

# The Advisor

A quarterly publication from Ables, Iannone, Moore & Associates, Inc.

## Market Update – Fourth Quarter, 2020

**LET'S TALK POLITICS** – But first, let's spend some time talking about the market and economy. Largely, the third quarter was a good one for investors. The S&P 500 added nearly 9% while the Dow Jones Industrial Average turned in roughly an 8% gain. Bond investors saw a more muted quarter with the Barclay's U.S. Aggregate Bond Index essentially flat and the U.S. 10-year note rose just over 3.5% during the quarter. The demand for gold remained strong as it continued to attract investors as a safe haven while the U.S. dollar weakened. On the commodity front, West Texas Crude Oil finally caught a bid and held onto a slight gain for the quarter.

Taking a closer look at the S&P 500 shows the Consumer Discretionary sector led the way higher, followed by Materials and Industrials. The laggards, or losers if you will, were Energy, Real Estate and Financials. Regarding the closely followed Factors within the index, Growth and Momentum continued their dominance over Value and the Dividend-Payers.

GDP experienced its worst quarterly decline in history, but from our vantage point the economy has turned to recovery from the Covid induced recession. Action Economics forecasts a 33% rebound in Q3 GDP while 2020 & 2021 revenue and EPS estimates are being revised higher for the S&P 500. Specific areas including housing and retail sales along with construction spending, U.S. manufacturing and the automotive industry all showed signs of strength. Further evidence of a recovery showed up in the employment numbers as the job market continues its healing process from the historic and unprecedented levels seen just a few months ago.

A note of caution, however, is warranted. We recognize the market rally (for those keeping score at home, as of this writing, the S&P 500 is up over 55% from the March 23<sup>rd</sup> low) and the

economic recovery has been fueled by the Fed's commitment to keeping rates low and liquidity in the system. The recovery has also been powered by the stimulus bill previously passed by Congress. But signs of market fatigue have been evident. Continued (if not heightened) Covid fears, gridlock in Washington D.C. over a second round of stimulus and the impending election outcome has cultivated a landscape ripe for market exhaustion.

### Speaking of the Election

There are few topics we get asked about more often than Presidential Elections. With data from CFRA and S&P Global, let's dig into some numbers and take an objective look at the S&P 500 under various political party scenarios. We will use data from 12-31-1944 to 8-31-2020, spanning 76 years. Although not gospel, history shows the market clearly has an opinion. What you see here just might surprise you.

Below is a chart that lays out scenarios of which party controls the Presidency and Congress along with the corresponding market return. The number of years that scenario has taken place is also shown as well as the frequency of advance (FoA) of the market under each respective scenario. The chart is broken down into Unified Government (Presidency & Congress are controlled by one party), Unified Congress (the Senate & House are party controlled) and Split Congress.

### Party Majorities & the S&P 500

POLITICAL SCENARIOS	Avg. Chg.	Years	FoA
Unified Government	10.6%	30	77%
>Democratic President	9.8%	22	77%
>Republican President	12.9%	8	75%
Unified Congress	7.4%	32	66%
>Dem. Pres./Rep. Congress	13.0%	10	60%
>Rep. Pres./Dem. Congress	4.9%	22	68%
Split Congress	8.6%	13	69%
>Democratic President	13.6%	4	75%
>Republican President	5.2%	10	60%
All Years	8.7%	76	70%

Source: CFRA, S&P Global. Past performance is no guarantee of future results. Data 12/31/1944-8/31/2020.

### **Democratic President & Unified Government**

The data show this to be a strong combination – averaging a 9.8% return and advancing 77% of the time. The Democrats would have to net 4 seats in the Senate to get this scenario (with the assumption they keep the House).

### **Republican President & Unified Government**

Although history shows this is one of the market's favorite combinations, averaging a 12.9% return and 75% FoA, it is unlikely to happen considering the Republicans will need to net 21 seats in the House and keep the Senate in order to gain unified control.

### **Democratic President & Rep. Congress**

Despite this being one of the preferred scenarios, evidenced by an average 13% return, again, it is unlikely given the steep climb the Republicans face in the House.

### **Republican President & Dem. Congress**

At 4.9% average return and 68% frequency of advance, this is the lowest return scenario according to this data.

### **Democratic President & Split Congress**

This combo is another super-favorite. The market has averaged 13.6% and it has advanced 75% of the time. Granted, this has only been in-play 4 years but the point still stands; the market has previously thrived under this scenario.

### **Republican President & Split Congress**

Here we find one of the least favored scenarios with an average of 5.2% return and only 60% of the time the market advanced. Worth noting, however, is we have had this set-up the last 2 years. In 2019 the S&P 500 returned nearly 29% and this year it is up nearly 6% as of this writing.

Where exactly are the disaster scenarios? Sure, some appear better than others but clearly there is plenty to like on both sides of the aisle as it relates to market returns. “But wait, this time is different!” Is it, really? Yes, there are very real and significant differences between parties and their policies. And, that means different

playbooks are used in order to pursue each respective agenda. Election fallout, either way, undoubtedly affects the country and each person differently. We are not being dismissive of these facts. The point is, although markets care about policies and regulations, they generally do not care about the polarization, overgeneralization and catastrophizing that typically comes with an election year. The market simply wants clarity around the rules of engagement – that's it. This is proven out in the data; over time, there is market opportunity regardless of which party is in control.

Need more proof? Updated numbers for the S&P 500 as of mid-October, 2020:

#### **76 years of S&P 500 returns:**

- 71% of the time the market was Up
- 26% of the time the market was Down
- 3% of the time the market returned Zero

#### **It gets even better:**

- The Up years averaged 16.95%
- The Down years averaged -12.06%

Internal Data compiled by AIMA, Inc.

Let those numbers sink in. The S&P 500 was up 71% of the time during this period – and when it was up – it was up, on average, more than when it was down. There will always be politics, fearful headlines, volatility, pullbacks and even down years. But we cannot allow that fear to shake us from our conviction in the reality that history has clearly shown to be true – there are tremendous wealth creating opportunities for the patient, disciplined investor.

To our clients, thank you for the opportunity to serve your investment needs and please do not hesitate to contact us if you experience any material changes in your personal situation or would like to discuss any specific matters.

To our other readers, if you would like a second perspective on your investment accounts, please feel free to contact us. As fiduciaries, we will happily provide you with an unbiased opinion.



Insight. Perspective. Results.

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