

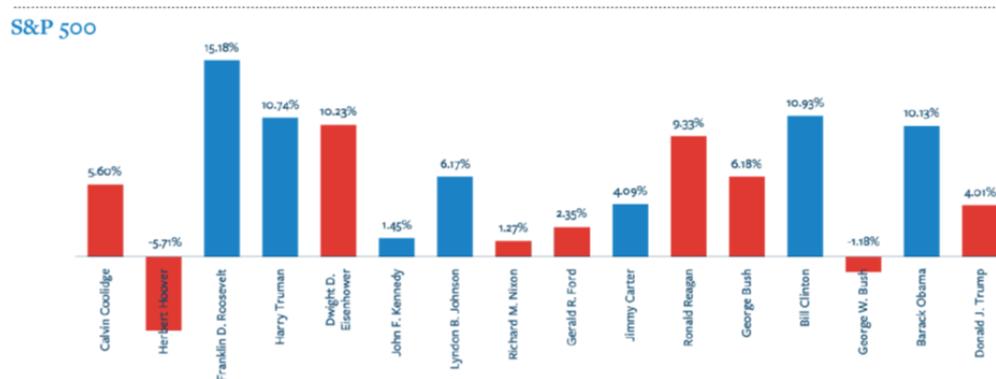


## Friday Morning Coffee

### Nr. 125 — Blue wave would make value investors smile

The US presidential election is approaching and both candidates are in the final run of their campaigns with all the medial noise, entertainment, and drama. Once again, it is claimed to be the most important election in history. As long-term investors, we focus on business fundamentals and leave politics to the politicians. The Brexit referendum and the last Presidential elections have also taught us that we should not read too much into polls.

Prithy Serrao from SmartBe Wealth came out this week with an interesting piece study "Elections, stock market returns & your savings". As shown in the graph below from the research study, Democratic presidents were on average better for the stock market than Republicans: 8.3% annualized return in Democratic Presidents compared to 3.6% with a Republican leader.



*In USD. Monthly data from 1927-01-31 to 2020-07-31 for S&P500 Index. Source: Alpha Architect. Annualized return calculated using average monthly return for each president.*

Source: SmartBe Wealth

So, are we in for a Blue Wave in case of a Biden victory? Less protectionist sabre rattling, strong stimulus measures, and increased green energy spending would certainly help the economy and ultimately support the stock market. An uncontested victory of Biden and a Democratic win of the Senate would however also increase the likelihood of policymakers legislating Big Tech to break some of the quasi-monopolies these companies are currently enjoying.

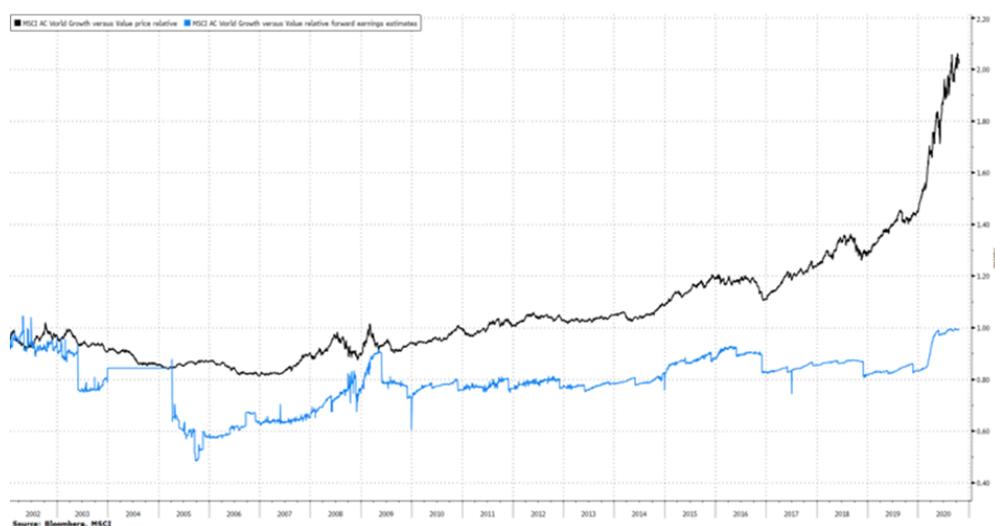
Increased government spending and economic stimulus should ultimately lead to reflation and higher interest rates. Less protectionism is good for trade and could help reviving the fortunes of some of the industrials and carmakers, especially in Europe. All this is music in the ears of the value investors we are.

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A Blue Wave would come at a moment where growth stocks are very vulnerable. Actually MSCI World Growth had twice the performance of its value counterpart since 2002 as shown in the Bloomberg graph below. During the same time, forward earnings of growth stocks have not progressed noticeably compared to value stocks (blue line). So, the valuation gap has largened significantly as the relative earnings growth of these companies has not markedly accelerated. That leaves zero room for disappointment for the growth stocks.

#### Relative performance MSCI World Growth vs relative forward earnings



Source: Bloomberg

**At the same time, value stocks are cheap and would benefit significantly from a Blue Wave!**

I wish you a nice weekend,

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