

# 2020 ELECTION

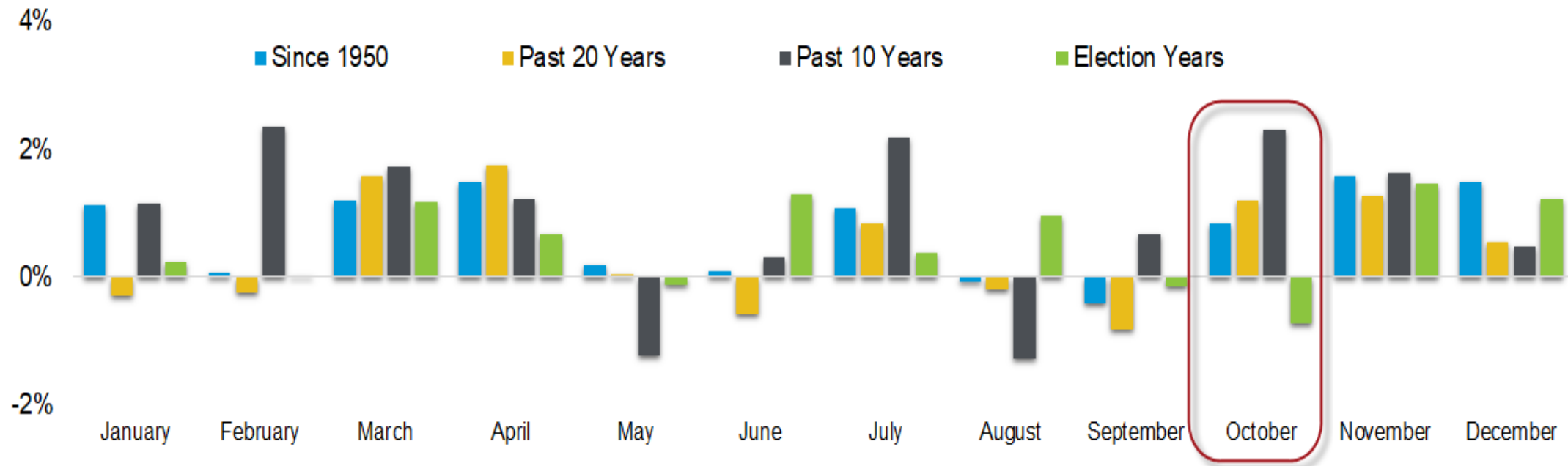


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# October Surprise

## Which Is It? October Has Been Strong Lately, But Weak During Election Years

S&P 500 Index Average Monthly Returns (1950 - 2019)

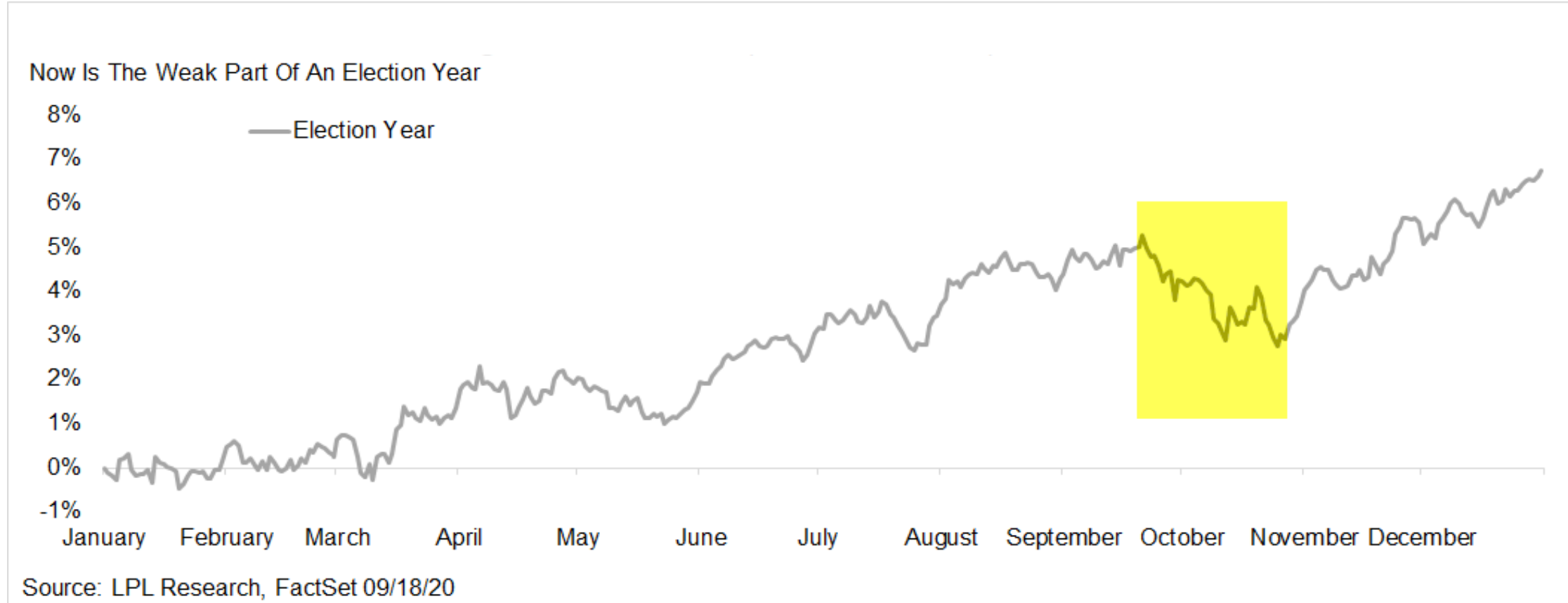


Source: LPL Research, FactSet 09/30/20 (1950-Current)

All Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1928 incorporates the performance of predecessor index, the S&P 90.

# S&P 500 Performance During Election Years (1950 – Current)



Source: LPL Research, FactSet 09/18/20

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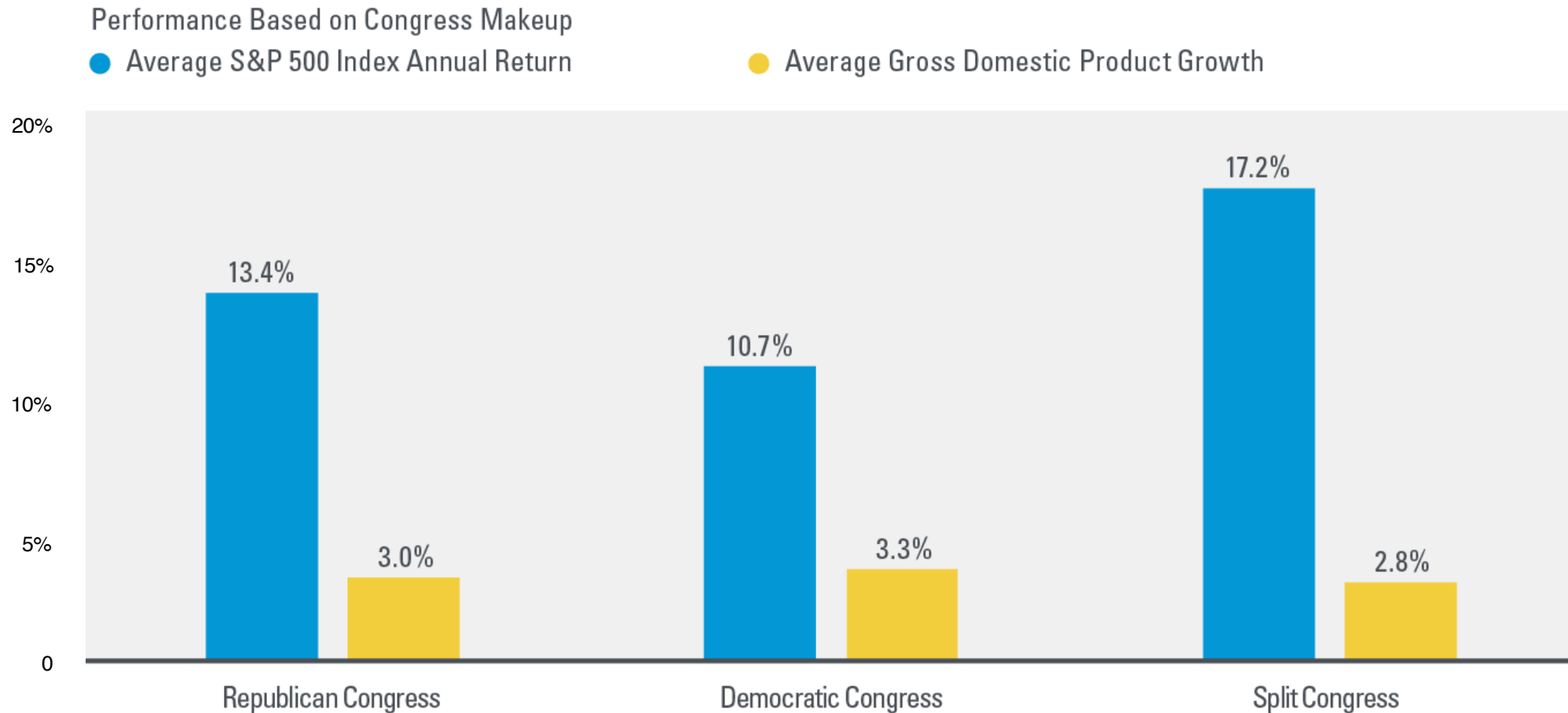
# Election May Be Closer Than Polls Suggest

*Strategas' Election Model: S&P 500, US Dollar, GDP, & Presidential Approval Rating*

Election	Incumbent Party	Predicted Two-Party Vote	Actual Two-Party Vote	Difference
1988	George H.W. Bush	53.90%	53.90%	0.00%
1992	George H.W. Bush	46.50%	47.80%	-1.30%
1996	Bill Clinton	54.60%	54.70%	1.10%
2000	Al Gore	50.95%	50.26%	0.69%
2004	George W. Bush	52.60%	51.20%	1.40%
2008	John McCain	39.00%	46.30%	-7.30%
2012	Barack Obama	52.25%	52.00%	0.25%
2016	Hillary Clinton	51.44%	51.11%	0.33%
2020	Donald Trump	51.08%	???	
<b>Difference</b>				<b>-0.75%</b>
<b>Difference ex-2008</b>				<b>0.18%</b>
<b>Re-Elections</b>				<b>0.25%</b>

Source: LPL Research, Strategas 10/5/20

# Historically, A Split Congress Has Been Positive for Stocks



Source: LPL Research, Bloomberg 06/30/20

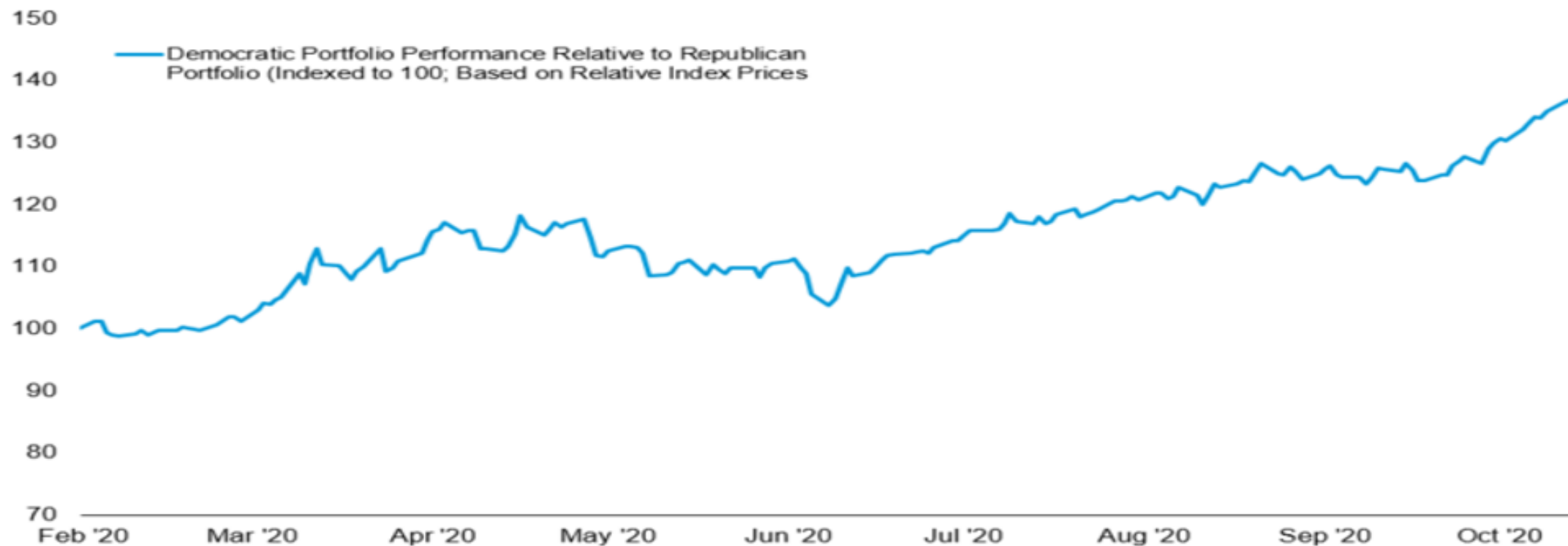
Data are from 1950–2019.

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# Winners Under A Biden Victory

- Infrastructure Bill
  - Republicans less likely due to budget deficits
- Cyclical
  - Do better under Democratic Presidents and when incumbent party loses
- Renewable Energy
  - Move away from fossil fuels
- Trade Policy
  - China and Germany benefit
- Immigration Reform
- Marijuana Legalization
- Guns
  - More regulation means more gun sales

# Stocks Signaling Biden's Odds May Be Rising



Source: LPL Research, Strategas Research Partners 10/13/20

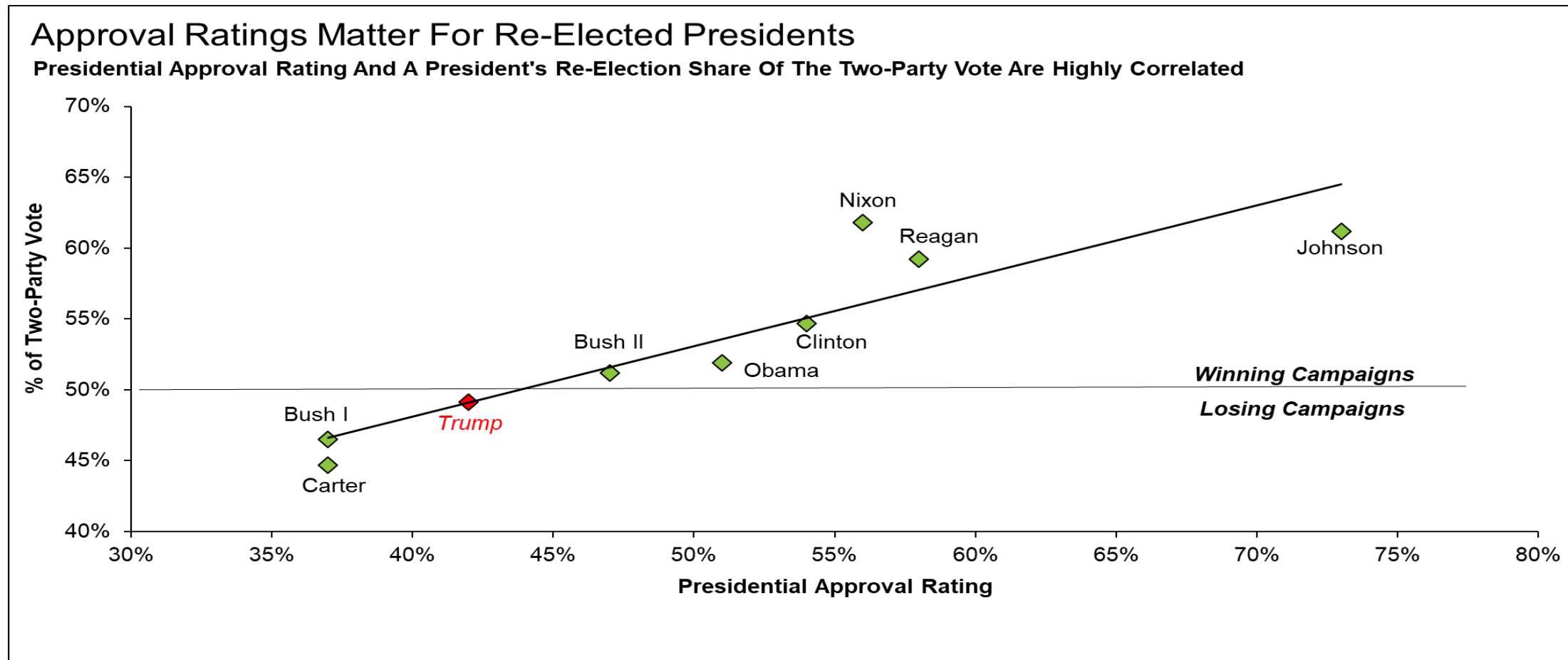
All indexes are unmanaged and cannot be invested into directly.

Strategas Research Partners' Democratic and Republican portfolios are proprietary portfolios of 30 individual stocks and ETFs that may perform well due to the policy implications of a Democratic or Republican Presidency, respectively. The relative performance of the portfolios may help signal market participants' shifting beliefs about the election outcome as they price in the possibility of a Biden or Trump victory in November.



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# Supports Joe Biden



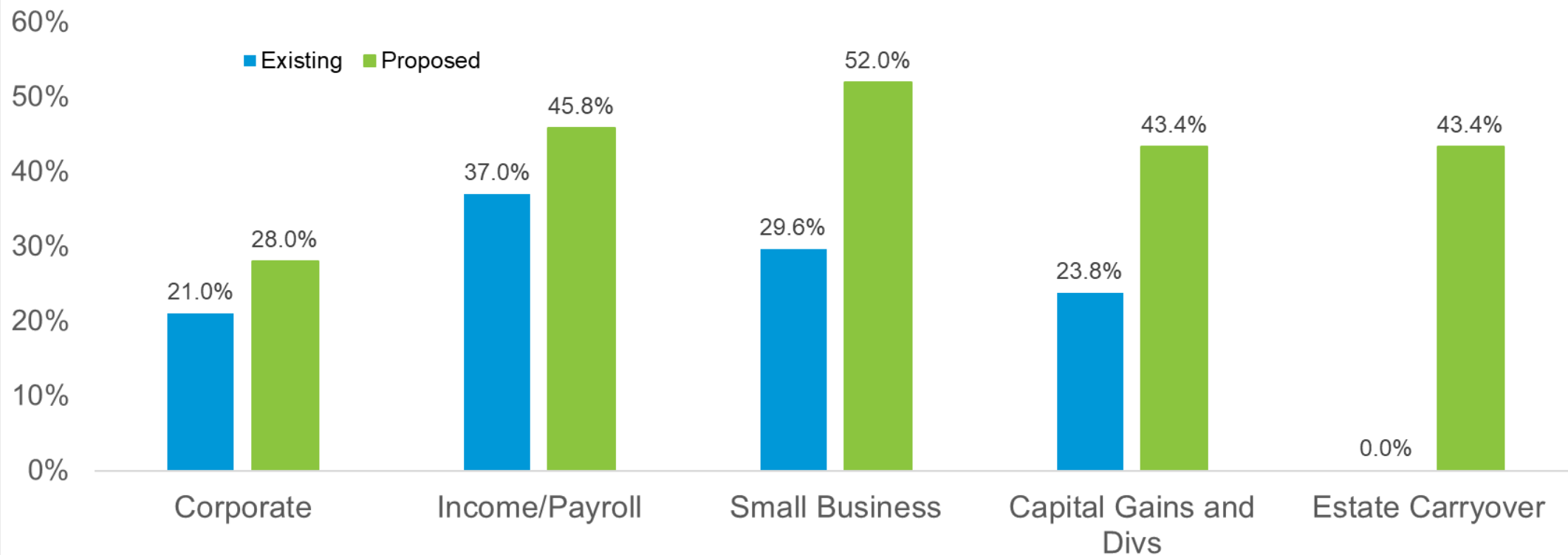
Source: LPL Research, Strategas, Bureau of Labor Statistics – 7/31/20



# Taxes Are Probably Going Higher

## Biden's Proposed Tax Rates

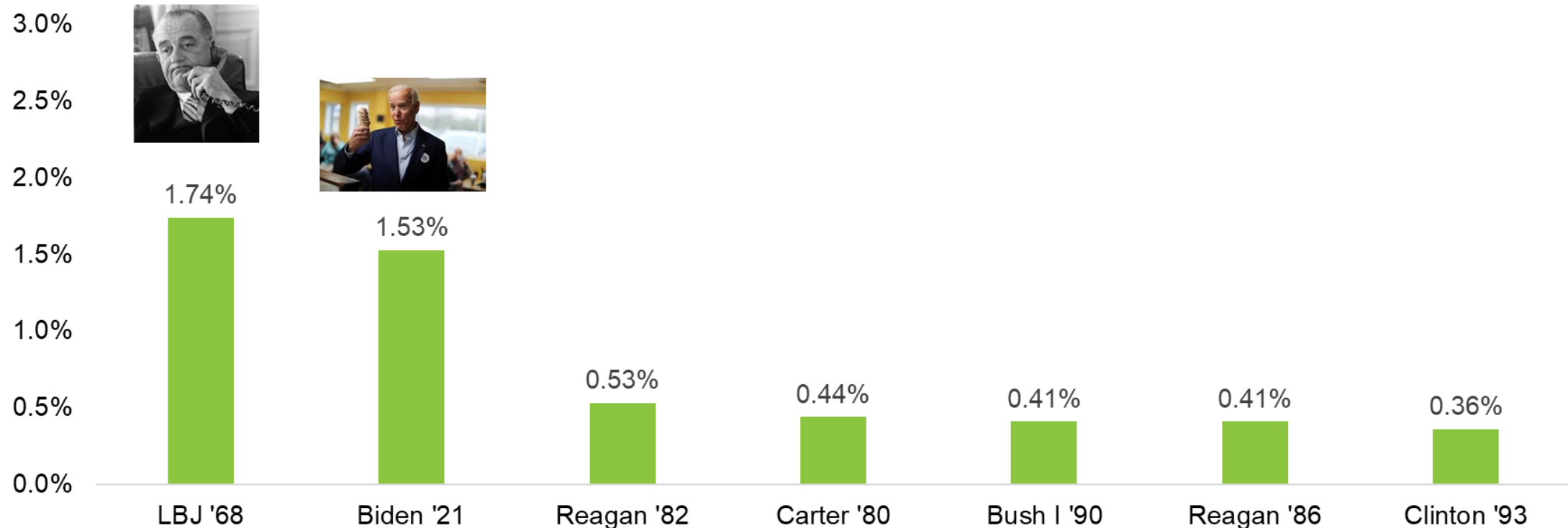
Big Jumps Could Be In The Cards



# Taxes Are Probably Going Higher

## The Proposed Biden Tax Increase Would Be The Largest Since LBJ

Tax Increase As A % Of GDP



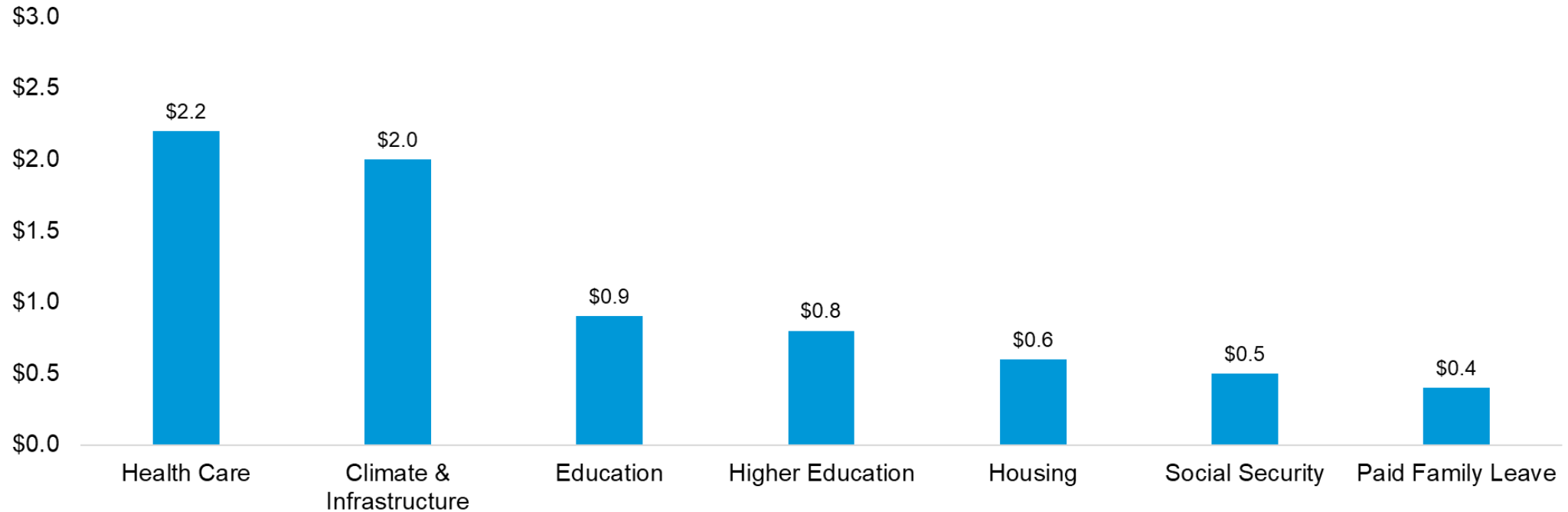
Source: LPL Research, Strategas, FactSet 09/27/20

# But So Is Spending

## Presidential Candidate Joe Biden's Proposed Spending Initiatives

Proposing \$7 Trillion In Spending Next 10 Years

\$ Trillions

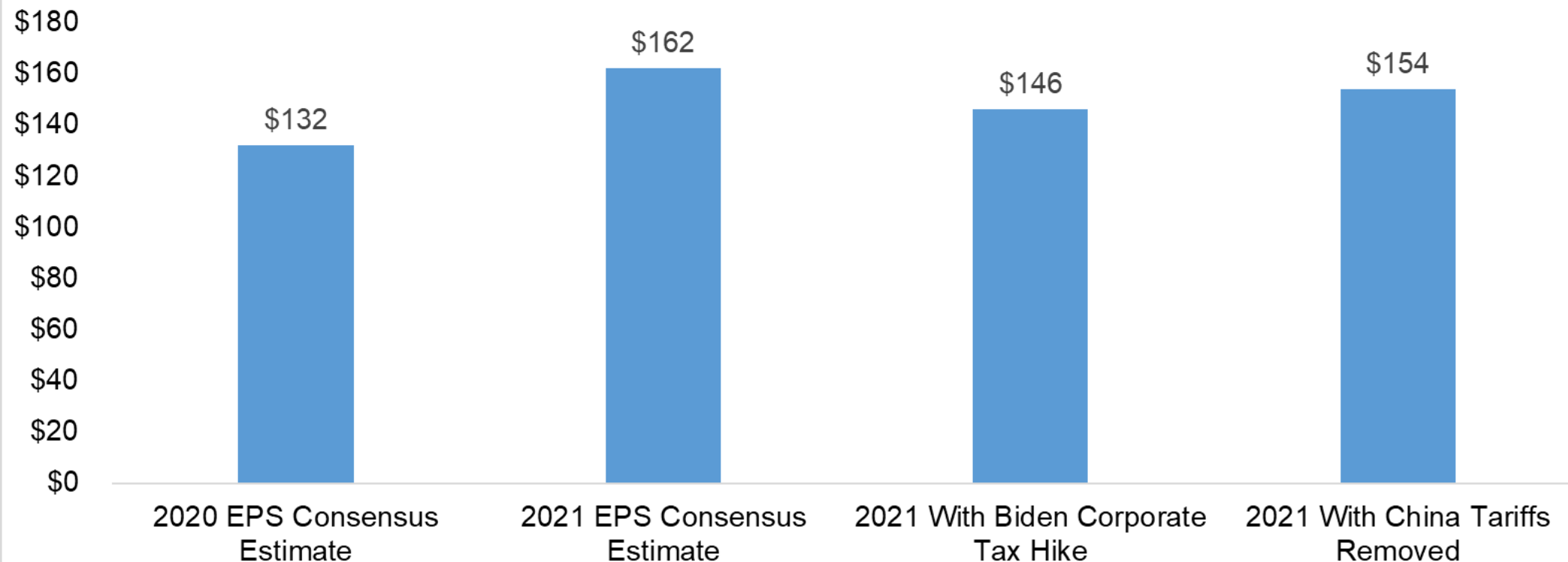


Source: LPL Research, Strategas, FactSet 10/15/20

# What Happens To Earnings?

## Consensus EPS Estimates Based On Various Scenerios

The Biden Corporate Tax Increase May Potentially Reduce S&P 500 EPS Estimates By 10%



Source: LPL Research, Strategas, FactSet 09/08/20

# Don't Fear A Dem Sweep

## Should A Democratic Sweep Scare Markets? Probably Not

S&P 500 Index Returns When Democrats Controlled The White House and Congress

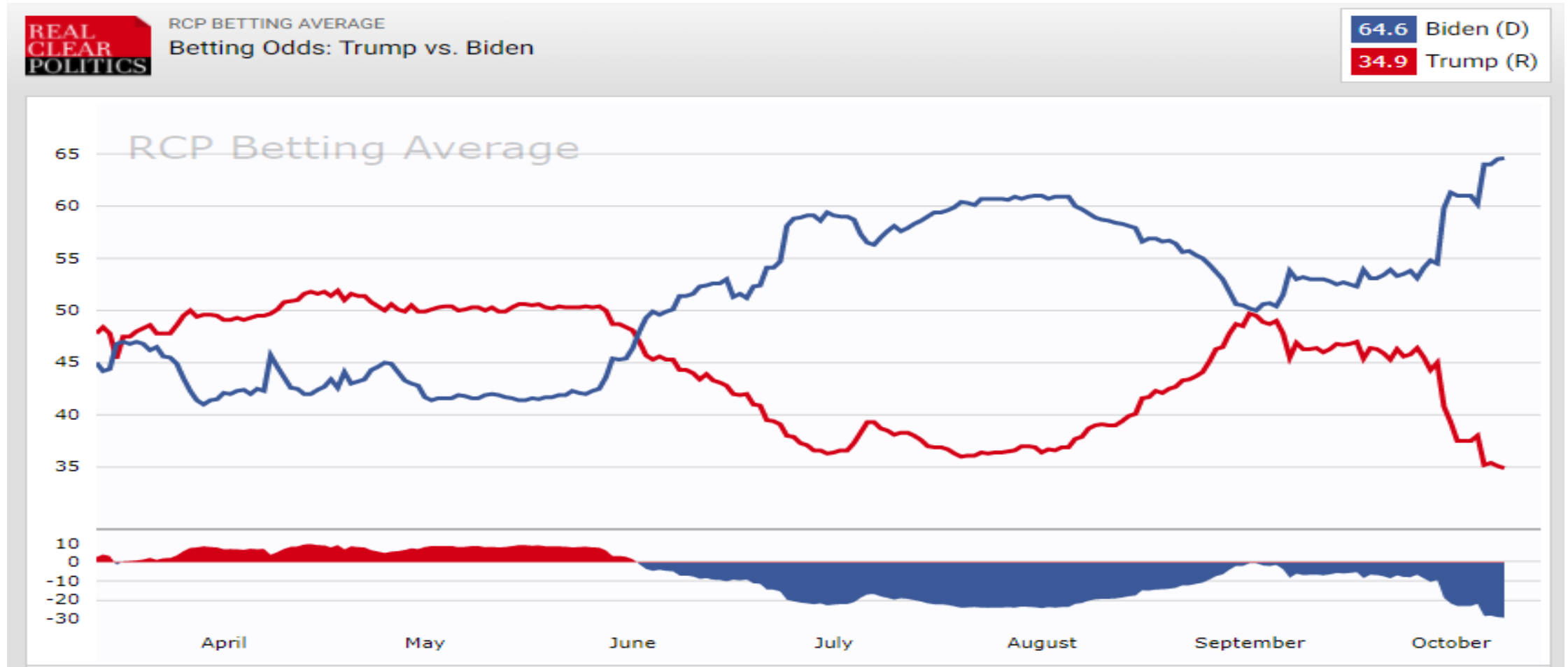
Year	President	S&P 500 Index Return
1951	Harry Truman	23.7%
1952	Harry Truman	18.2%
1961	John F. Kennedy	26.6%
1962	John F. Kennedy	-8.8%
1963	John F. Kennedy/Lyndon B. Johnson	22.6%
1964	Lyndon B. Johnson	16.4%
1965	Lyndon B. Johnson	12.4%
1966	Lyndon B. Johnson	-10.0%
1967	Lyndon B. Johnson	23.8%
1968	Lyndon B. Johnson	10.8%
1977	Jimmy Carter	-7.0%
1978	Jimmy Carter	6.5%
1979	Jimmy Carter	18.5%
1980	Jimmy Carter	31.7%
1993	Bill Clinton	10.0%
1994	Bill Clinton	1.3%
2009	Barrack Obama	25.9%
2010	Barrack Obama	14.8%
Average		13.2%
Median		15.6%
% Positive		83.3%

Source: LPL Research, FactSet 07/14/20 (1950-Current)

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# Election odds have moved in favor of Biden but...



Source: realclearpolitics.com accessed 10/9/20

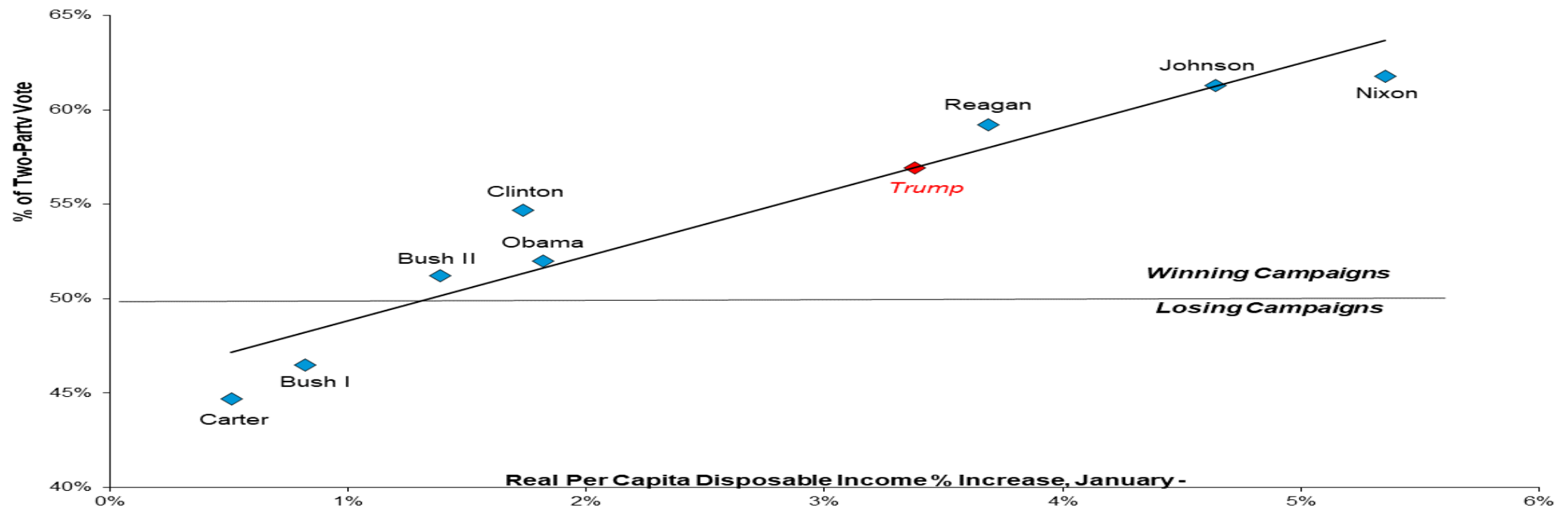
# Winners Under A Trump Victory

- Energy
  - Democrats tougher due to climate change
- Defense and Aerospace
- Financials
  - More de-regulation
- Utilities, communication services, financials and consumer discretionary
  - Hurt by Biden tax hikes
- For-Profit Prisons
- For-Profit Education
  - De-regulation and hands off approach to student lenders
- Materials
  - More deregulation
- Technology Regulations
  - Democrats likely have more regulation on big tech

# Support President Trump

## Higher Incomes Help Presidents Win Re-Elections

Real Per Capita Disposable Income Growth And A President's Re-Election Share Of The Two-Party Vote Are Correlated



Source: LPL Research, Strategas, Bureau Labor Statistics 09/31/20



# A Good Sign For President Trump

A Weak US Dollar and Higher Stocks Bode Well For The Incumbent Party, While The Opposite Supports The Challenging Party

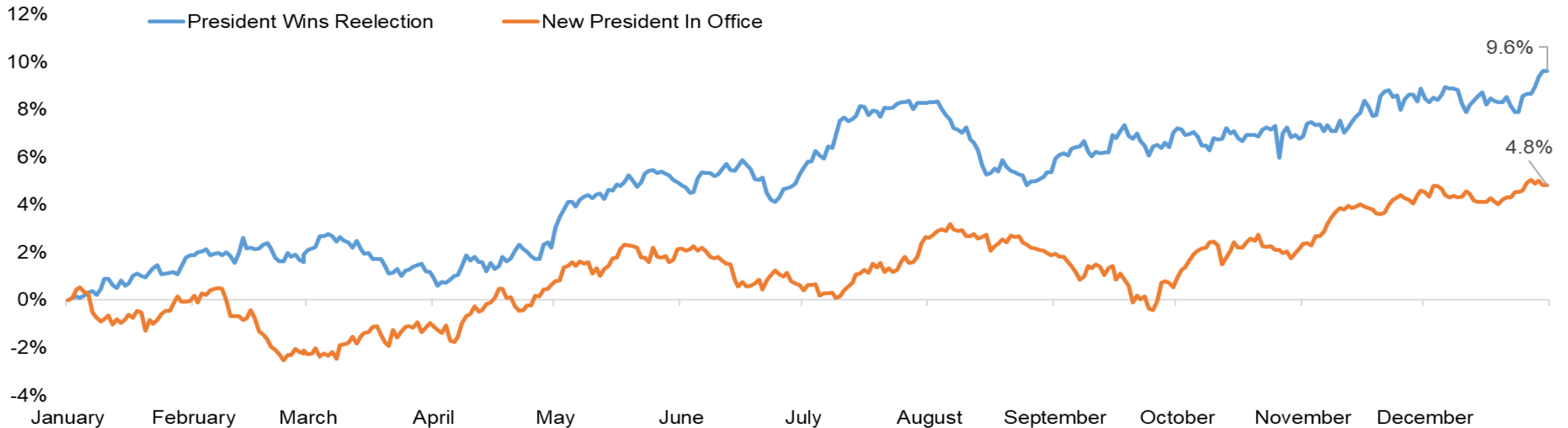
Election Year	% Change 3 Months Before Election		Incumbent Party Wins Election?	Correct?
	ICE U.S Dollar Index	S&P 500 Index		
1972	1.0%	3.0%	X (Both Higher)	X
1976	-0.3%	-1.0%	X (Both Lower)	X
1980	2.9%	6.9%	X (Both Higher)	X
1984	1.5%	3.6%	X (Both Higher)	X
1988	-4.7%	2.8%	Won	Yes
1992	8.1%	-0.4%	Lost	Yes
1996	1.3%	6.7%	X (Both Higher)	X
2000	4.3%	-3.4%	Lost	Yes
2004	-4.8%	2.8%	Won	Yes
2008	15.4%	-24.8%	Lost	Yes
2012	-2.0%	1.9%	Won	Yes
2016	1.5%	-2.3%	Lost	Yes
2020*	-0.03%	5.9%	?	?

Source: LPL Research, Strategas, FactSet 10/13/20

\*Starting 8/3/20 to 10/13/20

# Stocks Do Better If The President Wins Reelection

S&P 500 Performance After Election Years (1950 - Current)



Source: LPL Research, FactSet 10/20/20

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# Can The Economy Predict The Next President?

## Why The Economy Could Predict The Next President

Recessions Hurt Re-Election Chances

Re-Election Date	President	Recession Two Years Before Re-Election	Win Re-Election?
11/5/1912	William Taft (Rep)	Recession	No
11/7/1916	Woodrow Wilson (Dem)	Recession	Yes
11/4/1924	Calvin Coolidge (Rep)	Recession	Yes
11/8/1932	Herbert Hoover (Rep)	Recession	No
11/3/1936	Franklin Roosevelt (Dem)	No Recession	Yes
11/5/1940	Franklin Roosevelt (Dem)	No Recession	Yes
11/7/1944	Franklin Roosevelt (Dem)	No Recession	Yes
11/2/1948	Harry Truman (Dem)	No Recession	Yes
11/6/1956	Dwight D. Eisenhower (Rep)	No Recession	Yes
11/3/1964	Lyndon B. Johnson (Dem)	No Recession	Yes
11/7/1972	Richard Nixon (Rep)	No Recession	Yes
11/2/1976	Gerald Ford (Rep)	Recession	No
11/4/1980	Jimmy Carter (Dem)	Recession	No
11/6/1984	Ronald Reagan (Rep)	No Recession	Yes
11/3/1992	George H.W. Bush (Rep)	Recession	No
11/5/1996	Bill Clinton (Dem)	No Recession	Yes
11/2/2004	George W. Bush (Rep)	No Recession	Yes
11/6/2012	Barack Obama (Dem)	No Recession	Yes
11/3/2020	Donald Trump (Rep)	Recession	?

Source: LPL Research, FactSet 09/08/20

# Can The Stock Market Predict The Next President?

## Stocks Can Predict Who Will Win In November

S&P 500 Index Returns Three Months Before The Presidential Election

Election Day	President	S&P 500 Return	Incumbent	Stock Market Right?
11/6/1928	Herbert Hoover (Rep)	13.6%	Won	Yes
11/8/1932	Franklin Roosevelt (Dem)	-2.6%	Lost	Yes
11/3/1936	Franklin Roosevelt (Dem)	7.9%	Won	Yes
11/5/1940	Franklin Roosevelt (Dem)	9.7%	Won	Yes
11/7/1944	Franklin Roosevelt (Dem)	2.3%	Won	Yes
11/2/1948	Harry Truman (Dem)	5.4%	Won	Yes
11/4/1952	Dwight D. Eisenhower (Rep)	-3.3%	Lost	Yes
11/6/1956	Dwight D. Eisenhower (Rep)	-3.2%	Won	No
11/8/1960	John F. Kennedy (Dem)	-1.3%	Lost	Yes
11/3/1964	Lyndon Johnson (Dem)	3.9%	Won	Yes
11/5/1968	Richard Nixon (Rep)	6.0%	Lost	No
11/7/1972	Richard Nixon (Rep)	3.0%	Won	Yes
11/2/1976	Jimmy Carter (Dem)	-1.0%	Lost	Yes
11/4/1980	Ronald Reagan (Rep)	6.9%	Lost	No
11/6/1984	Ronald Reagan (Rep)	3.6%	Won	Yes
11/8/1988	George H.W. Bush (Rep)	2.8%	Won	Yes
11/3/1992	Bill Clinton (Dem)	-0.4%	Lost	Yes
11/5/1996	Bill Clinton (Dem)	6.7%	Won	Yes
11/7/2000	George W. Bush (Rep)	-3.4%	Lost	Yes
11/2/2004	George W. Bush (Rep)	2.8%	Won	Yes
11/4/2008	Barack Obama (Dem)	-24.8%	Lost	Yes
11/6/2012	Barack Obama (Dem)	1.9%	Won	Yes
11/8/2016	Donald Trump (Rep)	-2.3%	Lost	Yes
11/3/2020	Donald Trump (Rep)	?	?	?
Years Right				20
Total Years				23

Source: LPL Research, FactSet 08/02/20 (1928-Current)

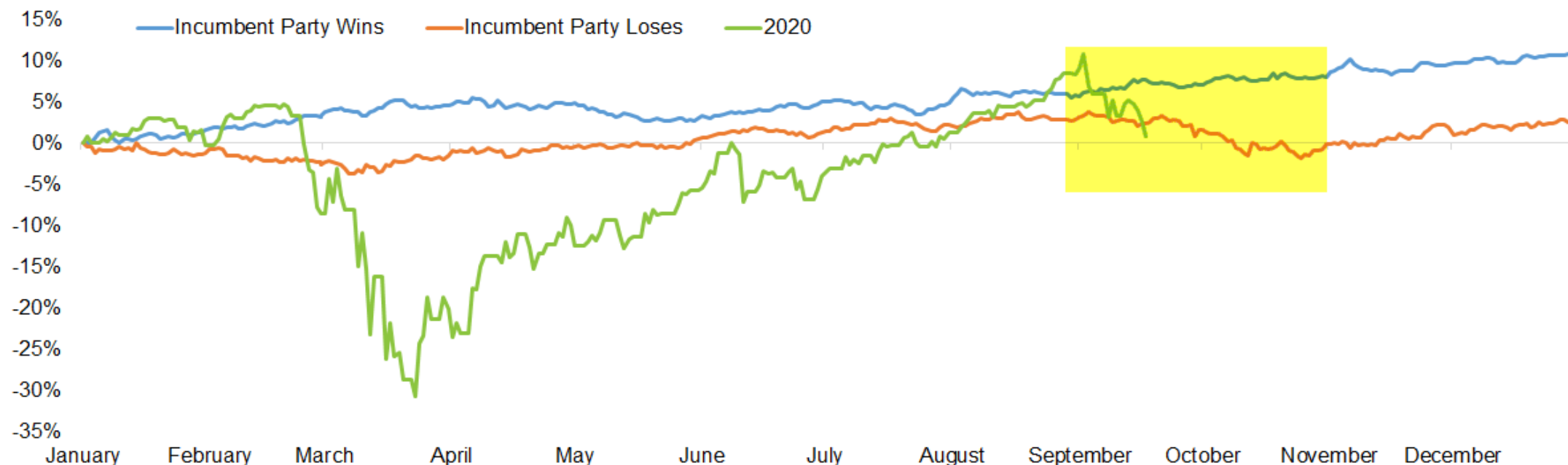
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# Stock Performance Ahead of the Election Could Signal the Outcome

## S&P 500 Performance During Election Years (1950 - Current)

Weakness Before The Election Historically Has Supported The Opposition Party



Source: LPL Research, FactSet 10/20/20

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# Can The US Dollar Predict The Next President?

## Why The U.S. Dollar Could Predict The Next President

A Stronger Dollars Hurts Re-Election Chances

Election Year	ICE U.S Dollar Index % Change 3 Months Before Election	Incumbent Party Wins Election?	Correct?
1988	-5.1%	Won	Yes
1992	8.1%	Lost	Yes
1996	1.2%	Won	No
2000	4.3%	Lost	Yes
2004	-4.8%	Won	Yes
2008	15.2%	Lost	Yes
2012	-2.0%	Won	Yes
2016	1.7%	Lost	Yes
2020*	-0.5%	?	?

Source: LPL Research, Strategas, FactSet 09/08/20

\* Starting 8/3/20 to 9/16/20

# Stocks Like It When A President Wins Reelection

## S&P 500 Index Returns The Following Year If A President Wins Reelection

Election Day	President	S&P 500 Return Following Year
11/6/1956	Dwight D. Eisenhower (Rep)	-14.3%
11/3/1964	Lyndon Johnson (Dem)	9.1%
11/7/1972	Richard Nixon (Rep)	-17.4%
11/6/1984	Ronald Reagan (Rep)	26.3%
11/5/1996	Bill Clinton (Dem)	31.0%
11/2/2004	George W. Bush (Rep)	3.0%
11/6/2012	Barack Obama (Dem)	29.6%
Average Return		9.6%
% Higher		71.4%

Source: LPL Research, FactSet 09/18/20

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# Stocks Don't Do As Well Under A New President

## S&P 500 Index Returns The Following Year After A New President

Election Day	President	S&P 500 Return Following Year
11/4/1952	Dwight D. Eisenhower (Rep)	-6.6%
11/8/1960	John F. Kennedy (Dem)	23.1%
11/5/1968	Richard Nixon (Rep)	-11.4%
11/2/1976	Jimmy Carter (Dem)	-11.5%
11/4/1980	Ronald Reagan (Rep)	-9.7%
11/8/1988	George H.W. Bush (Rep)	27.3%
11/3/1992	Bill Clinton (Dem)	7.1%
11/7/2000	George W. Bush (Rep)	-13.0%
11/4/2008	Barack Obama (Dem)	23.5%
11/8/2016	Donald Trump (Rep)	19.4%
Average Return		4.8%
% Higher		50.0%

Source: LPL Research, FactSet 09/18/20

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All index data from FactSet.

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## **General Definitions:**

**Gross Domestic Product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

# Important Disclosures

**The PE ratio (price-to-earnings ratio)** is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

**Earnings per share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.SP500

**The Standard & Poor's 500 Index** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

**The Bloomberg Barclays U.S. Aggregate Bond Index** is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

## Equity Risk:

Investing in stock includes numerous specific risks including the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies. Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time. The prices of small and mid-cap stocks are generally more volatile than large cap stocks.

## Equity Definitions:

**Cyclical stocks** typically relate to equity securities of companies whose price is affected by ups and downs in the overall economy and that sell discretionary items that consumers may buy more of during an economic expansion but cut back on during a recession. Counter-cyclical stocks tend to move in the opposite direction from the overall economy and with consumer staples which people continue to demand even during a downturn.

**A growth stock** is a share in a company that is anticipated to grow at a rate significantly above the average for the market due to capital appreciation.

A value stock is anticipated to grow above the average for the market due to trading at a lower price relative to its fundamentals, such as dividends, earnings, or sales.

**Large-cap stocks** are issued by corporations with a market capitalization of \$10 billion or more, and small-cap stocks are issued by corporations with a market capitalization between \$250 million and \$2 billion.

# Important Disclosures

## Fixed Income Risks:

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

## Fixed Income definitions:

**Credit Quality** is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default. Credit ratings are published rankings based on detailed financial analyses by a credit bureau specifically as it relates the bond issue's ability to meet debt obligations. The highest rating is AAA, and the lowest is D. Securities with credit ratings of BBB and above are considered investment grade. The credit spread is the yield the corporate bonds less the yield on comparable maturity Treasury debt. This is a market-based estimate of the amount of fear in the bond market. Base-rated bonds are the lowest quality bonds that are considered investment-grade, rather than high-yield. They best reflect the stresses across the quality spectrum.

**The Bloomberg Barclays Aggregate US Bond Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**International debt securities** involve special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. These risks are often heightened for investments in emerging markets.

**High yield/junk bonds** (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

**Municipal bonds** are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

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