external trade stability. Europe itself has ambitions beyond its own regional borders and whilst the region is being aggressively courted by China, who sees a deeper partnership as making geographic, diplomatic, and economic sense, there is a grave suspicion of a country that operates a distinctly different political system.

These tensions cut across Europe's own regional schism, as shown by the far from unified reaction within Europe to the current administration's call to prohibit certain Chinese technology infrastructure companies from next generation telecommunications networks. Expect the UK – newly liberated from the European Union – to find reasons to make agreements with the next US administration more easily and quickly than the other major European countries.

In short, Europe is looking for the next four years to offer an opportunity to forge a partnership to build both democracy and accountability more deeply into global supranational organisations, whilst avoiding a generalised trade conflict. With issues such as a proposed European digital services tax on large (predominately) US technology names already causing conflict, you can see why the current crop of European political leaders are keeping their cards close to their chests. To say Europe awaits the result in November with great interest would be an understatement.

An Interconnected World

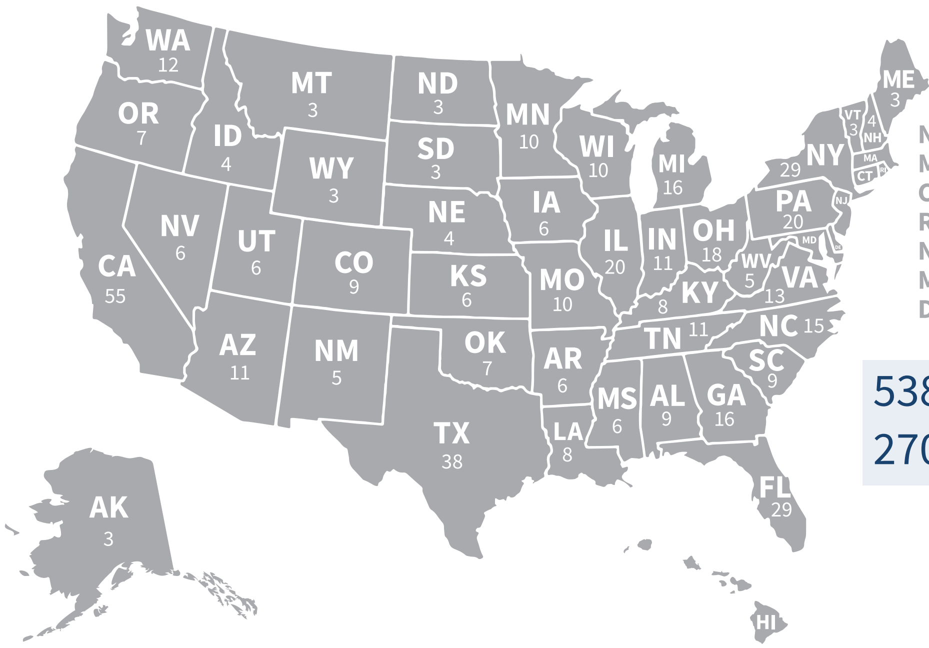
The US election has ramifications around the world.

*An affiliate of Raymond James & Associates, Inc. and Raymond James Financial Services, Inc.

Race for the White House:
The Home Stretch

The Electoral Process Explained

- Each state appoints a **Number of Electors** equal to the whole **Number of Senators** and **Representatives** in the state.
- All states, except for Maine and Nebraska (who follow a district-level system), follow a 'winner-takes-all' approach to delegating electoral votes.
- Electors are not consistently legally bound to a given candidate and some have been 'faithless' in the past. A recent Supreme Court decision supported state laws that remove and replace electors voting in a different manner than their state popular vote, limiting the extent to which faithless electors could likely influence the election outcome.
- State legislators have broad powers over the elector selection process and the associated timelines. Technically, it would be legal for legislatures to appoint electors that diverge from their state's popular vote winner.



NH 3
MA 11
CT 7
RI 4
NJ 14
MD 10
DE 3

All states, expect for Maine and Nebraska (who follow a district-level system), follow a 'winner-take-all' approach to delegating electoral votes.

538 ELECTORAL TOTAL VOTES

270 ELECTORAL VOTES NEEDED TO WIN

Congress has the authority to determine the time that Electors are appointed and the date that Electors cast their votes. ***This date is to be consistent across the United States.***

DECEMBER 8
Current state-level statutes require their state to resolve disputes at least six days prior to when Electors meet and cast votes. In some instances, officeholders have sent two electoral slates to Washington, DC for adjudication.

DECEMBER 14
The current statute states that votes should be cast on the first Monday after the second Wednesday in December.

DECEMBER 23
Another aspect of the current statute requires votes to be submitted to Congress by the fourth Wednesday in December.

JANUARY 6
If electoral votes are not received by Congress by the fourth Wednesday, the President of the Senate or the Archivist of the US are allowed to use "the most expeditious method available" to deliver votes to Congress. These votes are counted by Congress at 1 pm on January 6, 2021.

Sources: ConstitutionCenter.org, Congressional Research Service, Archives.gov, GovExec.com, Raymond James Research
All expressions of opinion reflect the judgment of the author, and are subject to change.

Has the Euro Zone Finally Forged Fiscal Unity?

Chris Bailey, *European Strategist,* Raymond James Investment Services Ltd.*

The euro zone has continually disappointed over the last decade, buffeted by internal discord, sluggish growth and strained diplomatic relations with Russia, the UK and the United States. Whilst certain regional companies remain world leaders, regional stock markets have typically lagged global benchmarks and the end of a sustained policy of negative interest rates by the European Central Bank (ECB) appears further away than ever.

TIMES CHANGE

Despite an unpromising backdrop, the pandemic crisis of 2020 has caused a rethinking of previous orthodoxies. Whilst the heavy toll across families and broader populations throughout all western European countries will not be forgotten, the latest economic crisis has led to some surprising reactions, primarily in the area of fiscal policy.

The ECB has been a source of material support for the euro zone economy ever since the previous president Mario Draghi's 'whatever it takes' Damascene conversion. Such willingness to embrace an extended balance sheet has created powerful enemies among economic policy decision makers over the years. While the German Bundesbank maintained a policy of tentative and mild support at best, the country's Constitutional Court materially upped the ante back in May by calling the ECB's bond-buying powers into question.

> The pandemic crisis of 2020 has caused a rethinking of previous orthodoxies.

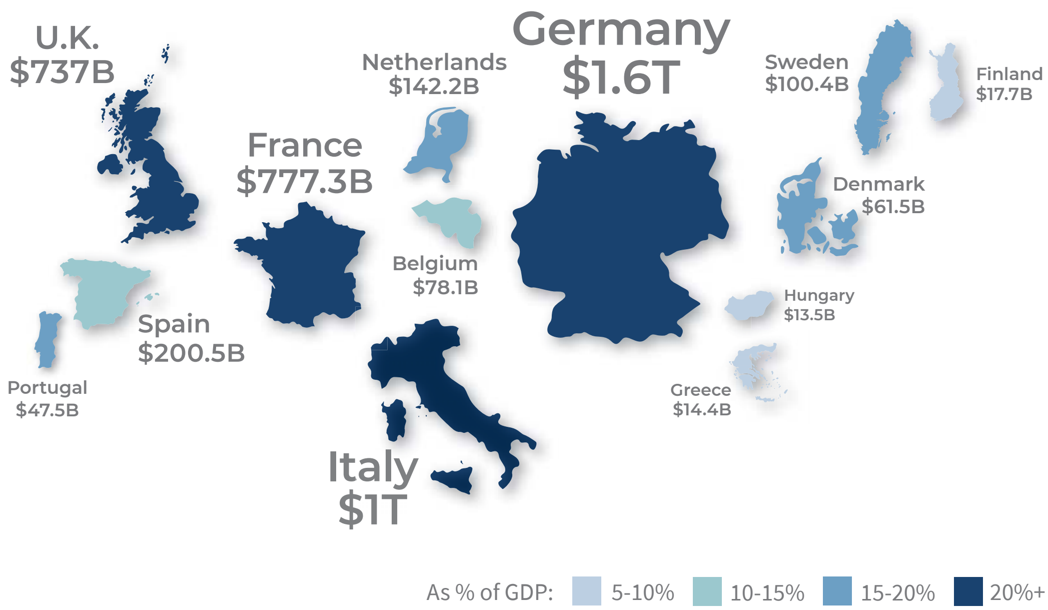
It goes without saying that in a time of pandemic crisis this was extremely unhelpful. However, acute observers would have noted at the time the frustration towards the court espoused by German Chancellor Angela Merkel, whose final years of direct political power have been riven with challenges. Last autumn, my own conclusion was that the impending chancellorship election, due two-thirds of the way through 2021, would induce her own Damascene conversion to a world of legacy enhancing, unbalanced fiscal budgets. That conclusion has proven to be correct, but the mechanism to get there has been very, very different.

Possibly influenced by Merkel's own scientific background, but certainly backed by an efficient and effective administration, the German pandemic response has impressed many neutral observers. Looking beyond the bald healthcare numbers and statistics, Germany was also most proportionately responsive in areas such as loans and associated financing opportunities for businesses to tide them over the pandemic period. Certainly there

*An affiliate of Raymond James & Associates, Inc., and Raymond James Financial Services, Inc.

Unprecedented Fiscal Stimulus*

**The size of the country reflects the amount of fiscal stimulus.*



is something about a truly exogenous crisis, such as the COVID-19 pandemic, that highlights – even to a country that prides itself on business efficiency and high productivity – that material assistance (of an anticipated, temporary nature) is required. Supplement this with the costs of a wage support scheme, and Germany's very orthodox balanced budget position has shifted, at least until the 2022 budgetary year, to a material deficit position.

Contrary to the instincts of many arch Eurosceptics, the fiscal 'heavy lifting' across Europe over the past generation has been undertaken by individual national governments. Akin to the German response, the crisis has produced a slew of national government initiatives to boost budget deficits to levels that would have provoked anger and sanctions at previous crisis points in the region's history. Reflecting this, European Union restrictions on national budgets that were suspended because of the pandemic will not apply again until 2022 at the earliest. This has allowed many governments – including both France and Italy – to announce supplementary fiscal boosts in the early autumn period.

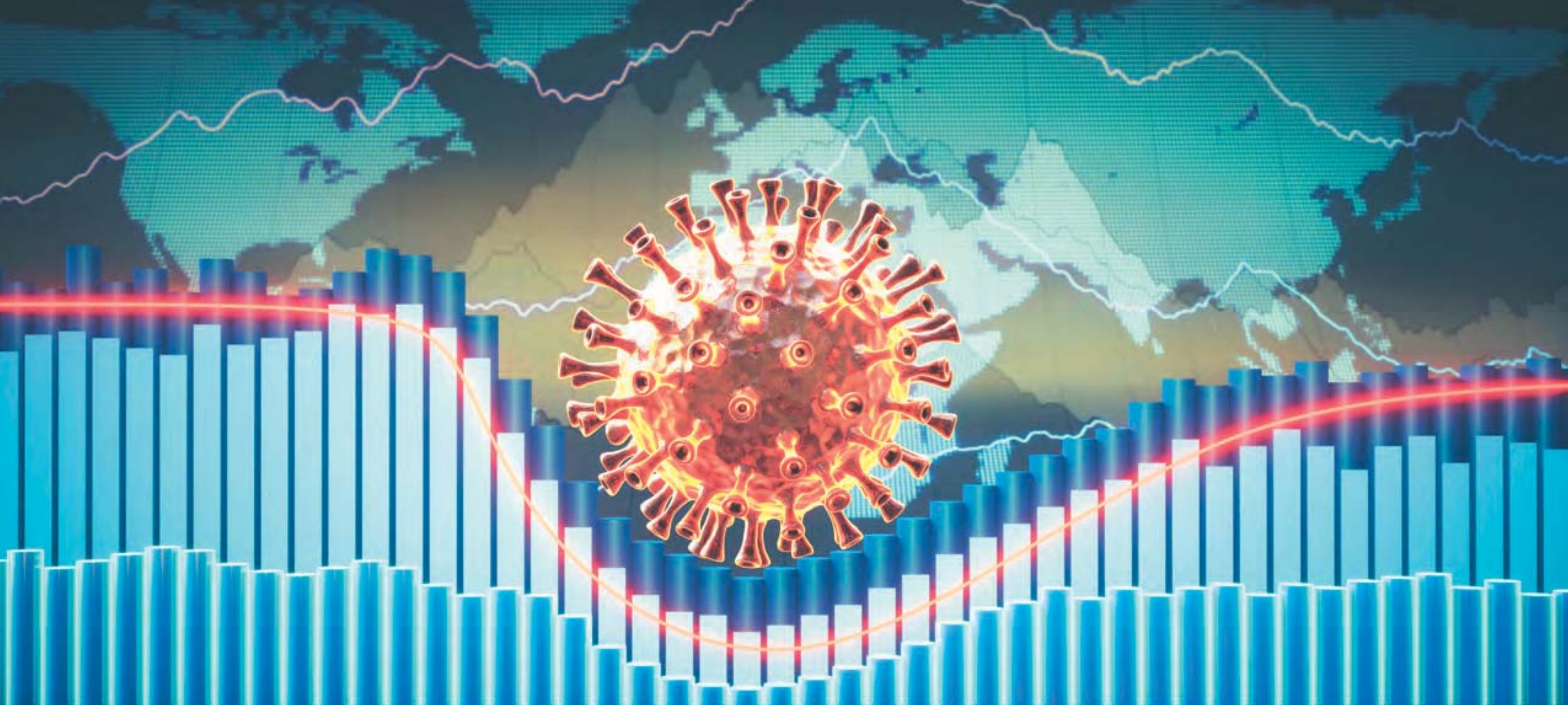
BABY STEPS TO GROWTH

The severity of the pandemic crisis – back in June and July – created a further stimulus initiative: a central fiscal lever agreed upon and funded by the central European Council itself, primarily to be used as a supplementary tool to boost the most economically impacted parts of the euro zone. Such a policy capability has been central to all successful single currency integrated economic zones (such as the United States), but has been sadly suppressed due to the challenges of coordinating over twenty member states. Despite some opposition from a group of 'frugal' northern European countries (strikingly, though, not Germany), a starter package made up of loans and grants was forged and will be applied over the next couple of years. This may have been of relatively modest size compared to the quantum of various national government fiscal plans, but as a signaling mechanism, it reflects Europe's continuing growth. It is just a shame that it took such a crisis to open up such a potential policy shift.

For allocators whose default position has been to underweight both the region's financial markets and the euro, these measures over time may induce a reassessment. As Albert Einstein once noted, "in the midst of every crisis, lies great opportunity."

KEY TAKEAWAYS:

- The latest economic crisis has led to some surprising reactions, primarily in the area of fiscal policy.
- Germany's very orthodox balanced budget position has shifted, at least until the 2022 budgetary year, to a material deficit position.
- The severity of the pandemic crisis created a further stimulus initiative: a central fiscal lever agreed upon, and funded by, the central European Council itself, primarily to be used as a supplementary tool to boost the most economically impacted parts of the euro zone.
- This accord reflects Europe's continuing growth.



COVID-19 360°: An Update

Chris Meekins, Director, Healthcare Policy Analyst, Equity Research

COVID-19 has wreaked havoc on both physical and economic health in the US. For those who have lost loved ones, the pain is very personal and real. Many of those individuals may feel as though government leaders have failed them. For those who have lost jobs as a result of the shutdowns and those who are struggling to pay for a roof over their heads or food for their families, the pain is very personal and real as well. Unlike many prior crises, the nation has not become unified in combating this crisis. Politicians have taken very different approaches and we are seeing views on how to combat the virus fall along party lines. These divisions will likely continue to hinder our ability as a nation to most effectively combat this crisis.

> "As individuals return to school, work, and other activities this fall, the race for a vaccine becomes particularly important."

> We have seen notable improvements in the fatality rate from the virus as time has passed.

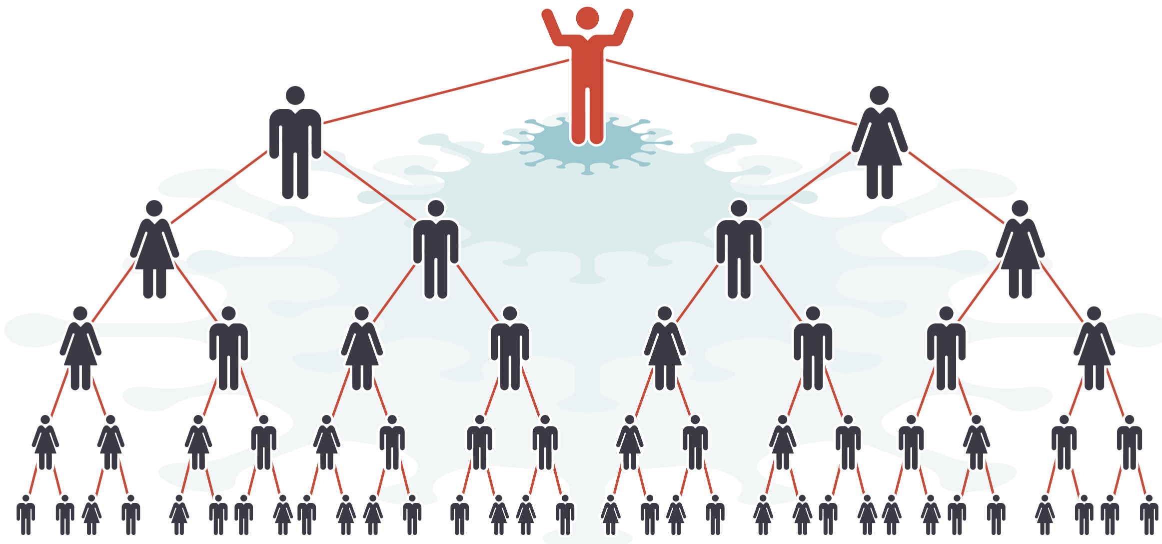
CONDITIONS IMPROVING, HOWEVER, CRISIS REMAINS

With over seven point five million identified cases, over 200,000 identified deaths, and likely many more asymptomatic or otherwise undocumented cases, we have shown a capacity to flatten the curve as a country. We have also seen what can happen when mitigation measures are ignored, with the secondary outbreaks in places like Arizona, Florida, and Texas that are just now getting back under control. The reality remains that as mitigation measures are loosened – when people stop wearing masks and start congregating in large gatherings – we will likely continue to see surges in cases in different states and regions until we reach herd immunity through infection or a vaccine. Public health leaders will have to continue to play 'Whack-a-Mole' as new hot spots emerge.

We have seen notable improvements in the fatality rate from the virus as time has passed. This is likely a result of doing a better job protecting those most vulnerable (such as those in nursing homes) and improvements in care protocols for those who are hospitalized. As time passes with every disease, improvements

Contagious COVID

Asymptomatic carriers, diverging opinions, and the ease of transmission make the spread of COVID-19 difficult to control.



occur in the way individuals are treated as great scientific understanding is achieved. Some treatments, like convalescent plasma, are showing promise, but we still do not have a 'cure' for the virus.

After struggling in the early days with testing, the US has now completed nearly 100 million tests. New advancements in rapid tests have the potential to dramatically increase testing levels yet again. If these tests become broadly available, we could see increases in the comfort level of individuals to fly, attend large gatherings, and participate in other public group activities.

The decision of whether to open schools, remain entirely virtual, or some hybrid approach during the school year is one of the most challenging and divisive for those influencing the decisions. This decision is particularly complicated given the ramifications of 1) not opening schools, and consequently depriving many students of social support, school-provided supplies, sponsored meal programs, and school-provided accommodations; versus 2) reopening schools, and potentially causing an outbreak of the deadly coronavirus among communities, children, families, teachers, and the broader US. Fortunately, according to the latest information from the Centers for Disease Control and Prevention (CDC), children are at relatively low risk of experiencing severe side effects; however, they can spread the virus to others. For most states, the decision to reopen is left to local school jurisdictions and local health authorities. Only Texas, Florida, Iowa, Missouri, and Arkansas have required in-person education to be available. On the other hand, Vermont, Rhode Island, West Virginia, DC, New Mexico, and Puerto Rico have orders banning all in-person instruction. Although some schools have reported case spread, the full impacts of schools reopening has yet to be seen. We anticipate that schools that have chosen to reopen will likely switch to online if virus spread surges.

THE RACE FOR A VACCINE

As individuals return to school, work, and other activities this fall, the race for a vaccine becomes particularly important. On the vaccine front, several candidates show strong potential. According to Raymond James Biotechnology Analyst Steven Seedhouse, leading vaccines are being tested from companies and institutions such as AstraZeneca/University of Oxford, BioNtech/Pfizer, Inovio Pharmaceuticals, Johnson & Johnson, Merck, Moderna, Novavax and Sanofi/GSK. China and Russia have granted limited approval to vaccines without conclusive results on their efficacy. The Trump Administration's Operation Warp Speed (OWS) is the coordinated government effort one would expect in a time of crisis. OWS has funded multiple vaccine candidates and is working to ensure the US has hundreds of millions of doses available in 2021. Analysis of new data on vaccines continues and it is possible that an emergency use authorization (EUA), which is not the same as full approval, could be given by the Food and Drug Administration (FDA) for a vaccine prior to the end of 2020 and possibly before the election.

President Trump and his campaign team are pushing hard to get an EUA for a vaccine before election day. The FDA continues to push back against accusations that they may prematurely approve vaccines or therapeutics due to political pressure from the Trump Administration. The Trump campaign believes that getting a vaccine before the election could move undecided voters to him. One challenge is the number of people who are either skeptical of, or will refuse to get, the vaccine.

The impact of the pandemic is likely to continue to impact nearly every area of our lives from educating children, to what travel we partake in, to how we chose to vote, and even the outcome of the upcoming election.

IMPACT ON THE ELECTION

COVID-19 is likely to impact the election in other ways. For example, if we see a major uptick in cases right before the election it could urge voters to want new leadership. Additionally, the logistics of voting in the COVID-19 era and the complications of potentially delayed results could have an impact. While elections can allow for social distancing in lines and in polling centers, fears and inconveniences of voting could result in only the most enthusiastic voters showing up at the polls. Recent polling shows a majority of Republicans plan to vote in person, but a majority of Democrats plan to vote by mail. As a result, we could have one candidate's supporters believe that their candidate has won on election night, only to find out the other candidate won once all the votes are counted. Accusations of voter fraud will likely run rampant, creating uncertainty for the markets.

The bottom line is this: COVID-19 will remain an issue until we reach herd immunity or a vaccine that is widely used arrives. The impact of the pandemic is likely to continue to impact nearly every area of our lives from educating children, to what travel we partake in, to how we chose to vote, and even the outcome of the upcoming election.

KEY TAKEAWAYS:

- Unlike many prior crises, the nation has not become unified in combating this crisis. These divisions will likely continue to hinder our ability as a nation to most effectively combat this crisis.
- We have shown a capacity to flatten the curve as a country. Given behaviors, we will likely continue to see surges in cases in different states and regions until we reach herd immunity through infection or a vaccine. Public health leaders will have to continue to play 'Whack-a-Mole' as new hot spots emerge.
- If tests become broadly available, we could see increases in the comfort level of individuals to fly, attend large gatherings, and participate in other public group activities.
- Analysis of new data on vaccines continues and it is possible that an emergency use authorization (EUA), which is not the same as full approval, could be given by the Food and Drug Administration (FDA) for a vaccine prior to the end of 2020 and possibly before the election.

Economic Snapshot

The pace of economic growth will depend on the virus, the efforts to contain it, and the degree of fiscal support. However, a full recovery is not expected until the pandemic is well behind us. In the meantime, economic activity is likely to be mixed, with some sectors doing better than others. Insufficient fiscal support, elevated job losses, and a squeeze in state and local budgets remain key concerns.

DR. SCOTT BROWN
Chief Economist

	ECONOMIC INDICATOR	COMMENTARY
FAVORABLE	HOUSING AND CONSTRUCTION	Housing demand was strong prior to the pandemic. Lower mortgage rates and a longer-term shift to work-from-home have led to a sharp pickup in demand. Supply constraints will lift home prices, reducing affordability.
FAVORABLE	MONETARY POLICY	Fed officials expect short-term interest rates to remain low through 2023. Asset purchases have been unlimited – the pace may have slowed compared to March and April, but more will be done if needed.
NEUTRAL	GROWTH	Following a sharp but partial recovery in 3Q20, Gross Domestic Product is expected to grow at a more moderate pace into 2021. While a return to recession is unlikely, activity is likely to remain mixed.
NEUTRAL	EMPLOYMENT	A little over half of the jobs lost in March and April have been recovered, and further improvement is likely as consumers and businesses get used to living in a pandemic. Expect a reallocation of labor over time.
NEUTRAL	CONSUMER SPENDING	With a limited ability to spend on consumer services (tourism, entertainment, restaurants, etc.) consumers have increased spending on goods. Further fiscal support will be critical for lower-income households.
NEUTRAL	BUSINESS INVESTMENT	Capital spending fell in 2Q20, but nowhere near as much as consumer spending. However, firms may be more cautious about the future. Investment in new business structures is likely to remain weak.
NEUTRAL	MANUFACTURING	Factory output improved sharply in the summer, especially in motor vehicles (where assemblies effectively came to a halt in April). Ex-autos, production gains have been broad-based in recent months, but generally slower.
NEUTRAL	INFLATION	The pandemic put downward pressure on prices and many have rebounded. Bottleneck pressures and supply chain issues have been a minor factor. We should see little inflation pressure from the labor market.
NEUTRAL	LONG-TERM INTEREST RATES	Fed asset purchases should prevent long-term interest rates from rising much and inflation is expected to remain low. Long-term demographic changes still imply lower yields than in past decades.
NEUTRAL	FISCAL POLICY	More support is expected at the federal level, but the appetite for more debt beyond that will be limited and we may see a turn toward austerity after the November election. State and local government budget pressures are rising.
NEUTRAL	THE DOLLAR	The aggressive Fed stance has put some downward pressure on the dollar. Global investors are likely to be more concerned about the US budget situation. The trade deficit has widened.
NEUTRAL	REST OF THE WORLD	A mixed bag, but a worse outlook than three months ago. Most developed economies have successfully tamped down the number of new infections, while many emerging economies have done a lot worse.

Sector Snapshot

This report is intended to highlight the dynamics underlying the 11 S&P 500 sectors, with a goal of providing a timely assessment to be used in developing your personal portfolio strategy. Our time horizon for the sector weightings is not meant to be short-term oriented. Our goal is to look for trends that can be sustainable for several quarters; yet given the dynamic nature of financial markets, our opinion could change as market conditions dictate.

Most investors should seek diversity to balance risk versus reward. For this reason, even the least-favored sectors may be appropriate for portfolios seeking a more balanced equity allocation. Those investors seeking a more aggressive investment style may choose to overweight the preferred sectors and entirely avoid the least favored sectors. Investors should consult their financial advisors to formulate a strategy customized to their preferences, needs, and goals.

J. MICHAEL GIBBS
Managing Director of Equity Portfolio & Technical Strategy

These recommendations will be displayed as such:

Overweight: favored areas to look for ideas, as we expect relative outperformance

Equal Weight: expect in-line relative performance

Underweight: unattractive expectations relative to the other sectors; exposure might be needed for diversification

For a complete discussion of the sectors, please ask your financial advisor for a copy of *Portfolio Strategy: Sector Analysis.*

	SECTOR	S&P WEIGHT	COMMENTARY
OVERWEIGHT	INFORMATION TECHNOLOGY	27.8%	We remain Overweight Technology. The give-back in price during the market sell-off is not a surprise given the extensive gains YTD and the overbought condition of the sector. However, with COVID far from conquered, the strategic position of numerous technology companies remains firmly in place. The correction is a much needed market dynamic and sets the table for the next leg up. Although valuation remains elevated, it is less so after the decline. With earnings revision trends moving higher, we feel valuation can be supported.
	HEALTH CARE	14.3%	We remain Overweight Health Care. Despite its attractiveness, the sector may continue to struggle in the near term due to uncertainty over the ACA due to the death of Justice Ginsburg, along with the Nov. election. The Supreme Court's uncertainty will likely linger for months as it begins hearing the case on 11/10 with a quick resolution unlikely. Nonetheless, we believe that fundamental trends will prevail in the long run, and here the sector looks impressive. It is one of the few to post earnings gains in 2020. Forecasts call for double-digit growth in 2021. Revision trends are solidly higher. For now, we feel the best returns will come from selective purchases in the faster growing areas as they pull back.
	CONSUMER DISCRETIONARY	11.3%	We remain Overweight Consumer Discretionary. The sector offers companies attractively positioned for the current COVID-induced environment, as well as those set to snapback as the economic recovery progresses. The performance of the equal weight index reflects investors' willingness to commit capital to an eventual economic recovery. Valuation is extreme for some areas, but with these areas experiencing rapid growth, we feel it is supported. The uptick in earnings revisions, along with the attractive earnings growth expected in 2021, justifies commitment to the sector.
	COMMUNICATION SERVICES	10.8%	We continue to Overweight Communication Services. We view valuation as attractive with the relative P/E near 1 standard deviation below the 15-year avg. A reacceleration of earnings growth to the low 20% area, driven by the subsectors of the index most impacted by the COVID-19 environment, positions the sector favorably. For now, revision trends are less attractive than other Overweight rated sectors, but attractive valuation is an offset. The recent pullback is an opportunity to accumulate.
EQUAL WEIGHT	FINANCIALS	9.9%	We maintain our Equal Weight in Financials; nonetheless, with a challenging environment for all areas dependent on higher interest rates it is a guarded opinion. Banks are both the largest weighting in the sector & one of the weakest areas. Therefore, we favor other areas, such as exchanges & other specialty finance subsectors. Longer term, the sector will be an attractive opportunity at some point. Valuation is very attractive. Given its importance in the global economy, we envision better days ahead. Additionally, from a contrarian standpoint, the modest S&P 500 weighting of 9.9% is eye catching relative to the 20-year avg of 16.4%.
	INDUSTRIALS	8.4%	We remain Equal Weight Industrials. Manufacturing activity remains strong as industries must replenish global inventory levels. A focus on recovering earnings in 2021 makes the 89% projected growth rate attractive as portfolios reposition for economic recovery. Improving technical price momentum continues to develop as the equal weight index (avg. stock) is outperforming the cap-weight index, suggesting broad-based interest. In the near term, rising COVID cases in Europe and the US may pressure the sector on a relative basis. We would accumulate on weakness.
	CONSUMER STAPLES	7.1%	We maintain an Equal Weight to Consumer Staples. The defensive qualities of the sector from a trading and fundamental perspective warrant exposure for now, with the macro in question and equities mired in a correction. Once the storm clouds clear, the lack of rapid earnings growth in 2021 leaves the sector vulnerable to underperformance. For now, we favor some modest exposure.
	MATERIALS	2.7%	We remain Equal Weight Materials. As investors questioned the macro due to rising COVID cases, Materials, not surprisingly, rolled over. The rally and breakout of the US dollar is another catalyst for weakness due to a strong inverse correlation. For the near term, relative underperformance may build on the macro uncertainty. However, if the fears and pullback turn out to be noise, as we think, the weakness will be an opportunity.
UNDERWEIGHT	UTILITIES	3.0%	We remain Underweight Utilities. Modest (5.6%) earnings growth in 2021 offsets attractive valuation. The risk for the sector to underperform if interest rates surprise on the upside is another reason for our Underweight stance. Finally, the defensive sector only managed modest relative strength gains during the current equity market drawdown.
	REAL ESTATE	2.6%	We maintain our Underweight to Real Estate. Uncertainty regarding many areas of real estate, retail, and office (during and after COVID) leaves the sector facing headwinds. Only modest growth for funds from operations (equivalent to earnings) in 2021 is another reason to favor other sectors. Finally, the price moved below technical support levels for the defensive sector, and relative strength only managed a modest bounce during the recent equity market correction.
	ENERGY	2.2%	We maintain our Underweight to Energy. A potential uptrend for crude oil prices rolled over and undercut support in early September. The weak price contributed to the worsening of an an already weak price trend for the sector. With the global economy working through COVID-influenced weakness, demand for crude is likely to remain tempered.

DISCLOSURE

All expressions of opinion reflect the judgment the author, the Investment Strategy Committee, or the Chief Investment Office and are subject to change. Past performance may not be indicative of future results. There is no assurance any of the trends mentioned will continue or forecasts will occur. The performance mentioned does not include fees and charges which would reduce an investor's return. Dividends are not guaranteed and will fluctuate. Investing involves risk including the possible loss of capital. Asset allocation and diversification do not guarantee a profit nor protect against loss. Investing in certain sectors may involve additional risks and may not be appropriate for all investors.

International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility. Investing in emerging and frontier markets can be riskier than investing in well-established foreign markets.

Investing in small- and mid-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise.

US government bonds and Treasury bills are guaranteed by the US government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. US government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury bills are certificates reflecting short-term obligations of the US government.

While interest on municipal bonds is generally exempt from federal income tax, they may be subject to the federal alternative minimum tax, or state or local taxes. In addition, certain municipal bonds (such as Build America Bonds) are issued without a federal tax exemption, which subjects the related interest income to federal income tax. Municipal bonds may be subject to capital gains taxes if sold or redeemed at a profit.

If bonds are sold prior to maturity, the proceeds may be more or less than original cost. A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revisions, suspension, reduction or withdrawal at any time by the assigning rating agency.

Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Investing in REITs can be subject to declines in the value of real estate. Economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

High-yield bonds are not suitable for all investors. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.

Beta compares volatility of a security with an index. Alpha is a measure of performance on a risk-adjusted basis.

The process of rebalancing may result in tax consequences.

Alternative investments involve specific risks that may be greater than those associated with traditional investments and may be offered only to clients who meet specific suitability requirements, including minimum net worth tests. Investors should consider the special risks with alternative investments including limited liquidity, tax considerations, incentive fee structures, potentially speculative investment strategies, and different regulatory and reporting requirements. Investors should only invest in hedge funds, managed futures, distressed credit or other similar strategies if they do not require a liquid investment and can bear the risk of substantial losses. There can be no assurance that any investment will meet its performance objectives or that substantial losses will be avoided.

The companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence.

The indexes are unmanaged and an investment cannot be made directly into them. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The S&P 500 is an unmanaged index of 500 widely held securities. The Bloomberg Barclays U.S. Aggregate Bond Index contains approximately 8,200 fixed income issues and represents 43% of the total U.S. bond market.

The VIX is the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility.

FIRST Q. NAME / GROUP NAME
Approved Title

12345 Streetname Lane // Cityplace, ST 00000
T 000.000.0000 // M 000.000.0000 // F 000.000.0000
first.lastname@raymondjames.com // xyzwealthmanagementgroup.com