

## MARKET STRATEGY VIEWPOINT

### U.S. Election Tea Leaves

October 2, 2020

*It what promises to be a highly-contentious election, President Trump and Joe Biden appear set to take the country down very different paths.*

*Historically, presidential elections have not meant much to the direction of the equity market. Will this time be different?*

*We take a look at key elements that could drive the presidential election outcome.*

#### Divergent Visions

Given the state of U.S. politics today, it is no surprise the 2020 presidential election is getting a lot of attention. The warring between the two political parties is likely to crescendo as we approach November, and the new U.S. Supreme Court vacancy only serves to stoke the political flames. Many pundits have claimed this election result could set the country on one of two very different courses. And indeed President Trump and Joe Biden have very different visions about this country's direction.

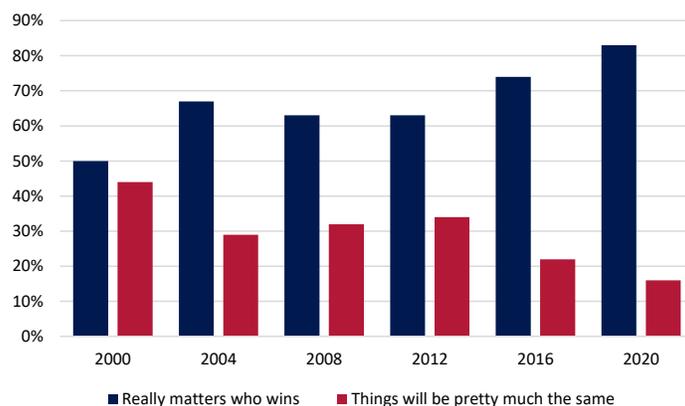
Should he be re-elected, Trump will likely stay the course on his "America-first" mantra and he could persist in rustling the feathers of trading partners, particularly China. Trump could continue to slow the pace of U.S. globalization, rekindle U.S. manufacturing efforts, and reduce U.S. participation in free-spending global bureaucracies. Fiscally, Trump may seek to lower taxes further and/or make permanent certain aspects of the Tax Cuts and Jobs Act set to expire in 2025. Meanwhile, a further push toward deregulation, sought to ease burdens on U.S. businesses, may be an ongoing calling card from Trump in a second term. And finally, Trump has been a proponent of tightly-managed immigration policies and strict border control. Indeed, Trump's right-of-center vision stands in sharp contrast to that of his political rival.

The Biden agenda directly opposes the Trump plan on nearly every turn. He favors alternative approaches to U.S. border management and more

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**Figure 1: Does This Election Really Matter? - Voters 2000-2020**

Source: Pew Research Center



fiscal support for refugees. Biden has been a proponent of tackling climate change with a “green” agenda and plans to seek \$1.7 trillion in federal funding to combat the condition. He has indicated a plan to raise taxes on businesses and wealthy Americans. Biden is also an ardent supporter of government funded healthcare coverage and other spending initiatives such as more federal support for housing and education. Globally, Biden is likely to engage China differently than Trump and further the trend of globalization via multilateral treaties and regional alliances. We believe Biden’s agenda indeed falls left-of-center, however it appears he has worked to pull his candidacy to the right of the more progressive movement taking place in the Democrat party.

***Do Republican or Democrat presidents make a difference for stocks?***

***From 1937 through 2019, annualized Dow Jones Industrial Average Index returns have been 9.1% during Republican administrations and 9.2% during Democrat administrations***

### **Does It Really Matter...For Investors?**

While many are busy debating over the election and what to do with their investments both before and after the election, history has shown that, in terms of equity returns, the outcome does not matter. Since 1937 through 2019, annualized Dow Jones Industrial Average Index (DJIA) returns have been 9.1% during Republican administrations and 9.2% for Democratic administrations. In fact, DJIA returns have only been modestly different during a divided government (10.0%) versus a unified one (8.2%). We could go on...simply, historical data shows that making investment decisions based on politics has frankly been a bad idea.

In our view, the state of the economy and monetary policy are more instrumental in forging a path for equity returns. Given that we may see further economic recovery in 2021 (U.S. GDP expected to be up 3.7% in 2021 according to Bloomberg consensus estimates) and the Federal Reserve is likely to stay ultra-easy with policy, does it make sense to pull any investment levers as a result of the election? We believe the answer is no.

While we believe election outcomes are not usually enough reason to change portfolio strategy, we do believe investors should tread cautiously up to and perhaps directly after this election. Any outcome that would lead to a contested election, could create a period of volatility. Why? Because policy uncertainty is many times a negative for financial markets, and a contested election would certainly fall into the category of uncertainty.

During the contested election of 2000, the S&P 500 Index fell 8.3% from election day to the time that Al Gore conceded (Nov. 7 to Dec. 15). In 2000, the S&P 500 Index troughed on Dec. 21 before rallying 7.8% through the month of January 2001. Should a contested election arise this year, we believe any weakness that may result would potentially create a buying opportunity for investors. Again, potential progress toward economic recovery in 2021 and Fed policy are the catalysts for this view.

**Gauging the Candidates?**

We believe those who attempt to prognosticate political outcomes generally have short careers, so we do our best to not claim any such title. However, we think it is constructive to look at potential variables that may affect this election and perhaps draw a probabilistic outcome. We believe who will win may, in part, be answered by turnout. How motivated are voters to cast their ballot for either Trump or Biden. This can be influenced by a candidate’s personality or compelling issues of the day. In this election, it appears that Trump is leaning on issues such as law & order, immigration, the 2nd Amendment, while Biden may be getting most of his traction via Covid-19 critiques and by simply not being Donald J. Trump. Which issues are more compelling for voters?

If we look back at 2016, the primary reason Trump won was because fewer voters turned out for Hillary Clinton than Barack Obama. Meanwhile, Trump generated more voter activity than Republican candidate Mitt Romney did in 2012. Table 1 highlights this very point in the four key states that helped get Trump across the finish line in 2016. Simply, Trump compelled voters to go to their polling place, while Clinton did not.

*We believe candidate enthusiasm and voter turnout (which is expected to be high) will be two key issues that could help decide this election.*

**Table 1: Recent Key State Votes per Candidate**

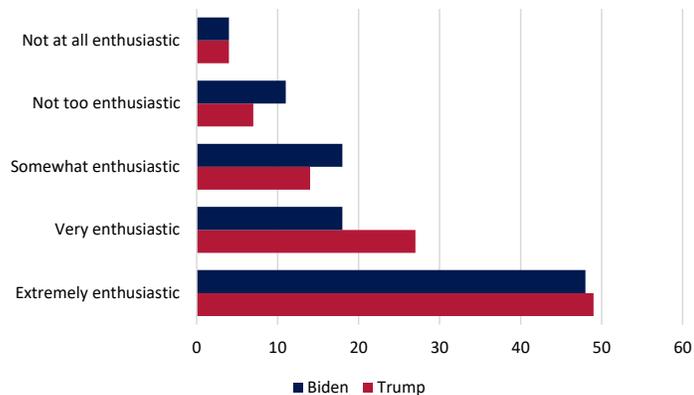
Source: United States Government, AllianceBernstein

	Romney 2012	Trump 2016	Difference	Obama 2012	Clinton 2016	Difference
Florida	4,163,447	4,617,886	454,439	4,237,756	4,504,975	267,219
Pennsylvania	2,680,434	2,970,733	290,299	2,990,274	2,926,441	(63,833)
Michigan	2,115,256	2,279,543	164,287	2,564,569	2,268,839	(295,730)
Wisconsin	1,407,996	1,405,284	(2,712)	1,620,985	1,382,536	(238,449)

**Figure 2: Supporter Enthusiasm per Candidate**

Source: The Economist / YouGov

Based on data collected September 6-8, 2020; numbers may not add to 100% due to rounding



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If the candidates are compelling voters to turn out on their behalf, then we believe they must be generating enthusiasm for their candidacy. In this regard, recent indications show that Trump may have the edge (Figure 2). Ninety percent of Trump supporters claim to be at least “somewhat enthusiastic”, while only 84% of Biden voters claim the same.

Meanwhile, the story is reversed when you consider the outcomes of recent polling, both by state and nationally. In this case Biden holds a firm edge. Interestingly, the evolution of poll support for Biden fairly closely tracks the evolution of the Covid-19 pandemic. Trump’s poll numbers deteriorated in tandem with the Covid-19 outbreak and troughed during the mid-summer spike in cases. The data shows that the Biden campaign has been effective in attaching coronavirus blame to Trump and Biden supporters have continued to hammer that issue. Meanwhile, Trump numbers have improved since Covid-19 case growth has slowed, but he continues to lag badly in the polls, much like he did in 2016.

**Table 2: Trump Relative to Biden Average Poll Difference Heatmap (%)**

Source: Real Clear Politics; HB Retirement

Note: Electoral college votes in parenthesis

	27-Sep	20-Sep	13-Sep	6-Sep	30-Aug	23-Aug	16-Aug	9-Aug	2-Aug	26-Jul	19-Jul	12-Jul	5-Jul	28-Jun	21-Jun	14-Jun	7-Jun	31-May	24-May	17-May	10-May	3-May	26-Apr	19-Apr	12-Apr	5-Apr	29-Mar	22-Mar	15-Mar	8-Mar
National	-7.0	-6.5	-7.4	-6.9	-6.9	-7.8	-7.7	-6.9	-7.4	-9.3	-8.6	-8.8	-8.7	-9.2	-9.8	-8.4	-7.2	-5.9	-5.6	-4.7	-4.4	-5.3	-6.3	-5.8	-6.0	-5.9	-5.8	-7.4	-6.4	-5.5
Pennsylvania (20)	-4.7	-4.0	-4.3	-3.2	-4.7	-5.7	-6.4	-5.7	-4.7	-7.4	-7.0	-7.0	-7.0	-6.4	-5.7	-5.7	-4.0	-6.7	-6.7	-5.2	-4.5	-4.5	-4.2	-2.3	-2.3	-2.3	-3.8	-3.8	-3.8	-3.0
Florida (29)	-1.5	-2.2	-1.2	-1.8	-3.5	-4.8	-5.0	-4.0	-6.2	-7.8	-6.4	-6.3	-5.0	-6.8	-6.4	-4.7	-3.9	-4.0	-3.8	-3.8	-3.2	-2.0	-1.4	-0.2	-0.4	1.3	0.5	0.5	0.5	-0.3
Ohio (18)	-3.3	-2.4	-2.4	-2.3	-2.3	-2.3	-2.3	-2.3	-1.5	-1.5	-2.3	-1.5	0.0	0.0	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Michigan (16)	-5.2	-6.8	-4.2	-3.3	-2.6	-7.0	-6.7	-7.0	-7.8	-8.4	-7.7	-7.7	-7.5	-8.6	-8.4	-8.4	-7.2	-5.2	-5.2	-6.0	-6.0	-5.5	-5.2	-4.5	-4.5	-4.4	-4.4	-4.8	-5.0	-4.5
Wisconsin (10)	-6.5	-6.7	-6.3	-5.8	-3.5	-4.6	-6.5	-6.4	-5.0	-6.4	-6.0	-6.5	-6.5	-6.2	-5.4	-4.0	-3.4	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	0.0	0.0	0.0	1.7
North Carolina (15)	-0.8	-0.9	-0.8	-1.3	0.3	0.5	0.6	-2.0	-4.5	-2.0	-2.0	-2.3	-3.0	-2.4	0.8	-1.0	-0.6	0.3	1.0	1.0	0.3	0.3	1.3	1.3	0.4	-3.0	-3.0	-3.4	-3.4	-3.0
Georgia (16)	1.3	1.3	1.3	1.3	1.1	1.1	1.0	1.6	1.6	2.7	2.7	3.0	4.3	4.3	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Arizona (11)	-3.4	-5.0	-5.6	-5.0	-2.2	-2.2	-2.0	-2.2	-3.7	-4.0	-2.8	-3.0	-3.5	-5.0	-4.0	-3.4	-3.2	-3.7	-4.0	-4.8	-5.3	-5.3	-4.4	-4.4	-4.4	-3.8	-3.8	-3.8	-3.4	-2.3
Nevada (6)	-5.3	-6.0	-6.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0
Texas (38)	3.6	2.3	3.5	3.5	4.0	3.5	2.0	2.0	0.2	0.2	0.2	0.0	2.5	2.0	1.5	1.5	2.2	2.5	2.5	2.5	2.5	1.4	1.4	2.2	2.6	2.6	2.6	2.6	2.6	2.6

The current economic condition also favors Biden. No sitting president has won re-election when the economy has been in recession during an election year. While the cause of recession (Covid-19) has been extraordinary, voters may not make any distinction. Trump may benefit from the fact that some people may think state-enforced lockdowns have been egregious, although the Biden campaign has offset this with its own messaging; faulting Trump for failing to control the virus.

The current state of the equity market, however, seems to support a Trump re-election, at least at this point. Historically, the incumbent has won a second term when the S&P 500 Index is higher in the three months leading up to the election. At this point the S&P 500 Index has gained 2.7% from July 31 through October 2. The only years when a bullish equity market did not foretell an incumbent winner were 1956, 1968, and 1980.



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Category	Trump	Biden	Our View
Likeability		X	Trump strikes many people as a coarse individual...some like that and/or appreciate his celebrity, while many may not like his personality and/or misplaced remarks. Meanwhile, Biden comes across as your "Uncle Joe". While Biden is prone to his own misstatements, his "aw shucks" demeanor is perhaps more palatable to many.
Polling		X	Trump has been behind in many/most polls taken since he began his run for the presidency in 2016, and he has been running behind Biden consistently.
Short-term Economy		X	The Covid knock on the economy has clearly been substantial and an albatross for Trump. No U.S. president has ever won re-election when the economy contracted during an election year.
Long-term Economy	X		Trump's policy influence on the economy has been positive. The question here is will the Democrat messaging be successful in blaming Trump for Covid's economic ramifications.
Covid-19		X	Polling data has been clear...the directional increase in U.S. Covid cases has been a positive for Biden, while falling case data has directionally benefited Trump.
Health Care		X	We give the nod to Biden here as his health care message probably has resonated a bit better, although the question certainly remains as to whether the federal government will be good manager of your health care needs. Given the track record of federal management on other issues, we say no.
Policy Wins	X		Although press accolades have certainly been absent, Trump has tabulated several, notable domestic and foreign policy wins including criminal justice reform, veteran benefit reform, and tax law changes. However, his most important wins may be found in his Middle East policies: squelching ISIS and negotiating regional peace agreements.
Political Trends	X		Trump has ridden the wave of populism, which has been a trend that has dramatically effected politics across the globe. Populists tend to frame politics as a battle between the virtuous 'ordinary' citizens and a nefarious or corrupt elite. In our view, Brexit is an example of the populism trend and its ramifications. We believe investors/voters should not underestimate this trend and the potential affect on U.S. elections.
Enthusiam/Turnout	X		Here we would give the advantage to Trump. It appears Trump may be generating more voter enthusiasm, particularly from his base. Part of the reason for this is Biden has not done much campaigning, and he is apparently counting on people to vote for him because he is not Trump. We question whether that strategy will lead to the level of turnout Biden needs to win.
Law & Order	X		Trump has firm ground here and we believe this could be a key issue on election day. It has been evident that Democrats and Biden have sought to downplay recent violence and the media has slowed its coverage of protests/riots.
Immigration	X		This is clearly a divisive issues across the country, but polls have shown that Americans favor a firm imigration policy and controlled borders. As a result, the edge here goes to Trump.
Education		X	Biden will likely get voter points on this issue as he has favored additional federal spending for education. Historically voters have preferred to hear the "more money for education" message.
Second Amendment	X		Again, a divisive issue, but one that we believe favors Trump based on poll outcomes across the country.
Climate Change	X	X	In our view, the belief or nonbelief in sustainable climate change is not the sole issue here. The complication is getting voters to back trillions of dollars in federal spending, and perhaps raised taxes, based on long-term climate forecasts. We call this a dead heat.
Candidate Health	X		Ttrue or not, Trump and Republicans have gotten some mileage out of raising uncertainty over Biden's vitality. We would call Trump's Covid case as potentially transitional.

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*Populists tend to frame politics as a battle between the virtuous 'ordinary' citizens and a nefarious or corrupt elite.*

Finally, we point to an issue that gets very little coverage but is perhaps the most important element to Trump's political rise and that is the wave of populism across the globe. Populism as a political message has been instrumental in elections in the U.K., Brazil, Italy, Spain, Australia, and Germany. The most notable impact of populism has been in the U.K. where voters had to finally stamp their authority in Britain's exit from the European Union after the political establishment tried to roll back the original vote. Such voter action was a rebuke of the political establishment, and similar action has been evident in other countries. This is a key issue that has emboldened Trump's candidacy and indeed sets him apart from Biden who has spent nearly 50 years as a key member of the political establishment. In our view, political prognosticators would do well to recognize the populist trend and incorporate its findings into U.S. election forecasts.

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