



HIGHTOWER

Texas

PERSPECTIVES ON ELECTIONS AND U.S. EQUITY RETURNS

SEPTEMBER 2020



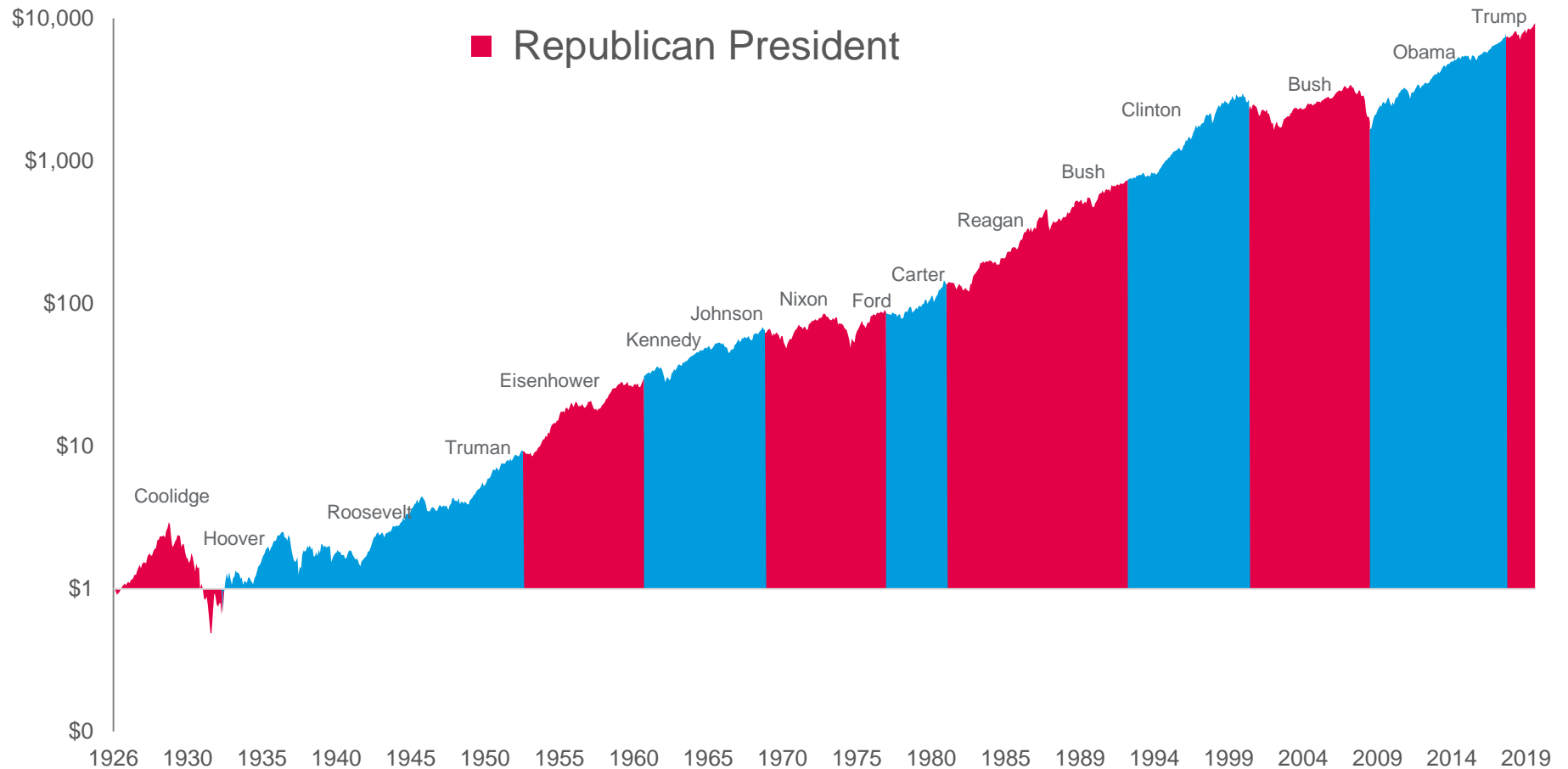
PRESIDENTIAL ELECTIONS AND U.S. EQUITY RETURNS

- All elections are important, but to many investors, the coming election feels particularly weighty. The policy ramifications of White House and congressional outcomes can seem unnerving, especially given the wide policy differences and, in some cases, dramatic policy proposals (particularly, taxes).
- However, history suggests election results should not be the primary driver of investment decisions. This is particularly true now, where COVID and the related fiscal and monetary response are arguably much more important than potential.
- On a short-term basis, politics have the power to move markets and create stock market volatility; however, the relationship between politics and financial markets is not so clear cut. While there may be conventional wisdom in how each party's policies will affect the economy, politics play only a small role in the direction of the economy and markets. Political checks and balances mitigate the impact of radical, transformational proposals. Plus, the impact of changes tends to evolve over time (often into the next administration).
- As illustrated in the following charts, markets have thrived through myriad political environments, often in unexpected ways. Long term, the fundamentals of earnings and interest rates, labor growth and productivity, and the mean-reverting nature of an independent monetary policy ultimately drive financial market returns.
- Clearly, policy changes can have ramifications for financial plans, tax strategy, asset location and estate planning. Those evolving policies are key inputs in our holistic approach to long-term wealth management. However, we do not advocate using predicted or actual election results as a significant factor in short- or intermediate-term asset allocation decisions.



MARKETS HAVE REWARDED LONG-TERM INVESTORS UNDER EITHER POLITICAL PARTY

Growth of a Dollar Invested in the S&P 500: January 1926–June 2020



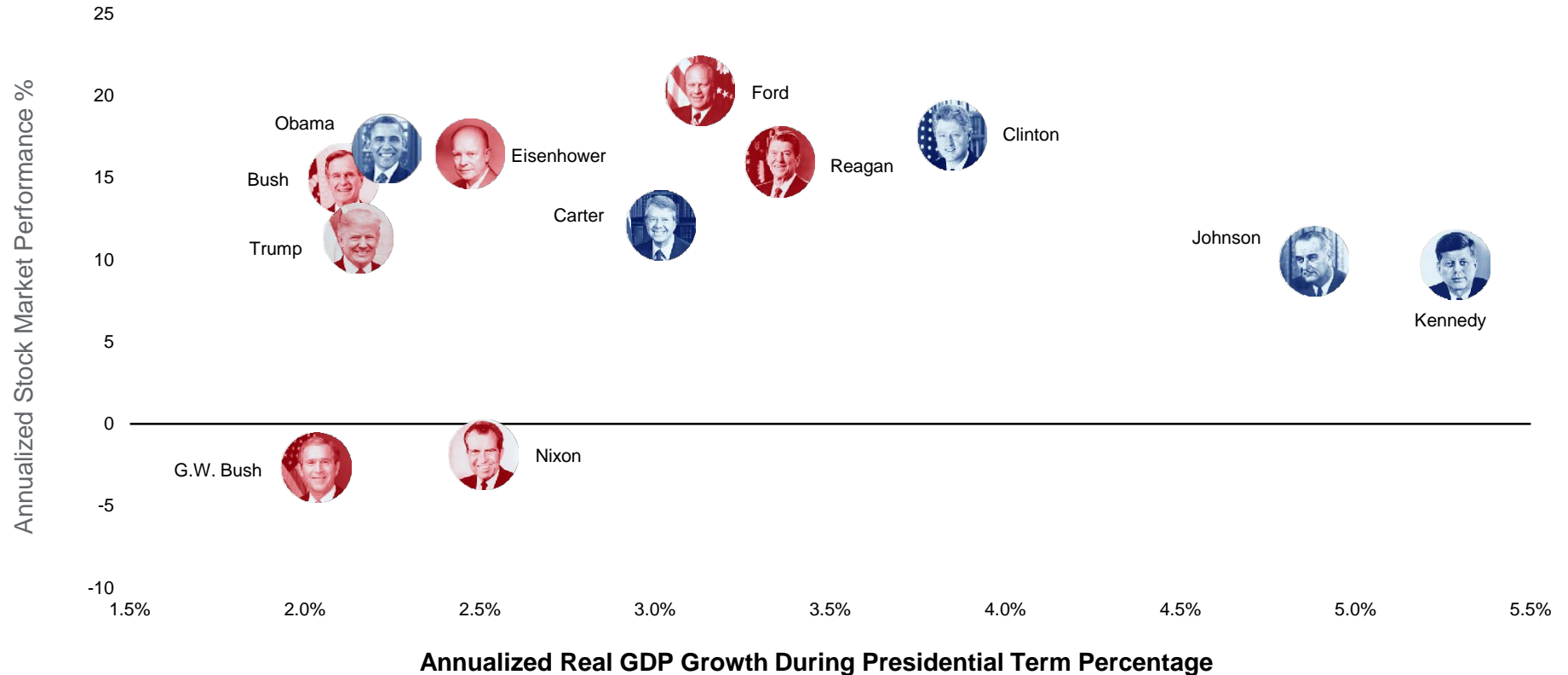
Past performance is not a guarantee of future results and there is a possibility of loss. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Source: S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Chart Source: Invesco: 2020 U.S. Election – 10 Truths No Matter Who Wins.



MARKETS HAVE PERFORMED WELL UNDER BOTH PARTIES

Presidential Term Stock Market Returns vs. Economic Growth (1957-Present)



- Neither party can consistently be credited with superior economic or financial market performance.
- The S&P 500 Index delivered an average annual return of approximately 11 percent over the past 75 years, through both Democratic and Republican administrations. The U.S. economy also expanded around 3.0 percent during that period.
- The stock market's return was negative for a presidential administration only when the country was in a financial crisis (2008) or experiencing a stagflationary spiral (1973).

Sources: Haver, Invesco, 6/30/20. Note: President Trump stock market performance data from 1/20/17-6/30/20., real GDP data from 12/31/2016 to 3/31/2020 as GDP is reported with a lag. Stock market performance is defined by the total return of the S&P 500 Index. Index definitions can be found on page 12. Past performance does not guarantee future results and there is a possibility of loss.

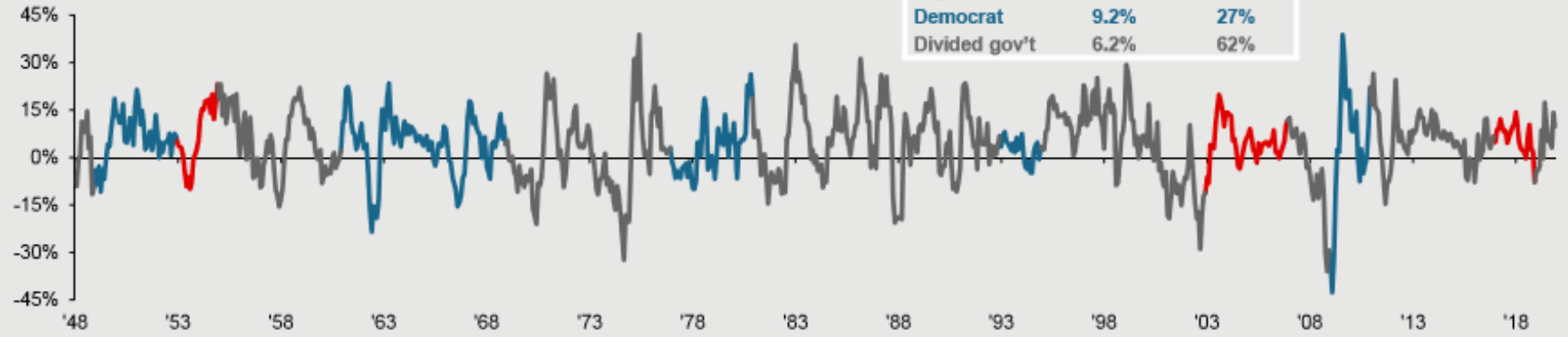
Chart Source: Invesco: 2020 U.S. Election – 10 Truths No Matter Who Wins.



HISTORICAL RETURNS AND GDP GROWTH

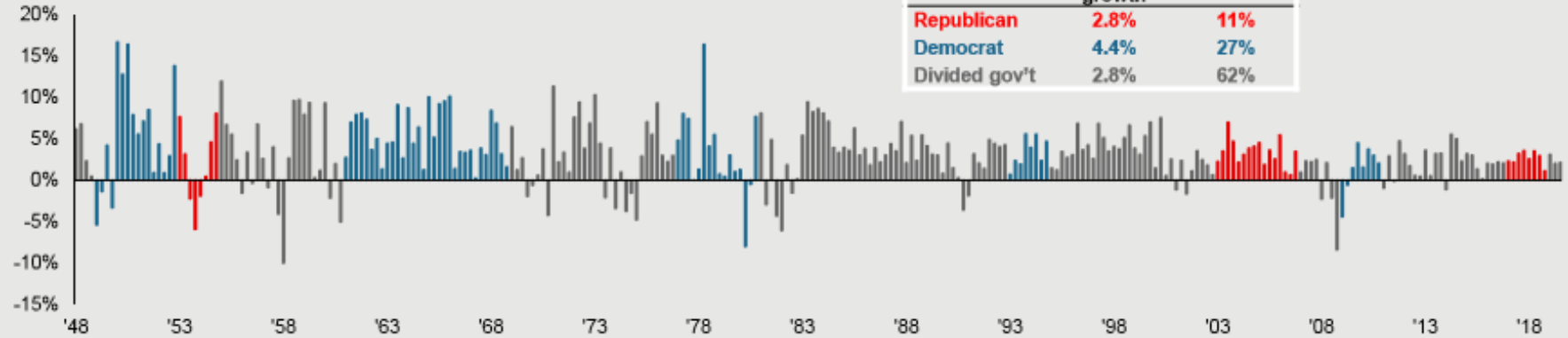
S&P 500 Price Index

Rolling six-month returns



Real GDP

Quarter-over-quarter % change, seasonally adjusted annualized rate



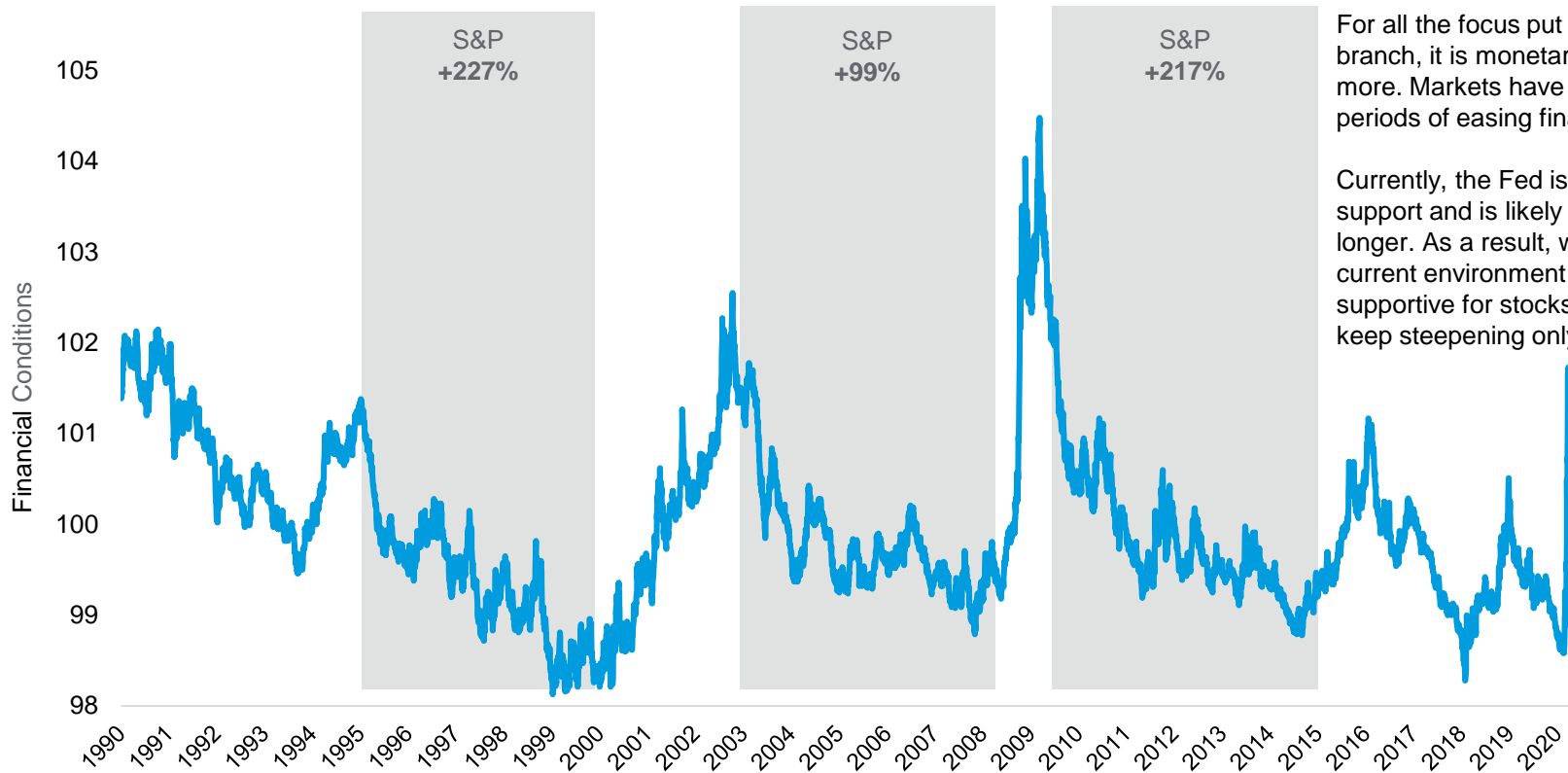
Source: FactSet, Office of the President, J.P. Morgan Asset Management; (Top) Standard & Poor's; (Bottom) Bureau of Economic Analysis. Top chart shows S&P 500 price returns.
Guide to the Markets – U.S. Data are as of December 31, 2019.

Past performance does not indicate future performance and there is a possibility of a loss.



MONETARY POLICY MATTERS MORE

Financial Conditions* and S&P 500 Performance During Easing Conditions



For all the focus put on the executive branch, it is monetary policy that matters more. Markets have done well during prior periods of easing financial conditions.

Currently, the Fed is providing policy support and is likely to keep rates lower for longer. As a result, we would expect the current environment to remain relatively supportive for stocks and the yield curve to keep steepening only modestly.

Sources: Goldman Sachs, Bloomberg L.P., 6/30/20. See index definitions. An investment cannot be made in an index. Past performance does not guarantee future results.

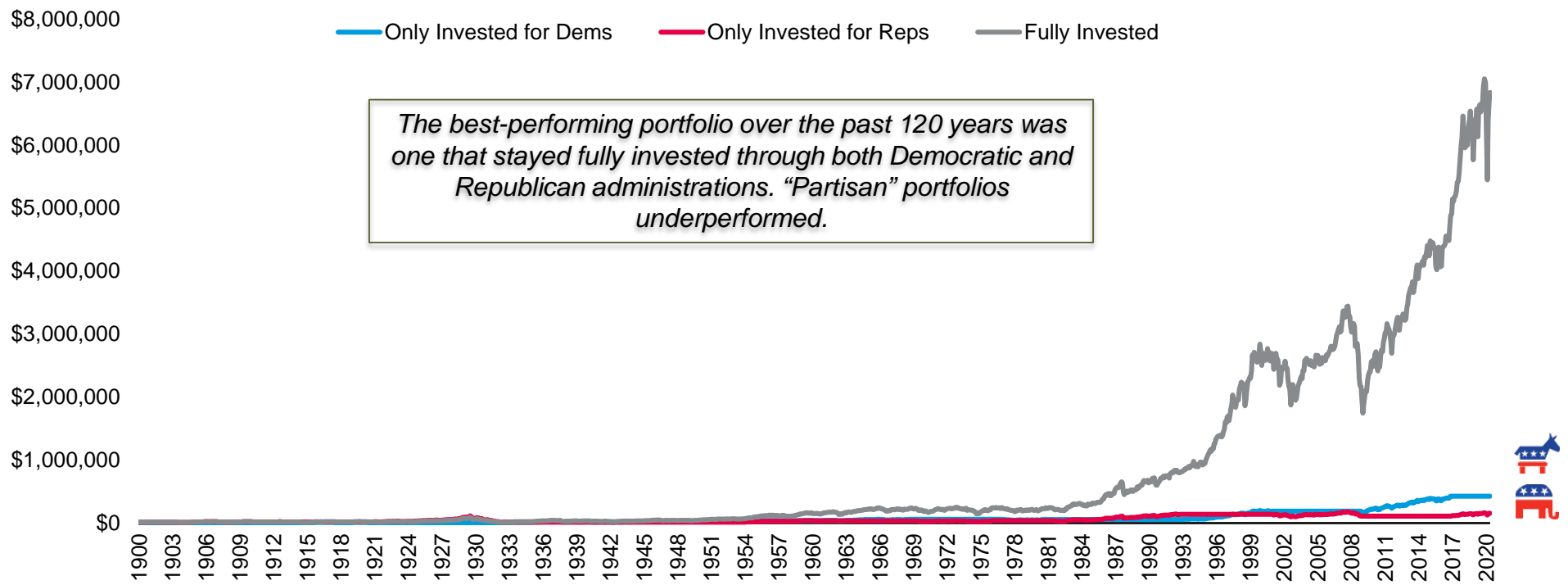
Chart Source: Invesco: 2020 U.S. Election – 10 Truths No Matter Who Wins.

* A weighted average* of:" riskless interest rates; the exchange rate; equity valuations; credit spreads.



INVESTORS ARE BETTER OFF STAYING FULLY INVESTED

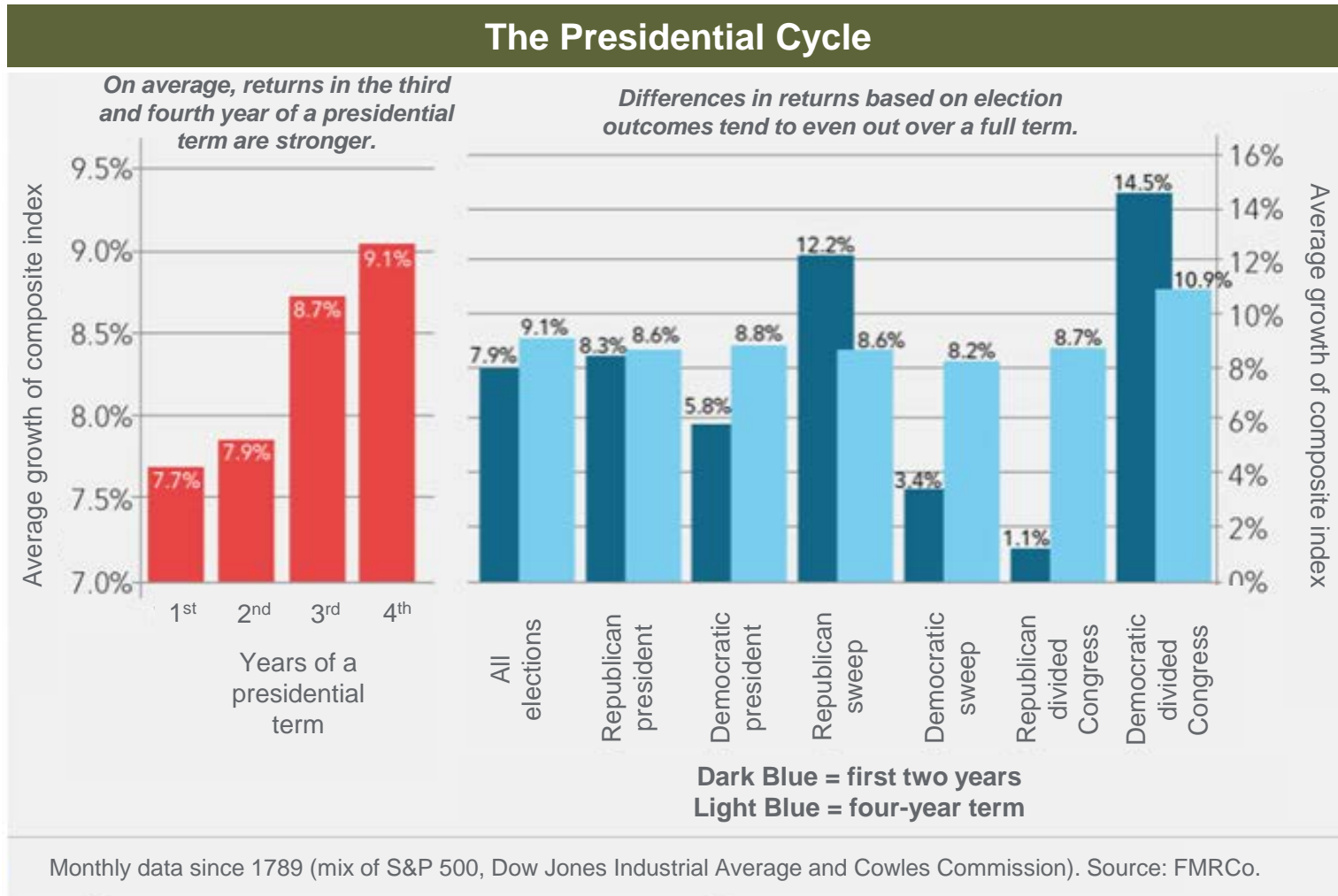
Growth of \$10,000 in the Dow Jones Industrial Average Since 1896



Sources: Haver, Invesco, 6/30/20. For illustrative purposes only. Index definitions can be found on page 12. Past performance does not guarantee future results and there is a possibility of loss.
Chart Source: Invesco: 2020 U.S. Election – 10 Truths No Matter Who Wins.



SHORT-TERM DIFFERENCES, LONG-TERM NEUTRAL



Source: Jurien Timmer, FMRCo.

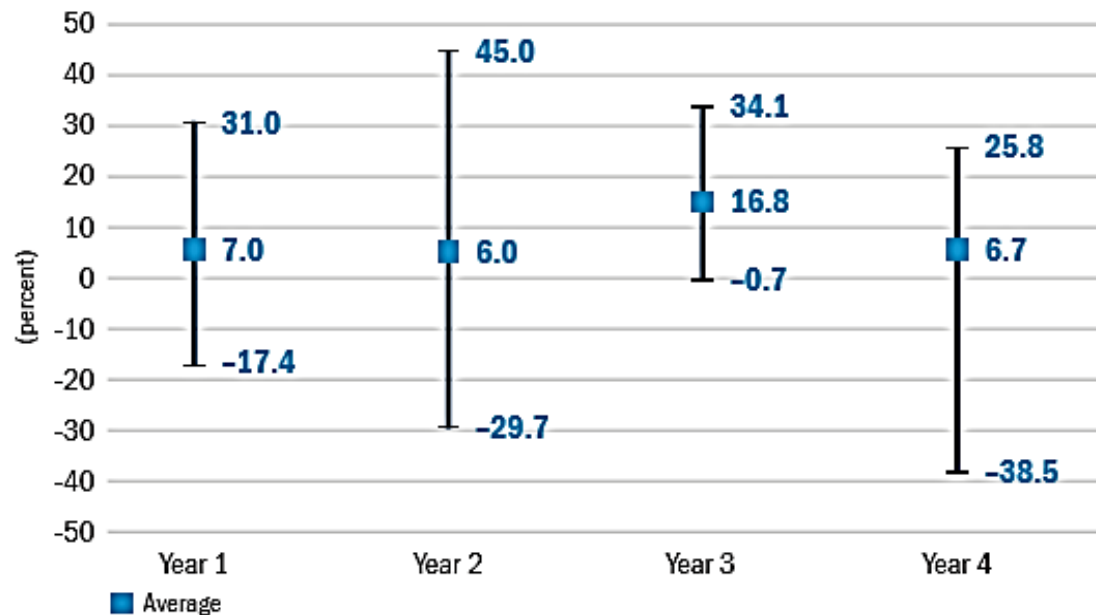
Past performance does not indicate future performance and there is a possibility of a loss.



AVERAGES DON'T TELL THE FULL STORY: ELECTION CYCLE RETURNS ARE NOT PREDICTABLE

▶ Stock market performance can vary widely in election cycles

S&P 500 Index performance in presidential election cycles since 1948



Source: Bloomberg, as of 12/31/19. The S&P 500 Index tracks the performance of 500 widely held, large-capitalization U.S. stocks. It is not possible to invest directly in an index. Past performance does not guarantee future results.

Chart Source: Columbia Management Investment Advisers, LLC.

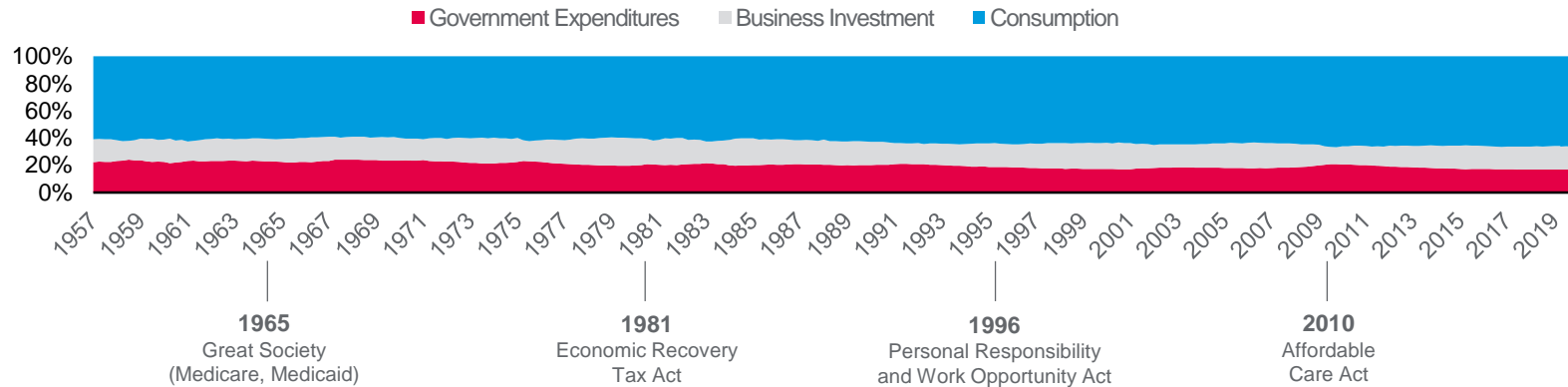
Stocks tend to do the best in the year before a presidential election, as in 2019. Historically, there was only one very modest 0.7% loss in year 3 of a cycle, in 2015. The other three cycle years have seen both large gains and losses.

Year 2 (75%) and year 4 (64%) have the largest range from biggest gain to biggest loss, suggesting anything is possible in 2020 (year 4). Investors should stick to a consistent investment plan rather than taking election cycle theories too seriously.



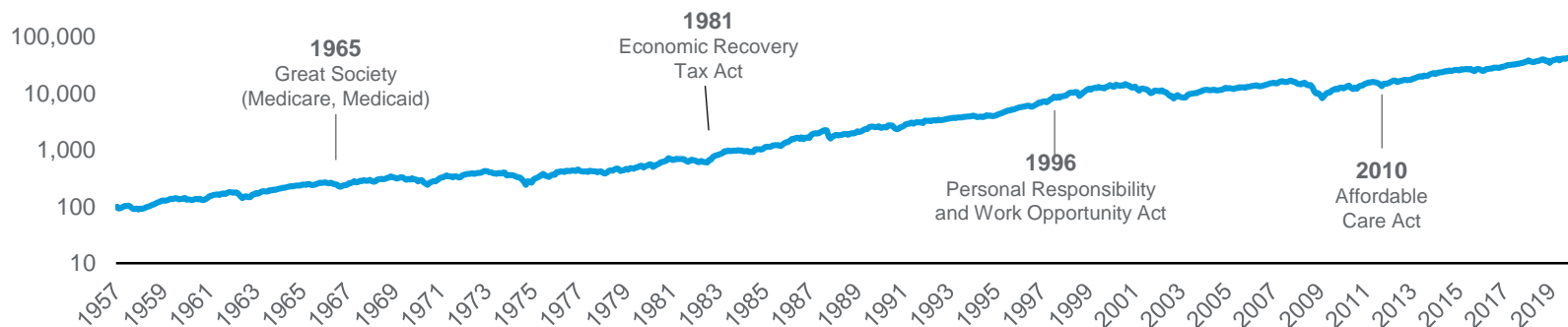
CHECKS AND BALANCES WORK; POLICIES EVOLVE SLOWLY, MARKETS ADAPT

Breakdown of Major Components of GDP as a Percentage of Total Spending In the United States Since 1957



Investors often worry that a progressive candidate will radically re-engineer the economy. Despite concerns about major government policy changes, business investment and government spending have been remarkably consistent as a percent of GDP.

S&P 500 Total Return Index (Growth of \$100)



Despite several major spending programs, the S&P 500 Index returned 10.07% annualized from 1957-6/30/2020.

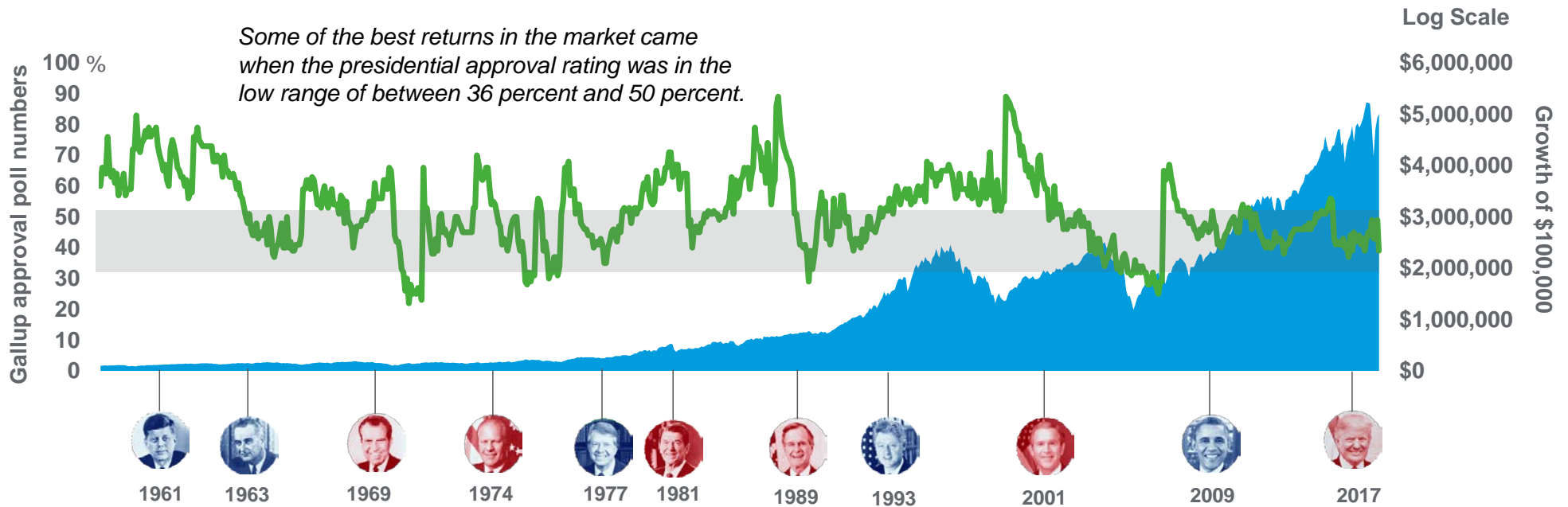
Chart Source: Invesco: 2020 U.S. Election – 10 Truths No Matter Who Wins.

Sources: FRED, Global Financial Data, 6/30/20. Index definitions can be found on page 20. Past performance does not guarantee future results and there is a possibility of loss. Scale is logarithmic.



MARKETS DON'T TAKE POLITICAL SIDES

Gallup Poll Presidential Approval Ratings and the S&P 500 Index Growth of \$100,000



Presidential Approval Rating	Gain/Annum	% of Time
>65	5.4%	13.9%
50-65	4.2%	36.2%
35-50	15.3%	36.8%
<35	-19.7%	6.6%

Chart Source: Invesco: 2020 U.S. Election – 10 Truths No Matter Who Wins.

Source: Bloomberg, L.P., 6/30/20. See index definitions on page 20. An investment cannot be made in an index. Past performance does not guarantee future results and there is a possibility of loss.

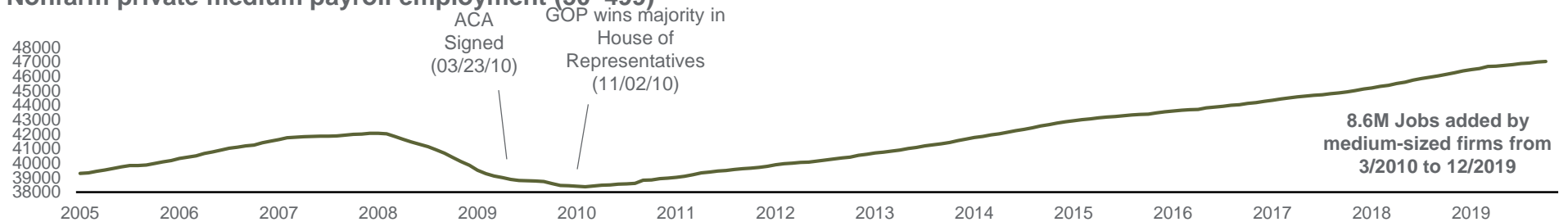


SIGNATURE LEGISLATION IS INFREQUENT AND ITS IMPACT OFTEN UNEXPECTED

Example 1: Patient Protection and Affordable Care Act

Employers with 50 or more full-time employees are considered “large businesses” and are therefore required to offer employee health coverage or pay a penalty.

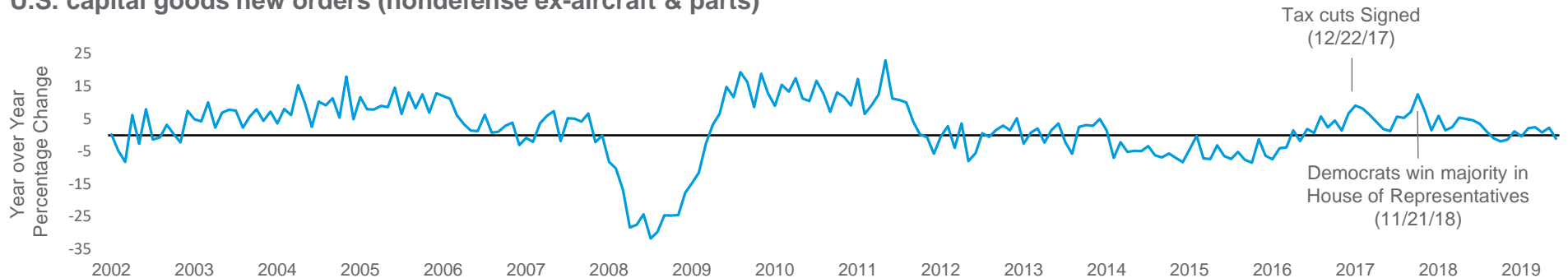
Nonfarm private medium payroll employment (50–499)



Example 2: Tax Cuts and Jobs Act of 2017

Section 179 allows taxpayers to deduct the cost of certain property (such as machinery and equipment purchased for use in trade or business) as an expense when the property is placed in service.

U.S. capital goods new orders (nondefense ex-aircraft & parts)



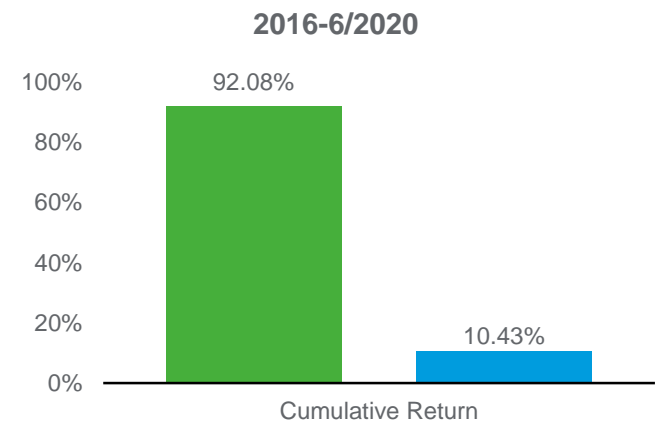
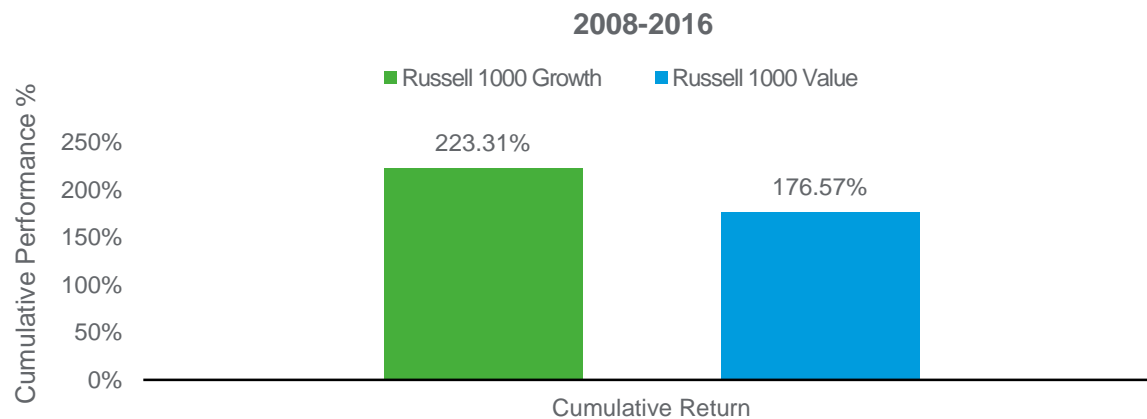
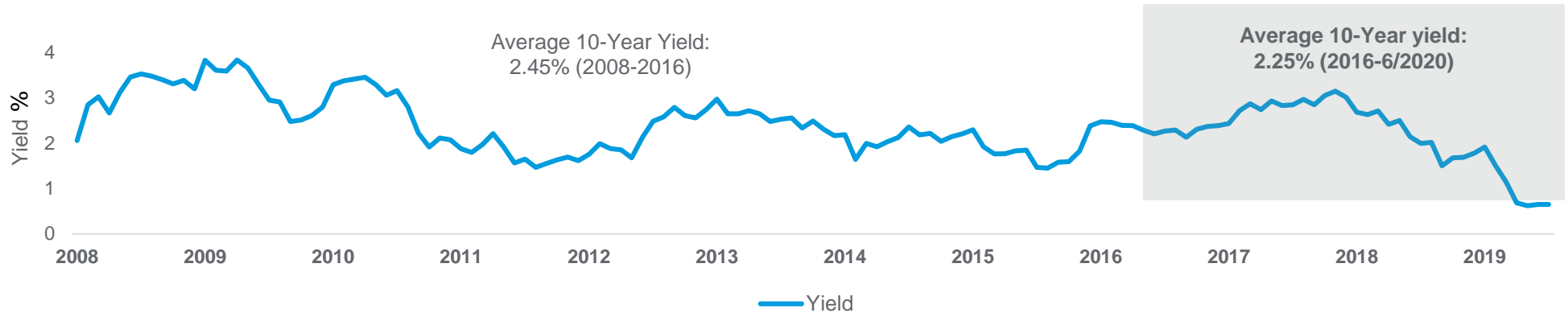
Sources: Bloomberg, L.P., FRED, 3/31/20. Most recent data available. Index definitions can be found on page 20. Past performance does not guarantee future results and there is a possibility of loss.

Chart Source: Invesco: 2020 U.S. Election – 10 Truths No Matter Who Wins.



PREDICTIONS TEND TO BE WRONG

Nominal U.S. 10-Year Yield



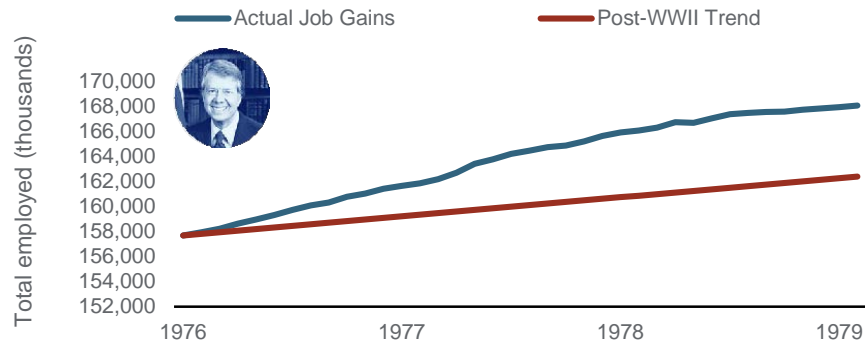
Sources: Bloomberg L.P., Russell, 6/30/20. Index definitions can be found on page 12. Past performance does not guarantee future results and there is a possibility of loss .

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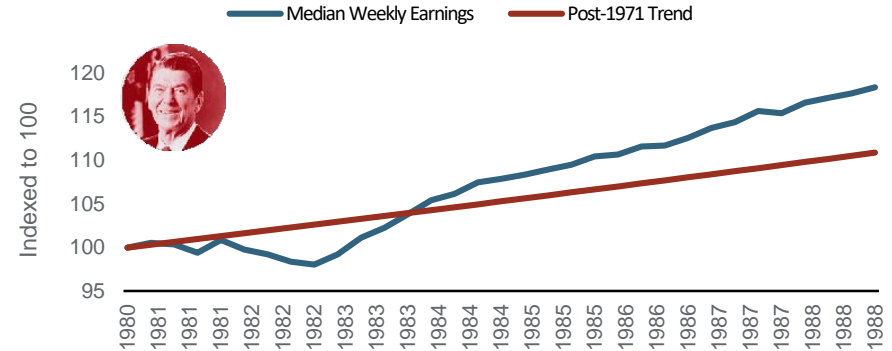


THE HISTORICAL NARRATIVE IS NOT ALWAYS AS YOU REMEMBER IT

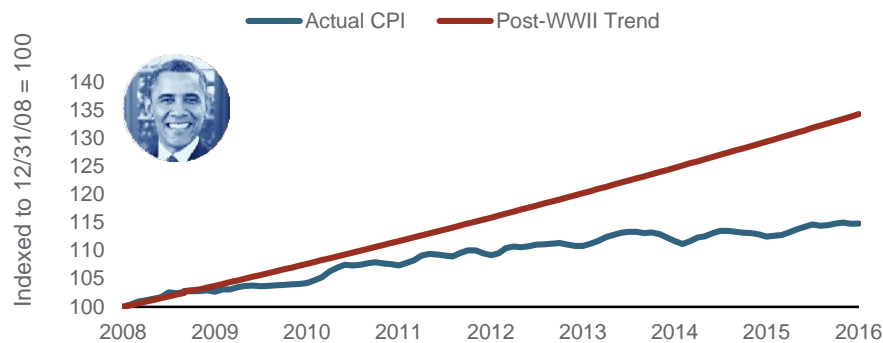
President Jimmy Carter and Jobs Nonfarm payrolls



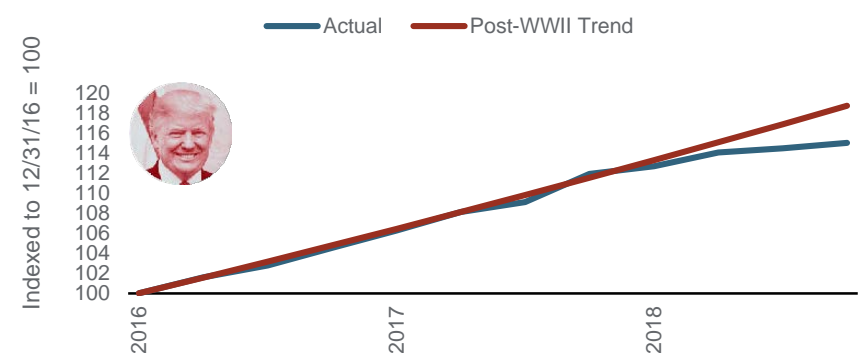
President Reagan and Income Gains Median weekly earning growth



President Barack Obama and Inflation CPI trend vs. actual



President Trump and Business Investment Capital expenditures



Sources: Bureau of Economic Analysis, Bureau of Labor Statistics and Haver Analytics, 3/31/20. Note: Long-term trends are all averages since the end of World War II in 1945 except for Median Weekly Earnings, which is an average of the change since 1971, when data collection began on that statistic. Capital expenditures are not yet available for 6/30/20.

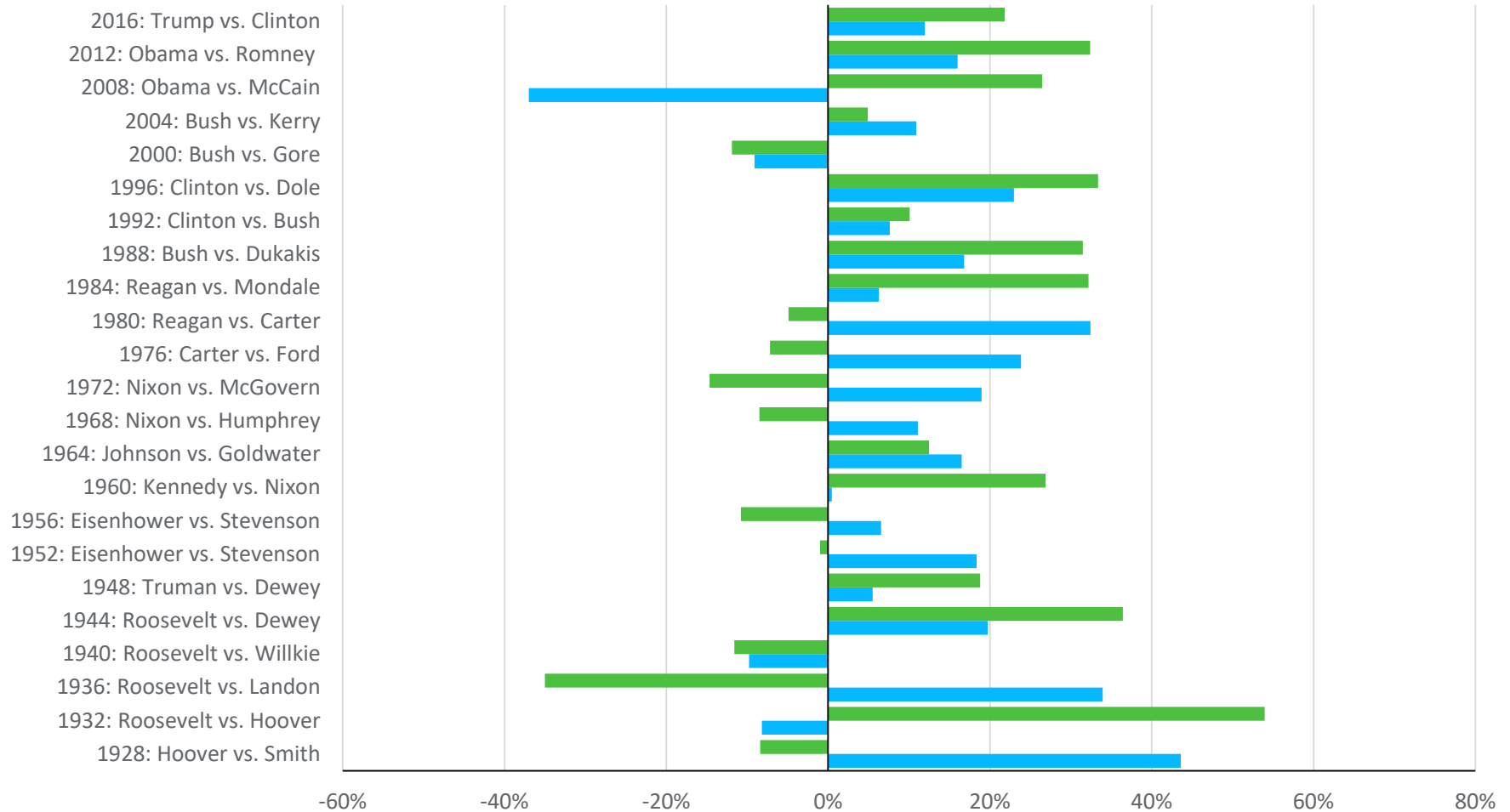
Chart Source: Invesco: 2020 U.S. Election – 10 Truths No Matter Who Wins.



RETURNS DURING AND AFTER ELECTION YEARS

S&P 500 Index: 1928–2017

■ Average Return Year Subsequent to Election = 9.9%
■ Average Return During Election Year = 11.3%



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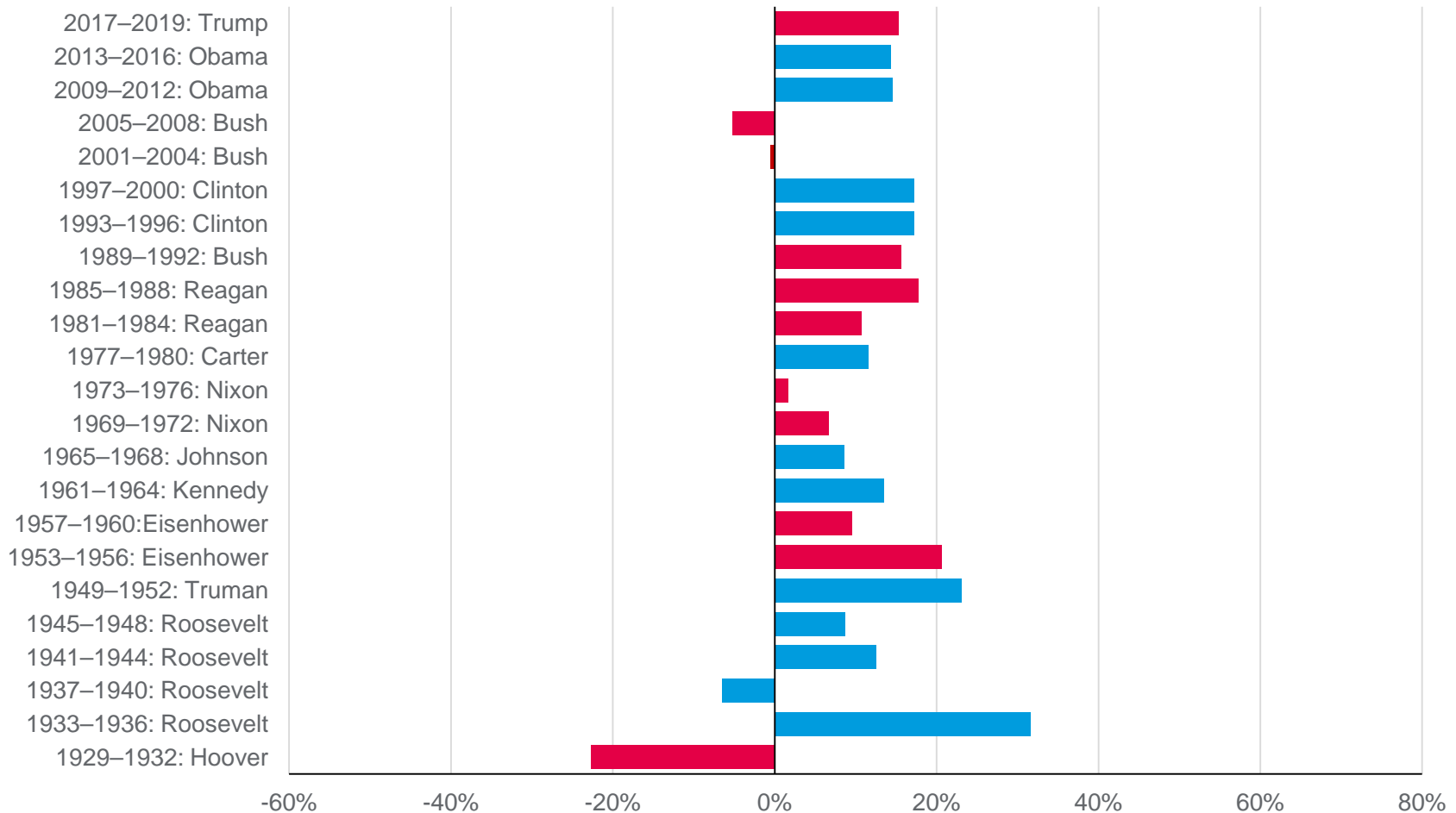
Chart Source: Dimensional Fund Advisors



ANNUALIZED RETURNS DURING PRESIDENTIAL TERMS

S&P 500 Index: 1929–2019

Average Return for Presidential Terms = 10.3%



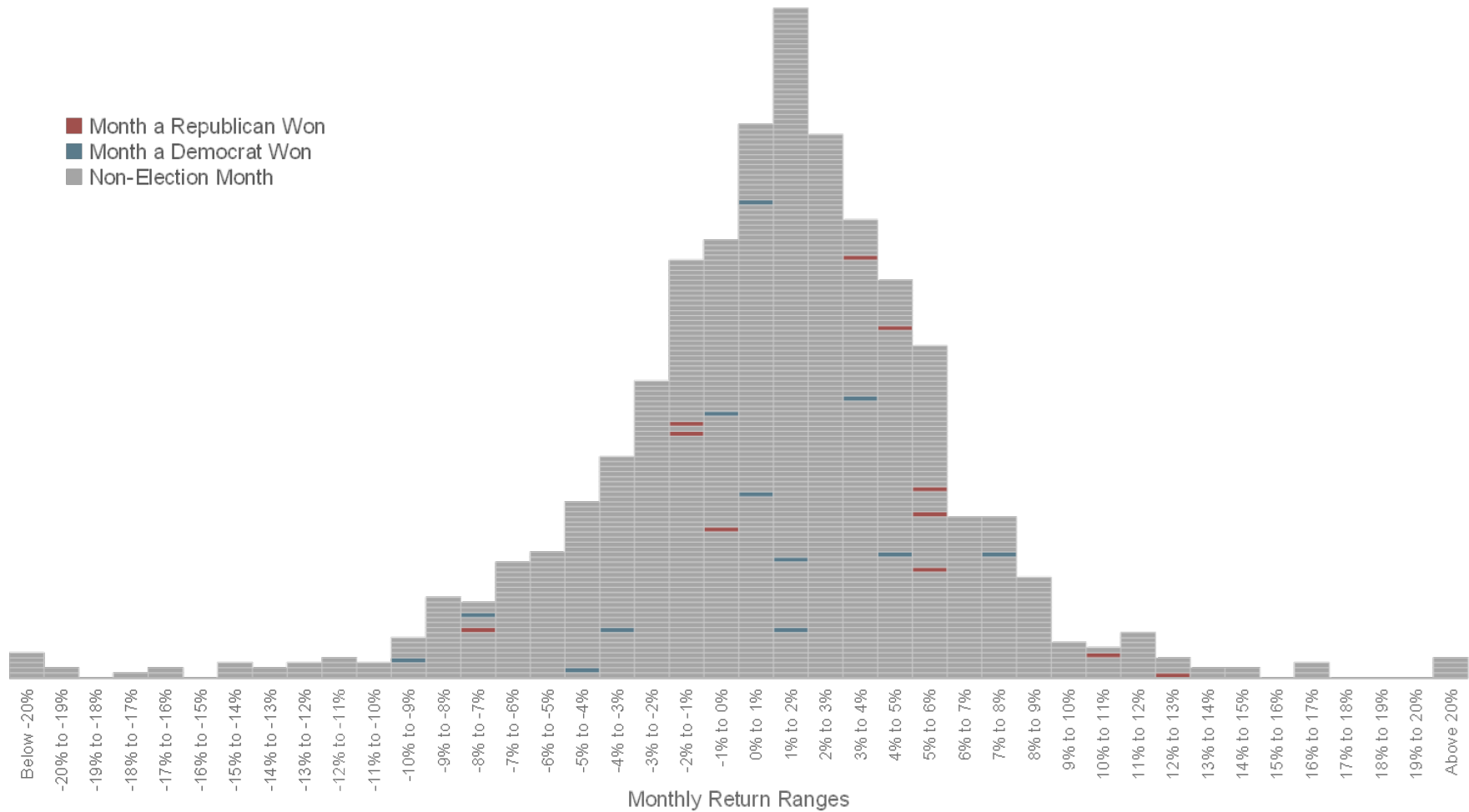
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Chart Source: Dimensional Fund Advisors



PRESIDENTIAL ELECTIONS AND S&P 500 RETURNS

Histogram of Monthly Returns: January 1926–December 2019



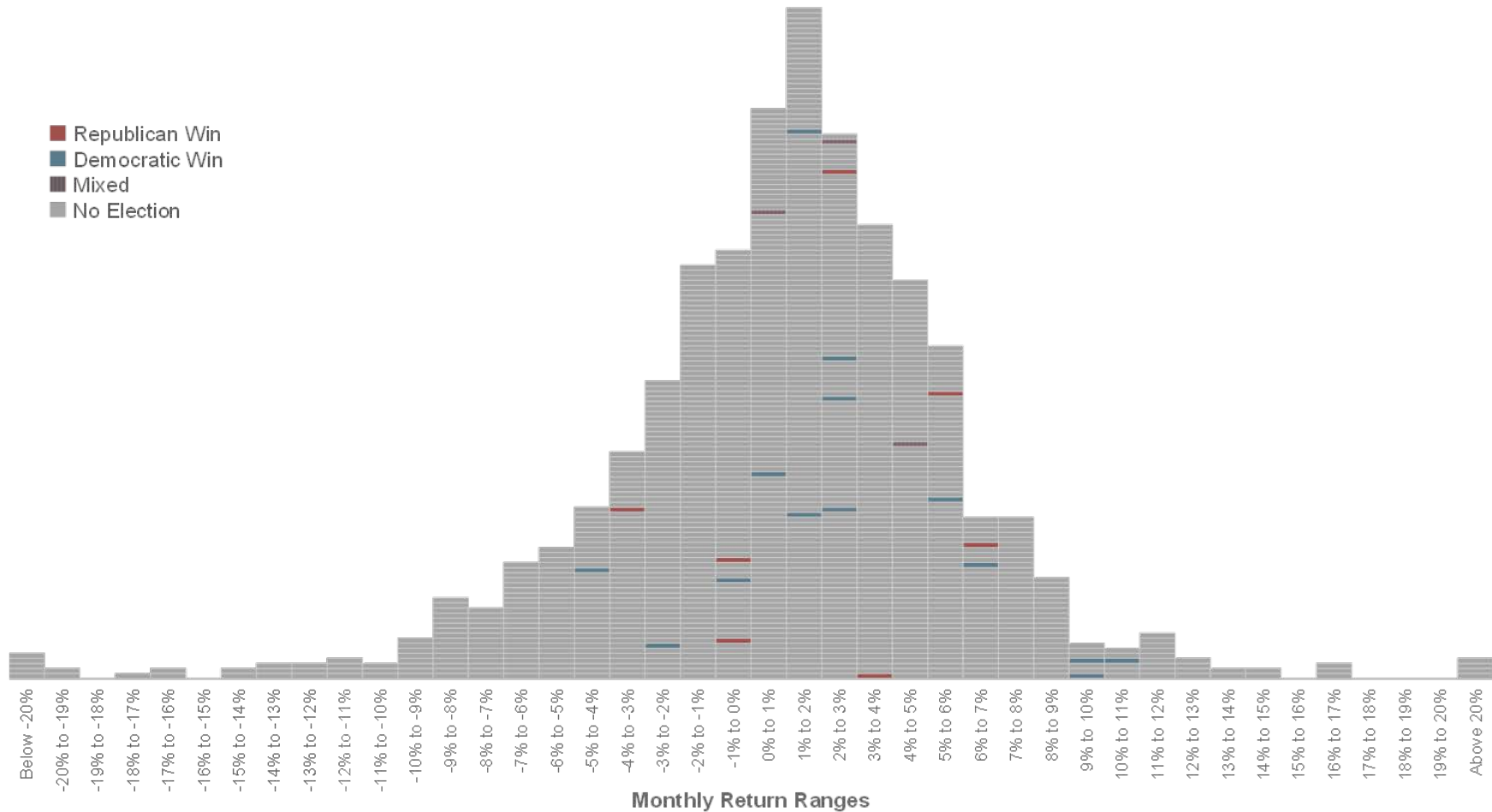
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Chart Source: Dimensional Fund Advisors



MIDTERM ELECTIONS AND S&P 500 INDEX RETURNS

Histogram of Monthly Returns: January 1926–December 2019



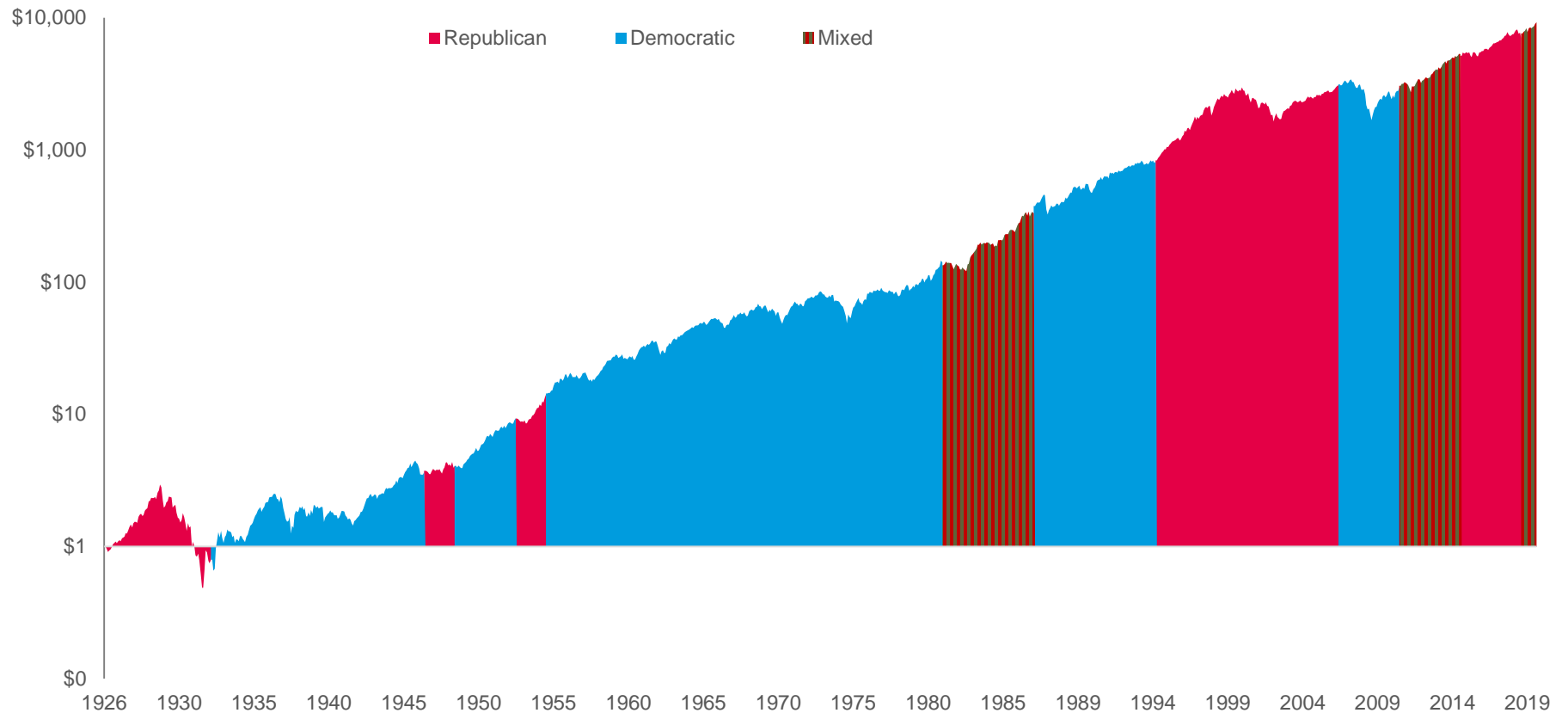
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Chart Source: Dimensional Fund Advisors



HYPOTHETICAL GROWTH OF \$1 INVESTED IN THE S&P 500 INDEX AND PARTY CONTROL OF CONGRESS

January 1926–December 2019



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Chart Source: Dimensional Fund Advisors



INDEX DEFINITIONS

- The Consumer Price Index (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.
- The Dow Jones Industrial Average is a price-weighted index of the 30 largest, most widely held stocks traded on the New York Stock Exchange.
- The S&P 500 Index is a market-capitalization-weighted index of the 500 largest domestic U.S. stocks.
- The Russell 1000 Value is an unmanaged index considered representative of large-cap value stocks. The Russell 1000 Value Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co.
- The Russell 1000 Growth is an unmanaged index considered representative of large-cap growth stocks. The Russell 1000 Growth Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co.
- The Misery Index is an economic indicator calculated by adding the current unemployment rate and the inflation rate.
- Indexes are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance does not guarantee future results.



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