New England Investment & Retirement Group, Inc.

Perspectives on Elections and U.S. Equity Returns

Presidential Elections and U.S. Equity Returns

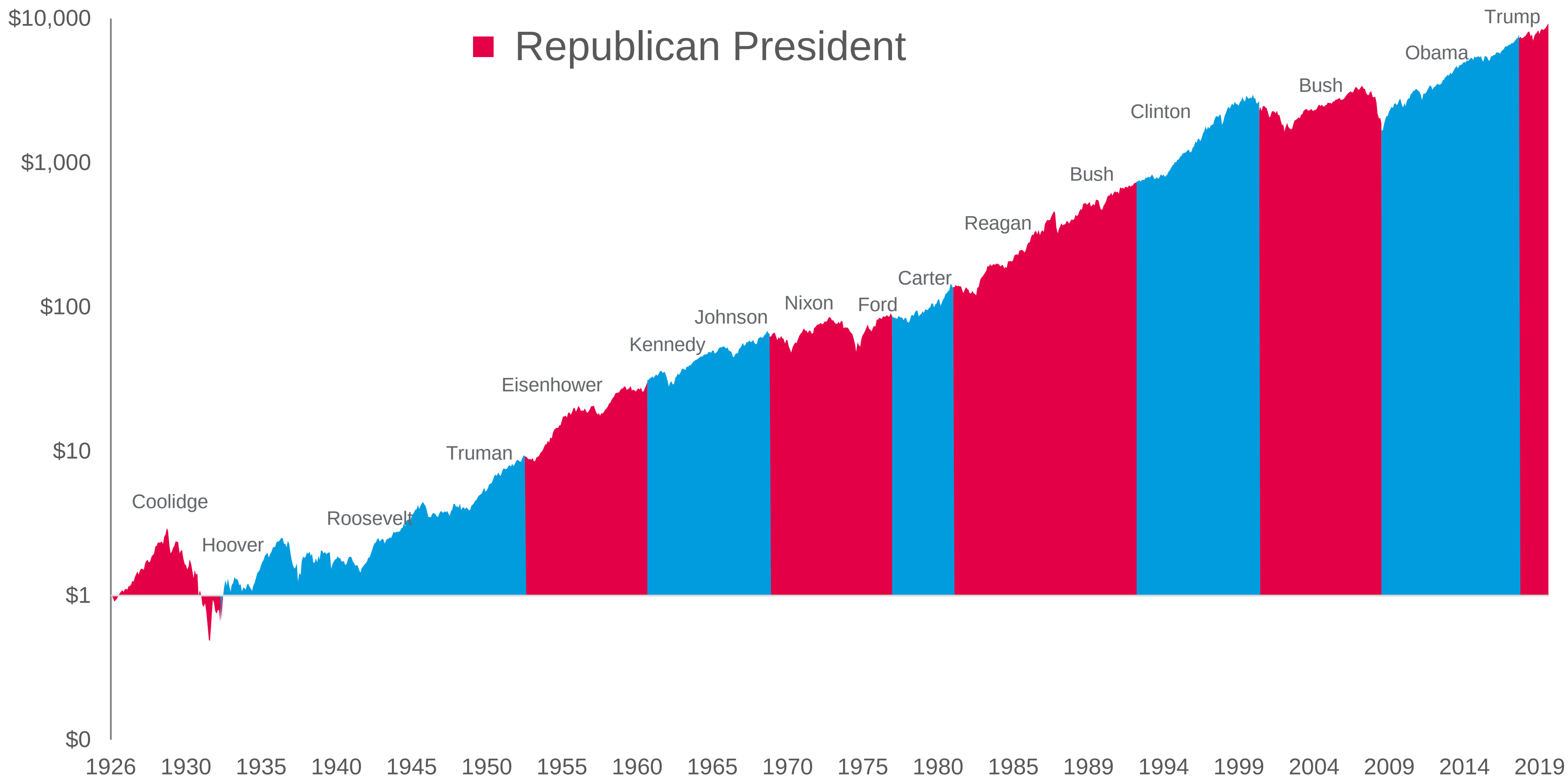
September 2020

- All elections are important, but to many investors, the coming election feels particularly weighty. The policy ramifications of White House and congressional outcomes can seem unnerving, especially given the wide policy differences and, in some cases, dramatic policy proposals (particularly, taxes).
- However, history suggests election results should not be the primary driver of investment decisions. This is particularly true now, where COVID and the related fiscal and monetary response are arguably much more important than potential.
- On a short-term basis, politics have the power to move markets and create stock market volatility; however, the relationship between politics and financial markets is not so clear cut. While there may be conventional wisdom in how each party's policies will affect the economy, politics play only a small role in the direction of the economy and markets. Political checks and balances mitigate the impact of radical, transformational proposals. Plus, the impact of changes tends to evolve over time (often into the next administration).
- As illustrated in the following charts, markets have thrived through myriad political environments, often in unexpected ways. Long term, the fundamentals of earnings and interest rates, labor growth and productivity, and the mean-reverting nature of an independent monetary policy ultimately drive financial market returns.
- Clearly, policy changes can have ramifications for financial plans, tax strategy, asset location and estate planning. Those evolving policies are key inputs in our holistic approach to long-term wealth management. However, we do not advocate using predicted or actual election results as a significant factor in short- or intermediate-term asset allocation decisions.

Markets Have Rewarded Long-Term Investors Under Either Political Party

September 2020

Growth of a Dollar Invested in the S&P 500: January 1926–June 2020



Past performance is not a guarantee of future results and there is a possibility of loss. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Source: S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Chart Source: Invesco: 2020 U.S. Election – 10 Truths No Matter Who Wins.

Markets Have Performed Well Under Both Parties

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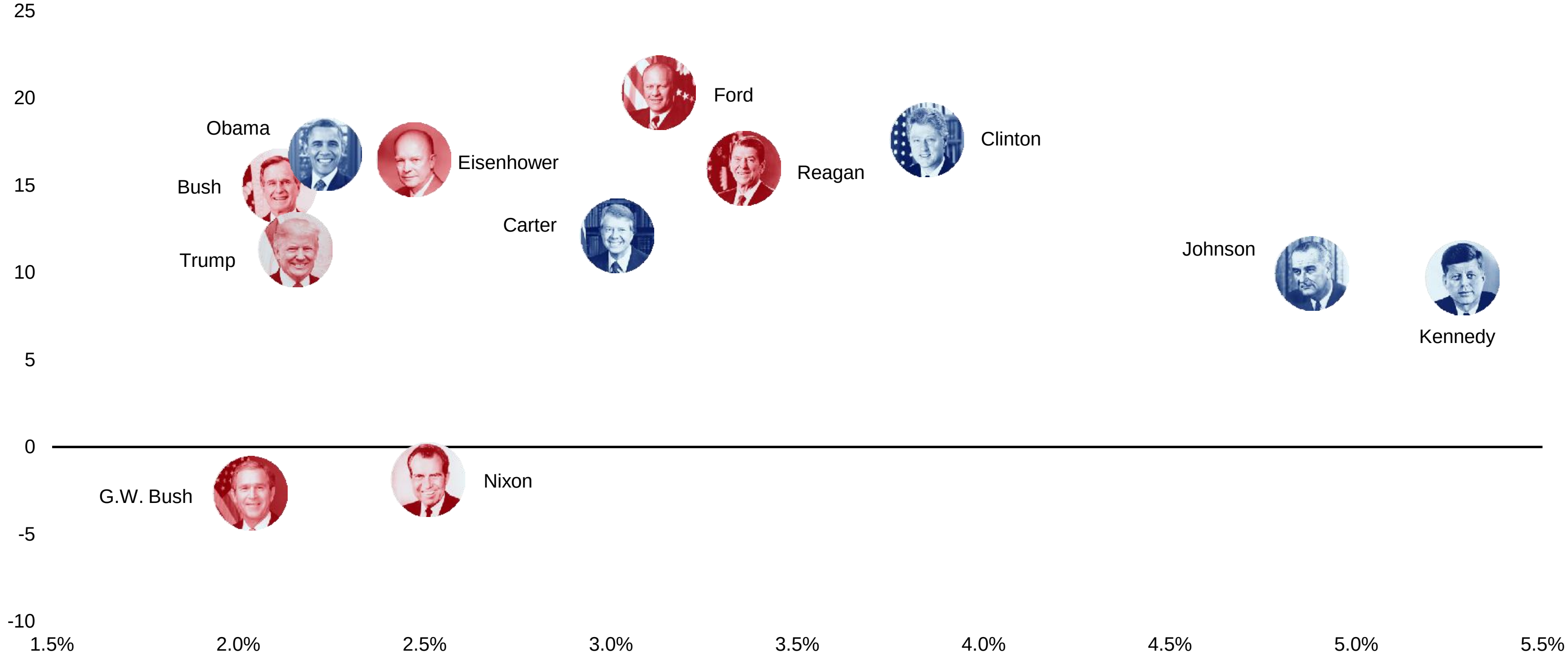
Presidential Term Stock Market Returns vs. Economic Growth (1957-Present)



- Neither party can consistently be credited with superior economic or financial market performance.
- The S&P 500 Index delivered an average annual return of approximately 11 percent over the past 75 years, through both Democratic and Republican administrations. The U.S. economy also expanded around 3.0 percent during that period.
- The stock market's return was negative for a presidential administration only when the country was in a financial crisis (2008) or experiencing a stagflationary spiral (1973).

Sources: Haver, Invesco, 6/30/20. Note: President Trump stock market performance data from 1/20/17-6/30/20., real GDP data from 12/31/2016 to 3/31/2020 as GDP is reported with a lag. Stock market performance is defined by the total return of the S&P 500 Index. Index definitions can be found on page 12. Past performance does not guarantee future results and there is a possibility of loss.

Chart Source: Invesco: 2020 U.S. Election – 10 Truths No Matter Who Wins.

Monetary Policy Matters More

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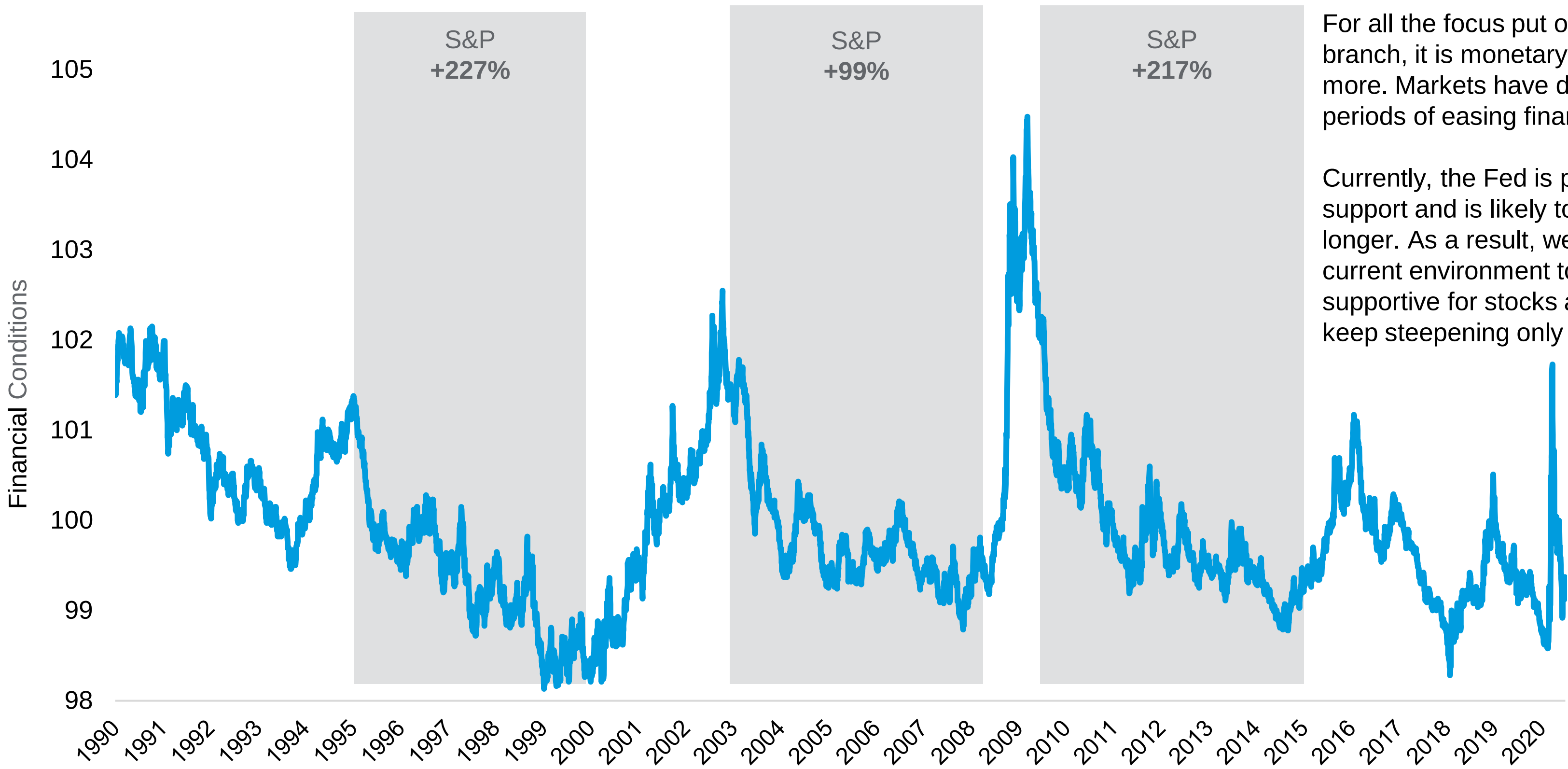
Financial Conditions* and S&P 500 Performance During Easing Conditions



For all the focus put on the executive branch, it is monetary policy that matters more. Markets have done well during prior periods of easing financial conditions.

Currently, the Fed is providing policy support and is likely to keep rates lower for longer. As a result, we would expect the current environment to remain relatively supportive for stocks and the yield curve to keep steepening only modestly.

Sources: Goldman Sachs, Bloomberg L.P., 6/30/20. See index definitions. An investment cannot be made in an index. Past performance does not guarantee future results.

Chart Source: Invesco: 2020 U.S. Election – 10 Truths No Matter Who Wins.

** A weighted average* of:" riskless interest rates; the exchange rate; equity valuations; credit spreads.*

Short-Term Differences, Long-Term Neutral

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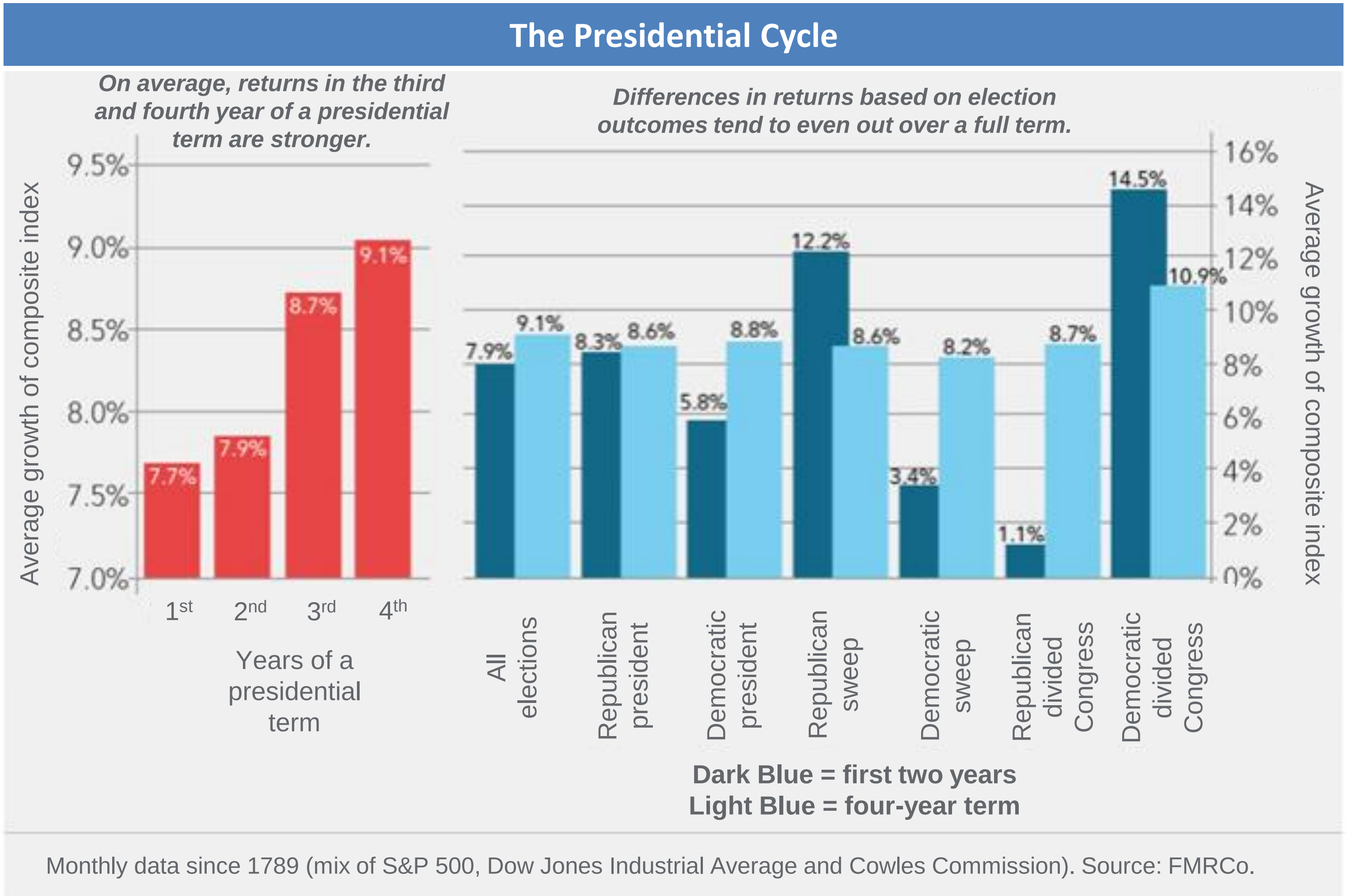

Source: Jurien Timmer, FMRCo.

Past performance does not indicate future performance and there is a possibility of a loss.

Markets Don’t Take Political Sides

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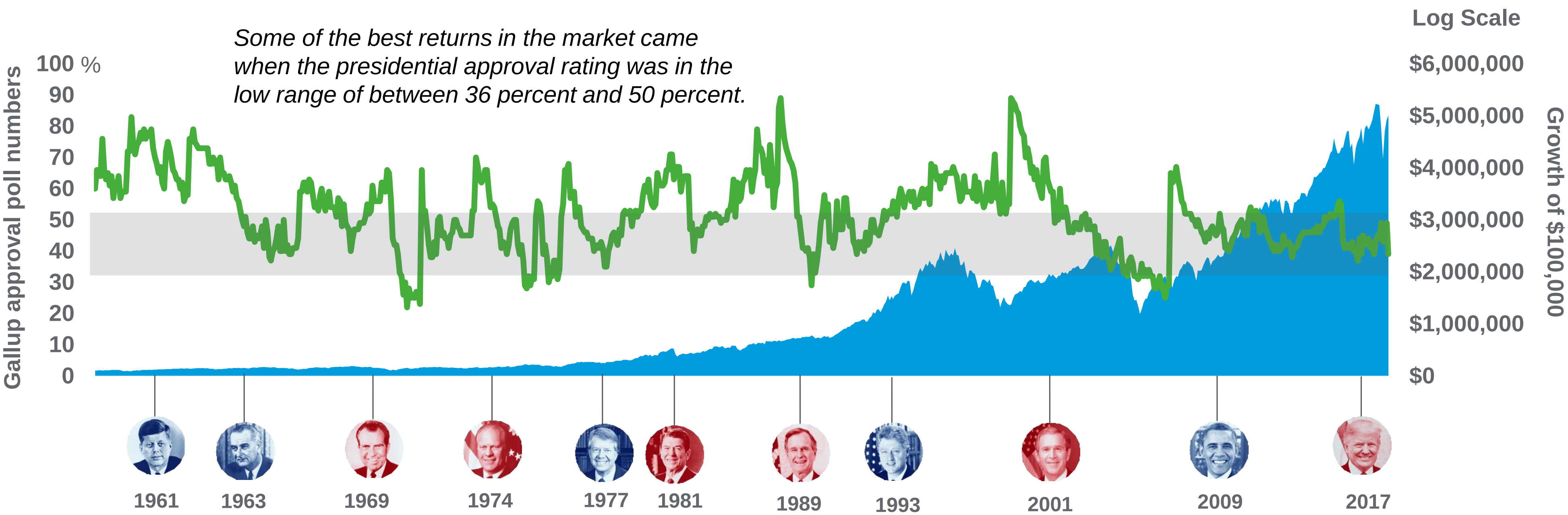
Gallup Poll Presidential Approval Ratings and the S&P 500 Index Growth of $100,000



Presidential Approval Rating	Gain/Annum	% of Time
>65	5.4%	13.9%
50-65	4.2%	36.2%
35-50	15.3%	36.8%
<35	-19.7%	6.6%

Chart Source: Invesco: 2020 U.S. Election – 10 Truths No Matter Who Wins.

Source: Bloomberg, L.P., 6/30/20. See index definitions on page 20. An investment cannot be made in an index. Past performance does not guarantee future results and there is a possibility of loss.

Annualized Returns During Presidential Terms

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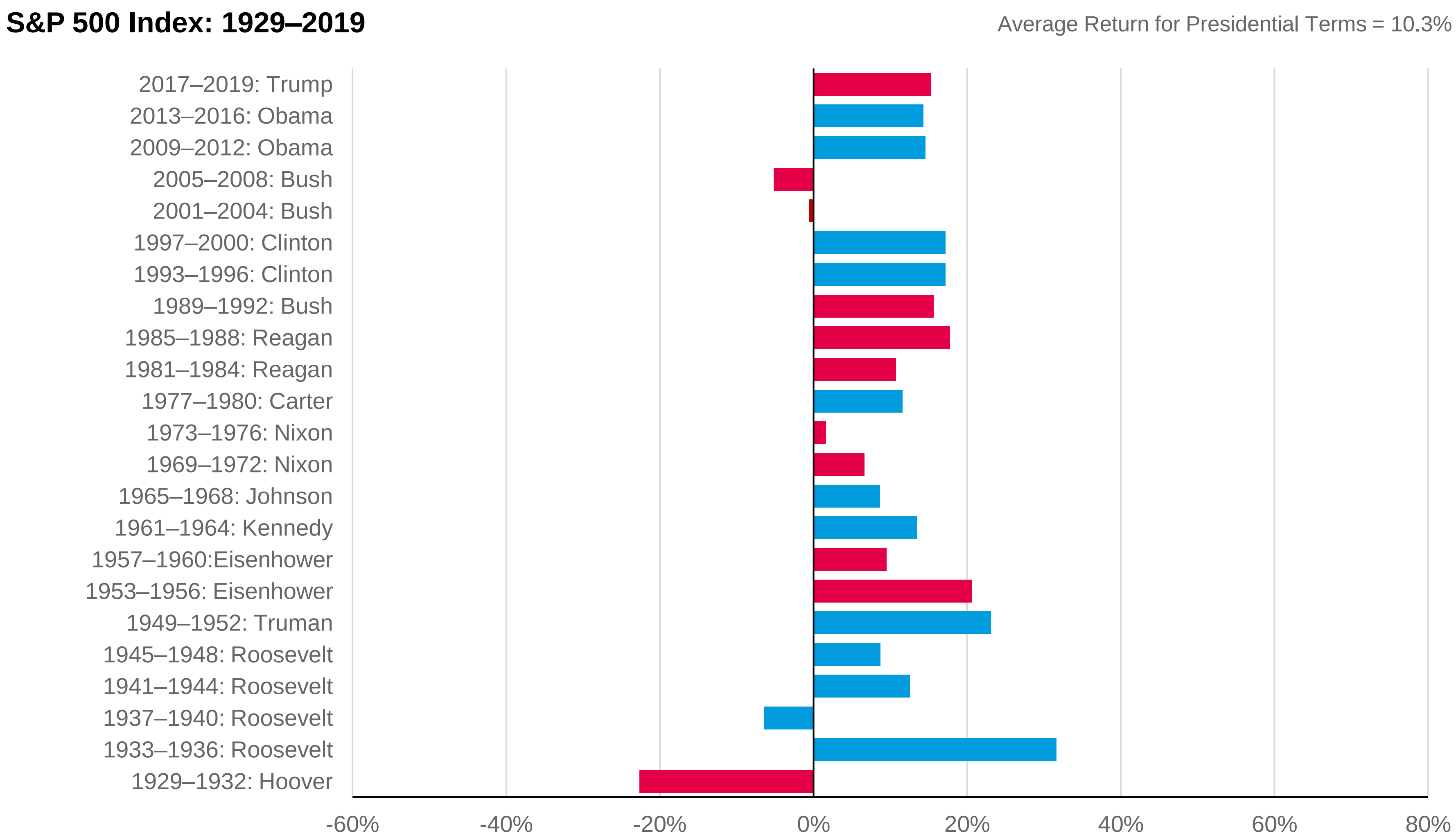

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results and there is a possibility of loss. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Actual returns may be lower. Source: S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Chart Source: Dimensional Fund Advisors

Hypothetical Growth of $1 Invested in the S&P 500 Index and Party Control of Congress

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January 1926–December 2019

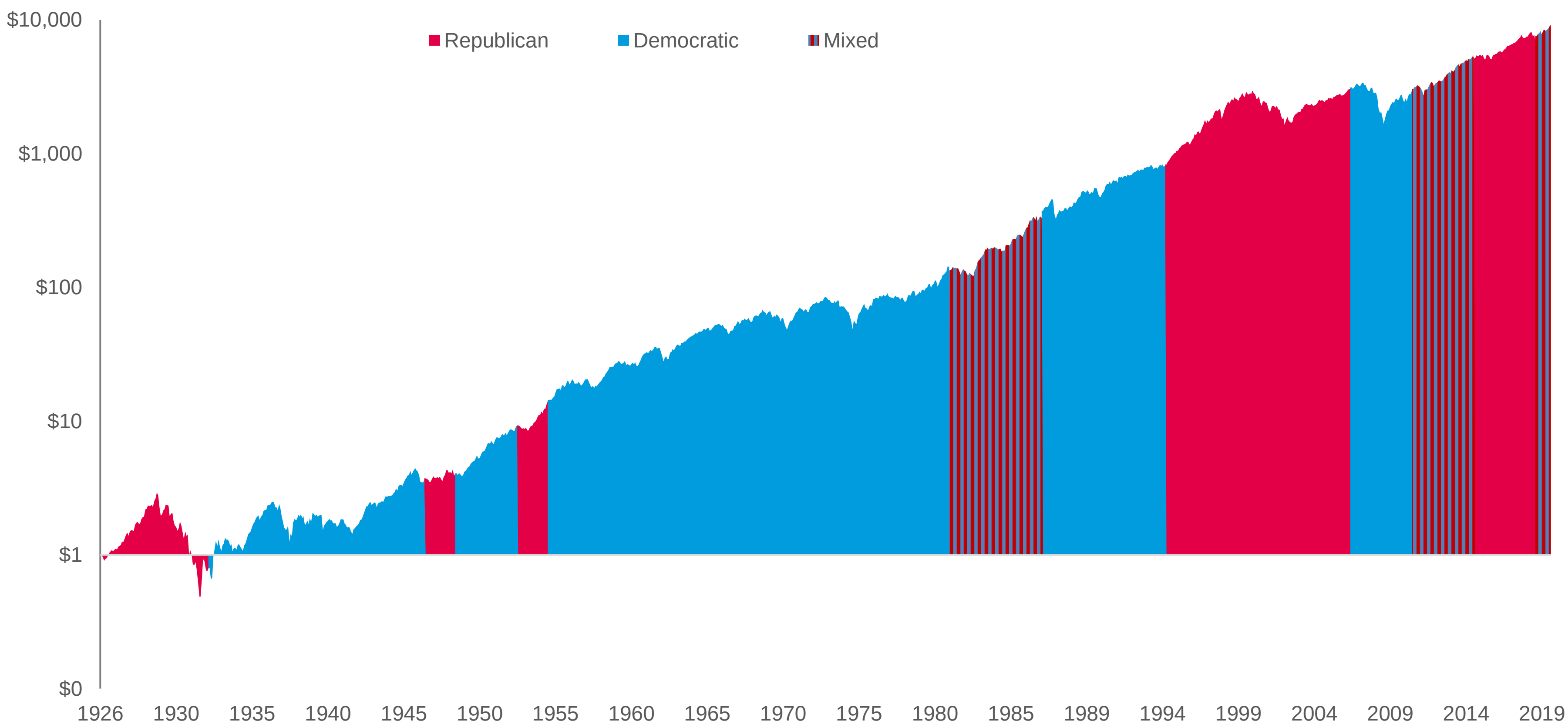

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Chart Source: Dimensional Fund Advisors

Index Definitions

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- The Consumer Price Index (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.
- The Dow Jones Industrial Average is a price-weighted index of the 30 largest, most widely held stocks traded on the New York Stock Exchange.
- The S&P 500 Index is a market-capitalization-weighted index of the 500 largest domestic U.S. stocks.
- The Russell 1000 Value is an unmanaged index considered representative of large-cap value stocks. The Russell 1000 Value Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co.
- The Russell 1000 Growth is an unmanaged index considered representative of large-cap growth stocks. The Russell 1000 Growth Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co.
- The Misery Index is an economic indicator calculated by adding the current unemployment rate and the inflation rate.
- Indexes are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance does not guarantee future results.

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