
DISCUSSING THE MIDTERMS AND A WILDLY BULLISH MARKET OUTLOOK

Jeremy Schwartz — Global Chief Investment Officer

11/06/2018

On last week's "Behind the Markets" podcast, we discussed the much-anticipated midterm elections with Ed Mills, political strategist at Raymond James, and the longer-term market outlook with Tom Lee, founder of Fundstrat Global Advisors.

Midterms

Mills believes a big part of the market robustness since Trump was elected is due to the deregulation agenda the president has pursued. With the election forecasts widely expecting Republicans to keep the Senate—and the Senate being the sole party responsible for confirming presidential appointments—the deregulation agenda seems as if it will continue. This could see a post-election bounce higher if the Senate does stay Republican—and more negative if the Senate flips Democratic.

Mills commented that many pundits call certain Senate races "50/50 toss-ups," but the outcomes are much more likely to end up falling somewhere between 70% to 90% in one direction, and the contests should not have been labeled as "toss-ups" in the first place. Many experts are expecting the House to move to a Democratic majority, while the Senate is likely to remain Republican-led, with the distinct possibility that Republicans could even add to their Senate majority. It will be interesting if this bifurcation does occur.

Mills sees the agenda post-midterms as being a continuation of fiscal stimulus, with Democrats focused on domestic issues and Republicans focused on defense-spending measures.

China Trade Issues: Not Resolved for Years?

Mills believes we will come to a resolution on the China trade-war dynamics, but this ultimately will take longer than many expect. Mills pointed out that, earlier this year, the market expected the trade deal to be completed before the midterms, that it would not cause disruptions to supply chains and that Trump's tariffs ultimately would not be enforced. On all three issues, the market got it wrong. He sees the Chinese deal being much more difficult—we are asking the Chinese to change their industrial policy, and while Mills believes China would be happy to "write a check" to get out of this bind, he does not see them changing their overall economic approach and thinks the situation will get worse before it gets better. A resolution could be years away.

Lee Is Wildly [Bullish](#): Double-Digit Rally Expected and a Shift to a Value Style

In the second half of the podcast, we discussed some longer-term thematic opportunities on which Lee is focused. One of the reasons I invited Lee on the program was because I saw a headline last week that said he was wildly bullish in the short-run, so I wanted to see what catalysts prompted that view. Lee saw indiscriminate selling in October that reached a level that almost always indicates a bottom in selling during bull markets. Lee admitted there are many worries and issues the market must confront, but he said that he sees a double-digit rally coming.

In terms of a broader thematic idea, Lee also believes we are in the midst of a broader shift to the value-style investing approach, which can last 10 to 15 years. One of the drivers in this are “asset-light” businesses that did well during falling [inflation](#) environments that we’ve seen since 1980, compared with the “asset-heavy” businesses that do better during rising inflation. Asset-intensive businesses with high debt and assets on the balance sheet are rewarded more with inflation.

Lee sees a lot of the rotation between, for example, Health Care (an asset-light sector) and Financials (an asset-heavy sector) being explained by the difference in trends for inflation.

He also sees technology companies being in more of a traditional value sector and sees some of technology companies becoming more asset heavy in the future; a showdown could be coming between Financials- and Technology-sector companies as tech companies continue to invade the Financials sector.

Some of the other broader trends we discussed with Lee included:

- The underlying trends toward automation and why a global shortage of workers is going to make automation-oriented companies an absolute necessity.
- The impact of millennials on the longer-term economy and buying trends. 2018 was the first year that millennials earned more income than when they were dependents, and he sees this group as making up a super-productive workforce. He also sees them driving the housing sector over the next 10 years, with a pickup in home-buying going into 2026.
- We also discussed blockchain technology and the use case for cryptocurrencies. Lee sees cryptocurrencies as way more than some fad and believes they will have ramifications across the financial system.

This was a great conversation on both short-term and long-term market implications, and I encourage you to listen to the full conversation below:

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Bullish : a position that benefits when asset prices rise.

Inflation : Characterized by rising price levels.