ACADEMY FINANCIAL, INC.

EVALUATE • ENVISION • EXECUTE

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Presidential Elections and Markets

"Listening to and understanding our client's financial goals allows us to provide the highest level of investment planning advice and service."

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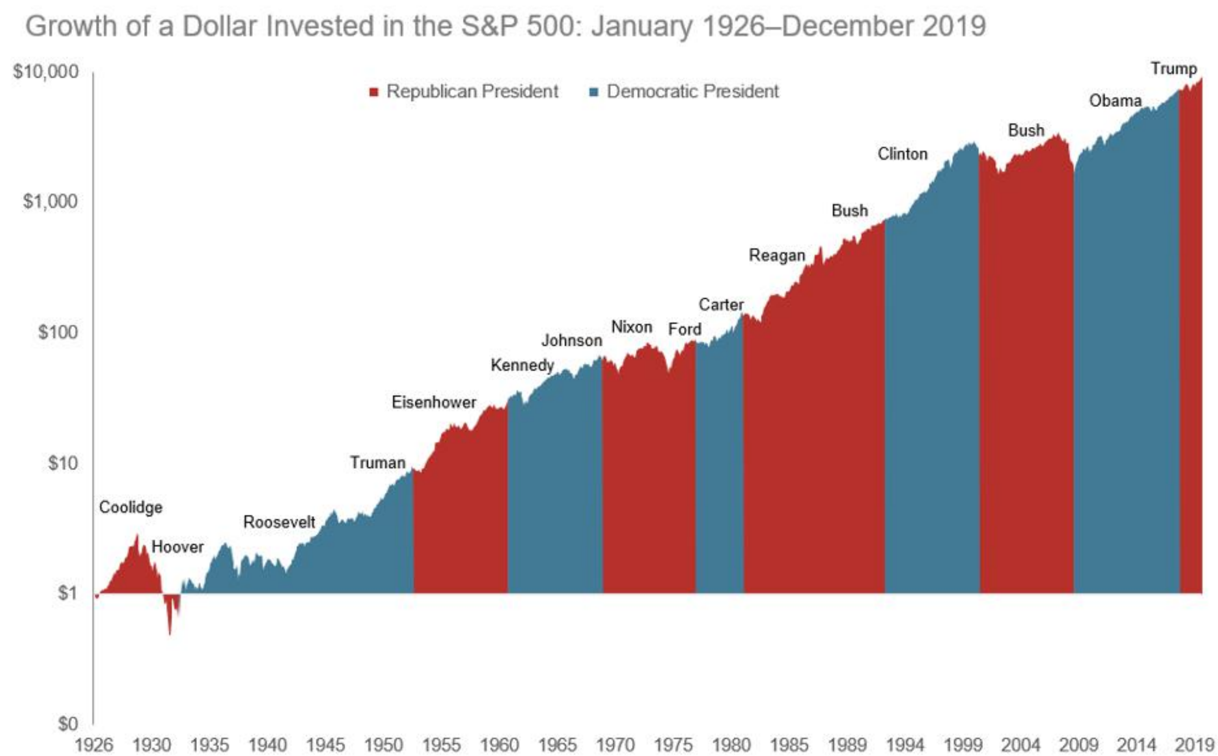
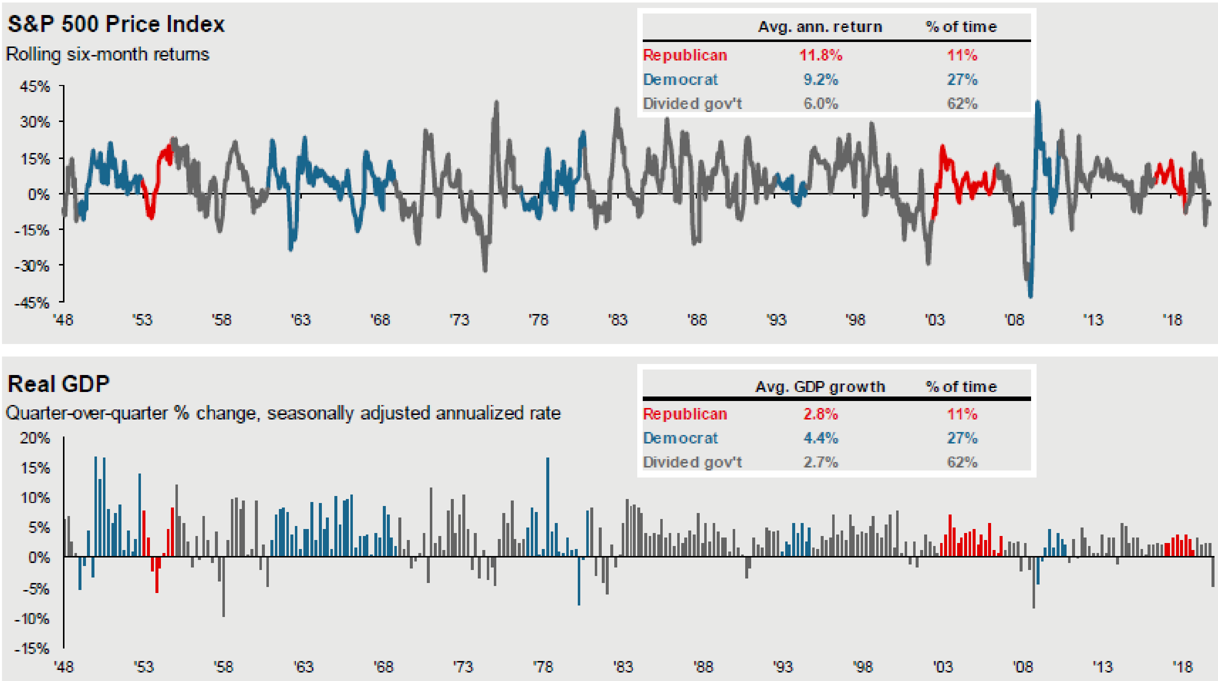
Past and Present Elections:

"How will the election affect my investments?" is one of the many questions that comes up today as we review our finances and our overall financial planning. The answer is two-fold, both straight forward and somewhat complex. Based on past performance of over 100 years, it doesn't matter who the president was, or which party was in power (Chart 1). The second part is attempting to analyze the counter-factual. Meaning, in any given election, if the other party/candidate had won, would markets have performed better or worse. Then, attempting to predict the market move without the benefit of hindsight. For example, would the 1980s and beyond have been better or worse if President Carter had won re-election?



https://www.forbes.com/sites/kristinmckenna/2020/08/18/heres-how-the-stock-market-has-performed-before-during-and-after-presidential-elections/#13ea8f214f86

Another component related to politics is comparing divided government vs. one party rule (Chart 2). Again, the party in power, or split government makes no real difference based on history. We have the same challenge considering hypotheticals.



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 June 30, 2020.

There are additional variables related to the political intersection with markets. How much impact do taxes, regulations, interest rates, geopolitical conflict, internal U.S. conflict, each have on various markets? How effective are the president and congress enacting their policies any of which may be positive or negative to markets? The other significant variable is timing and time-shift of policy affects. Let's assume that low taxes are a benefit to markets. The benefit could come in anticipation of new tax policy, as it passes into law, or over time as the benefits spread to the economy. Apply that same timing uncertainty to the various interplay of politics and markets and being able to predict how political elections will impact markets becomes a coinflip.

So, what to do. Your investments and financial plan are custom to you. Staying diversified allows you to participate in the upside the market provides while distributing risk of the downside across the various sectors. Attempting to time the market based on presidential elections is like attempting to time the market for any other significant event. Many times you can be right and just as often you can be wrong. That said, if elections or other life events highlight market concerns you may have, then your risk profile should be reviewed. Your Academy Financial planner is here to help.

Sources of data –Wall Street Journal, CNBC, Abbott Laboratories, Thermo Fisher Scientific, Moderna Pharma, S&P Global, MSCI, Russell. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Three-year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Russell 2500 Index measures the performance of the 2,500 smallest companies (19% of total capitalization) in the Russell 3000 index. The S&P 500 index measures the performance of 500 stocks generally considered representative of the overall market. The Wilshire REIT Index is designed to offer a market-based index that is more reflective of real estate held by pension funds.

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