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Neuberger Berman Long Short Team

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Yogi-isms

As 2020 winds down, there will likely be no shortage of candidates for Merriam Webster and Oxford dictionaries to consider for their respective "Word of the Year." As optimists by nature, our list starts with grit, determination, resilience, persistence and ingenuity. However, it certainly would not be surprising to us to hear other nominations ranging from unprecedented to unpredictable to surreal and emotional. The U.S. election seems to have followed the latter path – as the lack of definitive conclusions has turned "Election Day" into "Election Months." Given this mercurial backdrop, we thought it appropriate to revolve our latest thinking around quotes from the late, great American professional baseball catcher Yogi Berra (often referred to as "yogi-isms"). After all, Yogi's comments are widely considered humorous and contradictory, but also full of wisdom and valuable lessons as we look forward.

- **"It ain't over till it's over."** As of the time of this writing, the Associated Press has declared Joe Biden the next U.S. President while the Republican control of the Senate will be subject to Georgia's two run-off elections in January. However, with narrow Biden leads in key states (e.g., AZ, GA, NV, PA, WI) and President Trump's team already filing lawsuits and recount requests across multiple states, the one thing we are 100% comfortable declaring is that the lawyers will keep busy. Meanwhile, the Senate has 48 Republicans in place – and two additional Republican candidates that are heavily favored to join that base (resulting in a 50 Republican Senator count); however, the trickiest part links to Georgia, where both Senate races are heading to a January 5th run-off. While the odds point to at least one Republican winning (leading to a 51 majority), the one thing we are confident about is that there will be hundreds of millions of dollars spent in Georgia to try to swing that electorate.

- **"It's like déjà vu all over again."** Our admittedly simplistic view entering the election was that Biden would be good for "growth" and Trump would be good for "value." Said differently, we thought a Biden leadership could bring about a return to the "slow growth" and "low interest rate" environment. We now believe the aforementioned expected split outcome could serve to *amplify* this point. For instance, Senate Majority Leader Mitch McConnell may feel emboldened by the election results to return the Republican posture back to its traditional fiscal conservatism; this would likely entail less fiscal stimulus and force the economic stimulus "mix" to shift even further into the Federal Reserve's monetary policy domain – all of which could keep long-term Treasury yields "lower-for-longer" or at least rangebound.

- **"If you don't know where you are going, you might wind up someplace else."** Against this backdrop, we have a clear sense of where we want to focus our investments. For example, our quantitative lens to assess the attractiveness of an individual company's business model is return on capital; and more specifically, it's *after-tax* return on capital. As such, it's fair to say that the election's impact is important to digest for medium term factors such as (i) regulatory policy and (ii) changes in tax regime, which impact both corporations and individuals. In this regard, the market has interpreted potential gridlock and the *absence* of major reform as a positive for some sectors (e.g., healthcare and technology) while a potentially smaller fiscal stimulus bill could be a negative for others (e.g., industrials, materials). Interestingly, one may even ask, has this election outcome actually provided "Trump policy" without Trump as President? The answer is not that simple and there is a myriad of details to consider – and we believe the details matter. But for us, we continue to focus on "outcome makers" vs. "outcome takers". We want to invest in companies that can play defense and offense at the same time and we believe management teams matter more than ever.

- **"You can observe a lot by just watching."**
    - *Record voter turnout:* 2020 was a record year for voter turnout. In fact, Joe Biden has received the most votes of any candidate ever with almost 75 million votes (as of 11/7/20), having surpassed President Obama's previous all-time record of 69.5 million in 2008. Interestingly, President Trump surpassed 70 million votes himself, meaning Biden and Trump will have registered the two highest vote totals in U.S. history … and at this time, Trump is reported to have lost the race despite having far exceeded his own vote total in 2016 (62.9 million votes).[1]
    - *Short-term stock price action:* The S&P 500 Index being up the day after an election (as it was in 2020), historically bodes well for investors. In all but one instance, the next three months were higher with a median gain of +4.4%. This compares to negative 0.9% median three-month return if the day after the election was lower.[2]

[1] Sources: Time, Forbes.
[2] Source: Canaccord Genuity.

- *Is "gridlock" goldilocks?* Since 1945, the S&P 500 Index has delivered, on average, 9.8% annualized returns. When there is a Democratic president and a split Congress, the stock market return, on average, has jumped to 13.6% annualized.[3]
- *Not just officials on the ballot.* Other notable outcomes across the country with potential investment implications include minimum wages in Florida, cannabis, sports betting and Prop 22 (classifying drivers as independent contractors rather than employees) in California.
- *The mood of the nation?* According to a web search engine, on the night of the election, U.S. searches for "liquor stores near me" and "Fries near me" reached record highs.
- *Interest rates.* It is hard for us to recall a time when economic data was on the upswing while mortgage rates reached new lows.
- *Surprises?* We believe the "gridlock" outcome and the Republicans gaining seats in the House of Representatives both served as potential surprises versus expectations.
- *Is it too early to start thinking about 2024?* Eleven former U.S. presidents never sought a full second term – whether by their own volition or that of their party.

- **"It's tough to make predictions, especially about the future."** As we've often tried to highlight to investors, "don't try to guess tomorrow" and "time in the market cures all ails." After all, time horizons typically matter and in the very long-term, this specific election will likely be just another event along a much larger journey. And longer term, we think the resiliency, innovation and entrepreneurial spirit of this fine nation will always prosper regardless of the political backdrop. We believe this was proven yet again during COVID-19, when this horrible rogue wave arrived on our shores when we least expected it. But most importantly, our country's resiliency, innovation and grit – coupled with the role of the U.S. Federal Reserve in our view – proved to be a force even stronger than today's divided political environment (although the handling of COVID-19 may very well explain the political outcomes).

Despite the election heading towards its final phases, we continue to dig deeper and remain disciplined. There remains no shortage of macro (e.g., stimulus timing/size, COVID-19 vaccines, interest rates, China and broader geopolitical concerns) or micro issues to consider. We continue to focus on businesses on the right side of major market share shifts, mission critical products and services, and strong and enduring business moats. For us, that's what we call beyond privileged and resilient ("BP&R") companies – the highest quality businesses, the most resilient balance sheets and the most uncompromising management teams. BP&R is our "North Star" on security selection within a macro environment that we believe will remain dynamic and impossible to predict. And ultimately, we believe incorporating this type of active management approach with experience, judgment, and prudent risk management, can help position investors with the proper playbook in their pursuit of attractive risk-adjusted return outlooks. After all, **"when you come to a fork in the road, take it."**

[3] Source: S&P DJ Indices; www.HulbertRatings.com.