10/27/2020

“Markets Make President's, President’s don’t make Markets”

In the current climate, we have received a lot of calls on anxiety over the upcoming Presidential Election. Questions about change in the White House, changes in the Senate and House, and a Contested Election. All are understandable concerns and quite common with recent elections. Controversy in “The US Presidential Race” has been a normal occurrence in many elections including the 2000’s.

My first election that I could vote in was 2000. This was the infamous “Hanging Chads” race with George W. Bush running against the VP Al Gore. The whole election hinged on Florida and the recount of votes. This resulted in a popular vote favoring the Vice President Al Gore, and the Electoral College going to George W. Bush. I can remember a sense of uncertainty on how markets would react. We were amid a Dot-Com Bubble recovery. All of this was drastically halted by the events of September 11, 2001. This was the first down year experienced by S&P 500 since 1981, reporting a loss of -11.9%.

The Election of 2004 had its own share of controversy with the Incumbent George Bush facing off against the Democratic opponent Senator, John Kerry. This election brought concerns over the voting process to the forefront. Was voting accessible to all those entitled to vote? Was voter fraud happening with ineligible voters registered? Were people voting multiple times? Were the votes being correctly counted? The election concluded with the Incumbent Republican win and the markets were up a modest +4.9%.

The elections of 2008 and 2012 were somewhat smooth outside of the controversy of then Senator Barrack Obama’s relationship with Bill Ayers, a Professor at University of Illinois at Chicago, and an alleged leader of a radical left organization. There was also the question of his birthplace not being in the US by now President Donald Trump. In 2009 and 2013 (the 1st years of a new term), the markets surged +26.5 and +32.4, respectively.

In 2016, Donald Trump would face off against Hilary Clinton for the presidency. This election had no shortage of controversy, from emails, Russian election meddling, the "Wall", and a 1st year Politician wanting to "drain the swamp". The result? A similar outcome to 2000 with again a Democratic popular vote and a Republican electoral College. In the first year of President Trumps term, the S&P 500 was up +21.8%.

With all the controversy in so many elections, we find that it is not the election, or the president that rallies markets, but the economy and the cycle we are in during their term. Yes, policy and tax rates are a major concern and will in turn effect spending and GDP, but the US is a resilient economy that adjusts to the cards its handed. I am not saying the results are to be ignored, just put into historic context. It is important to understand that working with your Financial Advisor to understand your risk and allocation will help with the volatility and downside protection.

Markets go up and markets go down. They tend to revert to mean when things get oversold or overbought. As you can see from the graphs on the next few pages, Presidents don't make the markets, markets make a President. Out of the last 23 elections, 19 of those led to positive returns in the S&P 500 in the 1st year of the presidential term.

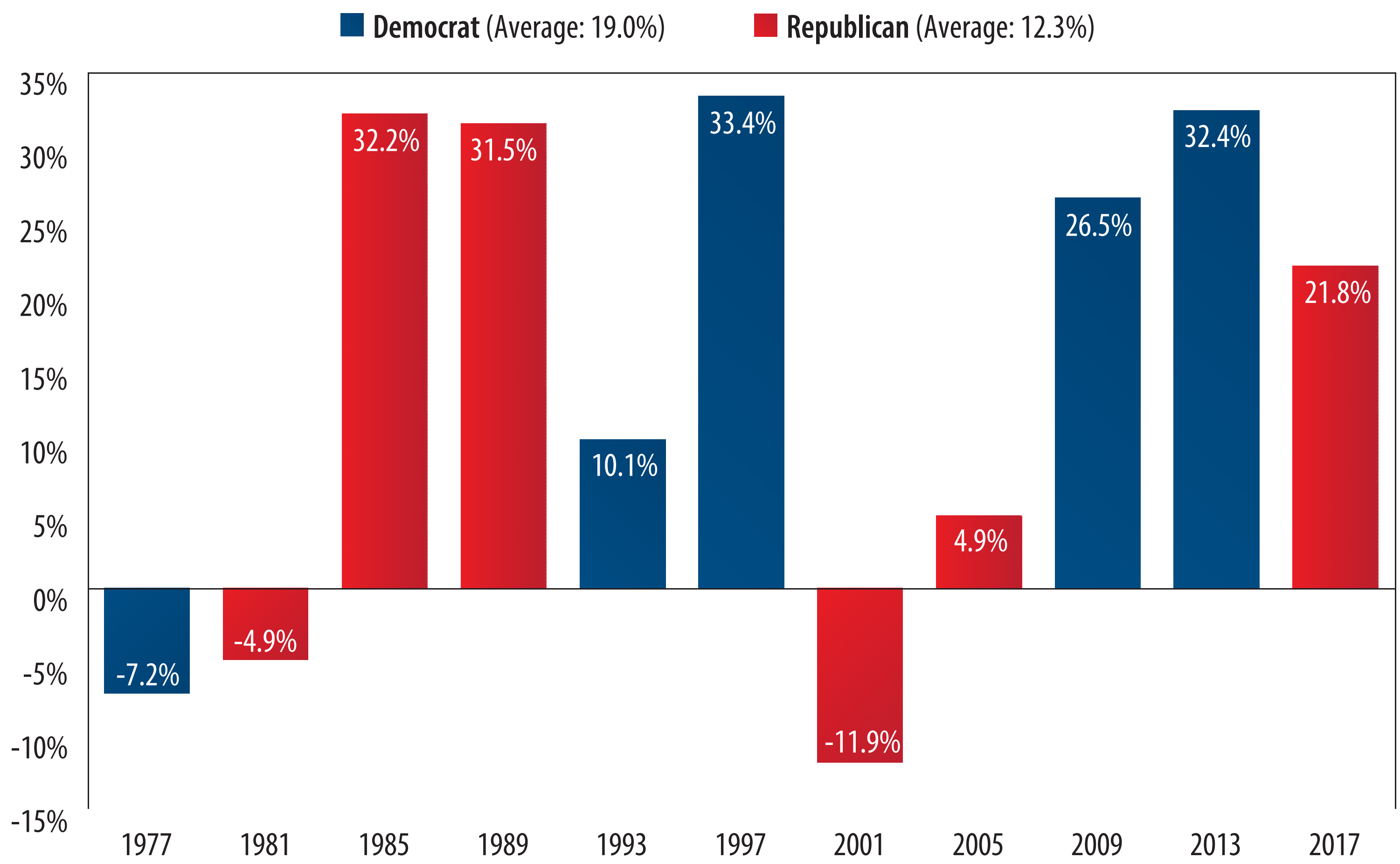
Key Financial Group, LLC

CLIENT RESOURCE KIT
ELECTION

First Trust

S&P 500 Index Total Returns: First Year Of A Four-Year Presidential Term

First Trust



Source: Morningstar/Ibbotson Associates. **Past performance is no guarantee of future results.** Data shows first year returns of the last 11 presidential terms. This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

How Stocks Have Fared In The First Year Of A Four-Year Presidential Term

First Trust

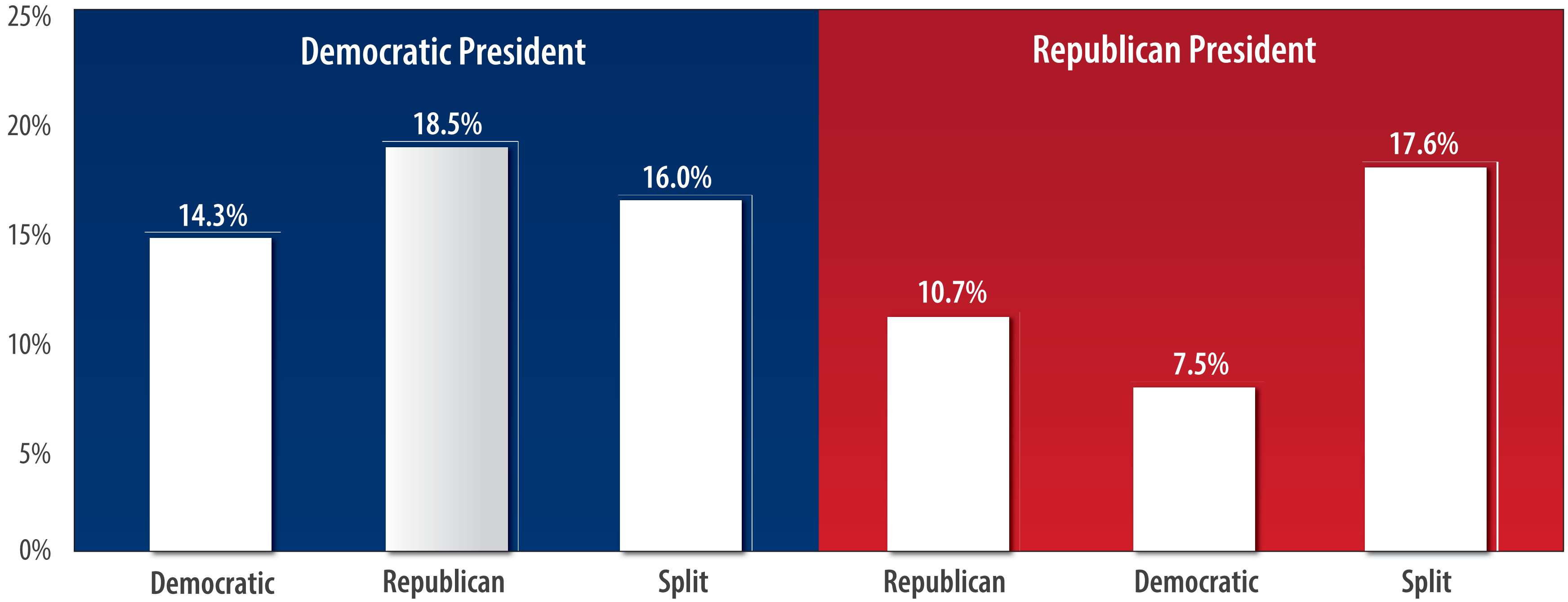
S&P 500 Index & Sector Index Total Returns

	1993	1997	2001	2005	2009	2013	2017
White House	Democrat	Democrat	Republican	Republican	Democrat	Democrat	Republican
Senate	Democrat	Republican	Democrat	Republican	Democrat	Democrat	Republican
House of Representatives	Democrat	Republican	Republican	Republican	Democrat	Republican	Republican
S&P 500 Index	10.08%	33.36%	-11.89%	4.91%	26.46%	32.39%	21.83%
Communication Services	15.06%	41.24%	-12.24%	-5.63%	8.93%	11.47%	-1.25%
Consumer Discretionary	14.64%	34.36%	2.79%	-6.37%	41.31%	43.08%	22.98%
Consumer Staples	-3.86%	32.89%	-6.40%	3.58%	14.89%	26.14%	13.49%
Energy	15.88%	25.28%	-10.39%	31.37%	13.82%	25.07%	-1.01%
Financials	10.60%	48.15%	-8.95%	6.48%	17.22%	35.63%	22.18%
Health Care	-8.18%	43.73%	-11.96%	6.46%	19.70%	41.46%	22.08%
Industrials	21.71%	28.53%	-25.87%	0.99%	61.72%	28.43%	38.83%
Information Technology	18.58%	27.04%	-5.74%	2.32%	20.93%	40.68%	21.03%
Materials	13.46%	8.41%	3.48%	4.42%	48.59%	25.60%	23.84%
Real Estate	N/A	N/A	N/A	12.56%	27.10%	1.60%	10.85%
Utilities	13.69%	24.65%	-30.45%	16.84%	11.91%	13.21%	12.11%

Source: Bloomberg and The Spokesman-Review. **Past performance is no guarantee of future results.** This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. The 11 major S&P 500 Sector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific sector.

S&P 500 Index Performance by President and Makeup of Congress

Average S&P 500 Index Total Return Annual Performance 1950-2019



Source: Morningstar. **Past performance is no guarantee of future results.** This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

S&P 500 Index Returns In U.S. Presidential Election Years

Since 1928

First Trust

There are many factors that impact stock market returns, but one common concern of investors is how the stock market will be impacted by a change in America's President. In past election years, the S&P 500 Index has seen more positive performance than negative. Below we take a look at S&P 500 Index performance during presidential election years, which have historically provided positive gains for stocks.

S&P 500 Index Total Returns During Presidential Election Years (1928-2016)

U.S. Presidential Election Results	Average Return
A Republican was elected	15.3%
A Democrat was elected	7.6%
All election years	11.28%

Observations

There have been 23 elections since the S&P 500 Index began. In these election years:

- 19 of the 23 years (83%) provided positive performance
- When a Republican was in office and a Republican was elected (or reelected), the total return for the year averaged 11.9%
- When a Republican was in office and a Democrat was elected, the total return for the year averaged -2.6%

Historical U.S. Presidential Election Results

Election Year	President Elected	S&P 500 Index Total Return
2020	?	?
2016	Trump	12.0%
2012	Obama	16.0%
2008	Obama	-37.0%
2004	Bush W.	10.9%
2000	Bush W.	-9.1%
1996	Clinton	23.1%
1992	Clinton	7.7%
1988	Bush H.W.	16.8%
1984	Reagan	6.3%
1980	Reagan	32.4%
1976	Carter	23.8%
1972	Nixon	19.0%
1968	Nixon	11.1%
1964	Johnson	16.5%
1960	Kennedy	0.5%
1956	Eisenhower	6.6%
1952	Eisenhower	18.4%
1948	Truman	5.5%
1944	Roosevelt	19.8%
1940	Roosevelt	-9.8%
1936	Roosevelt	33.9%
1932	Roosevelt	-8.2%
1928	Hoover	43.6%

Source: Morningstar/Ibbotson Associates. **Past performance is no guarantee of future results.** For illustrative purposes only and not indicative of any actual investment. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.