4POINTS PLANNING

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POLITICS & PORTFOLIOS

STATE OF THE UNION

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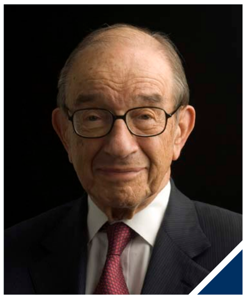


When I first met our senior economic advisor, Dr. Alan Greenspan, I asked the former Chairman of the Federal Reserve if a president can change the path of the economy. As we near the 2020 election, that same question has been coming up with advisors and clients. Can an election, a president, or a change in the House and Senate, help or hurt the economy and stock market?

Dr. Greenspan's answer to me, and I am paraphrasing, was, "Most Presidents don't change economies, they inherit economies". Looking back over the years, this seems to hold true. Administrations can certainly stimulate or stunt an economy, but Presidents usually get what was handed to them based on longer macro-economic issues. Market returns are made over a full business cycle, which is longer than a presidential term.

Whatever your political affiliation, this election will be different. Because when it's over, the pandemic will be here as well. Fiscal and monetary policy will remain focused on the crisis at hand. And the current or future President's primary goal will be to restore jobs for the 10 million Americans currently out of work. When successful, the trillions of stimuli and the effects of 0% borrowing for corporations and consumers should have a lasting impact in portfolios.

Can we protect or hedge portfolios for potential changes in tax policy, industry favoritism, and broader economic changes? Certainly. We can and have reduced exposure to areas that might see a negative impact from some likely policy initiatives. We are similarly adapting to take advantage of a potentially weaker dollar. But these changes are limited in the sense that we would never skew a portfolio heavily in one direction or another based on an election or a thesis. Politicians often don't deliver on whatever they have promised.

A diversified portfolio will benefit from broad economic changes rather than a handful of sectors or particular legislation. Investors with concentrated stock positions should be more concerned, as singular issues or laws can affect them disproportionately.

Our road to economic prosperity will be gauged by how we handle this virus, as Dr. Greenspan wrote in his most recent ACM commentary. The defeat of this virus will ultimately allow our economy and stock market to enjoy the trillion-dollar winds blowing from Washington in our sails for future growth. With presidential elections, like all other newsworthy events, you need to make sure to have a diversified portfolio in place, and to stay with it. After all, a long-term strategy is designed for more than one election cycle.

Kevin Kern
Partner, Advisors Capital Management

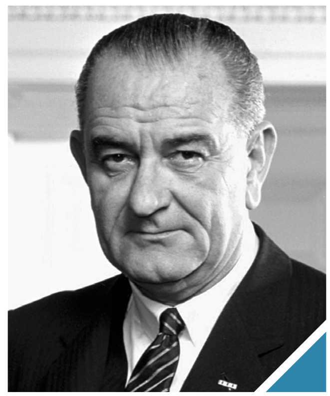
PRESIDENTIAL MARKET RETURNS POST WWII

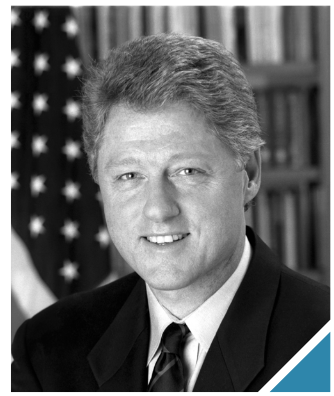
President	Political Party	Years In Office	S&P Return (%)	Recessions
William J. Clinton	**D**	1993-2001	210	0
Barack H. Obama	**D**	2009-2017	182	0
Dwight D. Eisenhower	**R**	1953-1961	129	3
Ronald W. Reagan	**R**	1981-1989	117	1
Harry S. Truman	**D**	1945-1953	87	1
George H. W. Bush	**R**	1989-1993	51	1
Lyndon B. Johnson	**D**	1963-1969	46	0
Donald J. Trump	**R**	2017-	40+	1
Jimmy E. Carter	**D**	1977-1981	28	1
Gerald R. Ford	**R**	1974-1977	26	0
John F. Kennedy	**D**	1961-1963	16	0
Richard M. Nixon	**R**	1969-1974	-20	2
George W. Bush	**R**	2001-2009	-40	2

SOURCE: NBER, Federal Reserve of St. Louis, YCharts, Forbes - https://www.forbes.com/sites/sergeiklebnikov/2020/07/23/historical-stock-market-returns-under-every-us-president/#5b8452eefaaf
Performance represents price change only. Figure for Truman reflects the Dow Jones Industrial Average.

GDP RANKED

THE FOUR TOP PRESIDENTIAL TERMS, RANKED BY GDP GROWTH:
Truman's elected term, Kennedy-Johnson, Johnson's elected term, and Clinton's second term.



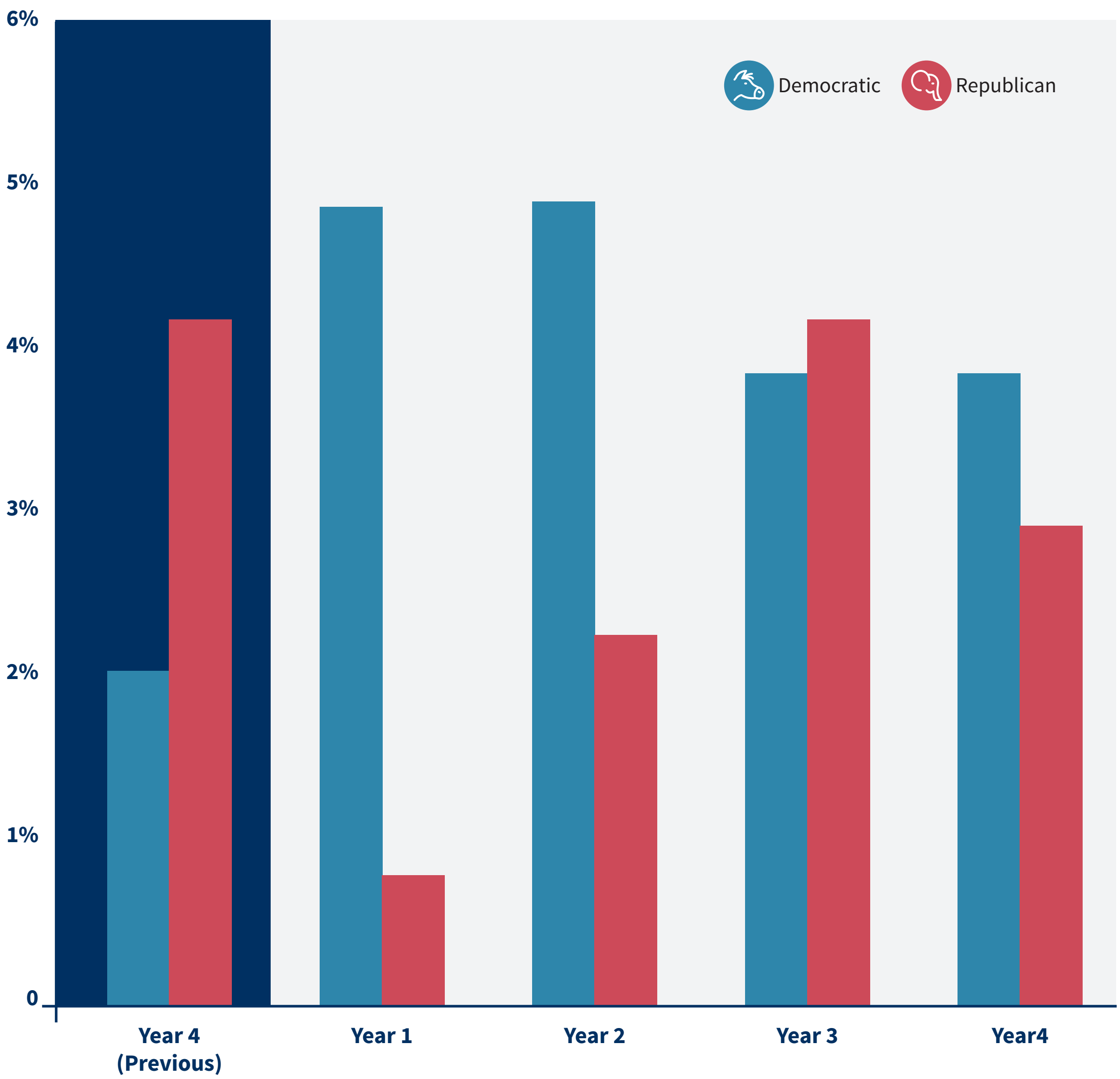


AVERAGE GDP GROWTH/YEAR - CONGRESS

	PARTY OF PRESIDENT		
Partisan Control of Congress	**Democrat**	**Republican**	**All**
Dems control both houses	4.69%	2.37%	3.47%
Divided Congress	2.19%	2.81%	2.68%
Repubs control both houses	3.86%	2.83%	3.35%
All	4.33%	2.54%	3.33%

SOURCE: American Economic Review 2016, 106(4): 1016-1045 http://dx.doi.org/10.1257/atr.20140913

GDP GROWTH RATES BY YEAR IN PRESIDENTIAL TERMS



SOURCE: American Economic Review 2016, 106(4): 1015-1045 http://dx.doi.org/10.1257/aer.20140913

WHAT PLAYS OUT

EXPECTATIONS IN A BLUE WAVE

Democrats sweep the Presidency, House of Representatives and Senate

- Larger Covid related spending
- Increase in corporate tax rate from 21% to 28%
- Increase in taxes on those making $400k+
- Repeal of the SALT cap
- New regulatory scrutiny to big business, especially the tech industry
- Infrastructure spending with a “green” focus
- Change to the approach of the trade war with China

EXPECTATIONS IN A RED WAVE

Republicans sweep the Presidency, House of Representatives and Senate

- Additional tax cuts and the early extension of expiring tax provisions, resulting in higher deficits.
- Capital gains tax cut, perhaps indexed to inflation
- Infrastructure spending with a more traditional focus
- Emboldened approach to the trade war with China

ANY MAJORITY IN THE SENATE IS LIKELY TO BE SMALL, AND FAR SHORT OF THE 60 VOTES NEEDED TO AVERT A FILIBUSTER. So, neither party should have free reign. This should limit either party’s agenda to the most popular ideas and push the most radical legislation to the sidelines. The majority only holds for two years before we do it again.

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