

DOES A PRESIDENT'S POLITICAL PARTY AFFECT STOCK MARKET RETURNS?

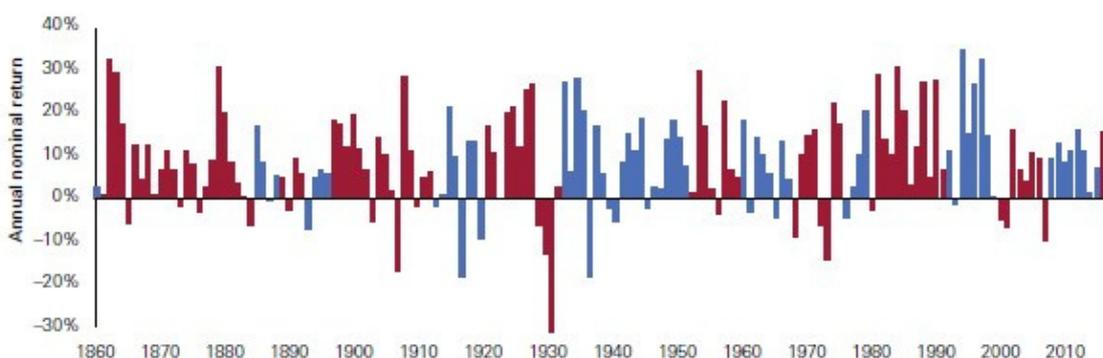
Many clients have recently inquired about the economic and stock market impacts as a result of this November's presidential election. While we do not know what the outcome of the election will be, here's what 158 years of history has taught us:

Presidential Political Party Stock Market Returns

Vanguard analysts have used stock market return data from 1860-2018 to determine if a president's political party has an effect on stock market returns. Considering a 60% equity, 40% fixed income portfolio, analysts determined there is no statistical difference between Republican and Democratic presidents whose annual compound returns were 8.2% and 8.4%, respectively.

Investors benefit by ignoring political noise

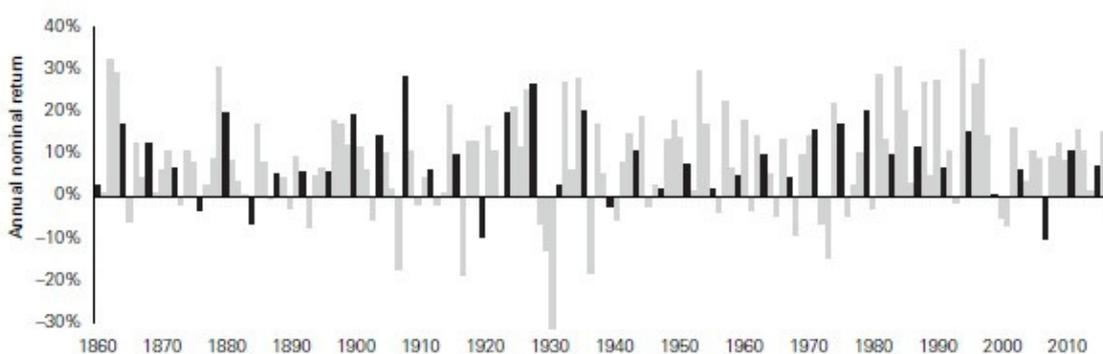
Presidential political party 60/40 portfolio returns show no statistical difference



8.4% | Annual compound return for a Democratic president (65 periods)

8.2% | Annual compound return for a Republican president (94 periods)

Comparing election years versus non-election years, 60/40 portfolio returns show no statistical difference



8.9% | Return during election years (40 periods)

8.0% | Return during non-election years (119 periods)

Source: Vanguard calculations based on data from Global Financial Data through 12/31/2018.

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[1] "Investors Benefit by Ignoring Political Noise." The Vanguard Group, Inc. .

The Federal Reserve as a Major Player

The Federal Reserve's ("The Fed's") monetary policy has a major impact on the overall stock market and economy. On August 27, 2020, the Fed announced it would allow interest rates to remain very low, with the expectation to allow inflation to run above 2%.² These lower interest rates come with the hope to increase consumer spending and borrowing.³

CFA's Outlook

Short-Term: The outcome of the November election will likely cause continued volatility in the markets. Regardless of a president's political party, the first two years of a president's term are associated with below average stock market returns, whereas the last two years are associated with above average stock market returns.⁴

Long-Term: CFA continues to place emphasis on long-term planning with our clients. We prepare for volatile times and market downturns by pruning profits and creating "Defensive Barriers" (DBs) in our clients' portfolios. The DB is the number of years' worth of distributions in fixed income investments. DBs in portfolios allows clients to maintain desired distribution levels, without the need to sell riskier assets during periods of stock market volatility. Ultimately, CFA remains confident in the long-term viability of the U.S. economy, and believes these troubling economic times will pass.

OFFICE UPDATES

CFA believes it is in the best interest of our clients to continue with virtual appointments until at least January 2021. We miss seeing our clients in the office, however we look forward to being with you all as soon as it is safe to do so. Until then, we hope you and your families remain happy and healthy during these times.



[2] Cox, Jeff. "Powell Announces New Fed Approach to Inflation That Could Keep Rates Lower for Longer." CNBC, CNBC, 27 Aug. 2020, www.cnbc.com/2020/08/27/powell-announces-new-fed-approach-to-inflation-that-could-keep-rates-lower-for-longer.html.

[3] Cox, Jeff. "New Fed Strategy Means Cheaper Loans for a Long Time - Here's How You Can Benefit." CNBC, CNBC, 28 Aug. 2020, www.cnbc.com/2020/08/27/new-fed-strategy-means-cheaper-loans-for-a-long-time-heres-how-you-can-benefit.html.

[4] Timmer, Jurrien. "Stock Market Returns & Presidential Elections." Fidelity, Fidelity Brokerage Services, LLC, 29 Jan. 2020, www.fidelity.com/learning-center/trading-investing/markets-sectors/stock-returns-and-elections.