2020: An Election Year Like No Other

October 2020

OVERVIEW

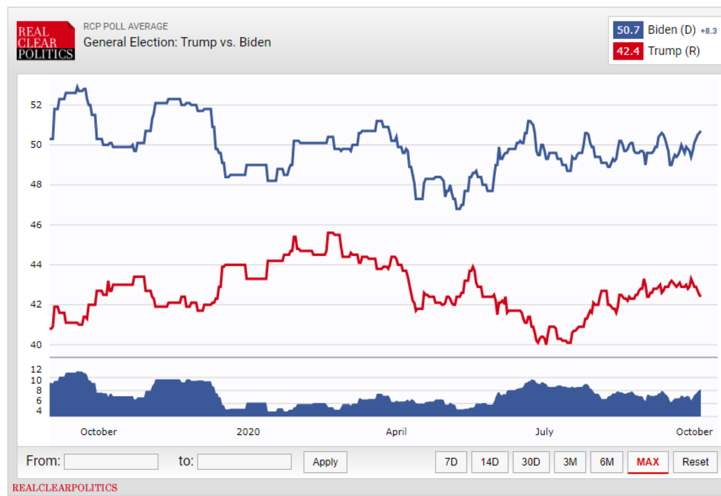
- **Do previous election years provide any useful guidance for a year as unique as 2020?**
- **What are the potential outcomes and portfolio implications?**
- **How should investors position their portfolios?**

Is History Any Guide?

We find ourselves in the fall of 2020 preparing for a general election with a historically unique set of circumstances: a global pandemic, an economic recession, the fastest equity market correction (and subsequent recovery) on record, multiple natural disasters, and social unrest. And if that wasn't enough, we face the potential for a contested election outcome, which could add to market volatility through year end. Can history be of any use in such a year?

While no previous election year contains all of these same variables, we can find some insights by examining the individual effect that some of these variables have had in the past election years. The most recent election year with significant social unrest was 1968, which was a loss for the incumbent party. Regarding the economy, the current recession was triggered by the rapid onset of the COVID-19 pandemic in early 2020, forcing a nationwide shutdown that resulted in a severe economic contraction in the first and second quarters (-5% in Q1 and -32% in Q2). The nationwide lockdown and economic contraction led to a 35% drop in the S&P 500, the first 20% of which occurred in just 16 days. Since 1900, the incumbent party has **only won re-election three times** (out of a total of 11 times) when there was a **20% market decline <u>or</u> a recession** in an election year. Since 1952, **no incumbent party has won re-election when either of these events occurred. In 2020, both of these events have taken place**. However, government stimulus of roughly $4 trillion and support from the Federal Reserve jump-started the market recovery such that by the end of August, the S&P 500 was trading above where it began the year.

Anticipating an election outcome, while never easy, has become increasingly difficult in recent years. In 2016, most polls favored the Democratic candidate, but this was not the election outcome. **However, given a 2% margin of error, the polls did accurately predict the Democratic candidate as the winner of the <u>popular</u> vote in 2016**. The electoral college outcome produced a different result due to narrow wins in several battleground states. Recent polling numbers indicate a **much wider gap between the candidates today**, with 8.3% in favor of the Democratic candidate vs. a 2% gap in 2016:



Potential Outcomes & Portfolio Implications

Because markets tend to go up over time and reflect many underlying variables, **we tend to see little correlation between election outcomes and market returns**:

				S&P 500 Price Performance			
Year	President	Senate	House	Feb - Aug	Sep - Oct	Nov - Jan	Calendar Year
1960	Democrat	Democrat	Democrat	2.4%	-6.3%	15.7%	-3.0%
1964	Democrat	Democrat	Democrat	6.2%	3.7%	3.2%	13.0%
1968	Republican	Democrat	Democrat	7.2%	4.6%	-0.4%	7.7%
1972	Republican	Democrat	Democrat	6.9%	0.4%	4.0%	15.6%
1976	Democrat	Democrat	Democrat	2.0%	0.0%	-0.8%	19.1%
1980	Republican	Republican	Democrat	7.2%	4.2%	1.6%	25.8%
1984	Republican	Republican	Democrat	2.0%	-0.4%	8.2%	1.4%
1988	Republican	Democrat	Democrat	1.7%	6.7%	6.6%	12.4%
1992	Democrat	Democrat	Democrat	1.3%	1.1%	4.8%	4.5%
1996	Democrat	Republican	Republican	2.5%	8.2%	11.5%	20.3%
2000	Republican	Democrat	Republican	8.8%	-5.8%	-4.4%	-10.1%
2004	Republican	Republican	Republican	-2.4%	2.4%	4.5%	9.0%
2008	Democrat	Democrat	Democrat	-6.9%	-24.5%	-14.7%	-38.5%
2012	Democrat	Democrat	Republican	7.2%	0.4%	6.1%	13.4%
2016	Republican	Republican	Republican	11.9%	-2.1%	7.2%	9.5%
Election years ex 2008 (avg)				4.6%	1.2%	4.8%	9.9%
All years ex 2008 (avg)				3.5%	0.8%	4.3%	9.0%

Nevertheless, elections do have consequences for markets, particularly in the short-term if they result in an **unanticipated outcome or policies that adversely impact business**.

The near-term potential **market implications are most pronounced in a unified Democratic scenario** (presidency and both houses of Congress). Areas that would likely be most impacted in this scenario are **taxes** (higher), **regulations** (higher), **healthcare** (increased spending), and **foreign policy** (greater multilateralism). However, the extent and degree to which these policies can ultimately be implemented will depend on the level of consensus within the Democratic party. Any other election outcome will largely result in **divided government and a continuation of the status quo.**

ACG's Position

Facing a year of momentous challenges and uncertainty, investors are well served to **remain patient and maintain portfolio diversification**. Given the low level of current yields and high equity valuations, **maintaining cash at or slightly above target levels** provides for future reinvestment opportunities post-election, when election implications will be more apparent. Investors should also **revisit their current asset allocation and consider rebalancing**, particularly in equity asset classes where the market recovery has resulted in overweight allocations relative to target.

231 South Bemiston Avenue ♦ 14th Floor ♦ Saint Louis, Missouri 63105 ♦ 314-862-4848 (ph) ♦ www.acgnet.com

Disclosures and Legal Notice

The views expressed herein are those of Asset Consulting Group (ACG). They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

This report was prepared by ACG for you at your request. Although the information presented herein has been obtained from and is based upon sources ACG believes to be reliable, no representation or warranty, express or implied, is made as to the accuracy or completeness of that information. Accordingly, ACG does not itself endorse or guarantee, and does not itself assume liability whatsoever for, the accuracy or reliability of any third party data or the financial information contained herein.

Certain information herein constitutes forward-looking statements, which can be identified by the use of terms such as “may”, “will”, “expect”, “anticipate”, “project”, “estimate”, or any variations thereof. As a result of various uncertainties and actual events, including those discussed herein, actual results or performance of a particular investment strategy may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making investment decisions. ACG has no duty to update or amend such forward-looking statements.

The information presented herein is for informational purposes only and is not intended as an offer to sell or the solicitation of an offer to purchase a security.

Please be aware that there are inherent limitations to all financial models, including Monte Carlo Simulations. Monte Carlo Simulations are a tool used to analyze a range of possible outcomes and assist in making educated asset allocation decisions. Monte Carlo Simulations cannot predict the future or eliminate investment risk. The output of the Monte Carlo Simulation is based on ACG’s capital market assumptions that are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. Capital market assumptions based on other models or different estimates may yield different results. ACG expressly disclaims any responsibility for (i) the accuracy of the simulated probability distributions or the assumptions used in deriving the probability distributions, (ii) any errors or omissions in computing or disseminating the probability distributions and (iii) and any reliance on or uses to which the probability distributions are put.

The projections or other information generated by ACG regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Judgments and approximations are a necessary and integral part of constructing projected returns. Any estimate of what could have been an investment strategy’s performance is likely to differ from what the strategy would actually have yielded had it been in existence during the relevant period. The source and use of data and the arithmetic operations used for calculating projected returns may be incorrect, inappropriate, flawed or otherwise deficient.

Past performance is not indicative of future results. Given the inherent volatility of the securities markets, you should not assume that your investments will experience returns comparable to those shown in the analysis contained in this report. For example, market and economic conditions may change in the future producing materially different results than those shown included in the analysis contained in this report. Any comparison to an index is for comparative purposes only. An investment cannot be made directly into an index. Indices are unmanaged and do not reflect the deduction of advisory fees.

This report is distributed with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters. No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.