FCI ADVISORS

CAPITAL MARKET COMMENTARY

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The Election's Impact...Don't Overestimate It

The upcoming election and its impact on the capital markets has emerged as a logical focal point for investors. With less than six weeks until November 3 and the first presidential debate days away, the question is a good one. *What is the impact of the election on the capital markets, specifically the stock market?* Let's examine that issue by looking at something we know with certainty, stock market history. The chart below depicts the growth of $10,000 first invested in 1933 into U.S. stocks. Democratic administrations are highlighted in blue. Republican administrations are highlighted in orange. The data shows stock prices have risen through both types of administrations. Therefore, it is a mistake to think stocks can only go up if a certain party occupies the White House.

Markets trend higher under both parties. It is impossible to say one party is preferable. If we added an earnings line to the graphic, it would track the same trajectory as stock prices. So, the short answer to the question above is this: *Longer term, the upcoming election's impact will be much less than one might expect.*

The Profit Motive

When it comes to long term market appreciation, earnings, not the political affiliation of the president, move the market. It is true that earnings are influenced by the policy environment in Washington which is often driven by presidential leadership. However, the ability of U.S. companies to adjust to different policy environments is something that should not be underestimated. Just as we sometimes overestimate the impact a given political administration will have on the markets, we can easily underestimate the companies' abilities to react positively to changes in policies. Companies adapt

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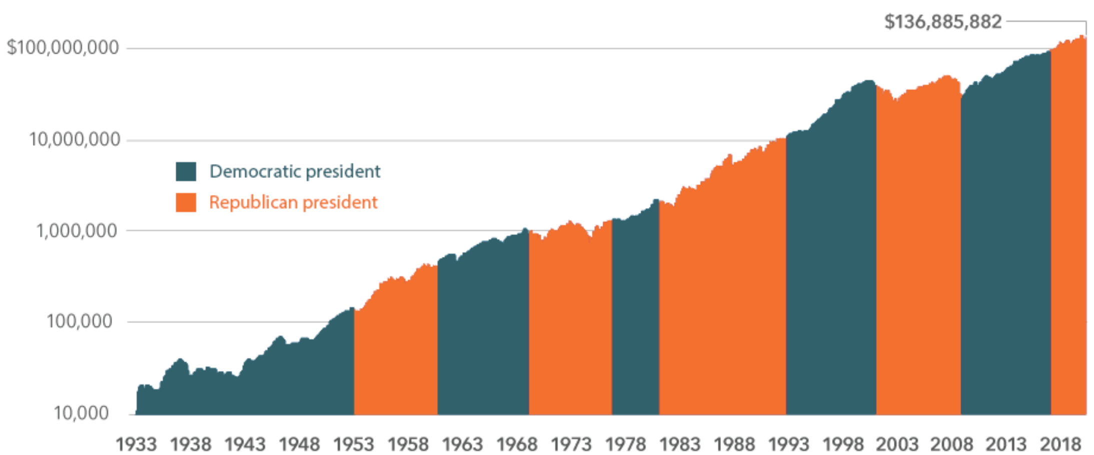
Stocks have trended higher regardless of which party has been in office

Growth of a hypothetical $10,000 investment in S&P 500 Index



Sources: Capital Group, Morningstar, Standard & Poor's. The start date is March 4, 1933, and the end date is June 30, 2020. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale.

to shifting policy environments whether they involve tax, trade, monetary, health care or other regulatory policies. In a capitalistic society, companies are motivated to adapt because they want to continue to grow. The profit motive remains a powerful force.

For perspective, it's worth remembering the U.S. economy is comprised of millions of hardworking Americans. They come to work every day with a motivation to grow their business. These are not just business owners but non-business owners as well. Regardless who occupies the White House, this motivation to grow remains the same. When the average American goes to work on November 4 they will be just as motivated to work hard as they were on November 2. This American motivation to grow and prosper is not going to change. Our capitalistic system will endure and the economy will continue to progress.

A Normal Election?

In a year where the unexpected has become the norm, could we possibly have a normal election? That would seemingly be asking too much in 2020. Short term, the election will dominate the news cycle. It may, in fact, precipitate more market volatility than normal over the next month or two. What will happen if Biden wins? What will happen if Trump is re-elected? What if the Senate goes to the Democrats? What if it is a Democratic sweep? A concern with a Biden presidency, and more so a Democratic sweep, would be the imposition of higher capital gains tax rates and personal income tax rates. How likely is that? What about the Supreme Court? These are worth pondering to a degree but not to an extreme.

Every presidential election is contentious and largely unpredictable. Every election cycle possesses an element of uncertainty because each one involves millions of human beings making independent decisions. Anticipating political change is a difficult endeavor. It is actually easier and more productive to anticipate corporate earnings growth, which will continue to drive stock prices more than election outcomes. If we have corporate earnings growth, stock prices will rise. Money follows earnings.

Hook Your Wagon

We are not saying the election is unimportant. However, don't let election emotion unduly sway you in either direction. We're keeping our eyes on corporate earnings, the quality of these earnings and how much people are willing to pay for these earnings. Earnings are the real driver, not which party sits in the oval office. Earnings growth has been the constant engine propelling upward movement in stock prices, not the political affiliation of the current White House occupant which can conceivably change every four years. The real source of growth is the motivation of American business to grow. And that is the power to which you want to "hook your wagon" through investment in the U.S. stock market over the long term.

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