

# Student of the Market

August 2020

*Election year special*



# Student of the Market: August 2020

- 1 Stocks have continued higher regardless of presidential party**

As elections come up, we tend to get concerned about which party might be better for the market. Historically, the market has continued to rise, regardless of which party is in the White House. Since 1926, \$1,000 invested in the S&P 500 would have grown to \$8.96m as of 6/30/20, with a number of regime changes along the way.
- 2 U.S. stocks across the election cycle**

Stocks have historically performed above average in presidential election years. However, they've also tended to post their strongest performance in years where there is no presidential or mid-term election.
- 3 Investors build cash in election years (especially this year)**

During presidential election years, there are usually greater inflows into money market funds than in years with no presidential election. This election year has seen historically large flows, due to the combined effect of the election and coronavirus pandemic.
- 4 Divided governments and the U.S. stock market**

Stock markets tend to post stronger performance when the White House and Congress are controlled by the same party, on average. We have seen this happen roughly half of all presidential terms throughout history.
- 5 Stocks across a presidential term**

Over a president's term, the third year is often the highest performing year for the stock market. If a president is lucky enough to be elected to a second term, stock returns tend to reflect those of the first term (roughly 12% on average for each term).
- 6 New vs. incumbent presidents**

On average, stocks have historically performed better in election years where an incumbent president wins reelection (13.4%) than when a new president is elected (9.3%).
- 7 Asset class performance in presidential election years**

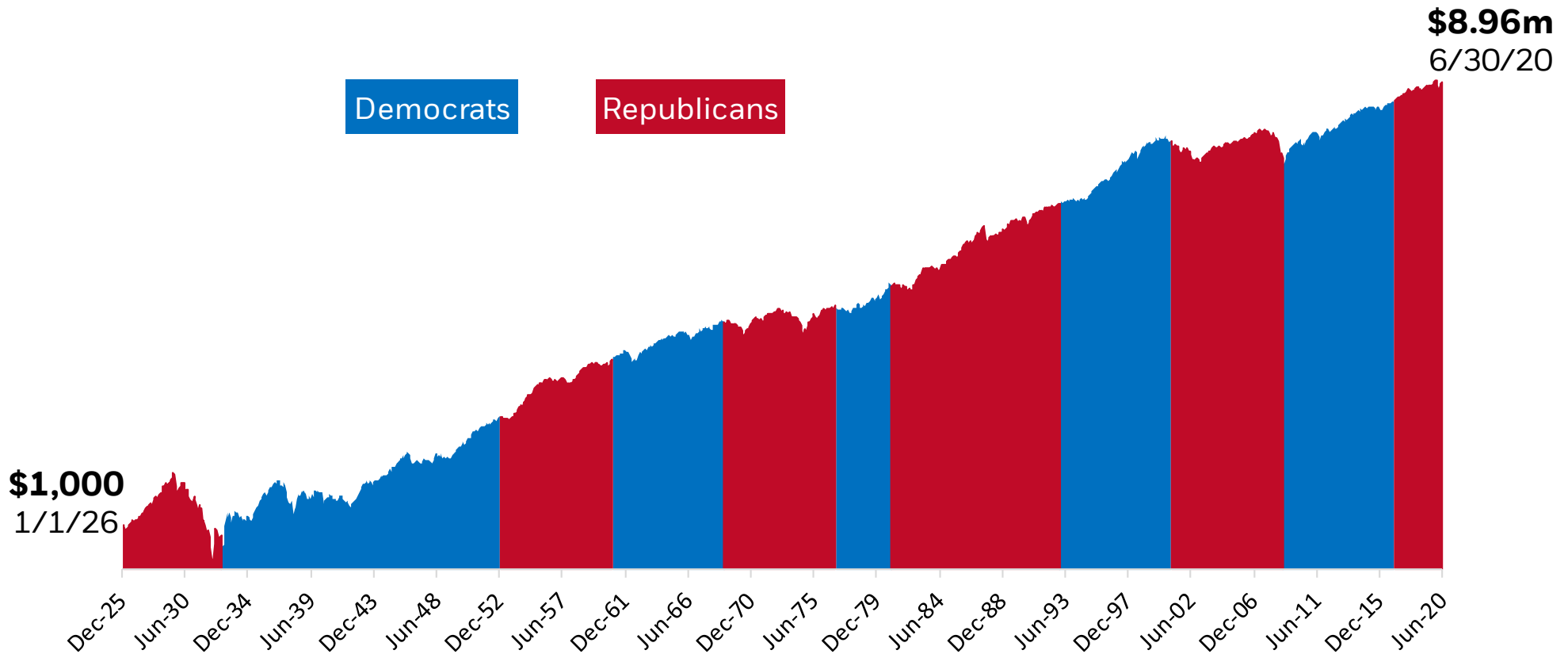
This year, we're seeing asset classes performing much differently than their historical average in election years.
- 8 Market seasonality in election years**

On average, the period known as "Mommies to Mummies" (May 1 to October 31) have historically performed worse than the period known as "Turkey to Tax" (November 1 to April 30). In election years, however, "Mommies to Mummies" tends to perform better than average, and "Turkey to Tax" tends to perform worse.

Source: Morningstar as of 6/30/20. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

1

# Stocks have continued higher regardless of presidential party

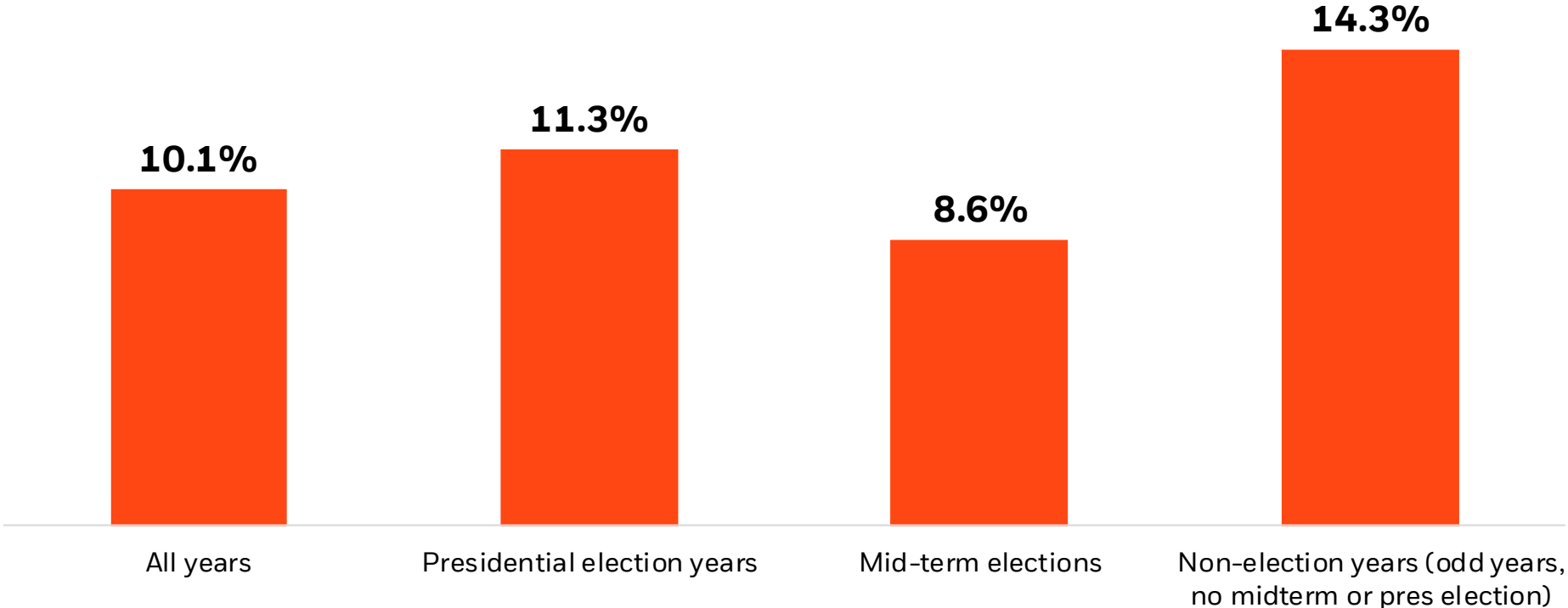


Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 6/30/20 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# 2

## U.S. stocks across the election cycle

**U.S. stock performance**  
Average annual return, 1/1/26 – 12/31/19

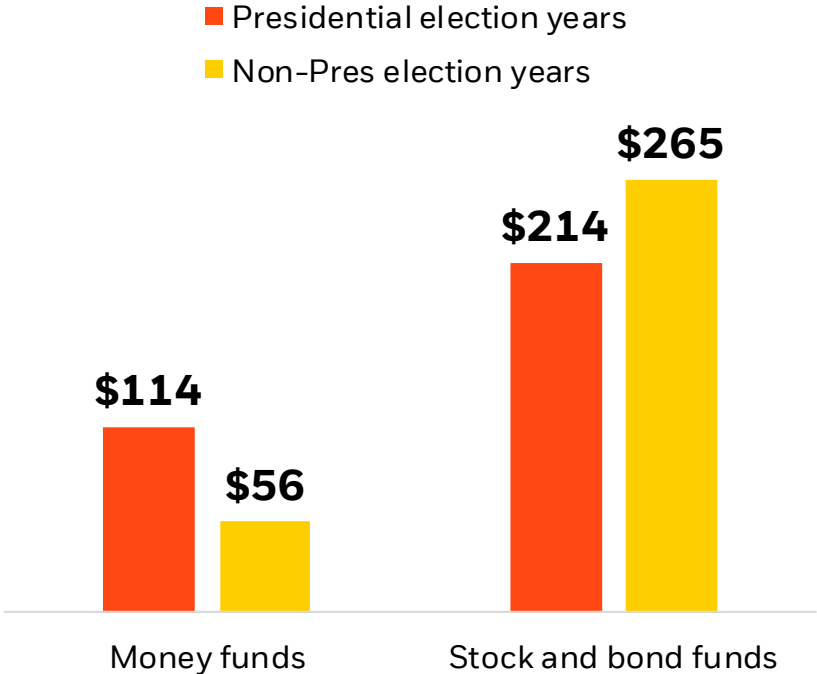


Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 12/31/19 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

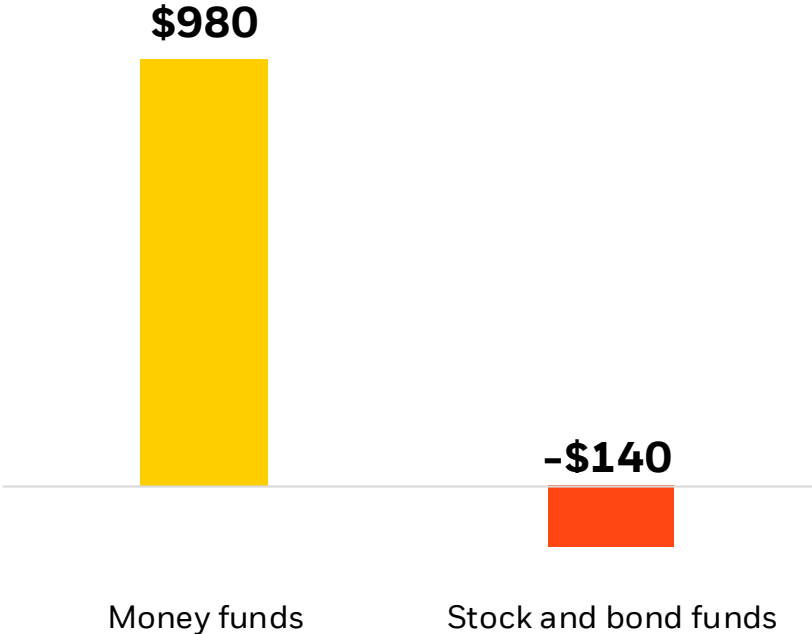
# 3

## Investors build up cash in election years (especially this year)

**Fund flows and presidential election years**  
In billions USD, 2/1/93 – 6/30/20



**2020 flows**  
In billions USD, 1/1/20 – 6/30/20



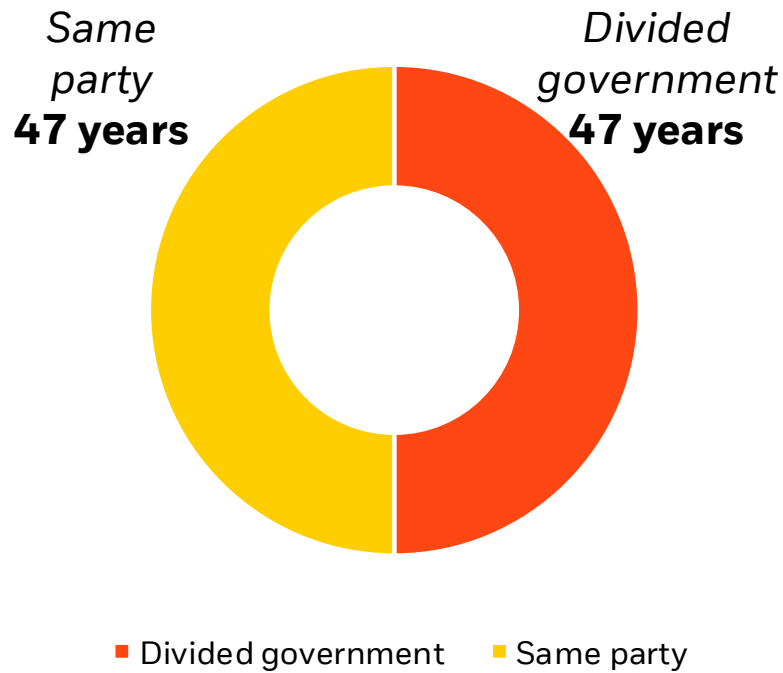
Morningstar as of 6/30/20. Money funds, stock funds, and bonds funds are represented by their respective U.S. fund categories as defined by Morningstar. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# 4

# Divided governments and the U.S. stock market

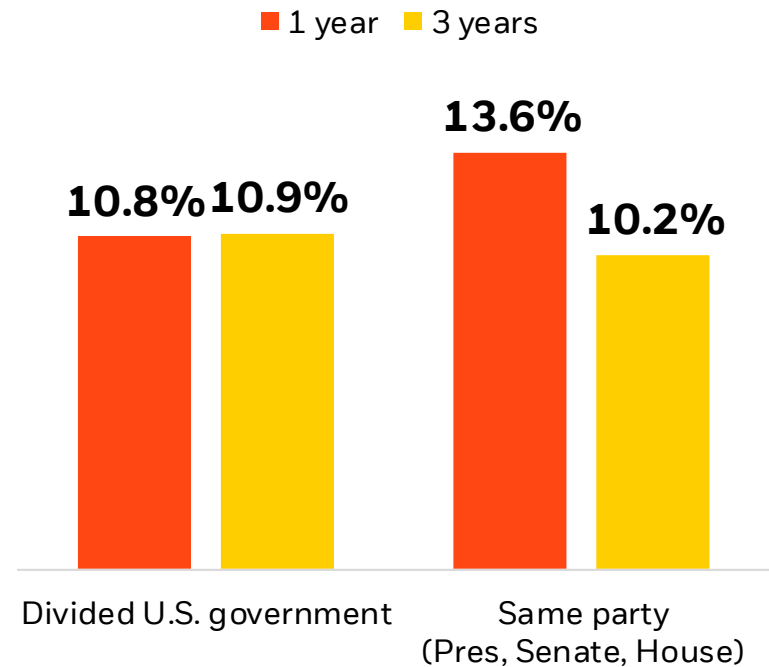
### Calendar years of divided government

1/1/26 – 12/31/19



### Next 1 and 3 years for U.S. stocks

Rolling annual average, 1/1/26 – 6/30/20

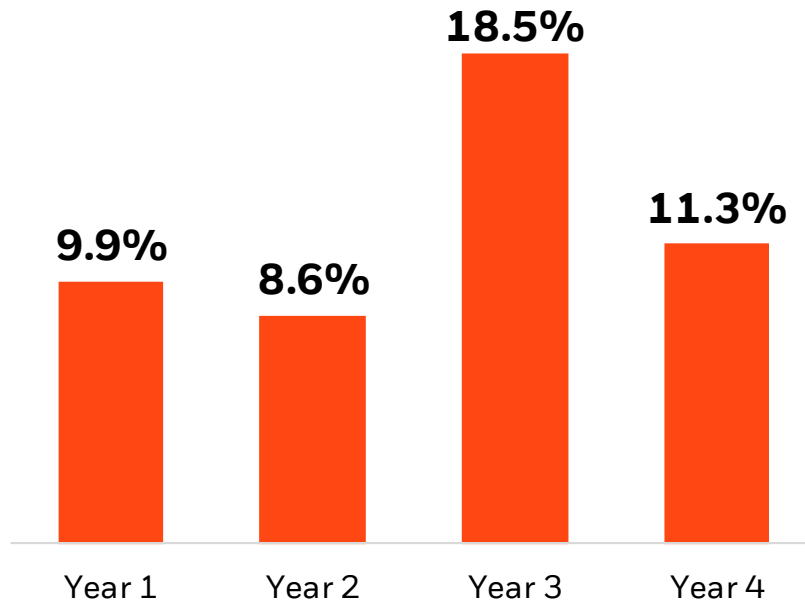


Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 6/30/20 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

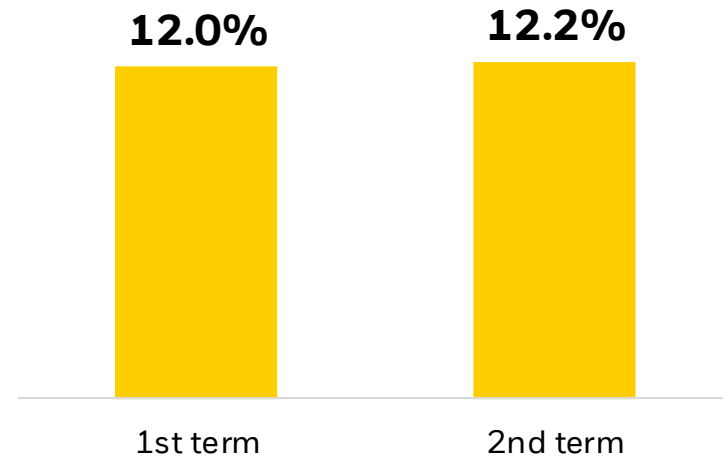
# 5

## Stocks across a presidential term

**Years of a presidential term and U.S. stock performance**  
1/1/26 – 12/31/19



**Presidential term and U.S. stock performance**  
1/1/26 – 12/31/19

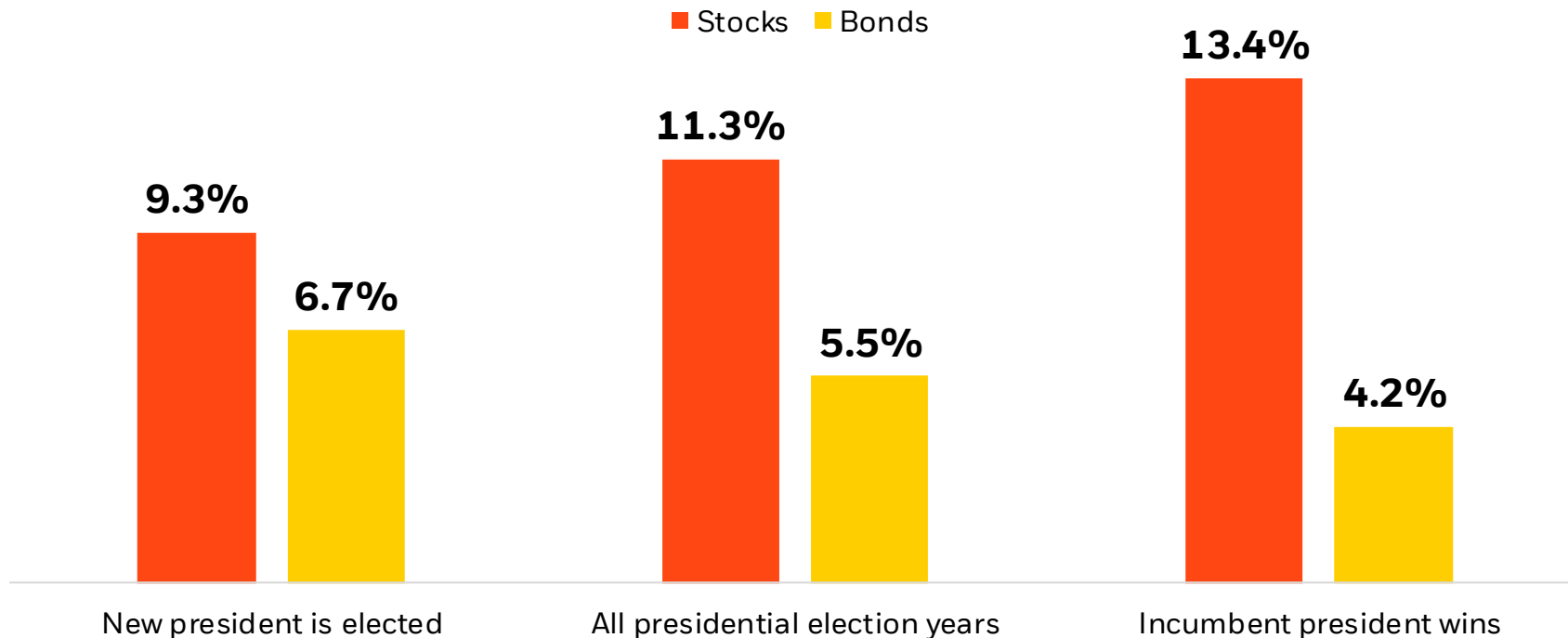


Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 12/31/19 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

## 6

# New vs. incumbent presidents

Calendar year performance during presidential election years (1/1/28 – 12/31/16)



Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 12/31/16 and IA SBBI US large cap stocks index from 1/1/28 to 1/1/70. US Bonds represented by the BbgBarc US Aggregate Bond Index from 1/1/76 to 12/31/16 and the IA SBBI US IT Bond Index from 1/1/28 to 1/1/76. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.



## 7

# Asset class performance in presidential election years

## Average election year performance by asset class

(1/1/80 - 6/30/20)

Asset class	Calendar year performance since 1980				
	Election year average	One year after election	Republican president	Democratic president	YTD 6/30/2020
Technology	2.2	17.4	8.5	27.0	14.7
Diversified Emerging Mkts	-3.0	28.9	11.5	10.5	9.8
Large Growth	4.7	17.2	8.9	17.5	7.8
Health	8.2	23.7	12.8	20.1	5.8
Intermediate Core Bond	5.1	8.3	8.2	5.5	5.7
Short-Term Bond	4.7	6.8	7.0	4.3	1.7
Muni	3.2	5.7	6.6	3.9	1.2
Multisector Bond	7.4	8.9	7.3	8.1	-2.0
High Yield Bond	5.9	12.3	8.4	9.2	-5.2
Foreign Large Blend	2.2	17.5	9.6	10.6	-10.9
Mid Cap	10.0	19.2	10.1	16.8	-12.6
Large Value	9.4	16.7	9.3	14.7	-15.2
Real Estate	12.4	14.0	8.5	14.1	-16.2
Small Cap	11.5	18.9	10.1	16.4	-16.9
Financial	16.5	21.7	11.5	17.5	-23.3
Equity Energy	13.3	20.8	6.2	13.3	-37.8

Morningstar as of 6/30/20. All asset classes represented by their respective Morningstar category. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# 8

## Market seasonality in election years

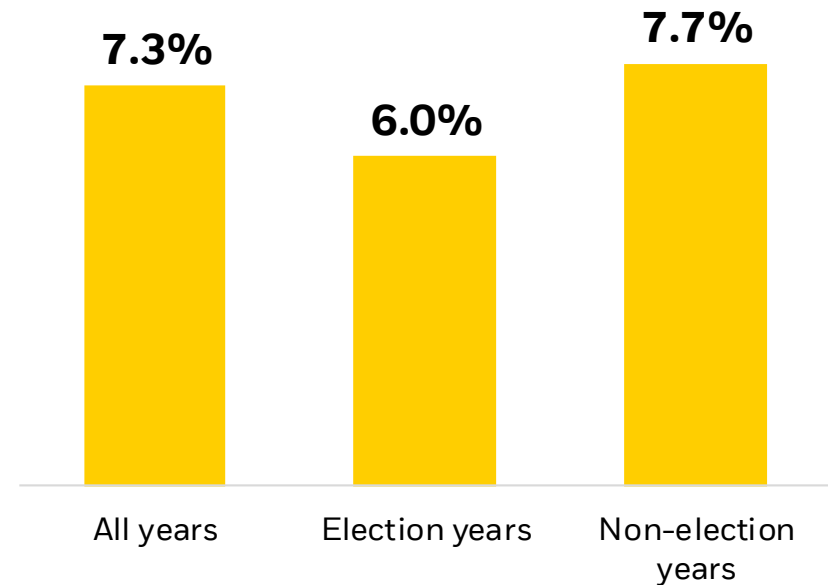
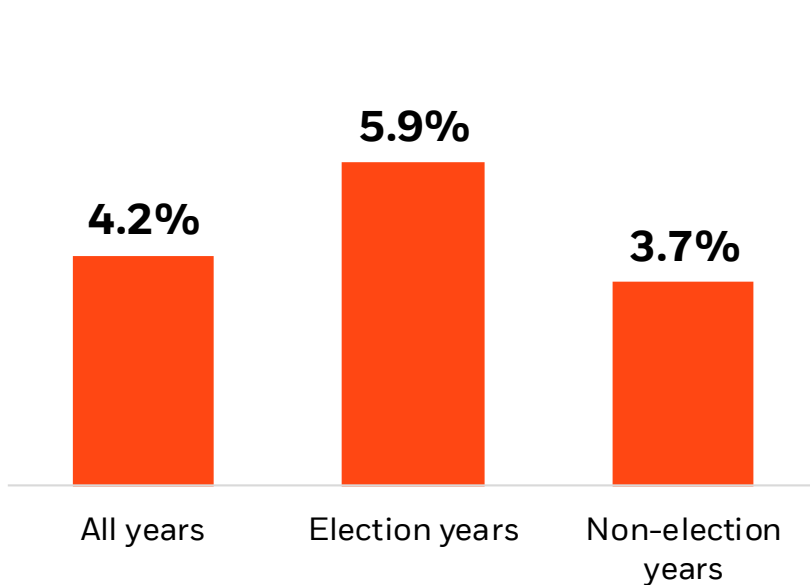
Election years have historically caused disruptions to market seasonality

### “Mommies to mummies” (May 1 to Oct 31)

Six months prior to the election (1/1/26 – 12/31/19)

### “Turkey to tax” (Nov 1 to Apr 30)

Six months after the election (1/1/26 – 4/30/20)



Morningstar as of 6/30/20. Stock market represented by the S&P 500 Index from 1/1/70 to 4/30/20 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

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Returns as of 6/30/2020	Total Ret 1 Year	Total Ret 5 Years	Total Ret 10 Years
S&P 500 TR USD	7.51	10.73	13.99
BBgBarc US Agg Bond TR USD	8.74	4.30	3.82
IA SBBI US IT Govt TR USD	10.75	4.09	3.26
IA SBBI US Large Stock TR USD Ext	7.51	10.73	13.99
US Fund Diversified Emerging Mkts	-3.66	2.46	3.27
US Fund Equity Energy	-39.38	-17.41	-6.84
US Fund Foreign Large Blend	-4.66	1.79	5.33
US Fund Health	17.18	6.57	15.97
US Fund High Yield Bond	-1.89	3.38	5.49
US Fund Intermediate Core Bond	7.89	3.90	3.66
US Fund Large Blend	3.74	8.35	12.22
US Fund Large Growth	17.34	12.84	15.12
US Fund Large Value	-7.59	4.47	9.75
US Fund Mid-Cap Blend	-6.19	3.86	10.02
US Fund Multisector Bond	0.69	3.30	4.44
US Fund Muni National Interm	3.13	3.14	3.50
US Fund Short-Term Bond	3.09	2.18	2.08
US Fund Small Blend	-11.41	2.49	9.32
US Fund Technology	25.97	18.50	17.44

Source: Morningstar. Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than that shown.

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