

Watching on Election Day

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As much as I'd like to avoid discussing elections, it is unavoidable today.

- Republicans taking either the House or the Senate (or both) is consensus and is viewed as bullish for risk as gridlock will slow spending, reduce inflation, reduce pressure on the Fed, and help rates (which will let equities rip higher). This seems believable and plausible.
- There is a chance that many elections will not be decided by tomorrow morning as voting takes time and mail-in votes need to be tallied (or waited on if it is a close election). This seems largely built in, but it could get contentious. Probably not an overnight event, but something to watch if the issue develops and seems to be big enough to sway the outcomes in the House or Senate (or both).
- Big blue wave. I haven't seen much mention of this from any official polls (seems very unlikely), but markets would not react well.
- I'd buy any dip on a small win for Democrats as I think that regardless of the election:
 - President Biden will want to switch to finding peace between Ukraine and Russia. Not only is it expensive in terms of supplying weapons, but as sanctions ramp up later this year and early next year, the West will be collectively hurting itself. There are already concerns in Europe about ratcheting up the sanctions. This makes sense because it will probably just drive energy shipments to countries that will buy from Russia, causing it to take longer to buy more expensive shipments elsewhere. The war also seems unwinnable, which may be why the tone in Russia is softening and China is "tired" of this war.
 - Inflation will be less of a boogeyman after the election as politicians will focus their attention on jobs! That shift makes sense and can be latched onto by [those in the Fed Who Don't See Dead People](#). There seems to be a segment of the Fed that is increasingly interested in seeing how the lag effects of the hikes and ongoing QT impact the economy. Also, **FINALLY**, there are people who are questioning some of the policy decisions that are based on clearly old (and therefore not useful) data! By the way, I have seen some serious/model driven economists also question the size of the birth/death jobs number in the latest NFP – which gives me some hope.

I like the election rally and aside from a blue wave, I would be buying dips.

Other Things to Watch

FX markets seem to be holding their own even as **China has downplayed the allegations that they are shifting their zero-COVID policies**. Part of last Friday's rally was fueled by several stories that China was considering changing how they combat COVID. China, for all intents and purposes, denied those reports over the weekend, but stocks held their own and the all-important Japanese Yen is holding on to its gains as I type this on Tuesday morning.

Yes, we get CPI this week, but I fully expect that core (especially if driven by "rent") will be ignored much more than last month as so many people are coming around to our way of thinking!

Finally, yet another run on a crypto "exchange" (I use that term very loosely) is sparking a **big sell-off**

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in FTT (a “native token of the FTX Trading Platform ecosystem” – a Bloomberg description). It is down over 20% (as of Tuesday morning) and seems to be dragging major cryptocurrencies down as well (Bitcoin -5% and Ethereum -6%). I had hoped that China cracking down on their citizens and businesses would support bitcoin for longer, but that trade may well be over. **These types of selloffs are indicative of problems with the “plumbing” in crypto**, which tend to expose more flaws in the system rather than quietly resolving themselves. It is a **GREAT TIME TO REMEMBER** that terms like “banks,” “exchanges,” “custodian,” etc. all have real world meanings. In traditional finance those terms are more than labels, they are given to entities that meet certain regulated criteria. That is just not the case for much of the crypto world. We apply terms to entities rather loosely and some people (all too often) attribute the usual meaning of those labels without really understanding if they are applicable!

In the meantime, we get to watch all markets, but especially **U.S. stocks as they oscillate wildly as daily expiration options become a more and more commonly used trading vehicle.**

TQQQ has taken in over \$1 billion in the past two days with a big surge in shares outstanding, which at least supports the view that some “gridlock” scenario is the consensus and might be getting priced in already.

Good luck today and get out and vote if you can!