NOVEMBER 2024 CLIENT QUESTION OF THE MONTH: POST-ELECTION

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Donald Trump was elected as the 47th President of the United States. President-elect Trump becomes the second candidate in US history to win nonconsecutive presidential terms. Republicans also swept congress, securing control of both the Senate and House of Representatives. As of this writing, Republicans will control 53 Senate seats and at least 218 seats in the House.

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. Over the past few days, we have spoken with clients who are either elated or despondent with the results. Our advice to clients regarding their finances is to focus on what matters and what you can control. Don't let election results cause you to lose sight of your long-term financial goals.

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

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

What would you say to clients who are elated over the election results?

The initial market reaction to Trump's victory and the Republican wave was nearly identical to 2016, with stocks, yields, and the dollar all moving higher, and economically sensitive equities outperforming. One year after the election in 2016, the S&P 500 was higher by nearly +24% with virtually no volatility. We think the odds of seeing similar performance over the next twelve months are low given that the market and economy are in a different place in 2024 compared to 2016. Valuations, interest rates, and debt levels are higher, and the corporate tax rate has already been cut with limited room to go much further.

Year	S&P 500 Valuation - Forward P/E	10-Year Treasury	Debt /GDP Ratio	Corporate Tax Rate
2016	17.0x	2.05%	77%	35%
2024	22.5x	4.43%	98%	21%

Source Bloomberg.

The market may rise under President Trump over the next year, but the new administration has less room to implement transformative policies this time around.

What would you say to clients who are despondent over the election results?

We've seen this movie before. All things considered, President Trump was broadly positive for the markets during his first time in office. The S&P 500 increased by over +70% during Trump's first term. Sure, sequels are never as good as the original, but we expect President Trump will strive for similar results during his second stint in office. You may not agree with his policies or methods, but he does want the stock market to increase and the economy to grow.

Don't be fooled into thinking that the market must crash under the new administration. Our advice is to avoid this type of hyperbolic thinking. The S&P 500 has generated a total annualized return of +9.7% since 1928. This period includes every possible combination of Democrat and Republican control of the Presidency and Congress. 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.

We caution against making emotional decisions and we recommend remaining focused on the benefits of staying **D**isciplined, **O**pportunistic, and **D**iversified, while striving to **M**itigate fees, taxes, and expenses.

Was a Republican sweep the best outcome for financial markets?

We wrote in our Pre-Election commentary that, "the optimal election outcome for markets would be a divided government. A divided government reduces the likelihood of extreme or unpredictable policy shifts that can unsettle investors and markets." Well, that didn't happen. So, now what? We'll point out that the initial stock market reaction to the Trump victory and Republican sweep was resoundingly positive. The S&P 500 reached a new all-time high the day after the election and crossed above 6,000 for the first time ever. Some of the rally was likely due to relief that the election is over and some to anticipation of President Trump's policies.

What do we know about President Trump's policies?

The key policy pillars of President Trump's new administration are likely to be taxes, tariffs, and deregulation. Each of these policies can create cross currents for the markets and economy. Tax cuts are pro-growth, but if the deficit and debt increase further then interest rates will move higher and weigh on the economy. President Trump used the threat of tariffs with some success during his first administration, although this did create market volatility and weigh on the economy. Deregulation can help improve efficiency, but too much creates a wild-west atmosphere.

As of now, we do not know the exact timing or magnitude of these policies. Implementation will depend on the details and on the ultimate size of the Republican majority in Congress.

- **Extension of the 2017 Tax Cuts:** President Trump has pledged to extend the 2017 Tax Cuts, which are currently expected to sunset in 2025. President Trump will need Congress to pass any tax bills. 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.

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

- **Other Tax Cuts:** President Trump has suggested eliminating taxes on Social Security benefits, tips, and overtime pay. We suspect that the proposals will depend on how the deficit is tracking.

- **Tariffs:** President Trump has discussed imposing 10-20% tariffs on all imported goods, a 60% tariff on imports from China, and 200% tariffs on imported vehicles from Mexico. Trump can unilaterally impose tariffs based on a 1977 law that gives the President the authority in cases of an "unusual and extraordinary threat" to national security or the economy. Massive blanket tariffs would likely be inflationary and an economic disaster. We do not expect President Trump to drive the economy off a cliff by implementing all the threatened tariffs.

- **Deregulation:** cut down on regulatory burdens on businesses in all sectors, but the largest impacts will likely be felt in Energy, Banking, and Health Care. Energy deregulation may have the most noticeable impact through lower oil prices.

- **Immigration:** President Trump's proposals include securing the border, reforming the immigration system, and mass deportations. Trump recently said that he has "no choice" but to purse mass deportation after the election results. President Trump also appointed Tom Homan, former acting director of US Immigration and Customs Enforcement, as the new "border czar."

- **Eliminate Government Waste:** President Trump has suggested that Elon Musk could play a key role in the new administration as "Secretary of Cost-Cutting", which would not be a formal cabinet position. Elon Musk has estimated that nearly $2 trillion could be eliminated from the federal budget. We are skeptical, but we support ideas that promote a reduction in the deficit and federal debt.

- **Influence over Monetary Policy:** On the campaign trail, Trump stated that he believes the President should have input into monetary policy decisions. The Fed is designed to be an apolitical organization. We think direct input from the President is a bad idea. However, we do expect President Trump to publicly jawbone the Fed into lowering interest rates. Fed Chair Powell's term runs until May 2026. We expect Chair Powell to complete his term and not be renominated. At a recent press conference, Chair Powell responded 'no' to questions about whether the President had the authority to fire him or whether he would step down.

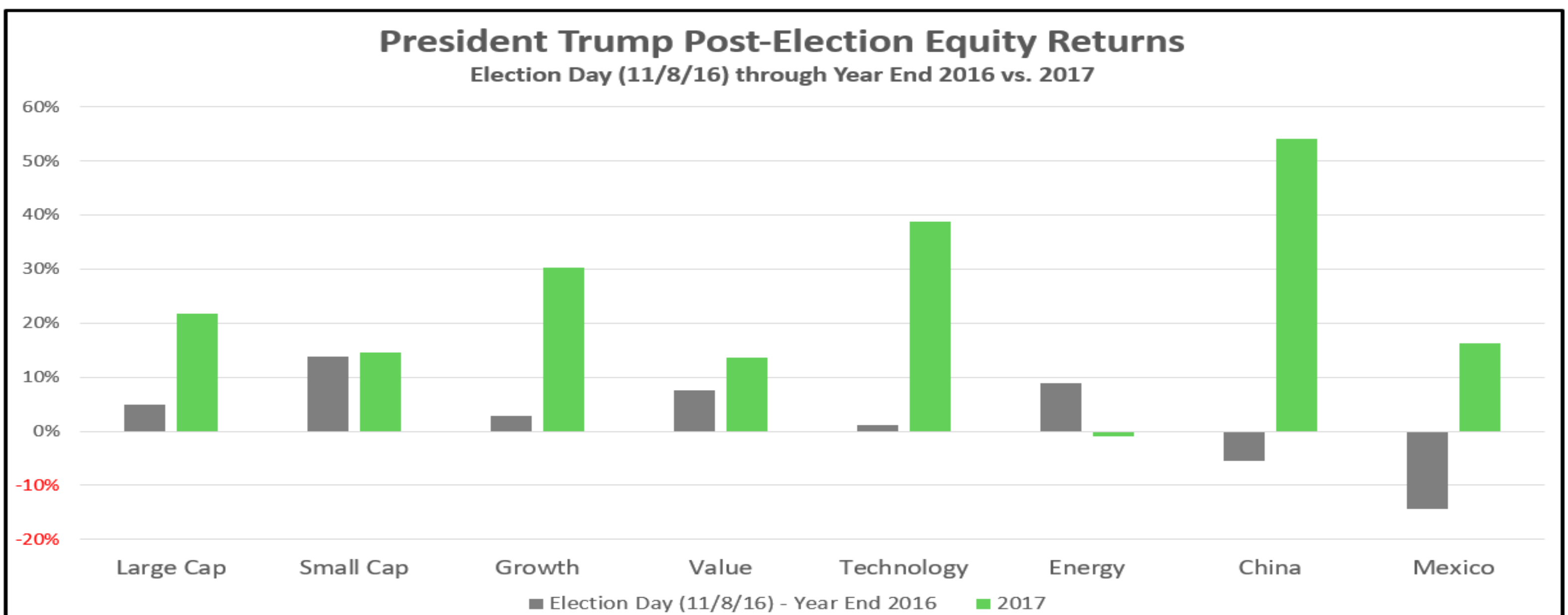
Should I adjust my portfolio based on the election?

The “Trump Trade” returned in the first few days after the election with stocks, yields, and the dollar all moving higher, and economically sensitive equities outperforming. We’ve seen several so-called “experts” recommending that investors should make massive changes to their portfolios by rotating toward the “Trump Trade.” We caution against this type of short-term thinking. In 2016, the “Trump Trade” worked well for a few weeks. By the following year, the markets returned to focusing on fundamentals rather than guessing the potential impacts of future policy.

We construct diversified portfolios across regions, countries, market caps, factors, styles, sectors, and industries and tilt toward the areas we feel provide the most potential benefit. Our view is that diversified portfolios can lead to more consistent and less volatile results than a single asset class. We will make minor adjustments, but we do not believe in whipsawing portfolios around as significant turnover can weigh on results and potentially create capital gains. *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 performance referenced is historical and is no guarantee of future results.*

The following chart shows the results of various asset classes immediately following the election in 2016 compared to 2017.

- **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.

Remember that markets have historically performed well under all political regimes

The S&P 500 has generated a total annualized return of +9.7% since 1928.

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 that the stock market has historically performed better under specific party leadership.

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. While the post-election market reaction has been largely positive, we typically recommend being prepared for volatility. 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.*

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. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

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.

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