

CHARTBOOK

Market Comment

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Market Comment

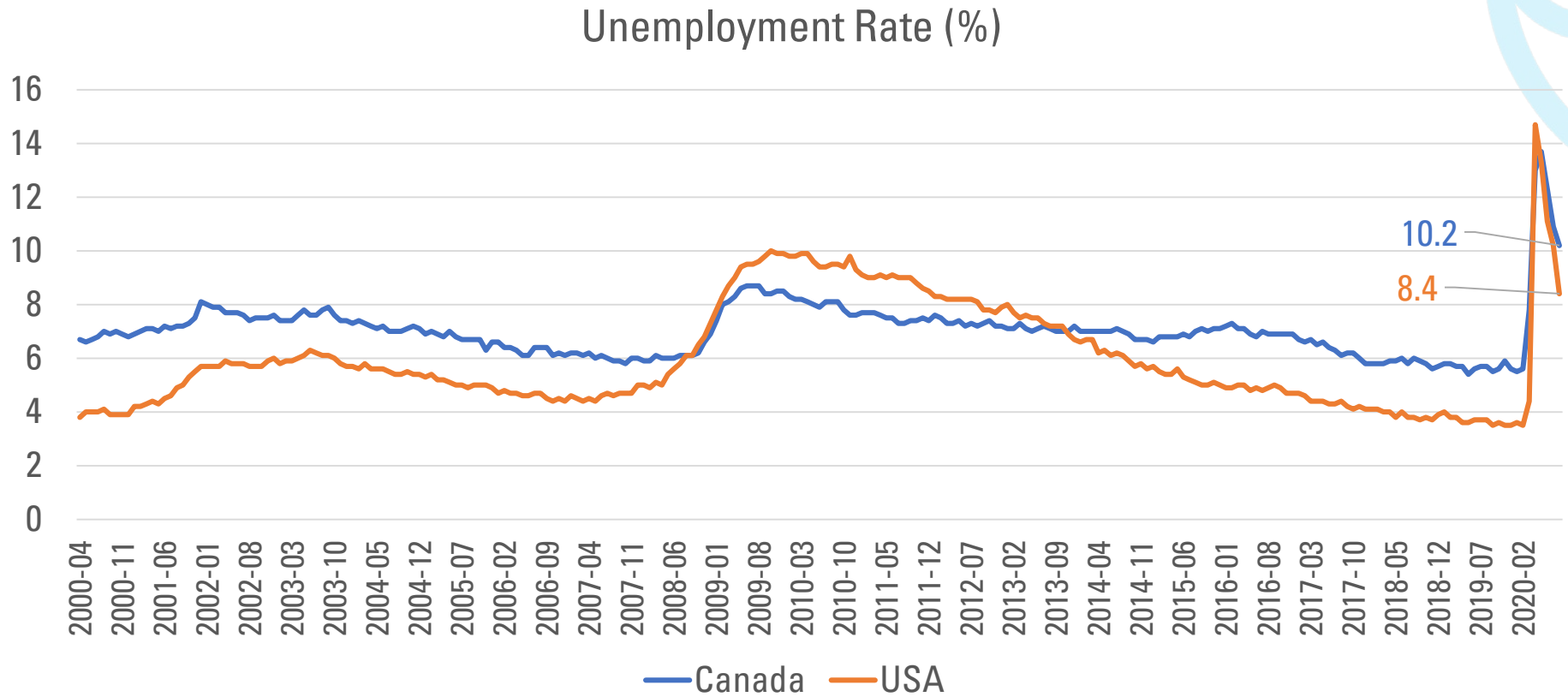
Stock markets around the world pulled back in September; the Toronto Stock Exchange was down 3.5% and the S&P500 was down 4.1%.

The Canadian government recently announced a plan to create a million jobs, as 1.1 million Canadians are currently unemployed. This will be done through various investments and subsidies including an extension of the Canada Emergency Wage Subsidy which they plan to extend from December to summer. The various pandemic spending programs have the government on track to run a \$343 billion deficit.

Like a bad breakup, stimulus package talks between the US Secretary of the Treasury, Steven Mnuchin, and Speaker of the House, Nancy Pelosi, have been on-again and off-again. The market has often moved up or down depending on whether the latest headline was positive or negative. If Democrats and Republicans can agree to a stimulus deal, it would likely be well received by the market.

With a US election just around the corner, some volatility is to be expected over the next several weeks. Many investors have questions about what the election could mean for their portfolios. There is still time before the election and the past has shown us it is very difficult to predict the winner, but it is important for investors to remember that markets have performed well under all different kinds of White House administrations. One scenario that markets may not like is an unclear or delayed election result since markets tend to dislike uncertainty. In a COVID world with socially distant voting and more mail-in ballots than usual, there is certainly potential for that.

Employment



Unemployment remains high but has come down significantly from the initial spike in Q1. We are watching to see if the US government can pass a second stimulus package. If not, we could see unemployment rise again.




Election Prediction Model

Election	S&P 500	Candidates		PREDICTION	Correct Prediction	
Year	July 31 st – Oct 31 st	INCUMBENT PARTY	Democrat	Republican		
1944	0.6		FDR	Dewey	Reelection	Yes
1948	4.4		Truman	Dewey	Reelection	Yes
1952	(3.5)		Stevenson	Eisenhower	Replacement	Yes
1956	(7.7)		Stevenson	Eisenhower	Replacement	No
1960	(3.8)		Kennedy	Nixon	Replacement	Yes
1964	2.0		Johnson	Goldwater	Reelection	Yes
1968	5.8		Humphrey	Nixon	Reelection	No
1972	3.9		McGovern	Nixon	Reelection	Yes
1976	(0.5)		Carter	Ford	Replacement	Yes
1980	4.8		Carter	Reagan	Reelection	No
1984	10.2		Mondale	Reagan	Reelection	Yes
1988	2.6		Dukakis	Bush	Reelection	Yes
1992	(1.3)		Clinton	Bush	Replacement	Yes
1996	10.2		Clinton	Dole	Reelection	Yes
2000	(0.1)		Gore	Bush	Replacement	Yes
2004	2.6		Kerry	Bush	Reelection	Yes
2008	(23.6)		Obama	McCain	Replacement	Yes
2012	2.4		Obama	Romney	Reelection	Yes
2016	(2.2)		Clinton	Trump	Replacement	Yes
				Success Rate	84%	

The price return of the S&P500 from July 31 to October 31 in election years has been a strong indicator of the presidential election outcome. As of September 29, the return of the S&P500 is +3.6%, which would predict a win for the incumbent (Trump) if it is still positive by October 31.

Election Betting Markets

Who will win the 2020 U.S. presidential election?

Contract	Latest Yes Price
 Joe Biden	62¢ 3¢↑
 Donald Trump	42¢ 1¢↓
 Kamala Harris	2¢ 1¢↓

Bettors are favoring Biden as of September 30, with his odds from predictit.org rising slightly after the debate earlier this week.

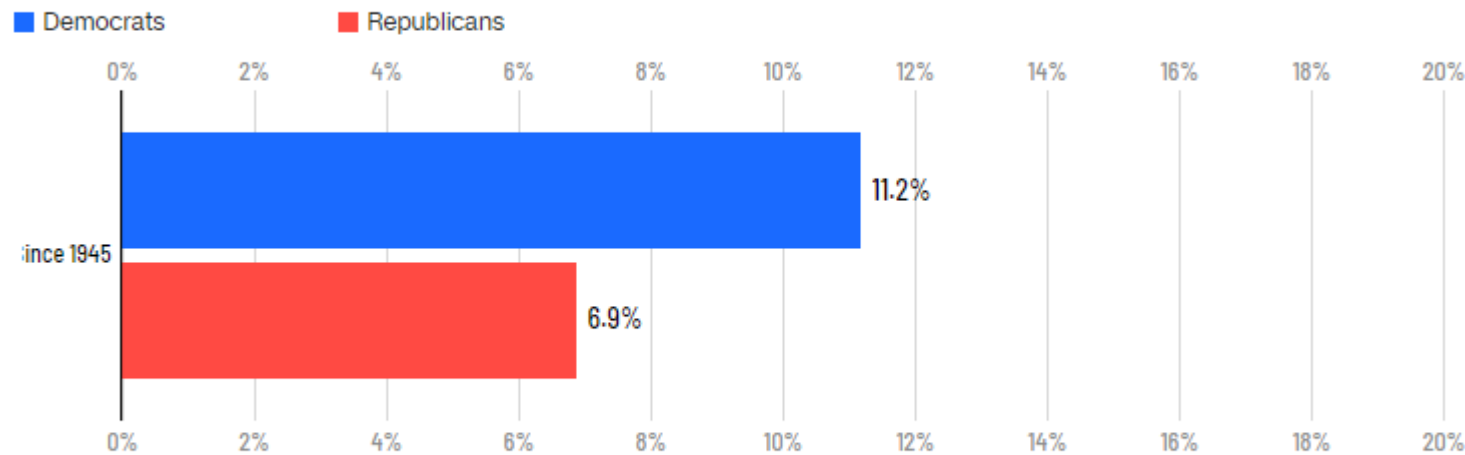


Which Party is Better for Stocks?



History shows US stocks tend to do better under Democrats

Since 1945, the S&P 500 underperformed on average during years when Republicans controlled the White House.



Data through September 14, 2020

Source: CFRA Research

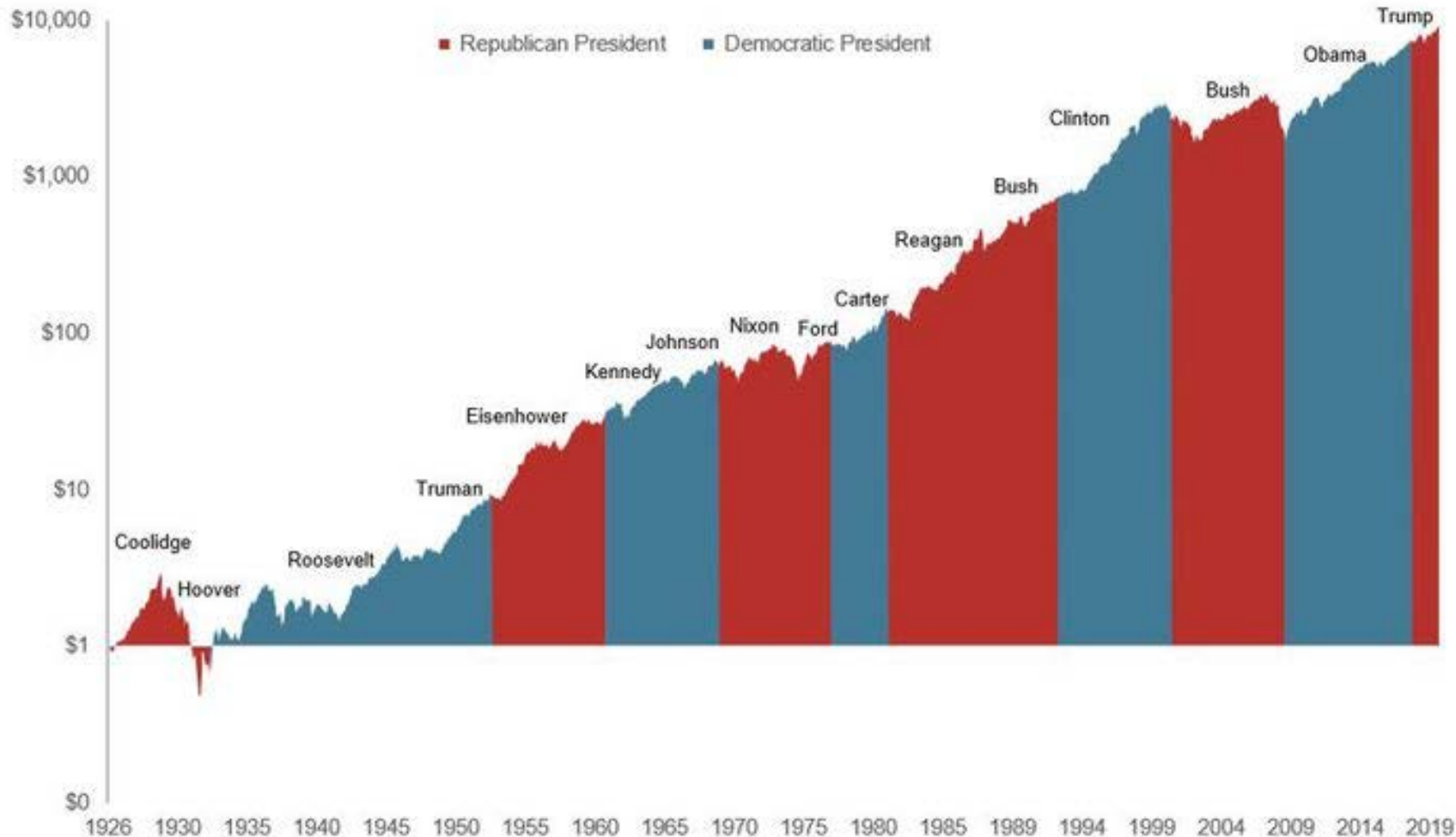
Graphic: Tal Yellin, CNN

Historically, stocks have performed better under Democratic presidents dating back to 1945, but there have been strong markets under both parties. The US president is just one factor of many that can affect the performance of the stock market, and presidents deserve neither all the credit nor all the blame for its performance.

Interestingly, Republican Presidents have presided over more economic recessions than Democratic Presidents over this period: 10 for Republicans and 2 for Democrats.

Market Performance and US Presidents

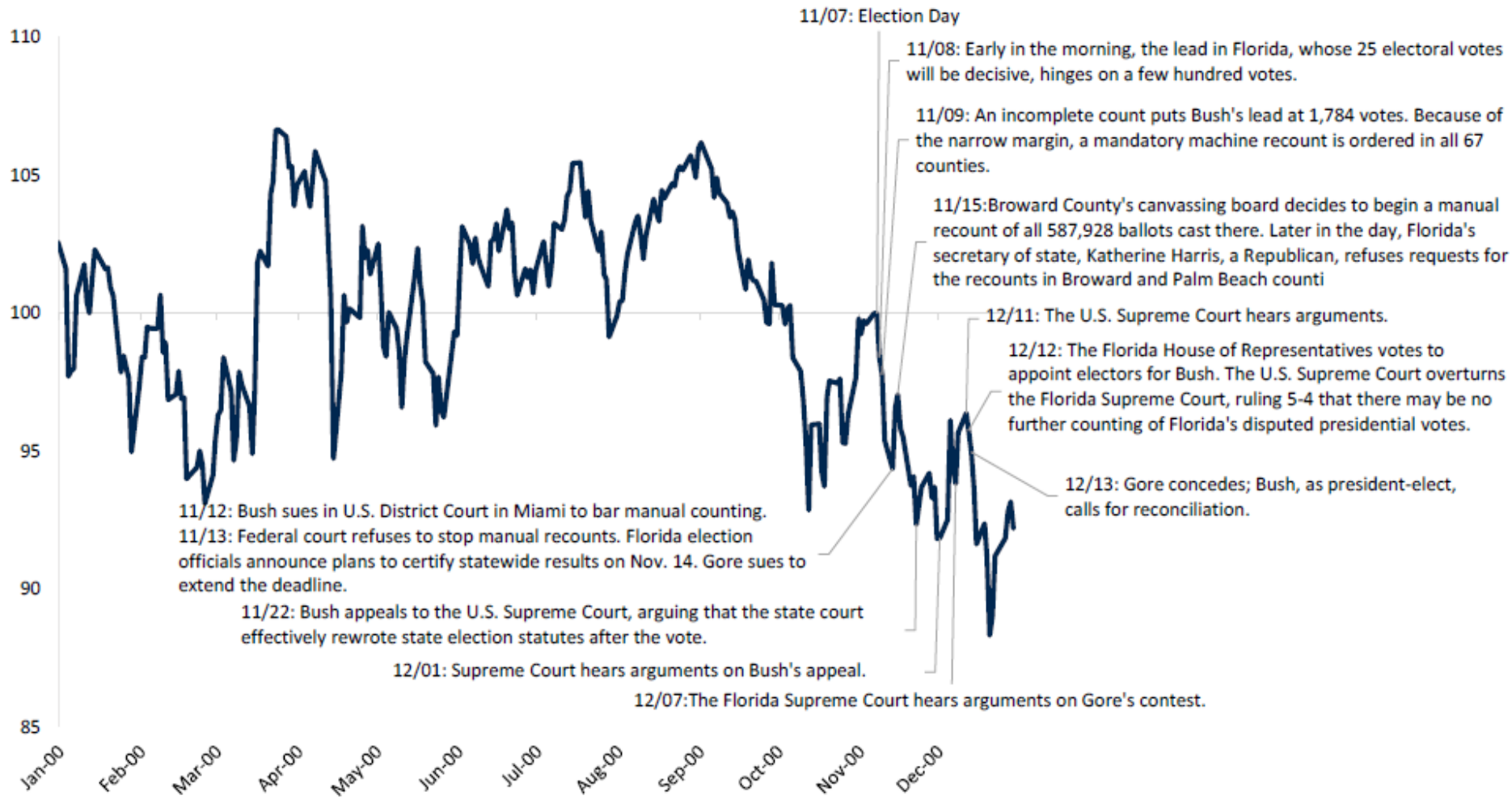
Growth of a Dollar Invested in the S&P 500: January 1926–December 2019



While elections are likely to cause some short-term volatility, for a long-term investor it hasn't been too important who the US president is.

2000 US Presidential Election

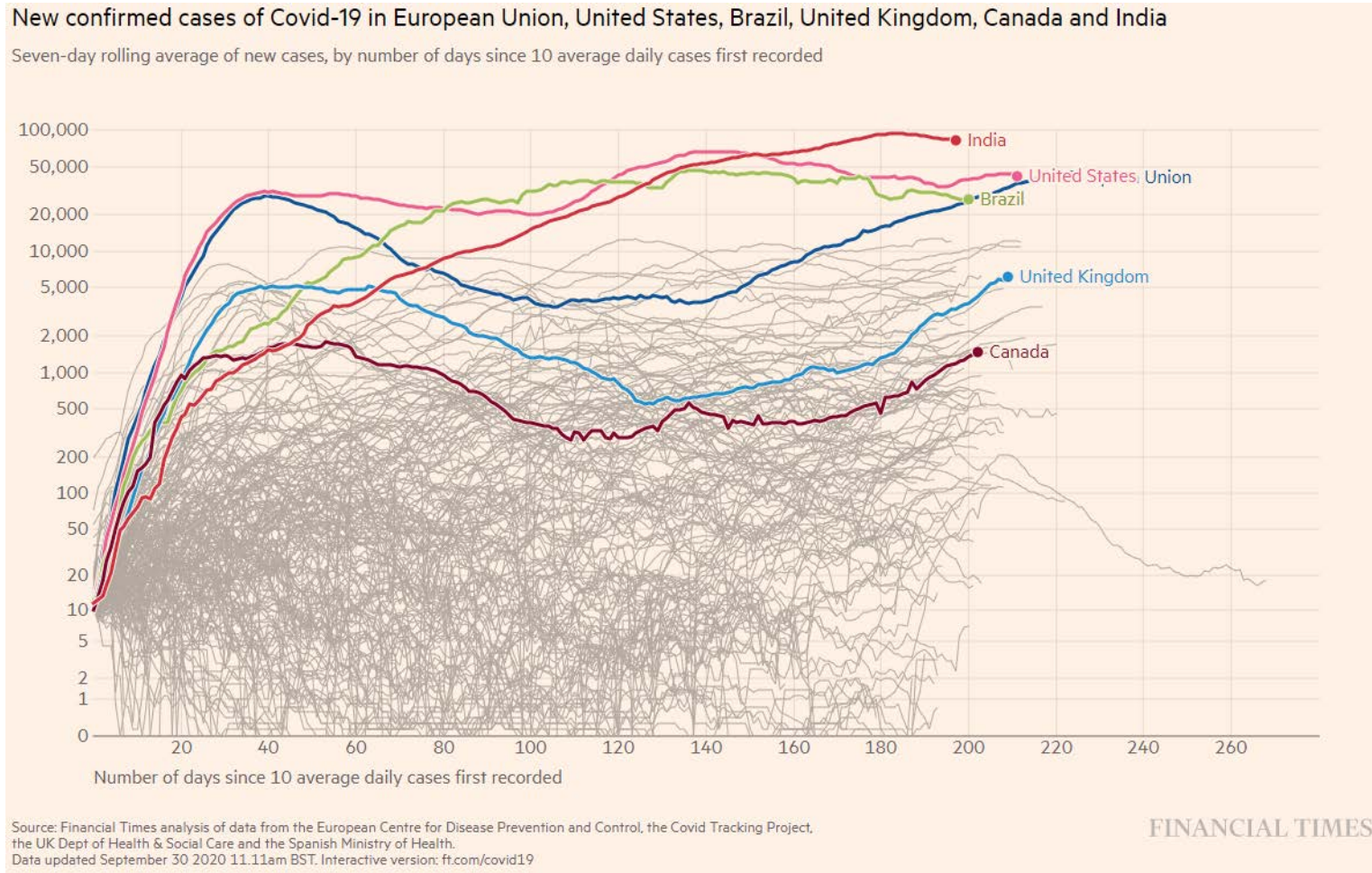
S&P 500 Performance in 2000 Indexed To The Closing Price The Day Before Election Day (11/06/2000)



Mail-in voting will be more common in the election due to the pandemic. This is likely to cause some delays in counting ballots and uncertainty as to the outcome.

Looking back to the 2000 election could give us some context as to what that might look like. Note that stocks were already in a bear market at this time following the dot com bust.

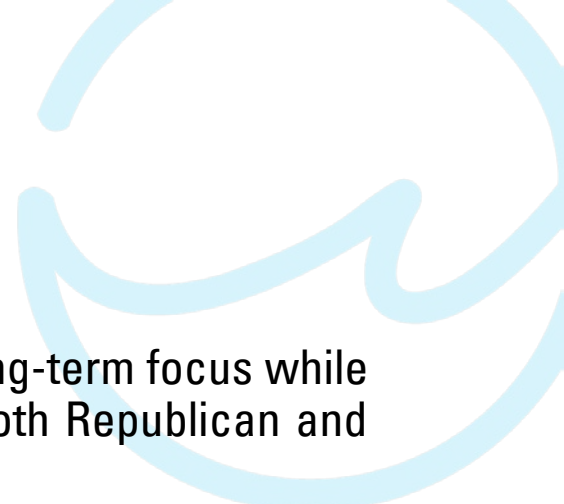
COVID-19: New Case Growth in Select Countries



Many countries are experiencing their largest daily case growth since the pandemic began.

New deaths from the virus have remained significantly lower than they were earlier in the year.

Concluding Thoughts



While we expect some election season market volatility, we believe it is best to maintain a long-term focus while investing. Dating back to 1945, stock market returns on average have been strong under both Republican and Democratic presidents.

Stay safe and healthy and don't hesitate to reach out if there is anything you would like to discuss.



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