OCTOBER 2024 CLIENT QUESTION OF THE MONTH: PRE-ELECTION

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With the Presidential Election only a few weeks away, we have received several questions from our clients about our thoughts and the potential market impacts. Politics can be an emotional issue for many people. Furthermore, we appreciate that political views are personal, and that our clients value important issues other than simply the financial markets.

Our goal with this commentary 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 based on political concerns has been a major financial mistake.

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

- Principles for Long-Term Investing
- Total Net Worth Approach

Markets have historically performed well under all political regimes

The S&P 500 has generated a total annualized return of +9.7% since 1928. A $1 investment in 1928 would be worth about $7,700 at the end of August 2024.

Keep in mind that this includes every possible combination of Democrat and Republican control of the Presidency and Congress. Any study that attempts to show that markets perform better under a certain political regime is usually an exercise in data mining. We looked at the data and found that it's very easy to manipulate the results by cherry picking the reference periods. For example, selecting the time-period and using Election Day, New Year's Day, the first session of Congress, or Inauguration Day as a starting or ending point can all impact results. There is no discernable difference between market performance under one political party or the other. Don't be fooled by a bold assertion the stock market has historically performed better under specific party leadership.

Also consider that many other factors drive the stock market other than politics. In a given year, the political makeup of the federal government might not be among the top five or ten factors influencing the stock market's performance. At Winthrop Wealth, 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.

What outcome is best for financial markets?

Let's address this upfront. In our view, the optimal election outcome for markets would be a divided government, which currently appears to be the most likely scenario. A divided government reduces the likelihood of extreme or unpredictable policy shifts that can unsettle investors and markets. A divided government can promote predictability and create a more stable environment.

What are the differences between in economic plans between Harris and Trump?

As of early-September, neither candidate has released a detailed economic plan. The proposals and ideas outlined below are primarily drawn from recent speeches and interviews. We expect several of these initiatives to be revised.

Based on our observations, neither Vice President Harris or Former President Trump has presented a credible plan to reduce the federal debt or reign in the nearly $2 trillion in annual government deficits. Unfortunately, we expect that both Harris or Trump would continue to increase the debt and deficit over the next four years.

We advise our clients to avoid becoming overly emotional about a candidate's economic campaign proposals. Candidates frequently adjust their plans in response to shifting political realities, economic conditions, and negotiations with other policymakers. Some proposals are primarily intended to appeal to the more extreme segments of a candidate's base and may have little chance of being enacted into law. If the election results in a divided government, many of these proposals are likely to be quickly forgotten.

Vice President Harris

- **Individual Tax Rates:** Vice President Harris has pledged not to raise taxes on people making less than $400,000 per year. This might mean extending the 2017 tax cuts for those making less $400,000 per year.

- **Top Long-Term Capital Gains Tax:** increase from 23.8% (20% capital gain rate plus 3.8% investment income tax) to 33% (28% capital gain rate plus 5% investment income tax) for households with taxable income over $1 million. This would be the highest capital gains tax rate in the United States since 1978.

- **Unrealized Capital Gains Tax:** impose a 25% minimum tax on taxable income plus unrealized capital gains for people with at least $100 million in wealth.
  - **Note:** This is the most controversial of Vice President Harris' economic and tax proposals. In the United States, capital gains taxes only apply when a physical or financial asset is sold at a profit. According to Greg Valliere, Chief US Policy Strategist for AGF Investments, "this would be a nightmare to enforce and would send the class warfare debate into the stratosphere. It has no chance of enactment because there aren't the necessary 60 votes in the Senate." A tax on unrealized capital gains would also likely face a Supreme Court challenge.

- **Corporate Tax Rate:** increase from 21% to 28%. Also, increasing the alternative minimum tax on large corporates from 15% to 21%.

- **Small Business Tax Deduction:** increase the small business tax deduction for startup expenses from $5,000 to $25,000, with the goal of 25 million new small business applications over the next four years.

- **Down Payment Assistance:** $25,000 down payment assistance for first-time homebuyers.

- **Federal Ban on price gouging for food and groceries.**

Former President Trump

- **Extension of the 2017 Tax Cuts:** President Trump has pledged to extend the 2017 Tax Cuts, which are currently expected to sunset in 2025. Some of the major provisions include:

Provision	Current	After Expiration (2025)
Income Tax Rates	Seven brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.	Seven brackets: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%.
Standard Deduction	Single: $14,600 Married Filing Jointly (MFJ): $29,200	Single: $6,350 Married Filing Jointly (MFJ): $12,700
Estate Tax Exemption	$13.6 million	$5 million

Source: IRS.

- **Eliminate Income Tax on Social Security Benefits:** recipients are taxed on up to 85% of Social Security benefits, depending on their income.

- **Corporate Tax Rate:** decrease from 21% to 20% or lower. Fromer President Trump has also suggested he would lower the corporate tax rate to 15% for companies that manufacture their products in the United States.

- **Tariffs:** Increased tariffs will likely be a pillar of the Trump economic agenda. Former President Trump has discussed imposing 10-20% tariffs on all imported goods and a 60% tariff on imports from China.

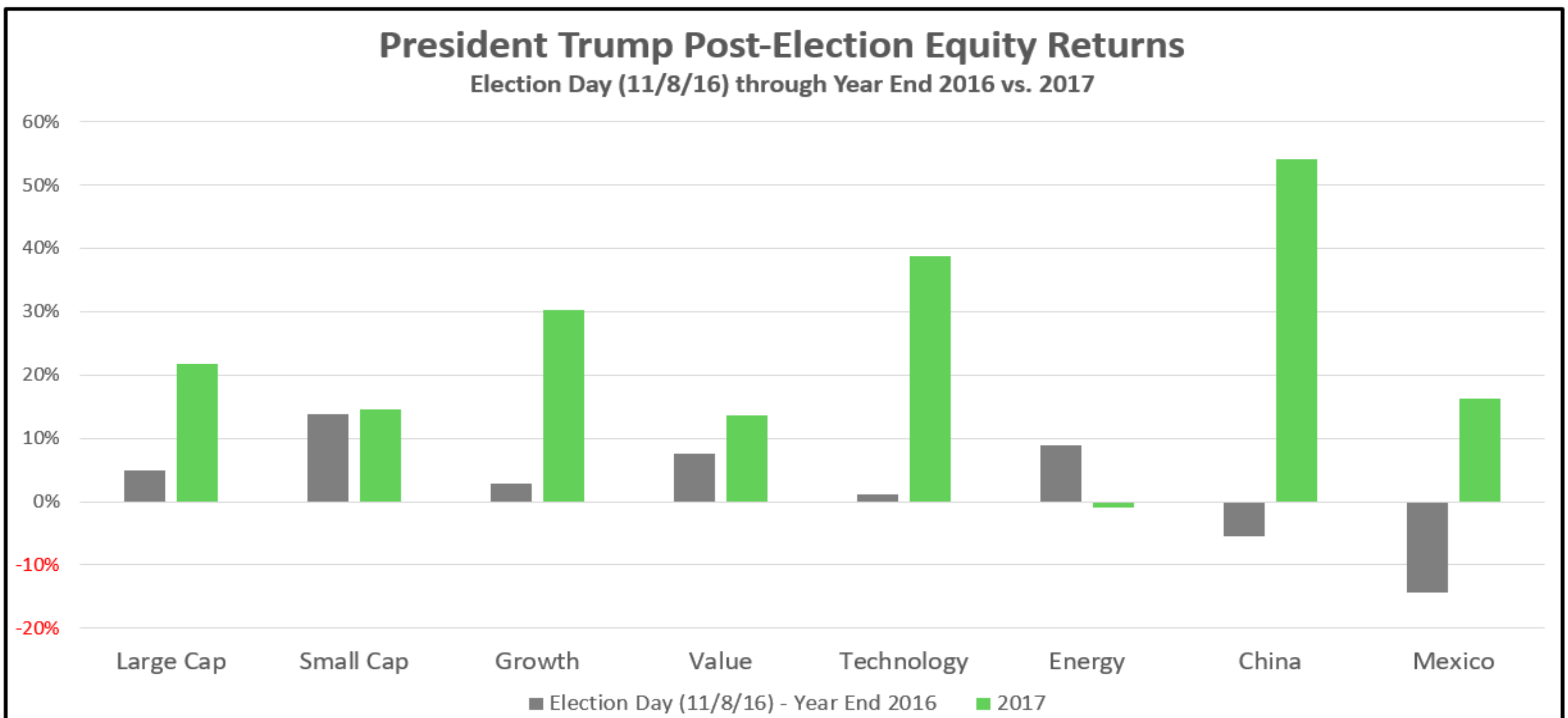
Should I adjust my portfolio based on the election?

Election specials and updates have been all over the financial news in recent weeks. All the coverage and "recommendations" might lead an investor to believe that they should be making major changes to their portfolio based on the election results. We caution against this type of short-term thinking.

We looked at the last two Presidential Election cycles and analyzed the returns of various asset classes immediately following the election compared to the subsequent year. In both cases, asset class performance following the election, based on the perceived impact of the new administration's policies, often reversed in the following year. *All performance referenced is historical and is no guarantee of future results.*

President Trump 2016 – Post Election Performance

- **Market Cap and Style:** Small Caps and Value stocks both had strong performance post-election based on positive economic growth expectations, but they underperformed Large Caps and Growth in 2017.
- **Sector:**
  - Technology: lagged following the election but was the best performing sector in 2017 on strong earnings growth.
  - Energy: performed well in the last few weeks of 2016 but was the second worst performing sector in 2017 due to increased oil production.
- **Country:**
  - China: initially declined on uncertainty over US/China relations but increased by +54% in 2017 on strong economic growth, policy support, and inclusion in MSCI indices.
  - Mexico: fell by -14% following the US election based on trade policy uncertainty and a weakening peso. Mexican stocks rallied in 2017 due to NAFTA negotiation progress and a recovery in the peso.



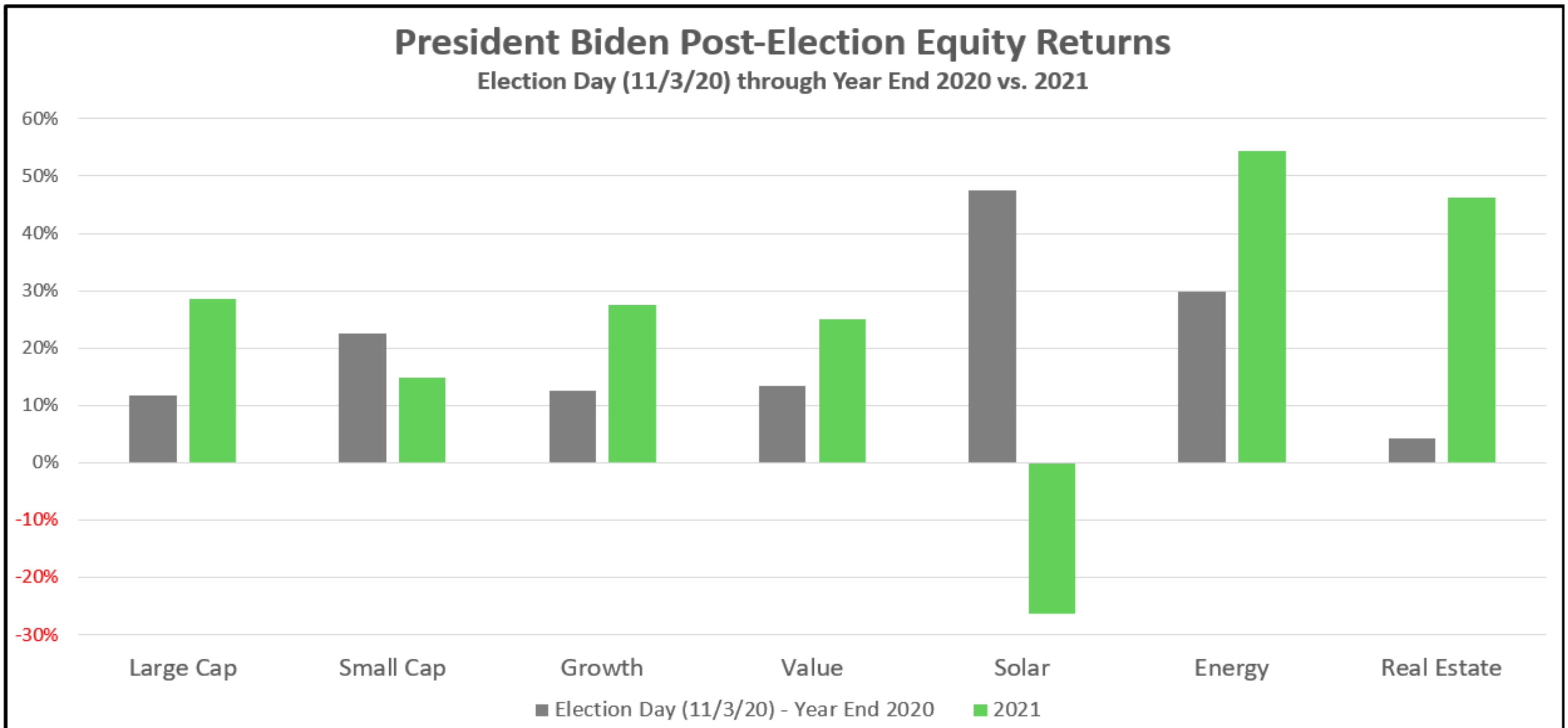
S&P 500	Russell 2000	Russell 1000 Growth	Russell 1000 Value	Technology	Energy	China	Mexico
Market Cap		Style		Sector		MSCI Country	

Source: Bloomberg.

President Biden 2020 - Post Election Performance

- **Market Cap and Style:** Similar to 2016, Small Caps and Value stocks both had strong performance post-election based on positive economic growth expectations, but once again they underperformed Large Caps and Growth in the following year.

- **Industry/Sector:**
    - Solar: rallied by nearly +48% from the election to year-end on expectations of pro-renewable energy policy and the potential for increased government support. However, the rally was short-lived as Solar stocks decline in 2021 due to rising commodity prices, valuation concerns, and supply chain disruptions.
    - Energy: A popular trade idea going into the 2020 election was "long solar and short Energy" based on the Biden Administration's preference for renewable energy over fossil fuels. However, Energy stocks rallied in late-2020 and 2021 on the rebound in oil prices caused by pent-up demand and supply constraints.
    - Real Estate: was the second worst performing sector following the election but rebounded strongly in 2021 on the recovery in economic activity.



S&P 500	Russell 2000	Russell 1000 Growth	Russell 1000 Value	MAC Global Solar Index	Energy	Real Estate
Market Cap		Style		Industry / Sector		

Source: Bloomberg.

Expect Market Volatility

Volatility is inevitable and market declines are common. Since 1928, the S&P 500 has averaged a peak-to-trough decline of -15% each year. 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. During inevitable market declines, while they can certainly be uncomfortable, we utilize the volatility as an opportunity to make lemonade out of lemons by proactively implementing potentially valuable changes to many portfolios. We do so by leveraging our experience, and technological tools to tax-loss harvest and reposition portfolios.

Maintain a Long-term Investment Philosophy

Markets have historically increased over time despite frequent drawdowns as successful corporations have been able to figure out ways to generate profits through advances in innovation and productivity. To capitalize on the power of compounding, we believe in the benefits of staying **D**isciplined, **O**pportunistic, and **D**iversified, while striving to **M**itigate fees, taxes, and expenses.

- **Disciplined:** consistently applying our investment process and philosophy, which are grounded in a long-term approach.
- **Opportunistic:** rebalancing, repositioning, and tax-loss harvesting to take advantage of market volatility and dislocations.
- **Diversified:** seeking to ensure that portfolios are properly allocated across and among asset classes to enhance consistency.
- **Mitigate:** striving to avoid unnecessary disbursements, including fees, taxes, and expenses.

In our opinion, adhering to a structured process and executing on all these components should help keep our clients on track toward pursuing their long-term objectives. *Historically, equity markets have recovered from recessions and downturns. Past performance is no guarantee of future returns. 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.*

Upcoming Election Calendar

Date	Event
9/10/2024	Presidential Debate
9/25/2024	Vice Presidential Debate
11/5/2024	Election Day
12/11/2024	"Safe harbor" deadline where states with contested elections must file results. (Note. The Supreme Court ruled in President Bush's favor on the safe harbor deadline in 2000.)
12/17/2024	Electors meet in state capitals to vote.
1/3/2025	New Congress sits at noon.
1/6/2025	Congress counts the electoral votes.
1/20/2025	Inaguration Day

Source: Winthrop Wealth, National Archives.

At Winthrop Wealth, we follow a Total Net Worth Approach to wealth management that combines both comprehensive financial planning and investment management. The financial plan helps define cash flow needs, seeks to optimize account structures, considers tax mitigation strategies, and determines the appropriate asset allocation based on the client's willingness and ability to take risk. Based on the output of the financial plan, our investment management process designs a well-diversified portfolio constructed with a long-term methodology based on prudent risk management, asset allocation, and security selection. *For clients who receive both financial planning and investment advisory services under agreement. No strategy assures success or protects against loss. Investing involves risk, including loss of principle.*

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 pro- moted will be successful.

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.
The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index measures the performance of those Russell 3000 com- panies with lower price-to-book ratios and lower forecasted growth values.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks. The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The MSCI US Broad Market Index captures broad US equity coverage. The index includes 3,204 constituents across large, mid, small and micro capitalizations, representing about 99% of the US equity universe.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

DISCLOSURES

The Bloomberg Barclays US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated invest- ment grade, and have $300 million or more of outstanding face value.

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.

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.

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.

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.

The market value of corporate bonds will fluctuate, and if the bond is sold prior to maturity, the investor's yield may differ from the advertised yield.

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. All investing involves risk which you should be prepared to bear.
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