OCTOBER 2020 CLIENT QUESTION: PRESIDENTIAL ELECTION

Andrew Murphy, CFA
Senior Director, Portfolio Management

The Presidential Election is only a few weeks away and as expected we have received several questions from our clients about our thoughts and the potential market impacts. We do not often write about politics as it can be an emotional issue for many people. Furthermore, we appreciate that political views are personal, and that our client's value important issues other than simply the financial markets.

Our goal with this piece is to frame the election from a financial planning and investment management standpoint. A major part of our role as your trusted advisor is to remove the emotional aspect from investment decision making. We often stress that emotionally driven market timing decisions are value destructive over time. This is also especially true regarding presidential elections. History shows that pulling out of the stock market due to political concerns when either former President Obama or President Trump were elected was a major financial mistake. The market increased significantly under both Presidents (S&P 500 Return: President Obama +153%. President Trump: +68%). Just like in the current period, there were plenty of predictions that the markets would crumble when those Presidents were elected.

We would like to highlight three recent commentaries that should help put things into perspective:

- **Winthrop Wealth Principles for Investing in the Stock Market**
- **May Client Question: Costs of market timing and bad investment decisions**
- **Navigating Volatile Markets Video**

Markets have historically performed well under all political regimes
The S&P 500 has generated a total annualized return of +9.4% since 1928. A $1,000 investment in 1928 would be worth about $4.2 million today.

Keep in mind that this period includes every combination of each political party controlling the Presidency and Congress. There is no discernible difference between market performance under one political party or the other. Any study that attempts to show otherwise is usually an exercise in data mining.

Also consider that factors other than politics are potentially more important to the stock market. Our asset allocation decisions are predominantly based on monetary policy, economic growth, fundamentals, and valuation. While political policies will have some impact on these variables, there are certainly other influences. In the current period, we would argue that monetary policy will have a larger impact on the financial markets than whoever wins the presidency. Please see our latest **Client Question of the Month on the importance of the Federal Reserve.**

Will a Trump/Biden victory lead to a market crash?
As you can probably imagine, we have received several variations of this question over the past few months. The short answer to the question is no. The market does not need to crash after the election and can still rise under either a Trump or Biden presidency. Here we will point out differences in policies between the two candidates and acknowledge that they both have pluses and minuses from a market perspective.

President Trump
(+) **Tax Rates Remain Low:** The Tax Cuts and Jobs Act of 2017 (TCJA) lowered taxes for corporations, small businesses, and individuals. These measures had a positive impact on corporate earnings and consumer spending, which helped support financial markets. President Trump has also pushed for a lower capital gains and payroll tax during the Covid period, but there does not seem to be an appetite in Congress for either. Overall, taxes are likely to remain low if President Trump wins another term.

(-) **Tariffs Likely Increase:** Tariffs have become a significant part of President Trump's agenda over the last several years. Tariffs have a negative impact on economic and corporate earnings growth, and also create uncertainty for businesses and investors. The US and China have traded tariffs on their respective imports since mid-2018. Although both sides agreed to a **Phase One Trade Deal** late last year, they each have kept some of their respective tariffs in place. Given that the relationship between the two countries has deteriorated further as a result of the coronavirus, we would expect President Trump to ramp up tariffs in his second term. Furthermore, we could see President Trump expand tariffs to the European Union or other countries.

Andrew Murphy, CFA
Senior Director, Portfolio Management

Democratic Nominee Biden

(+) **International Relations Improve:** Under a Biden presidency, the United States could potentially have a better relationship with China where tariffs could be removed (we estimate that tariffs would at least stay the same). Removing the existing tariffs would have a positive impact on economic and corporate earnings growth, while eliminating a great source of uncertainty. On the campaign trail, former Vice President Biden has emphasized reducing trade barriers while building an international coalition rather than utilizing unilateral tariffs. As Vice President, Biden had several meetings with Chinese President Xi (who was Vice President at the time) starting in 2011. A more harmonious relationship with China would likely be less disruptive to markets.

(-) **Taxes Likely Increase:** On the campaign trail former Vice President Biden has proposed increasing the corporate tax rate from 21% to 28%, raising the top individual rate from 37% back to 39.6%, and taxing capital gains in line with personal income. While an increase in taxes has the potential to be troublesome for the markets, consider the following. 1. These proposals were introduced pre-Covid when the economy was healthy. Given the current economic weakness, policies that promote job growth are likely to be prioritized over others that could dampen the recovery. 2. There are numerous examples of campaign promises differing from implemented policy. Any new tax policies may end up being lower than what is currently proposed.

- Note that tax analysis and minimization strategies are a significant part of our Financial Planning process. We will monitor any tax changes closely and proactively introduce strategies that best fit your unique circumstances.

Since both candidates have positives and negatives from a market perspective, we would caution against making significant portfolio changes based on political views. We know that **Dire Market Predictions** are quite common and often wrong.

Election Results – Potential Delay

Given that the upcoming election will have a higher percentage of mail-in votes than usual, it is possible that we will not know the result for days or even weeks. According to Goldman Sachs, the equity option market shows an extended period of high volatility from Election Day to the “Safe Harbor” deadline, reflecting the view that the results may not be immediately clear. The winner should be finalized by the December 8th “Safe Harbor” deadline when states with contested races must file results. Note that the Supreme Court ruled in President Bush’s favor on this deadline in 2000.

Expect Market Volatility

Market volatility is inevitable. Since 1928, the S&P 500 has averaged a peak-to-trough decline of-15.8% each year (including 2020’s price decline of-33.8%). There is always an upcoming event that could lead to market volatility or an upcoming decline. This year’s election is no different. Rather than trying to avoid volatility entirely (impossible), we recommend being prepared for it. As mentioned in our **August Recap**, we shifted portfolios more defensively to take advantage of the rapid market increase in spite of several risks, including the election. Like any other volatile environment, the election will also create opportunities. We will continue to utilize our time-tested investment process as we monitor new developments and maintain critical flexibility to take advantage of those opportunities as they arise.

We help our clients navigate challenging and volatile market environments by ensuring their short-term cash flow needs are met while managing the rest of their investments in a globally diversified portfolio. We continue to believe this is the optimal approach for helping our clients ultimately reach their goals and objectives.

At Winthrop Wealth, we apply a total net worth approach to both comprehensive financial planning and investment management. Financial planning drives the investment strategy and provides a roadmap to each client’s unique goals and objectives. The comprehensive financial plan defines cash flow needs, is stress tested for various market environments, optimizes account structures, considers tax minimization strategies, and continuously evaluates financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection.

Upcoming Election Calendar

Date	Event
9/29/2020	First Presidential Debate
10/7/2020	Vice Presidential Debate
10/15/2020	Second Presidential Debate
10/22/2020	Third Presidential Debate
11/3/2020	Election Day
12/8/2020	"Safe harbor" deadline when states with contested elections must file results. (Note: The Supreme Court ruled in President Bush's favor on the safe harbor deadline in 2000.)
12/14/2020	Electors meet in state capitals to vote.
12/23/2020	States send electoral votes to Congress.
1/3/2021	New Congress sits at noon.
1/6/2020	Congress meets at 1pm to count electoral votes and declare the winner.
1/20/2021	Inaguration Day

Andrew Murphy, CFA
Senior Director, Portfolio Management

DISCLOSURES:

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

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.

No investment strategy assures success or protects against loss. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Rebalancing a portfolio may cause you to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss. All investing involves risk which you should be prepared to bear.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

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.